



**AUDIT REPORT
ON
THE ACCOUNTS OF
DEFENCE SERVICES FOR THE
AUDIT YEAR 2012-13**

AUDITOR GENERAL OF PAKISTAN

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ABBREVIATIONS AND ACRONYMS

AGP	Auditor General of Pakistan
AHQ	Air Headquarters
AMF	Aircraft Manufacturing Factory
AQMG	Assistant Quarter Master General
AWACS	Airborne Warning and Control System
BG	Bank Guarantee
BOQs	Bachelor Officers' Quarters
BTS	Base Trans receiver Station
BWO	Base Warrant Officer
CA	Contract Agreement
CIF	Cost Insurance Freight
CBR	Cantonment Board Resolution
CLAR	Cantonment Lands Administration Rules
CMA	Controller of Military Accounts
CEO	Cantonment Executive Officer
CMES	Controller Military Engineering Services
CMH	Combined Military Hospital
CNE	Civilian Non Entitled
COAS	Chief of Army Staff
COMLOG	Commander Logistic
COMPAK	Commander Pakistan Fleet
COMKAR	Commander Karachi
CPO	Chief Petty Officer
CNA	Controller of Naval Accounts
CRV	Certified Receipt Voucher
CSD	Canteen Stores Department
CSO	Central Standing Orders
DAC	Departmental Accounts Committee
DESCOM	Development Engineering Support Component
DCNS	Deputy Chief of Naval Staff
DG DP	Director General Defence Procurement
DP (Air)	Director Procurement Air
DP (Army)	Director Procurement Army
DP (Navy)	Director Procurement Navy

DHA	Defence Housing Authority
DSR	Defence Services Regulations
DW&CE	Director Works and Chief Engineer
EDO	Executive District Officer
E-in-C	Engineer in Chief
FA	Financial Advisor
FAM	Financial Audit Manual
FBR	Federal Board of Revenue
FIA	Federal Investigation Agency
FIR	First Information Report
FOB	Free on Board
FOR	Free on Rail
FR	Financial Regulations
GE	Garrison Engineer
GHQ	General Headquarters
GST	General Sales Tax
HIT	Heavy Industries Taxila
HMS	Hospital Management System
HRA	House Rent Allowance
I&M	Incidentel and Miscellenous
INTOSAI	The International Organisation of Supreme Audit Institutions
JCOs	Junior Commissioned Officers
JSHQ	Joint Services Headquarters
JSI	Joint Services Instruction
KARF	Kamra Avionics and Radar Factory
KS&EW	Karachi Shipyard & Engineering Works
LC	Letter of Credit
LD	Liquidated Damages
MAG	Military Accountant General
MAS	Material at Site
MEO	Military Estate Office
MES	Military Engineer Service
MFDAC	Memorandum for Departmental Accounts Committee
MH	Military Hospital
ML	Management Letter
ML&C	Military Lands and Cantonments

MO Dte	Military Operations Directorate
MOD	Ministry of Defence
MODP	Ministry of Defence Production
MOQs	Married Officers' Quarters
MOU	Memorendum of Understanding
MT	Military Transport
NBP	National Bank of Pakistan
NDU	National Defence University
NHQ	Naval Headquarters
NOC	No Objection Certificate
NLC	National Logistic Cell
PAC	Public Accounts Committee
PAC Kamra	Pakistan Aeronautical Complex Kamra
PAF	Pakistan Air Force
PAO	Principal Accounting Officer
PIAC	Pakistan International Airlines Corporation
PMA	Pakistan Military Academy
PNS	Pakistan Naval Ship
PO	Petty Officer
PPRA	Public Procurement Regularity Authority
Q&R	Quarters and Rents
QMG	Quarter Master General
R&E	Risk and Expense
RAR	Running Account Receipt
ROR	Return of Recovery
RV&F	Remount Veterinary and Farms
SOP	Standing Operating Procedures
SPD	Strategic Planning Division
SRO	Statutory Regularity Order
TIP	Transfer of Immovable Property
TMA	Tehsil Munciple Administration
TO&E	Table of Organization and Equipment
UA	Unit Accountant
UHF	Ultra High Frequency
VHF	Very High Frequency

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 receipts and expenditure from the Federal Consolidated Fund and Public Account.

This report is based on audit of receipts and expenditure of the Ministry of Defence and Ministry of Defence Production for the financial year 2011-12. The main body of the Audit Report includes only the systemic issues and audit findings carrying value of Rs 1 million or more. Issues of relatively less significance are listed in the annexure I&II of the Audit Report. The audit observations listed in the annexure shall be pursued with the Principal Accounting Officer in the Departmental Accounts Committee, and in those cases where PAO does not initiate appropriate action, the audit observations will be brought to the notice of Public Accounts Committee in the Audit Report of the following year.

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. Most of the observations included in this report have been finalized in the light of discussions in DAC meetings.

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

(Muhammad Akhtar Buland Rana)

Auditor-General of Pakistan

Islamabad

Dated:

Executive Summary

The Directorates General of Audit Defence Services (North and South) are audit units of the Department of Auditor-General of Pakistan. Audit of Ministry of Defence and Ministry of Defence Production comes under their jurisdiction. The headquarters of the Directorates General of Audit Defence Services are located at Rawalpindi and Karachi.

The activities included in audit purview of the Directorates General are classified into following Categories:-

- Compliance with Authority Audit
- Performance Audit
- Certification Audit of Appropriation Accounts
- Special Audits assigned by the Auditor-General of Pakistan
- Project Audit (PSDP)

Compliance with Authority Audit of 233 formations of Ministry of Defence and 45 formations of Ministry of Defence Production was carried out during audit year 2012-13. Each Ministry is headed by a Principal Accounting Officer (PAO) who conducts his operations under Rules of Business 1973. The Directorates General have 236 officers and 53,572 man days available for audit. The annual budget for FY 2011-12 of both the Directorates General was Rs 162.23 million.

a. Scope and Objectives of Audit

The audit was conducted in accordance with INTOSAI Auditing Standards as envisaged in Financial Audit Manual, Guidelines for the Audit of Defence Services and the International Standards on Auditing. The overall audit objective was to assess compliance with financial rules and adequacy of internal controls. The audit also covered issues of propriety and economy of expenditure instead of mere scrutiny of form.

An amount of Rs. 509.321 billion was allocated to the Defence Services for the financial year 2011-12 under Grant No. 23. A sum of Rs. 3.098 billion was allocated under Grant No. 22 to Federal Government

Educational Institutions located in Cantonments and Garrisons. Moreover an amount of Rs. 15.750 billion was budgeted from Cantonment Boards fund for the financial year 2011-12. Thus, budget of Rs. 528.169 billion was required to be audited by the Directorates General. Out of this, an expenditure of Rs. 324.176 billion was audited which is 61.377% of auditable amount.

The main objectives of the audit were to:-

- Determine existence, accuracy and completeness of expenditure.
- Check compliance of applicable laws, rules, regulations and policies.
- Ensure that expenditure and receipts are classified with respect to account head, function and cost centre correctly.
- Highlight areas of improvement, recommendations to enhance efficiency and strengthen internal controls.
- Collect appropriate, effective and sufficient evidence to arrive at reliable and meaningful conclusions.

b. Recoveries at the instance of audit

A recoverable amount of Rs. 39017.686 million was pointed out during audit conducted from January to October, 2012. During the same period an amount of Rs. 1283.061 million has been recovered which includes recoveries pointed out in previous audit reports.

c. Audit Methodology

Before starting the field activity, desk review was undertaken to gain understanding of the systems, procedures and control environment of audited entities. Automated data was not available in an appropriate format to analyze it for further probe.

The permanent files maintained in both the Directorates General were extensively utilized for understanding their operations and legal/institutional framework of the entities.

Audit procedures were performed to evaluate that the expenditure was completely recorded and receipts were timely deposited into Government treasury. Further, review of payments was made to ensure that these were validated by prescribed supporting documents and approval of competent authority as per applicable rules and regulations. Budget comparison with actual expenditure was made to confirm that the expenditure was incurred in accordance with the approved budget including the revisions made therein.

Following audit methodology was adopted during audit year 2012-13:-

- Updating the understanding of the relevant processes with respect to control structure.
- Prioritizing risk areas by determining significance and risks associated with identified key controls.
- Identification of key controls on the basis of previous years' audit experience / special directions from the head office.
- Selection of audit formations on the basis of materiality, significance and risk assessment.
- Selecting samples through criteria mentioned in Financial Audit Manual.
- Identification of weaknesses in control design and recommendations for their rectification.

d. Audit Impact

Instances where rules and regulations, policies and procedures were either amended or were newly framed or where the management initiated the amendment or formulation process at the instance of audit and the directives of the DAC/PAC include:-

- i. PAC directed Ministry of Defence to formulate a policy on the payment of House Rent Allowance to married officers living in MOQs. Policy has been framed by the Ministry of Defence and is at present pending approval in Finance Division (Military).

- ii. MES had in the recent past shifted from Measurement Contract to lump sum contract. This shift in policy has created transparency issues. DAC in its meeting held on Dec 27, 2012 discussed the issue in detail and directed the DW&CE to study the system prevailing in other Government departments and to work out the scheme of measurement contracting in the MES.

Audit has been raising significant issues relating to expenditure on procurement, works and also on improper land management in the audit reports. In order to address these issues, the military authorities have constituted audit committees at their Headquarters, Corps and Bases. The mandate of these committees is keeping liaison between audit and military formations to facilitate rectification of errors pointed out by audit and seeking audit advice on issues arising from directives of the DACs and the PAC.

e. Comments on Internal Controls

An elaborate internal control structure in the form of procedures specifying internal checks and an internal audit department (Controller Local Audit, Defence Services) is present. Further, recently the outstanding issue of inadequate coverage of Defence Production Establishments by the internal audit department has been resolved through the establishment of a separate Controller Local Audit, Defence Production. However, internal audit of Procurement Directorates is limited to contingencies rather than focusing on important areas of contracts. Recurring internal control failures at the pre-audit stage in the following areas have been observed;

- Payment of Internal Security Duty Allowance
- Military Engineering Services works expenditure

The internal audit reports of the defence services are not considered at an appropriate level i.e. the Principal Accounting Officer. Resultantly, the effectiveness of internal audit by the Controller Local Audit, Defence Services is limited as efforts are not visible for resolution of issues indicated by internal audit. The PAO needs to strengthen regular oversight of internal audit reports.

A formal internal audit structure for audit of the Military Lands and Cantonments is not available. In the absence of this, the possibility of occurrence of errors / irregularities and their persistence is very high.

f. Key audit findings of the report

- i. Misappropriation / embezzlement of Rs. 168.44 million and US\$ 127,231 in 06 cases
- ii. Public financial management issues amounting to Rs. 10.96 million and US \$ 5.62 were observed in 02 case
- iii. Diversion of public receipts amounting to Rs 320.624 million and US \$ 107,430 was observed in 05 cases
- iv. Overpayments of Rs. 102.3 million, £ 513,780, US \$ 5.80 million and ¥ 9,251 was made in 11 cases
- v. Recoverable amount of Rs. 381.269 million US \$ 35,850 was pointed out in 15 cases
- vi. Non-recovery of risk and expense amount of Rs. 52.34 million and US \$ 0.37 million in 04 cases
- vii. Irregular / un-authorized expenditure of Rs. 959.493 million, ¥ 27.69 million and US \$ 0.04 million in 30 cases
- viii. Improper land management of Rs. 1,540 million in 04 cases
- ix. Non-recovery of cantonment and Government dues of Rs. 36.66 million in 01 case
- x. Non-recovery of composition fee/premium & development charges of Rs. 26.76 million in 03 cases
- xi. Weak contract management of Rs. 127.44 million US \$ 2.50 million € 0.74 million in 10 cases
- xii. Blockade of public money of Rs. 85.626 million in 01 case
- xiii. Loss to State amounting to Rs. 13.49 million in 01 case
- xiv. Irregular disposal of precious functional assets amounting to Rs.8.47 million in 01 case

This Audit Report contains 94 audit paras of significant audit value. Other Audit Paras for the Audit Year 2012-13 involving procedural violations pertaining to internal controls weaknesses and irregularities not considered worth reporting to the PAC are included in MFDAC (Annexure – I & II).

g. Recommendations

1. Misappropriation and embezzlement cases pointed out in this report need to be investigated to fix responsibility and appropriate steps should be taken to avoid occurrence of these instances by strengthening internal audit and other tools of internal controls.
2. A large amount of Government dues is outstanding against various firms and individuals. More vigilance is required to be exercised for avoiding accumulation of such dues and prompt efforts should be made for their recovery.
3. Diversion of public receipts to non-public accounts has not been stopped despite pointing out by Audit in every report and specific directives of PAC on this issue. It is suggested that PAO should look into the matter to avoid such diversions of public receipts in future. The amounts pointed out should be deposited in Government treasury immediately.
4. Serious irregularities, specifically relating to delayed decisions, have been repeated in management of Government land and procurement of stores contracts. The Ministries are required to be more vigilant in these areas to avoid these lapses in future.
5. Compliance ratio of PAC directives in respect of Ministry of Defence Production is only 7.79%, which needs immediate attention of the PAO.
6. A significant amount of expenditure and receipts pertaining to ML&C department is not subject to internal audit. The Principal Accounting Officer should ensure that internal audit is instituted in that department.
7. In order to reduce the incidence of failure of internal controls, pre-audit authorities need to be more vigilant and effective in implementing rules and regulations in all areas, particularly in the area of MES works expenditure.

8. Internal Audit Department should focus on contracts in Procurement Directorates.

9. PAO needs to ensure preparation of appropriation accounts on prescribe format by providing figures for employee related expenses, operating expenses, physical assets and civil works along with review of MES expenditure and disclosure of cases involving regularization from Ministry of Defence.

10. Reconciliation of accounts between MAG and AGPR/AGs needs to be completed at the time of finalization of June supplementary accounts for adjusting the figures of expenditure in appropriation accounts in respect of cancelled and lapsed cheques.

Summary of Tables & Charts

I. Table-1: Audit Work Statistics

<u>Rs in million</u>			
Sr #	Description	No	Budget / Actual Expenditure
1	Total Entities (Ministries/PAO's) in Audit Jurisdiction	2	509,321.808
2	Total formations in audit jurisdiction	3,575	
3	Total Entities (Ministries/PAO's) audited	2	324,177.236
4	Total Formations audited	278	
5	Audit & Inspection Reports (LTAR)	278	
6	Special Audit Reports	-	-
7	Performance Audit Reports	-	-
8	Other Reports		

II. Table-2: Audit Observations Classified by Categories

<u>Rs in million</u>		
S #	Description	Amount placed under Audit Observation
1	Unsound asset management	67,634.463
2	Weak financial management	70,391.872 US \$ 2.771 + £ 0.135
3	Weak internal controls relating to financial management	55,288.802
4	Others	96,634.504
*Total		289,949.641 US \$ 2.771 +£ 0.135

*The figures also include amounts from accounts of previous years.

III. Table-3: Outcome Statistics

Rs in million

Sr #	Description	Expenditure on acquiring Physical Assets (Procurement)	Civil Works	Receipts	Others	Total current year	Total last year
1	Outlays Audited	142,262.337	107,274.576	17,000.197	118,124.245	324,177.236*	*181,188.669
2	Amount placed under Audit observation/ Irregularities of Audit	127,380.781 US \$ 2.370 £ 0.135	48,427.531	27,381.954 US \$ 0.401	86,759.375	**289,949.641 US\$ 2.771 £ 0.135	25,644.344
3	Recoveries pointed out by Audit	6,687.829	6,731.379	21,946.298	3,652.18	39,017.686	5,384.293
4	Recoveries accepted / established at the instance of Audit	677.168	1,483.757	3,090.886	958.944	6,210.755	364.082
5	Recoveries realized at the instance of Audit	32.379	35.035	609.33	606.317	1283.061	3,335.404

*Reason behind variation in amount of outlay audited with respect to last year is the audit of long outstanding contracts in Procurement Directorates during current year.

**The figures also include amounts from accounts of previous years.

IV. Table-4: Irregularities Pointed Out

Rs in million

S #	Description	Amount placed under Audit Observation
1	Violation of rules and regulations as well as principal of propriety and probity in public operation	82,925.27 US\$ 2.771 £ 0.735
2	Reported cases of fraud, embezzlement, thefts and misuse of public resources	18,226.836
3	Accounting errors (accounting policy departure from IPSAS, misclassification, over or understatement of account balances) that are significant but are not material enough to result in the qualification of audit opinions on the financial statements	8,765.470
4	Weaknesses of internal control system	37,914.462
5	Recoveries and overpayments, representing cases of established overpayment or misappropriation of public money	6,210.755
6	Non-production of record	3,590.376
7	Others, including cases of accidents, negligence etc.	132,315.76
Total		289,949.641 US\$ 2.771 £ 0.135

V. Table-5: Cost-Benefit Analysis

Rs in million

S #	Description	Amount
1	Outlays Audited (Item 1 of Table 3)	324,177.236
2	Expenditure on Audit	159.606
3	Recoveries Realized at the Instance of Audit	1283.061
4	Cost Benefit Ratio	8:1

CHAPTER-1

Public Financial Management Issues - Military Accountant General

1.1 Appropriation Accounts not on prescribed format

Observation

According to Para-22 of Military Accounts Code, the objective of Appropriation Accounts is to relate the expenditure brought into account during a financial year to the several items specified in the authenticated schedules of authorized expenditure.

Para-249 of Military Audit Code prescribes the major heads and main heads to be included in Federal Appropriation Accounts Defence Services. It was observed that:-

- a) Appropriation Accounts do not disclose figures for Employee Related Expenses, Operating Expenses, Physical Assets and Civil Works in respect of three services and DP Establishment /ISOs/Accounts Organizations as given in authenticated schedules of authorized expenditure.
- b) Review of MES expenditure has not been presented in Appropriation Accounts as prescribed by Military Audit Code.
- c) Similarly, cases involving regularization from Ministry of Defence have not been disclosed as required.

Implications

Disclosure of figures in the Appropriation Accounts for above mentioned items is fundamental to the objective of completeness and adequate disclosure for understanding and review of the Legislature.

Recommendation

PAO needs to ensure preparation of appropriation accounts on prescribe format by providing figures for employee related expenses, operating expenses, physical assets and civil works along with review of MES expenditure and disclosure of cases involving regularization from Ministry of Defence as is done by other Ministries.

Management reply

The management replied that over the years the final figures, as depicted in the previous FYs books of the Appropriation Accounts, were being provided in the existing format along with the detail of excess/less expenditure.

Further audit comments

Existing format do not give complete disclosure to legislature and does not comply with prescribed format.

1.2 Non adjustment of expenditure on account of lapsed cheques

Observation

According to Finance Division order issued vide letter dated March 31, 2010, cheques issued in one financial year shall not be valid for encashment in the next financial year.

During certification audit of the Military Accounts Department details of lapsed and cancelled cheques was not provided. The management expressed its inability to determine the amount of cheques lapsed during FY 2011-12. In view of that, any adjustments for expenditure reported in Appropriation Accounts (Defence Services) for the FY 2011-12 cannot be completely determined.

Implications

- Violation of treasury rules.
- Delay in reconciliation.
- Overstatement of expenditure.

Recommendation

A system should be devised to expedite reconciliation process to calculate amount of lapsed cheques for adjustment of expenditure in the Appropriation Accounts.

Management reply

Defence cheques issued in settlement of public claims and pay and allowances are forwarded to SBP/Treasuries. The SBP after debiting the government account deliver paid cheques to Federal Treasury Office and District Accounts Office. These offices hand over the cheques to the MAG in clearing house meeting. This is a time lag process and takes 3 to 4 months time period.

Further audit comments

This is due to delay in the process of reconciliation. It should be done each month and finally completed by the time of finalization of June supplementary accounts.

1.3 Irregular MES expenditure amounting to Rs 25,007,711 and recoverable amount of Rs 2,046,534

Considerations for Job Mix Formula (JMF) require the Job Mix Formula (JMF) to be prepared by Marshall Method. In order to develop proper job mix, design, a reputed laboratory shall be approached to select different gradation of materials, their blending conditions and performance criteria. The rates included in the schedule are based on the above formula. In case different mix formula is used, the rates shall be adjusted by deducting the cost of materials in above formula and adding the material

cost incorporated in the new JMF as “Material Supply only” rate given in the schedule.

During certification audit following irregularities were observed:-

- In three contracts, details of which were provided to executives during certification audit for financial year 2011-12, payments amounting to Rs 23,599,810 were made without laboratory report to verify the actual ingredients of JMF.
- Calculations of BOQ were not checked and verified that resulted in overpayment of Rs 889,526.
- Non adjustment of Rs 1,157,008 in final bill for reused items resulted in overpayment.

Implications

- Violation of applicable rules.
- Overpayment to contractors.

Recommendation

Audit recommended that MAG needed to strengthen pre-audit procedures for preventing repetition of such internal control failures.

Management reply

Management replied that the subject matters were already observed during Post Audit and objections had been forwarded to the concerned G.Es. Replies would be communicated to audit on receipt from G.Es.

Further audit comments

Amount overpaid be recovered under intimation to audit besides regularization of the expenditure.

CHAPTER-2

Ministry of Defence Production

2.1 Introduction

Ministry of Defence Production deals with indigenous production and manufacture of defence equipment and stores. This Ministry negotiates agreements and MOUs for foreign assistance or collaboration, loans for purchase of military stores, technical know-how and transfer of technology. It also deals with export of defence products, marketing, and promotion of activities relating to export of defence products and procurement and research & development (R&D) related matters of the defence sector. Under Armed Forces Development Plan this Ministry has undertaken mega projects like JF-17, Al-Khalid Tank, F-22P Frigate and AWACS Air Refueling System as well as F-16 Block 52, Radar System etc.

2.2 Brief comments on the status of compliance of PAC directives by Ministry of Defence Production

Status of compliance of PAC directives for the Audit Reports from 1985-86 to 2008-09 discussed during various PACs held from July, 1992 to Aug, 2011 is given in the following table.

Audit Year	Total Paras discussed by the PAC	Actionable points	Full Compliance	Partial Compliance	Nil Compliance
1	2	3	4	5	6
1985-86	1	1	0	0	1
1986-87	4	0	0	0	0
1987-88	5	5	1	0	4
1988-89	5	3	1	0	2

1989-90	4	2	0	0	2
1990-91	3	3	2	0	1
1991-92	16	5	0	1	4
1992-93	3	3	0	0	3
1993-94	22	15	0	3	12
1994-95	04	0	0	0	0
1995-96	16	11	1	0	10
1996-97	69	63	2	2	59
1997-98	5	5	0	0	5
1998-99	12	7	0	2	5
1999-00	80	46	1	12	33
2000-01	29	17	0	3	14
2001-02	33	27	10	1	16
2002-03	0	0	0	0	0
2003-04	0	0	0	0	0
2004-05	7	5	0	0	5
2005-06	6	4	0	1	3
2006-07	17	6	0	0	6
2007-08	0	0	0	0	0
2008-09	3	3	0	2	1
Total	344	231	18 (7.79%)	27 (11.69%)	186 (80.52%)

The above state of affairs shows that the compliance of PAC directives was very slow and the same was required to be expedited by the Principal Accounting Officer.

2.3 Audit Paras

2.3.1 Misappropriation / Embezzlement for Rs 11.34 million and US \$ 0.13 million

2.3.1(i) Double Payment to contractor for the same claim for Rs 11.34 million

According to Rules-37(a) and 40(a)(3) of Financial Regulations 1986 (Volume-I), “all losses of public money whether due to theft, fraud or neglect shall subject to preliminary investigation and amount will have to be recovered, if so proved along with consideration of disciplinary action”.

Heavy Industries Taxila (HIT) concluded a contract No. 222/2010/DESCOM/0446/RT-3039/CP-II/Proc dated June 21, 2010, worth Rs 11.34 million with M/s Global Alliance, Rawalpindi for purchase of 100 tons of Steel Ingot. Contract Clause-4 provided that payment for the stores would be made to the contractor by the Controller Military Accounts (CMA) HIT, Taxila for which funds were earmarked against regular budget. Audit noticed that payment was made to the contractor by CMA (HIT) on Aug 12, 2011 against contingent bill No. 8600/73/Fin-D2. Audit also observed that payment for the same claim was already made to the contractor by CMA (RC) out of Al-Mizan allocations against contingent bill No. 8600/MD/Fin/D dated June 25, 2010. The payment by CMA (RC), Rawalpindi was without a valid contract agreement authorizing them to make payment and without proper fund allocation by the Finance Division (Military). The payment by CMA (RC) was thus beyond authority and caused double payment.

The matter was reported to the concerned authorities in Apr, 2012. It was replied that during preparation for test audit, the said double payment was observed and in order to find out the discrepancy, a board of officers was constituted to probe into the matter. However, contractor was

willing to pay back the overdrawn amount. The reply was not tenable as the payment made by the CMA (RC) was without any agreement authorizing them to make payment and also without fund allocation. DAC in its meeting held on Dec 11, 2012 directed the department to blacklist the contractor, register FIR, effect recovery and hold a court of inquiry. Further progress, however, was not intimated till finalization of this report.

Audit requires expeditious recovery besides fixing responsibility and taking action against those responsible for providing undue financial benefit to the contractor.

DP-251(N)/11-12

2.3.1(ii) Fraudulent drawl of payment without actual delivery of stores for US \$ 0. 10 million

According to Clause-12(e) of Contract Agreement No. 434627/P43 dated June 20, 1997 executed by Director Procurement (Air) with M/s Hi-Tech Transfer Corporation New York, USA, for supply of radar spares, 90% payment was to be released to the firm/supplier on submission of invoice, airway bill, letter of guarantee DPL-15, manufactures/sellers inspection certificate and insurance declaration certificate.

It was observed from examination of record that 90% payment of the cost of stores amounting to US \$ 99,405 was drawn by the firm without actual delivery of stores on the basis of an airway bill issued by PIA. Irregular payment was noticed in time when State Bank of Pakistan refused reimbursement of the amount the HBL for LC because complete set of documents were not attached with the claim. Payment was, however, released by the SBP to HBL. Despite lapse of a period of 14 years stores or their cost was not recovered from the supplier and the HBL, the LC opening bank.

The matter was pointed out by audit in Nov, 2011. It was replied that due to imposition of sanctions against Pakistan for nuclear tests in 199, the firm did not dispatch the consignment. However, after lifting of sanctions, the firm was asked to pay back the amount fraudulently drawn but the firm failed to do so. The reply was not satisfactory as payments were drawn without delivery of stores and department failed to make recovery in 14 years. DAC in its meeting held on Dec 12, 2012 directed the department to hold a court of inquiry besides effecting recovery, blacklisting the firm and lodging a criminal case against it. Further progress was not reported till finalization of this report.

Audit requires implementation of DAC directive besides holding a thorough inquiry to find out systemic defects, internal control failures and for the connivance of the officers/officials dealing with the case.

DP-185(N)/2011-12

2.3.1(iii) Fraudulent draw of payment without delivery of stores for US \$ 0.03 million

According to Clause-12(e) of Contract Agreement No. 434793/P43 dated June 20, 2000 executed by Director Procurement (Air) with M/s Manzur Enterprises Karachi, the agent of M/s Fortuna Aerospace Supplies and Trading Singapore, for supply of radar spares, 90% payment was to be released to the firm/supplier on submission of invoice, PIA airway bill, letter of guarantee DPL-15, manufactures/sellers inspection certificate and insurance declaration certificate and packing list.

It was observed from record at Directorate of Procurement (Air) Chaklala that payment of US \$ 27,825 was drawn by the firm without actual delivery of stores. After the contract expiry date, 25 July 2001, Air Headquarters Chaklala enquired about the status of supplies from DP (Air) on Sep 27, 2004. The DP (Air) checked the position with Allied Bank Limited, the LC negotiating bank and the consignee. It

transpired that the firm had received payment of US \$ 27,825 but did not deliver the stores. Despite lapse of 07 years, the stores or their cost could not be recovered from the firm or the bank.

The matter was reported to the department in Nov, 2011. It was replied that all out efforts were made but neither the stores nor the cost paid could be recovered. The firm had gone underground and recovery was not possible. It was also intimated that the competent authority had decided to cancel the contract and write off the payment made. DAC in its meeting on Dec 12, 2012 directed to hold a court of inquiry, blacklist the firm and lodge criminal case against it besides revising SOP. Further progress was, however, not reported till finalization of this report.

Audit emphasizes implementation of DAC directive besides fixing responsibility and taking action against officials at fault.

DP-183(N)/2011-12

2.3.2 Recoverable for Rs 195.14 million and US \$ 0.04 million

2.3.2(i) Non-recovery of risk and expense amount for Rs 105.55 million

According to Para-1 of Chapter-XII of Purchase Procedure and Instructions, in case the contract is canceled at the risk and expense of a firm, the excess cost incurred on purchase of those stores will be recovered from the defaulting firm. Further according to Para-13 (d) of this Procedure, in case firm does not deposit risk and expense amount within one year, procurement agency will institute suit in the civil court against the firm for recovery of this amount.

It was observed from record at Director General Procurement (Army) that contract No. 23-0609-1-0 of Jan 8, 2010 was concluded with

M/s Petrosin Edible Oil (Pvt) Ltd for supply of 3232 tons cooking oil @ Rs115,800 per ton, including taxes, for supply of stores during Jan to Apr, 2010. The period of supply was subsequently extended up to Nov, 2010. The contractor was, however, able to supply 406.032 tons only and remaining quantity of 2826.468 tons was cancelled on Jan 4, 2011 at the risk and expense of the contractor. New contract for remaining quantity was concluded with M/s Pakistan Oil Mills for Rs 451.387 million @ Rs.159,700 per ton including taxes. Risk and expense amount was calculated to be Rs 124,081,945. An amount of Rs 18,534,634 was adjusted by the CMA (DP) against earnest money and bank guarantee available with them thereby leaving an amount of Rs 105,547,311 as recoverable.

Audit pointed out the matter in Nov, 2011. It was replied that recovery of risk and expense had been initiated through court of law. DAC in its meeting held on Dec 11, 2012 directed to pursue recovery action. Further progress was, however, not reported till the finalization of this report.

Audit requires expeditious recovery of risk and expense amount.

DP-202(N)/2011-12

2.3.2(ii) Loss due to non-conclusion of contract for Rs 89.59 million

According to Para-1 of Chapter-XII of Purchase Procedure and Instructions, in case the contract is cancelled at the risk and expense of a firm, the excess cost incurred on purchase of those stores will be recovered from the defaulting firm. Further according to Para-16 (d) of the contract agreement, if the supplier fails to provide the bank guarantee within 30 days after signing of contract, such failure shall constitute a breach of the contract and the purchaser shall be entitled to make other arrangements at the risk and expense of the supplier.

It was observed from the record at Director General Procurement (Army) that a contract No. 07-0899-5-00 dated Apr 24, 2008 for supply of 32982 bullet proof jackets @ Rs 36,315 per jacket, was concluded with M/s Musterhaft Ltd. Contractor was required to submit 5% bank guarantee amounting to Rs 59,887,066 within 30 days of signing of contract but failed to do so and contract was cancelled on Nov 19, 2008 at his risk and expense. This cancellation of contract on risk and expense was changed as cancellation on reduction in demand without financial implication on either side on April 5, 2011.

It was also observed that 11600 jackets of same specifications were procured through FWO from M/s Lyra associates vide contract No. 80639/PA/Jacket/ord/expl/1 dated June 29, 2009 at a cost of Rs.510.840 Millions, thereby bearing an additional cost of Rs 89.586 million, for the same indenter .Conversion of cancellation on risk and expense (RE) to cancellation on reduction in demand (RD) was, therefore, an attempt to favour the firm and to avoid recovery of RE amount. It is also relevant to add that according to para-9 of Chapter-X of Purchase Procedure and Instructions, reduction in demand was only permissible where stores were not purchased at least one year after the date of cancellation of contract.

Audit pointed out the irregularity in Oct, 2011. It was replied that after cancellation of contract at RE of the firm, the indenter was approached by this Directorate for allocation of funds and provision of short listed firms for re-purchase action on RE of the defaulter. Indenter reduced the demand and according to procedure the contract was cancelled on RD without financial implications on either side. It was also replied that the indenter had since changed the specifications and the bullet proof jackets of the cancelled contract were not required. The reply was not satisfactory as contract was cancelled on reduction in demand for stores of same specifications and procured for the same indenter through FWO. Reduction in demand was thus not relevant and procurement through FWO seemed to be an attempt to defy recovery of risk and expense from the defaulting contractor. DAC in its meeting held on Dec 11, 2012

directed to transfer the case to Ministry of Defence for reply. Further progress was not reported till finalization of this report.

Audit emphasizes expeditious action besides fixing responsibility for providing unnecessary financial benefit to the original contractor and violating the prescribed rules/regulations.

DP-222(N)/2011-12

2.3.2(iii) Non-recovery from the supplier for US \$ 0.04 million

According to Para-5a (5) of Chapter-XIII of Purchase Procedure and Instructions (PPI), all letter of credit charges shall be paid by the supplier and not the local agent. In case the same is to be paid by the purchaser then prior permission of Military Finance will be sought.

A contract No. 1347/211/DGDP/PC-4 dated June 30, 2010 was signed between Director General Defence Purchase and M/s China National Precision Machinery Import and Export Corporation China for purchase of C-802-A missile weapons system. There was no decision that LC charges were to be paid by the purchaser, therefore, purchase proposal which was approved by the Secretary Ministry of Defence Production after concurrence by Financial Advisor did not have any mention to pay the LC charges by the Government of Pakistan. Accordingly payment of LC charges was the responsibility of the supplier. The LC opening Bank vide its letter No. SSM/41202 dated Sep 27, 2010 informed the State Bank of Pakistan, Rawalpindi that the LC opening charges amounting to US \$ 35,850 had been made payable by the beneficiary of L.C. i.e. M/S CNPMIE. The beneficiary, vide its letter No. CPM/DGDP/FAC/2010 dated Dec 27, 2010 claimed that LC opening charges would be borne by Pakistan Navy under clause 7.2 of the contract.

This clause 7.2 was regarding taxes and not LC charges, therefore, was not relevant. However, bank was made to clear the payment

to supplier without deducting LC charges. Accordingly, State Bank of Pakistan paid charges to the LC opening bank. It resulted into violation of Purchase Procedure, and the Instructions and terms of contract agreement, thereby causing loss of US \$ 35,850 to the national exchequer.

Audit pointed out the matter in Mar, 2012. It was replied that Purchase Procedure and Instructions provided guidelines for procurement to associated department of Ministry of Defence Production. Maximum efforts were made to finalize the contracts as per provisions of various rules/regulations e.g. PPI, PPRA etc. However, in this particular case firm insisted that all taxes/duties within Pakistan be paid by purchaser & all taxes/duties outside Pakistan will be borne by seller according to PPI Para-4 of Part-IV Chapter-XIII. In view of denial of firm to agree to pay LC charges in Pakistan, nothing was clearly mentioned in the contract about LC; with a view to make another effort at the time of LC opening that firm may be convinced to pay LC opening charges. Once again firm pleaded that as per international contracting practices both the parties i.e. purchaser & seller pays duties/taxes within their respective countries. As there is no restriction on LC charges payment by purchaser in PPRA, therefore, it was decided as per provision of the contract to pay LC charges.

The reply was not satisfactory. Terms of contract were clear according to which LC charges were to be paid by the supplier. HBL accordingly made the supplier pay the same but on the intervention of DGDP; LC charges were borne by the purchaser which caused non recovery of US \$ 35,850 from the firm. DAC in its meeting on Dec 20, 2012 directed that either the case be taken up with supplier for return of money or referred to Financial Advisor for regularization.

Audit is of the view that the amount is recoverable from the supplier. Audit also suggests that the terms of contract should be unambiguous and clearly spelled out in the contract.

DP-119(N)/2012-13

2.3.3 Un-authorized expenditure – Rs 11.34 million and ¥ 27.69 million and US \$ 0.04 million

2.3.3(i) Un-authorized expenditure on procurement of transport for Rs 11.34 million

According to TO&E of PAF / MT establishment issued by the Government of Pakistan, Ministry of Defence vide letter No. 9/9/D10 (AF-11) 06/AHQ/54081/41/Est. dated Jan 8, 2010 only 50 Nos. 1800 CC Cars were authorized, and purchase of staff cars was also subjected to clearance by the vehicle committee.

While examining the record at Director Procurement (Air), it was observed that seven Honda Civic 1800cc cars worth Rs 11,335,500 were purchased from M/s Honda Atlas Lahore vide contracts executed in Nov, 2009 and May, 2010. The number of 1800cc cars was already in excess of authorization resulting in un-authorized expenditure for Rs 11.34 million.

Audit pointed out the matter in Nov, 2011. It was replied that case was taken up with Air Headquarter for approval of the vehicle committee. Vehicles were purchased against boarded out cars. The reply was not satisfactory. According to revised TO & E circulated vide AHQ letter dated Sep 26, 2009, authorized ceiling of 1800cc cars was 50 while those already held were 88 in number. Department also could not provide evidence of boarded out vehicles and their handing over to the disposal wing. The DAC on Dec 12, 2012 directed to provide details of boarded out vehicles besides producing auction documents.

Audit requires immediate implementation of DAC directive, besides.

DP-187(N)/2011-12

2.3.3(ii) Un-authorized expenditure on procurement of luxury vehicles for ₹ 27.69 million

According to Government of Pakistan Cabinet Secretariat Cabinet Division letter No. 6-1(4)/07-MII dated Oct 6, 2007 read with letter of even No dated May 19, 2009, purchase of luxury vehicles such as Prado, Land Cruisers, Double Cabin Pickups and luxury Coasters and other vehicles falling in this category were banned and for purchase of these vehicles, the sanctioning authority was the Prime Minister.

The scrutiny of record at DP (Air) Chaklala revealed that five Land Cruiser Prado vehicles worth ₹ 27,685,000 were purchased from M/s Indus Motors Karachi through contract No. 447706/P-46 dated Dec 5, 2009, without obtaining sanction of the Prime Minister.

Audit pointed out the matter in Nov, 2011. It was replied that under Para-4 of above referred letter ban on purchase of imported vehicles in use of law enforcing agencies was lifted. The reply was not satisfactory as there was a complete ban on the purchase of luxury vehicles for all purposes and purchased vehicles were not the operational ones. The DAC on Dec 12, 2012 directed that either the letter in question be got amended or expenditure be got regularized.

Audit emphasizes for regularization of purchase or disposal of the vehicles under orders of the competent authority, besides, investigating for procuring luxury vehicles in violation of Government directive.

DP-182(N)/2011-12

2.3.3(iii) Un-authorized expenditure on commercial activities from public fund instead of Revolving Fund for US \$ 0.04 million

Government of Pakistan, Ministry of Defence vide its letter No. 5/2/DP-15/2001 (B)/PACB/1262/1/Accts dated Dec 10, 2001, allowed

establishment of a non-lapsable Revolving Fund for crediting the sale proceeds on account of commercial activities of Pakistan Aeronautical Complex (PAC) Kamra and operating the fund to perform tasks entrusted to the entity. The detail regarding pricing formula, procurement of stores and financial / accounting procedures were also prescribed.

Examination of record at Aircraft Manufacturing Factory (AMF) of PAC Kamra revealed that a delegation participated in Dubai Air Show. Government of Pakistan decided to bear the cost of air travel of the delegation. The AMF however charged the entire expenditure relating to the show to the regular budget provided by the Government. An amount of US \$ 43,360 was charged to the public fund irregularly while the same was to be met from revolving fund account.

Audit pointed out the matter in Feb, 2012. It was replied that budget was approved by Ministry of Defence Production after concurrence of Member Finance. After approval of Member Technical and concurrence of Member Finance, payment was made to show organizers out of AMF Budget Head 16-J (Public Fund). The reply was not satisfactory as participation in Dubai Air Show was for commercial purposes and charging of any expenditure relating to commercial activities to government account instead of revolving fund account was irregular. The DAC on Dec, 12, 2012 directed that expenditure be charged to Revolving Fund account.

Audit requires expeditious implementation of DAC directive.

DP-255(N)/2011-12

2.3.4 Recoverable / risk and expense amount for Rs 43.73 million US \$ 0.37 million

2.3.4(i) Non-cancellation of contract for abnormal delay and irregular advance payment for Rs 35.75 million

According to clause-16 of Contract Agreement No. 4477504/P-44 dated June 10, 2005 in the event of failure on the part of seller to comply with the contractual obligations, the contract is liable to be cancelled at his risk and expense in accordance with relevant rules.

During scrutiny of record at DP (Air) Chaklala, it was observed that above contract worth Rs 47,619,000 was concluded with M/S Metal Engineering Works Karachi for purchase of 13 Tender Water Fire Crash. The firm was paid 100% costs of chasses amounting to Rs 35.75 million in 2006. But despite lapse of 06 years the firm failed to deliver the vehicles. According to the report of 101 ALC PAF total life of tender water fire crash was 12 years and the chasses had already expire their economical life of approximately 45% at firm's premises. The Air Headquarters directed DP (Air) to cancel the contract, impose LD and ensure that the firm was not allowed such contracts in future. A period of 05 years has lapsed but the authority failed to implement the directions of the Air Headquarters. The advance paid was also not recovered and the Bank Guarantee amounting to Rs 4,140,783 available with the DP (Air) was not en-cashed.

Audit pointed out the matter in Nov, 2011. It was replied that four vehicles out of thirteen have been accepted and received by consignee while six vehicles have been offered for third stage inspection. It was also replied that CMA (DP) has been asked to recover LD as and when further payment was made. As regard encashment of Bank Guarantee department replied that the same would be considered on completion of delivery. The reply was not satisfactory as 101 ALC PAF had already expressed its concerns about the life of the chasses and its acceptability. Price reduction

option commensurate with the expired life of the chassis was also not exercised. It was also observed that GST was included in the contract while defence procurements were exempt from this levy. The DAC on Dec 11, 2012 directed to provide inspection note of Quality Assurance Control in respect of vehicles.

Audit requires justification to accept the vehicles without cost reduction, besides, fixing responsibility for making 100% payment of the cost of chassis to the firm without possessing ownership documents of the vehicles.

DP-201(N)/2011-12

2.3.4(ii) Non-recovery of risk and expense amount for Rs 7.98 million

According to Para-13(d) of Chapter-XII of Purchase Procedure and Instructions 2002, in case firm failed to deposit risk and expense amount within one year, procuring agency would institute suit in the civil court against the firm for recovery.

Contrary to the above, it was observed that Director Procurement (Air) Chaklala did not recover an amount of Rs 7,979,893 lying outstanding since 1996-2000 against various contractors on account of risk and expense and also failed to institute civil suits in the court of law.

Audit pointed out the matter in Nov, 2011. It was replied that recovery was notified to CMA (DP) Rawalpindi. The reply was not satisfactory as despite lapse of more than 10 years no civil suit was filed in the court of competent jurisdiction. The DAC on Dec 12, 2012 directed to hold Court of Inquiry besides blacklisting the firms and lodging of FIR against them. Further progress was not intimated till the finalization of this report.

Audit stresses expeditious implementation of DAC directives.

DP-184(N)/2011-12

2.3.4(iii) Non-imposition of Liquidated Damages for US \$ 0.37 million

In terms of Para-17 (a) of DP-35 forming part of the contract agreement, extension in delivery period (EDP) is dependent on reasons of delay and in cases where delay is considered within the control of the supplier extension in DP is allowed with LD. These instructions are mandatory and should be implemented without discretion.

Scrutiny of record relating to Contract No. 1347/214/ DGGP/PC-4 dated March 29, 2011 revealed that following stores / services were delivered late or yet not delivered but liquidated damages worth US\$ 367,700 were not imposed and recovered:-

Sl. #	Description	Delivery deadline	Status	Amount
1	Provision of installation documentation /drawing to KS&EW (To+4 months) FAC (M)-2.	31.7.11 {FAC (M)}.	CSOC will provide TDP deficiencies by Jan 20, 2012, CSOC will provide procedure for test & trials by 20.1.2012 as per 3 rd PMR.	Cost not indicated
2	Start of STW/HATs/ SATs (To+6 months)	09/2011 {FAC (M)1}	Current status required to be obtained from PNO (China)	Cost not indicated
3	Start of STW/HATs/ SATs (To+11 months)	2/2012 {FAC (M)2}	Current status not known	Cost not indicated
4	Delivery of Weapon & Sensors to respective yard (To+07 months) Oct, 2011	10/2011 {FAC (M)2}	Shipment of onboard spares of FAC (M) 2 to KS& EW will be made along-with shipment of weapon and sensors by 3 rd week of Feb, 2012.	US \$ 4.588 (M)

Liquidated Damages of US \$ 0.367 million related to Sl. No. 4 only, for Sl. 1 to 3 the same were to be worked out by the management.

Audit pointed out the matter in March 2012. It was replied that “The various payment milestones are established in the contract. Firm launches payment claim upon completion of activities as stipulated in each

milestone. Decision of imposition of LD charges or grant of waiver is then taken by the CPO. However, as payment claim against all these 4 milestones had yet not been received from the firm, hence observation made regarding imposition of LD against various payments was not relevant. Moreover, it was confirmed that decision with respect to imposition of LD or otherwise would be made as per provisions of relevant rules/regulations. The reply was not satisfactory as government instructions made it mandatory to impose LD. The DAC on 20-12-2012 directed for implementation of rules. It was apprised during DAC meeting that LD of US\$ 80645 had been imposed. Audit stressed for imposition of LD in full at the rates contained in the contract.

Audit requires imposition of LD as required by the rules.

DP-113(N)//2012-13

2.3.5 Weak Contract Management for Rs 135.71 million US \$ 2.50 million and Euro 0.74 million

2.3.5(i) Loss due to non refund of cost of defective stores for US \$ 0.61 million and non encashment of Bank Guarantee for US \$ 0.07 million

According to Para-1 of Annexure-II of DPL-15 of Contract Agreement No. 433274/P-43 dated June 30, 1988, supplier was bound to replace or repair, free of cost, every article or part thereof which before use or in use shall be found defective under the terms of warranty.

Further under Article-14 of above contract, the consignee would render a discrepancy report to the manufacturer within 60 days of receipt of stores for any discrepancy found in consignment for shortage and/or damage. The manufacturer was responsible to replace, free of cost, FOB New York every article found incorrect or short and under article 17 of the contract agreement, functional check would be conducted in the

presence of manufacturer during installation and purchaser would forward the acceptance certificate to the manufacturer positively within 45 days of receipt of consignment in Pakistan.

Director Procurement, DP (Air) Chaklala, concluded a contract with M/S Argo System USA for purchase of AR-820 Base Line System at a cost of US \$ 684,000. The firm was paid 90% costs of stores amounting to US \$ 611,100. During acceptance and functional check, the system was found unserviceable. Technical representative of the firm could not rectify the faults and firm was asked to replace the system vide letter No. 433274/P-43 dated June 28, 1990.

System was repaired by the firm but was not accepted because of the software problems and was asked for early replacement vide letter No. AHQ/1641/1/EW/PC-128 dated Jan 26, 1993. Despite lapse of 19 years the system was not replaced, its cost of US \$ 611,100 was also not recovered from the firm. It was further observed that the Bank Guarantee worth US \$ 67,900 available with the purchaser was not encashed and it lapsed on June 27, 1991.

Audit pointed out the matter in Nov, 2011. It was replied that system was functioning with some limitations. Firm sent their specialists for repairs but one feature could not be acquired. Moreover, 10% remaining payment was also not paid to the firm in lieu of missing function. The reply was not satisfactory as the system was lying in store and was never in full operational condition ever since its procurement. Moreover, AHQ Islamabad vide its letter No. 1641/1/EW/PC-128 dated Apr 10, 2002 intimated that system was still lying unserviceable and by providing unserviceable system the firm caused a financial loss to state for US \$ 611,100. The para was discussed in DAC meeting held on Dec 11, 2012. It was informed that the missing/non functional part has been procured locally and the system is now functional with all its features. The DAC observed that no documentary evidence in support of the new stance was produced.

Audit requires investigation in the matter besides, fixing responsibility for causing loss to the Government because of nonfunctioning of the system for over twenty years.

DP-194(N)/2011-12

2.3.5(ii) Excess authorization in the contract for US \$ 1.17 million

The Director General Munitions Production (DGMP) concluded a contract with M/S China Shipbuilding & Offshore International Co, Ltd. (CSOC) China for manufacturing of two FAC (M) boats; this contract contained all manufacturing cost. The missile system, C802A, to be installed on board was to be provided by the purchaser. A contract No. 1437/211/DGDP/PC-4 dated June 30, 2010 was accordingly concluded by Director General Defence Purchase (DGDP) with M/S CPMIEC China for purchase of missile system.

Scrutiny of two contracts and departmental correspondence indicated that material, design and equipment for installation was the part of DGMP contract and it was asked by the Naval Headquarters to delete the same from the missile procurement contract. The Directorate of Naval Weapon and Equipment (Plans) Naval HQ Islamabad pointed out vide its letter No. PL-WE/2002/148/838 dated June 16, 2010 that these activities were over lapped at the cost of state exchequer. Final contract however, contained these costs in scope of work of M/S CPMIEC as detailed below:-

i.	Installation material	US\$ 410,666
ii.	Installation design	US\$ 283,333
iii.	Equipment installation	<u>US\$ 498,668</u>
	Total	US\$ 1,192,665
	Less 2% discount	<u>US\$ 23,853</u>
		US\$ 1,168,812

Audit pointed out the matter in Mar, 2012. It was replied that M/S CPMIEC charged for material, design, equipment installation and Harbour Acceptance Tests (HATs)/Sea Acceptance Tests (SATs) of missile system only, which means that activities purely related to C802A missile which was in M/S CPMIEC domain; whereas installation of complete Fire Control System (FCS) and tests/trials was the responsibility of M/S CSOC as these activities were related mainly to the FAC (M) boats being built by M/S CSOC. Hence, M/S CPMIEC was being paid nothing for the activities carried out by M/S CSOC being the builder of FAC (M). The reply was not satisfactory as Naval Headquarters had clearly intimated the DGDGP that aforementioned activities and services were already included in the CSOC contract of FAC (M) manufacturing. Its inclusion in M/S CPMIEC contract was over lapping, and was therefore, required to be excluded by amending the contract accordingly. DAC on Dec 20, 2012 directed that reply of Service HQ on letter dated June 16, 2010 be obtained. Further progress was not intimated till the finalization of this report.

Audit requires early implementation of DAC directive.

DP-121(N)/2012-13

2.3.5(iii) Loss due to non encashment of Performance Bank Guarantee for Rs 65.63 million

According to clause-13 (b) & (c) of contract agreement No. 03-0370-5-00/ST/P-3 dated June 30, 2006 concluded by DGP (Army) with M/s Rizkam for procurement of Heavy Sniper Rifle, “the supplier shall be bound to extend the validity of Bank Guarantee and in case of unsatisfactory performance, the same will be forfeited”.

An examination of record indicated that Performance Bank Guarantee amounting to Rs 65,639,581 was expiring on August 31, 2009. DGP (Army) approached the CMA (DP) vide their letter dated July 3,

2009 that the firm be asked to extend the bank guarantee up to May 31, 2012 and in case firm failed to extend the same before August 10, 2009 the bank guarantee be encashed. The DGP (A) pursued the case with CMA (DP), who failed to initiate the encashment process in time as a result of that the Performance Bank Guarantee expired and the bank issuing the guarantee refused to en-cash it which resulted into loss for Rs 65.63 million.

Audit pointed out the matter in Oct, 2010. It was replied that case for issuing the encashment notice to the concerned bank was initiated with CMA (DP) and MAG. The CMA (DP) approached the concerned bank for provision of bank draft of equal amount but no confirmation was received. Reply was not satisfactory. Encashment process was not initiated during the validity period of the bank guarantee but instead after its expiration. The DAC on Dec 11, 2012 directed that revised/detailed reply from CMA (DP) be provided regarding the non encashment and further improvement in encashment system of Bank Guarantee.

Audit requires investigation in the matter besides, fixing responsibility for causing loss to Government.

DP-226(N)/11-12

2.3.5(iv) Non-recovery of cost of substandard stores for Rs 31.61 million

According to Para-2 of DPL-15 forming part of the contract the suppliers gave the undertaking that in case of failure to replace the defective store free of cost within a reasonable period he would refund the amount in currency in which received.

While examining the record at Mirage Rebuild Factory (MRF) Kamra, it was observed that items of stores worth Rs 31.61 million received against 06 contracts, concluded during June 2009 to June 2010,

were found substandard and were rejected. The stores or its cost was not recovered from the contractors.

Audit pointed out the matter in May, 2012. It was replied that contracted items when arrived in the “Traffic Section” of the factory were subjected to acceptance/inspection as per the SOP. The incorrect items (of wrong specifications) were rejected and sent to the supplier. The certified receipt vouchers (CRVs) were not issued by the factory until receipt of correct item. Moreover, as per contract clause-21 the supplier was responsible to replace the rejected item free of cost and all expense including Freight charges would be paid by the supplier. The Bank Guarantee against the contract and 20% payment against rejected items would be released after receipt of required item. The CMA was also approached for recovery of payment against rejected items.

The reply was not satisfactory as the rejected items were not replaced despite lapse of 03 years and appropriate action against the contractor was not taken. It was also observed that remaining amount of 20% in respect of accepted stores was already released and amounts available with the MRF were not sufficient to cater for the recovery. The DAC on Dec 12, 2012 directed to approach CMA (DP) and State Bank for recovery and get it verified by Audit within one month. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides, fixing responsibility for not taking appropriate steps against officials at fault.

DP-105(N)/2012-13

2.3.5(v) Loss due to purchase of cooking oil at higher rate for Rs 30.20 million

According to Rule-6 (a) of Financial Regulations 1986 Volume-I, “every officer should exercise the same vigilance in respect of expenditure incurred from Government revenue as a person of ordinary

prudence would exercise in respect of the expenditure from his own money”.

During examination of record relating to Contract Agreement No. 23-0625-1-0 dated Sep 24, 2010, concluded by DGP (A) for supply of refined cooking oil, it was revealed that an Indent No. 6788-002/Indent/ST6B dated July 13, 2010 was raised for supply of 4000 metric tons of refined cooking oil. In response to invitation to tender, six firms quoted their rates. M/s Hafeez Iqbal Industries were the lowest with a rate of Rs. 129,900 per metric ton but offered to supply 50% quantity i.e. 2000 tons. The second lowest firm M/s Chitral Oil & Ghee Industries Lahore quoted rate of Rs 130,000 per metric ton but voluntarily reduced it by Rs 100 per metric ton for the remaining 2000 tons to match with the first lowest bidder. Procuring agency concluded contract with M/s Hafeez Iqbal Industries only and contract for procurement of remaining quantity was not concluded with M/s Chitral Oil & Ghee Industries Lahore.

The demand for cooking oil was again raised for a quantity of 8365 tons which included left over quantity of 2000 tons. Fresh contract was concluded @ Rs 145,000 per metric ton with M/s Fatima Enterprises Ltd Multan vide contract No. 23-0649-1-0 dated Dec 23, 2010 which resulted in a loss of Rs 30.20 million.

Audit pointed out the matter in Nov, 2011. It was replied that Purchase Proposal (PP) for procurement of 4000 ton cooking oil was prepared in favour of 2 x firms (M/s Hafeez Iqbal and M/S Chitral Oil and Ghee Industries) at the rate of Rs 129,900 per ton on Aug 6th, 2011. The same was concurred in favour of M/s Hafeez Iqbal for procurement of 2000 metric tonne Cooking Oil while PP for Procurement of 2000 MT Cooking Oil in favour of M/s Chitral Oil & Ghee Industries was not concurred by FA (Army) despite lengthy correspondence. Finally indenter reduced the quantity of said indent from 4000 metric tonne to 2000. Subject reduced quantity was included in subsequent indents and fresh indent of 8300 metric tonne of Cooking Oil was received as requirement

for next 6 months i.e. Jan to June 2011. There was no relevance between the two indents. Hence no loss to state occurred.

The reply was not satisfactory as reduction in demand could only be opted if said stores were not required in one year from the date of reduction in demand. Leftover Quantity was included in the subsequent indent and the case therefore, was not of reduction in demand. DAC in its meeting held on Dec 11, 2012 directed that the case be taken up with GHQ for clarifying decision making level besides obtaining reply from Financial Adviser. Further progress was not intimated till finalization of this report.

Audit requires implementation of DAC directive, besides, fixing responsibility for making reduction in demand but procuring the same quantity in subsequent contract.

DP-215(N)/2011-12

2.3.5(vi) Non-recovery of cost of substandard stores for US \$ 0.39 million

According to Para-2 of DPL-15 of Contract Agreement No. 434484/P-43 dated Mar 3, 1996 worth US \$ 435,176 concluded with M/s Grinkar System Technologies South Africa for purchase of VHF/UHF Jamming System, the supplier gave the undertaking that in case of failure to replace the defective store free of cost within a reasonable period we will refund the amount in currency in which received.

According to terms of payments, 20% i.e. US \$ 87,035 was paid to the contractor against an equivalent amount of Bank Guarantee and another payment of US \$ 304,623 was made to the supplier in terms of clause-12 (e) and (f) of contract agreement on production of shipment documents.

Further scrutiny of record revealed that the system provided by the firm was unserviceable and was, therefore, returned to the supplier. The system was returned back to DP (Air) after removing deficiencies, but was found dysfunctional again. Despite lapse of 15 years the defects of the Jamming system were not rectified, the system was not replaced, alternatively, its cost, i.e. US \$ 391,658 was not recovered from the defaulting firm.

Audit pointed out the matter in Nov, 2011. It was replied that store was unserviceable and was returned to supplier for replacement which was returned back by the supplier to PAF and was declared serviceable and that the system remained in use till January 2007. Balance 10% payment has not been released to the firm. The reply submitted was not satisfactory. The system had worked partially and was decommissioned on January 18, 2007 Final acceptance was never issued. Neither the cost paid was recovered nor has the system been got replaced / repaired. Department failed to keep the bank guarantee alive and same has already expired on March 3, 1999. DAC in its meeting held on Dec 11, 2012 directed that factual position of the equipment may be got verified. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery of cost of stores or replacement thereof and action against official(s) who failed to keep a watch on validity of the bank guarantee and to get that extended or encashed in time.

DP-195(N)/2011-12

2.3.5(vii) Non-recovery of cost of substandard stores for US \$ 0.15 million

According to Para-2 of DPL-15 of Contract Agreement No. 434602/P-43 dated June 20, 1997 worth US \$ 279,640 concluded by Director Procurement (Air) with M/s Hi Tech Transfer Corporation USA for purchase of different items of radar spares, the supplier gave the

undertaking that in case of failure to replace the defective stores free of cost within a reasonable period we will refund the amount in currency in which received.

While examining the record at Director Procurement (Air) Chaklala, it was observed that stores costing US \$ 118,984 were rejected and those worth US \$ 49,495 were found deficient but the firm had already drawn 90% cost of these stores worth US \$ 107,086 and US \$ 44,546 through LC. Despite lapse of a period of 13 years neither the rejected stores were replaced nor were the deficient stores recovered.

Audit pointed out the matter in Nov, 2011. It was replied that firm was asked for replacement of rejected stores but the same could not be replaced by the firm due to US sanctions imposed in 1998. Case was also taken up with Attaché Defence Procurement (ADP) Washington for solution but ADP Washington intimated that firm is not responding. The reply was not satisfactory as despite lapse of more than 13 years neither outstanding amount was recovered nor was any action taken against the firm. Therefore US \$ 151,632 received by the firm against rejected and undelivered store be recovered from the firm. DAC in its meeting held on Dec 12, 2012 directed to hold a Court of Inquiry besides blacklisting the firm and lodging FIR against the firm. Further progress was not intimated till the finalization of this report.

Audit requires expeditious recovery besides, fixing responsibility for providing undue financial benefit to the firm.

DP-186(N)/2011-12

2.3.5(viii) Non-recovery of cost of substandard stores for US \$ 0.11 million

According to Para-2 of DPL-15 of Contract Agreement No. 434602/P-43 dated June 20, 1997 executed between DP (Air) Chaklala and CPI Switzerland for purchase of Coaxial Magnetron, the supplier gave the undertaking that in case of failure to replace the defective store

free of cost within a reasonable period we will refund the amount in currency in which received.

According to terms of contract, 90% payment was released to the firm on presentation of shipment documents. Stores provided by the firm were not found compliant to the specifications and were declared unserviceable. The consignment was returned to the supplier for replacement in May 1998. Despite lapse of 15 years neither store was replaced nor was its cost amounting to US \$ 107,973 recovered.

Audit pointed out the matter in Nov, 2011. It was replied that stores were operated for over 260 hours and became unserviceable and consequently returned to Original Equipment Manufacturer (OEM) for repairs. The OEM forwarded a detailed report of failure which as per supplier occurred because of loose connection of equipment externally connected and it was difficult to determine reasons of failure in warranty. Hence no recovery was necessary. The reply was not satisfactory. The record revealed that supplier's version was not accepted and recovery was stressed upon by DP (Air). The rejected stores were returned to the firm for replacement. Furthermore, the items failed within warranty period and the failure was attributed to material failure and not the operating condition. Despite lapse of 15 years neither replacement was provided nor was the cost recovered from the firm DAC in its meeting held on Dec 12, 2012 directed that revised reply be submitted. Further progress was not intimated till finalization of this report.

Audit stresses for recovery and investigation with a view to fix responsibility against the official who failed to safeguard interest of the Government.

DP-197(N)/2011-12

2.3.5(ix) Non-recovery of cost of substandard stores for EURO 0.22 million

According to Para-2 of DPL-15 of Contract Agreement No NAM/ALOU/576007/B-506/360896/P-36 dated June 30, 2005 concluded with M/s MNA Tech (Ltd) of UK for procurement of 08 Alouette III SA 319B helicopters, the supplier gave the undertaking that in case of failure to replace the defective stores free of cost within a reasonable period we will refund the amount in currency in which received.

While examining the record at DP (Navy) Rawalpindi, it was observed that after a long standoff between the firm and NHQ the quantity was reduced from 08 to 06 through amendment No.1. The firm, however, supplied only two helicopters. It was also observed that stores worth Euro 216,820 were either rejected or not supplied with two helicopters by the firm but 80% amount was paid. The stores or their cost were not recovered. Action against the firm for not supplying the balance quantity of 04 helicopters was also not taken and guarantees available were not opted for encashment.

Audit pointed out the matter in Nov, 2011. It was replied that the contract was already under process for cancellation on firm's risk and expense. Audit authorities would be intimated on finalization of all formalities accordingly. The reply was not satisfactory. Despite lapse of six years neither the recovery action was taken nor was contract cancellation on risk and expense finalized. DAC in its meeting held on Dec 12, 2012 directed to reconcile the payment status with CMA (DP) and effect recovery. Further progress was not intimated till finalization of this report.

Audit stresses for recovery of amount paid against deficient stores along with fixation of responsibility for not finalizing the contract on risk and expense.

DP-233(N)/2011-12

2.3.5(x) Non-recovery of cost of substandard stores for EURO 0.52 million

According to Para-2 of DPL-15 forming part of the contract the suppliers gave the undertaking that in case of failure to replace the defective store free of cost within a reasonable period we will refund the amount in currency in which received.

While examining the record at MRF Kamra, it was observed that several items received from contractors from June, 2003 to May, 2006 against 08 contracts were not found in conformity with the requisite specifications and were rejected by the users. An amount of EURO 524,231 was already paid to the contractors on the basis of shipment of stores. The scrutiny further revealed that neither the items were replaced nor was recovery effected including freight and insurance charges. Performance Bank Guarantees were not en-cashed within the validity period and those lapsed.

Audit pointed out the matter in May, 2012. It was replied that items under the contract, when arrived in the “Traffic Section” of the factory were subject to acceptance inspection according to SOP. The incorrect items (wrong specifications) were rejected and sent back to the supplier; CRVs were not issued by the factory, as per contract clause 21 the supplier was responsible to replace the rejected items free of cost and all expense including Freight charges would be paid by the supplier. Furthermore, Bank Guarantees against the contracts and 20% payment against rejected items will be released after receipt of required item. The CMA was also approached for recovery of 80% payment against rejected items. The reply was not satisfactory as neither the stores were replaced nor was recovery effected despite lapse of over four years and the Bank Guarantee had already expired. DAC in its meeting held on Dec 12, 2012 directed to take up the case with CMA (DP) for recovery of amount and get it verified by Audit within one and a half month. Further progress was not intimated till the finalization of this report.

Audit requires implementation of DAC directive besides, fixing responsibility for not taking appropriate steps to safeguard the interest of national exchequer.

DP-106(N)/2012-13

2.3.6 Overpayments – Rs 102.30 million, US \$ 5.15 million and € 0.44 million and ¥ 9,251

2.3.6(i) Over-payment to contractors on account of GST on exempt stores for Rs 70.60 million

According to Section-62 of Sixth Schedule of Sales Tax Act 1990, Defence Stores whether manufactured locally or imported by the Federal Government against Foreign Exchange allocation for Defence, including trucks, trailers and vehicles especially developed for mounting defence equipment or their parts and accessories for supply to defence forces are exempted from Sales Tax. Further in terms of SRO No. 530 (1)/2005 dated 06-06-2005, supply of plant, machinery and equipment whether locally manufactured or imported were exempt from levy of GST.

It was observed during audit at DP (Air) Chaklala, that plant, machinery and equipment exempt from GST under SRO dated 06-06-2005 were purchased for Rs. 107.33 million and Sales Tax valuing Rs. 13.96 million was paid to the suppliers. It was also observed that imported stores worth Rs. 410.40 million were procured under FOR contracts and an amount of Rs. 56.64 million was paid as GST which was otherwise not payable had the stores procured on FOB contracts. Defence budget which was meant for procurement of defence stores was thus consumed in payment of taxes to the extent of Rs. 70.60 million because of improper planning.

Audit pointed out the matter in Nov, 2011. It was replied that according to section-62 of Sales Tax Act, 1990 Defence Stores against

foreign exchange were exempted from GST whereas stores objected were procured in local currency. The reply was not satisfactory; GST for Rs. 13.96 million was paid on purchase of stores worth Rs. 107.33 million which were exempt under SRO dated June 6, 2005. Furthermore, imported stores worth Rs. 410.40 million were procured on FOR contracts instead of FOB which caused utilization of defence budget on payment of taxes. DAC in its meeting held on Dec 12, 2012 directed that confirmation from authorities concerned whether exemption was applicable be produced. Further progress was not intimated till finalization of this report.

Audit emphasizes on implementation of DAC directive.

DP-232(N)/2011-12

2.3.6(ii) Loss due to enhancement of price after negotiations during processing of contract for US \$ 1.68 million

Naval Headquarters negotiated a proposal for procurement of weapons and sensors for FAC (M) boats with M/S CSOC China. The firm initially offered to supply at a cost of US \$ 13.90 million per system. The cost was considered high, therefore, it was again negotiated with the firm and it was mutually agreed that firm would supply the system at US \$ 10.36 million per boat with changed specifications. After approval of the CNS a proprietary indent was forwarded to DGDP for processing and procurement of system.

Procurement was processed in DGDP. The DGDP, however, finalized the contract for two systems with M/S CSOC, China for CIF cost of US\$ 23.44 million instead of US\$ 20.72 million already arrived at by NHQ after lengthy negotiations. This caused an extra cost of US \$ 1.684 Million as calculated below:-

A. Final cost of contract	US\$ 23.44 million
B. i) Cost approved CNS	US\$ 20.72 million
ii) Freight and insurance for one boat	<u>US \$ 1.036 million</u>

the other boat was to be constructed in China

Total B	US \$ 21.756 million
Difference of A-B	US \$ 1.684 million

Audit was of the opinion that proprietary indent for the firm was on mutually agreed specifications and cost between NHQ and CSOC, therefore, was not open to change.

When pointed out by audit in March, 2012 it was replied that indented rates provide base for processing of the case, the actual rates are received only in shape of commercial offer from firm after IT from this stage onwards any previous understanding between PN & firms become null and void and only IT/firm's quote is considered legal document for further processing of the case. In addition, contract was finalized on delivery terms and condition i.e. CIF as best suited to PN as one boat was to be constructed at shipyard at China while other was to be constructed at KS&EW. Reply was not satisfactory because it was a proprietary procurement where cost and specifications were already agreed between NHQ and the supplier after sufficient negotiations. Acceptance of bid and conclusion of contract at higher rates was not justified. The extra amount paid to the supplier was a loss to government and needed to be recovered. The DAC in its meeting on Dec 26, 2012 directed that evidence be produced leading to enhancement of value of contract. Difference in cost before and after commercial offer be explained.

Audit requires expeditious implementation of the DAC directive, amendment in the contract and recovery of extra amount paid to the firm.

DP-111(N)/12-13

2.3.6(iii) Irregular inclusion of amount in the contract for Weapon and Sensor for US \$ 1.25 million

The DG MP concluded a Contract No. 1262/91/DMP (Navy) dated June 30, 2010 with M/s China Shipbuilding and Offshore International Company Ltd for construction of two FAC (M) boats for Pakistan Navy, one at China and the other at KS&EW Karachi. A cost of US \$ 5.3 million was provided for in the contract as cost of KS&EW. According to Clause 3.2.1.5 of this contract the purchaser (DGMP) was responsible for supplying Missile System and weapon and Sensor system for installation by the contractor (CSOC) on each FAC (M). Also, according to Clause 3.4 of the contract the compatible Integrated Logistic Support (ILS) package was to be provided by the contractor and contractor was to ensure that all stake holders including building yard, OEM, system Integrator design Institute etc. were engaged through formal sub-contracts to complete ILS package of FAC (M).

A contract No. 1347/211/DGDP/PC-4 dated June 30, 2010 was simultaneously signed between DGDP and M/s China National Precision Machinery Import Export Corporation for supply of 16C 802A Missile Systems. This contract also provided a cost of US\$ 500,000 for ILS package and US\$ 750,000 for KS&EW. Audit held that it was a duplication and therefore un-authorized.

When pointed out by audit in Mar, 2012, executive replied that M/s CSOC is to act as system integrator and is to provide necessary assistance to various OEMs in order to achieve successful integration/interfacing of all weapons & sensors and other equipment fitted onboard. Hence M/s CSOC responsibility is restricted to provision of necessary assistance to various OEM. Moreover, this assistance is from the point of view of provision of various services/facilities such as base for various equipment, power supply and space management etc. as per requirement of other OEMs. As far as ILS payment to M/s CSOC is concerned, same is for ILS package of FAC (M) boat being constructor of

the boat and it has no relation with ILS package of weapons & sensors. Moreover, payment made to KS&EW by CSOC vide contract of DGMP is for performing tasks/services relevant to construction of FAC(M)-2, however, payment allocated for KS&EW by M/s CSOC vide contract of DGDP is purely for performing tasks/services relevant to weapons & sensors onboard FAC (M).

Reply was not tenable as a cost of US \$ 5.3 million was provided for in the CSOC contract for KS&EW which included all costs of integration of all logistic supports. Moreover, cost of US \$ 1.25 million in the CPMIEC contract was not for any equipment or system but for support which was already part of CSOC contract. Point was partially accepted during discussion to the extent of cost of KS&EW. Audit desired reevaluation of all costs in the two contracts for any other duplications and recovery of support provision i.e. ILS as well as KS&EW. During DAC meeting on Dec 20, 2012 department replied that ILS package represented cost of stores. Payments to KS&EW were, however, could not be justified. DAC decided to check rationale of the payment made to KS&EW and its utilization by them. It was confirmed that payment on account of ILS package was not on account of cost of stores.

Audit emphasizes the implementation of DAC directives and recovery of undue amounts, besides, initiating the disciplinary action against those held responsible.

DP-123 (N)/12-13

2.3.6(iv) Excess authorization of amount during processing the contract for US \$ 1.09 million

A contract No.1437/211/DGDP/PC-4 was concluded by the DGDP with M/s CPMIEC China on June 30, 2010. The contract was negotiated on single tender basis. Firm initially quoted US\$ 60.653 million as a package price which was negotiated and revised offer reduced to US \$

50,446,937 CIF Karachi. The offered package included INS local reference device costing US \$ 1,092,000.

This package offer was discussed by Directorate of Naval Developmental Plans, Naval Headquarters Islamabad with the bidder, CPMIEC, wherein it was informed that the INS Local Reference device was being provided by CSOC, the ship-builder, through another contract concluded by DGMP and, therefore, this device and its cost was agreed to be deleted from CPMIEC contract. The position was also conveyed in writing to the DGDP vide Directorate of Naval Developmental Plans, Naval Headquarters Islamabad letter No PL-4000/C-802A/802 dated June 25, 2010.

During a meeting on June 30, 2010, where final negotiations were held this vital information was not shared by DGDP and Naval authorities with the Secretary, Ministry of Defence Production. Revised offer and package was presented by the bidder wherein he agreed to offer an additional discount of 2%. Based on this revised rationalized offer, with a cost of US\$ 49.418 million, a contract was signed. The contract did not contain INS local reference device but included its cost which caused an extra authorization of US \$ 1,092,000 for payment to supplier.

When pointed out by audit in Mar, 2012, it was replied that intense and thorough discussions were carried out before finalization of contract as result of which price was substantially reduced & INS local reference device initially included in package was replaced with calibration & metering equipment, keeping in view of updated PN requirement. In addition to above it was checked & got verified from PNO (China) that no equipment with the name of INS local reference device was being procured through contract of DGMP for construction of FAC (M).

Reply was not tenable because this item was deleted from the list of procurement but cost was not reduced. The DAC on Dec 20, 2012

directed the department to justify the position with reference to Naval Headquarters letter dated June 25, 2010. Further progress was not intimated till finalization of this report.

Audit requires implementation of DAC directive, amendment in the contract and expeditious efforts for recovery of undue payment besides the status of Local Reference Device procured through shipbuilding contract.

DP-122(N)/12-13

2.3.6(v) Loss due to exemption of import duties and taxes already included in the bid for Rs 24.00 million

The MVRDE concluded two Contracts No. 27/235-V/MV-8A/HPAC-VII/AHQ/07-88/2000/DP-9 dated June 6, 2011 and No. 27/235-VII/MV-8A/HPAC/7-179/2010/DP-9 dated June 10, 2011, for indigenous development of high pressure Air compressors, three for AHQ and one for NHQ, with M/S Alpine Industries (Pvt) Ltd Lahore at the costs of Rs 45.00 million and Rs 15.00 million respectively.

While evaluating the bid and determining the reasonability of the quoted price, the successful firm was asked to give breakup of the cost. The firm informed that Rs 12.54 million out of his bid of Rs 15 million represented the cost of imported material and it also included import duties and taxes. Finally the contracts were signed at a cost of Rs. 15 million per compressor but in both cases import duties and taxes were excluded and made the responsibility of the purchaser.

Audit pointed out the matter in Mar, 2012. It was replied that the firm had not included duty & taxes in case of HPAC quantity-03 pertaining to Air Headquarters and customer shall get the stores cleared from Embarkation Headquarters or provide exemption or pay import duties and taxes. In the case of contract pertaining to Navy, firm vide their letter No.AIC/18/160/10/45 dated Jan 24, 2011 intimated that cost of Rs 15 million was inclusive of import and custom duty / taxes and that

firm had been approached vide letter No. 25/14/Audit obj/2012/MV dated May 31, 2012 to deposit the amount of customs duty & taxes. Audit stressed for recovery of duty & taxes in both cases as specifications in both contracts were the same.

In the DAC held on Dec 26, 2012. It was replied by the department that specifications in case of Navy contract were substantially different from 03 HPAC of P.A.F and inclusion of duty & taxes in case of Navy contract was typographical error. The DAC decided to submit the revised reply. Nothing was heard till finalization of this report.

Audit requires recovery of duties and taxes paid by the department or exempted, as the case may be, from the firm.

DP-127(N)/2012-13

2.3.6(vi) Procurement of chemical store without necessity valuing US \$ 0.94 million, ¥ 0.01 million and Rs 0.03 million

According to Rule-51 of Financial Regulations Volume-II, 1986, “no money shall be drawn unless it is required for immediate disbursement instead to incur to avoid lapse of fund. Government regulations restrict the purchases as a means of replenishing stock”. Furthermore, Para-1, Chapter-II of Purchase Procedure and Instructions states “correct estimation of requirements is essential in the contracting process”.

It was observed from record that 235 items of limited life chemical stores, worth US \$ 940,718 + JY 9251 + Rs. 31,769, were not utilized within their shelf life at F-6 Rebuild Factory, PAC, Kamra and expired while lying in stores.

When pointed out by Audit in January, 2009, it was replied that chemicals held with Log Sqn (Chemical Store) were procured on the basis

of forecast and planning of future requirements initiated by Groups/Users. Log Directorate was responsible to meet the requirements from particular suppliers and storage of stocks received and distribution of the same as per demands. Stocks not used within the given expiry time were shifted to life expired store maintained for such purpose. The reply was not satisfactory because stores were procured more than the necessity which were not consumed before the date of expiry causing loss of US \$ 940,718 + JY 9251 + Rs. 31,769 which required a thorough investigation. DAC in a meeting on Dec 12, 2012 was informed that stores had been utilized and the record was available for verification. Record, however, was not produced to audit for verification till finalization of this report.

Audit still holds that chemicals expired on or before June, 2008 cannot be used afterwards. Audit stresses for a thorough investigation, fixing responsibility and adopting measures to avoid future occurrences.

DP-253(N)/2011-12

2.3.6(vii) Loss for US \$ 0.80 million

In order to get F-16 aircrafts upgraded, the Director General Defence Purchase (DGDP) issued IT to M/s TAI of Turkey for Midlife up gradation and Falcon Star (MLU + FS) for sixteen aircrafts and Midlife up gradation only for seven aircrafts. Firm initially quoted US \$ 37.60 million but revised its offer to US\$ 35.81 million for the services after negotiations.

It was decided in a meeting chaired by the secretary (MoDP) to get upgrade of 24 instead of originally planned 23 aircrafts at a cost of US \$ 36 million instead of US \$ 35.810 million. Minutes of meeting did not indicate category of the upgrade i.e. MLU or MLU + FS to be added in the package.

Finally, a contract No.1346/164/DGDP/PC-5 was signed on June 9, 2009 with the firm. Further scrutiny revealed that negotiated bid

was not translated into the contract properly as rates of MLU + FS were revised upward and were reduced in case of MLU only. Likewise, number of MLU + FS was reduced from 16 to 15 and that of MLU only increased from 7 to 9. These changes caused a loss of US\$ 800,000 as worked out below:-

Revised bid for 23 aircrafts	US\$ 35,810,485
Additional cost for added 24 th aircraft	US\$ 189,515
Total cost for 16 (MLU + FS) + 8 MLU	US\$ 36.00 million
Cost in contract	
16x1.8(MLU+FS) =US\$28.800 Millions	
08x1.00(MLU) = US\$ 8.000 Millions	
Total	<u>US\$ 36.800 (M)</u>
Overpayment	US\$ 800,000

Audit pointed out the matter in March, 2012. It was replied that figures given by the Audit were not correct and that no excess payment was established. In the DAC meeting on Dec 20, 2012 audit reiterated that price and quantity adjustment caused loss of US \$ 800,000. DAC directed to share the calculation data with the FA by the DGDP. Further progress was not intimated till finalization of this report.

Audit requires re-evaluation of the prices by Financial Advisor as directed by the DAC.

DP-118(N)/2012-13

2.3.6(viii) Acceptance of inferior quality of stores without invoking price reduction clause for Rs 7.67 million

According to Clause-15 of CA No.601001–R-609/340205 dated Feb 12, 2008 if certain stores on inspection by the inspector are found to be below the stipulated specification these may be accepted / passed by the inspecting officer / authority in accordance with DP-35

(2002). And according to para-11 (g) of DP-35 the inspecting officer may accept store of below specification with reduction in price.

It was observed from the case files of the contract that timber logs ranging up to over 41 CFT were supplied and accepted instead of required Deodar Sleepers Grade-II. As these were not sleepers, supply should have been rejected. Acceptance Log sheets indicated that a quantity of 927 CFT wood was supplied extra. Inspection note, however, indicated that the wood was as per contract quantity and nothing was offered extra. Acceptance of big logs instead of sleepers without cost reduction was irregular. It was also important that cost for converting logs into sleepers was also not determined and recovered from the supplier.

When pointed out by Audit, it was replied that stores with changed specification was accepted on indenter's request vide Fax No. PMD/TIM/701001/2713 dated Aug 18, 2008. Reply was not tenable as the fax quoted in reply was for some other contract.

The DAC on Dec 11, 2012 directed that a meeting between CINS Karachi and Audit be arranged to sort out the issue. Accordingly, the meeting was held on Jan 1, 2013. It was revealed during meeting that contract specified acceptable sizes of sleepers with overall volume of 3 to 4 CFT and moisture content of 8% or higher. Supplied wood was in large logs ranging up to 41 CFT and moisture content was less than 8% in majority of cases. Keeping in view the sizes and dimensions of the supplied wood logs, carving out required sizes of sleepers would cause large wastage. It was further observed that extra wood, if supplied was not taken on charge. These factors indicated wood was of inferior quality required either to be rejected or accepted after invoking price reduction clause of the contract agreement.

Audit, therefore, desires an investigation and recovery of cost of substandard stores and streamlining of procedures for such procurements in future.

DP-230(N)/2011-12

2.3.6(ix) Irregular award of contract causing excess payments for € 0.07 million

In terms of Para-14 (d) (2) & d (3) of Purchase Procedures and Instructions 2002 of Defence Production Division, repeat order contract can be executed where previous contract had successfully completed / closed. However a fresh contract shall be concluded on same terms and condition. Purchase proposal in such cases shall be administratively cleared from next CPO. Purchase proposal of repeat order will invariably be published in DGDP Bulletin and efforts be made to get maximum discount due to increase of quantity. If an underbid offer is received, then bids after issuance of IT on open tender basis will be called in order to generate healthy competition and to achieve maximum discount. The under bidding firm will give undertaking not to increase prices on re-tendering.

A contract agreement No. 1347/207/DGDP/PC-4 dated June 29, 2009, was concluded between DGDP and M/s Rheinmetall Waffe Monition Gmbh Branch Buck Fronau for procurement of MASS Chaff Launcher System for PNS NASR. During scrutiny of record it was revealed that a contract for the same system was at first executed in 2005 and completed successfully. Two others contracts were executed on repeat order basis which were running smoothly. Present contract was again on repeat orders basis. It was observed that the rates in the present contract were significantly increased for certain services only, thereby, defying the spirit of the repeat order. This caused excess payment of Euro € 69,500 as worked out below:-

SI #	Nomenclature	Last price rate per Ships (In €)	Quoted price (In €)	Price Difference. (In €)
a.	Assistance to Installation	48,000.00	64,000.00	16,000.00
b.	Setting to Work (STW)	46,500.00	62,000.00	15,500.00
c.	Harbour Acceptance Test (HATs)	28,000.00	42,000.00	14,000.00

d.	Sea Acceptance Test (SATs)	28,000.00	42,000.00	14,000.00
e.	MASS Test Set On- board	6,000.00	16,000.00	10,000.00
			Total	69,500.00

Audit pointed out the matter in Mar, 2012, it was replied that indent for procurement of Mass Chaff Firing System was received from indenter duly marked as “Proprietary”, for the reason being that M/s Rheinmetall is the OEM of the equipment & no other firm produces this desired equipment. Therefore, IT was floated to single firm and contract was concluded with the firm at maximum discounted rates after obtaining the approval of competent authority i.e. Secy. (DP). Moreover, as per provision of Clause-42 of Contract No. 1347/207/DGDP/PC-4, any subsequent order of same system can be made by buyer upon mutually agreed terms & conditions. Hence, under this clause, firm had the right to raise the price of system to reasonable percent-age due to various factors such as, inflation, devaluation etc. however, all out efforts were made to obtain maximum discount from the firm and contract rates are still less than indented rates, hence considerable amount of FE had been saved.

Reply was not satisfactory because contract was processed and approved on repeat order basis; PPI 2002 required obtaining further discount, whereas, unit rates were revised upward. This caused excess payment of EURO 69,500. Furthermore, as per PPRA rules 2004 repeat order could be issued up to 15% of the cost of original contract. In this case that limit was also violated. The DAC on Dec 20, 2012 directed to produce the Government letter under which DP-35 and PPI was issued by DGDP.

Audit stresses for recovery because in repeat orders rates cannot be increase and contract cost should not be increased more than 15%.

DP-116 (N)/2012-13

2.3.6(x) Overpayment to contractor for US \$ 0.03 million

According to clause-9 of contract, claims for deficient items had to be intimated to the firm within three months from the date of delivery.

Director General Procurement (Army) concluded a contract No. 11/245/24015/16578/MT/P-3 dated June 21, 1984 with M/s Zapchas textport Moscow (Russia) for supply of 439 spares parts for KIRAZ 255B, at total cost of US \$ 1,731,192. The contractor failed to supply 27 items but full payment was made as confirmed by the State Bank of Pakistan. Thus an amount of US \$ 33,176 was overpaid to the supplier. Claim for deficient stores was also rejected by the supplier as it was lodged after expiry of stipulated period given in the contract agreement.

Audit pointed out the matter in Nov, 2011. It was replied that Foreign Principal supplied the items but on receipt at consignee end (CMT & SD Golra), 27 items worth US \$ 33,176 were not received. Despite repeated reminders, firm failed to make up the deficiency and case for preparation of loss statement was under process with CMA (DP) Rawalpindi. The reply was not satisfactory as no claim for deficient items was raised within the prescribed time. DAC in its meeting held on Dec 11, 2012 directed to hold inquiry to see whether SOP was violated and case be disposed off speedily. Further progress was not intimated till finalization of this report.

Audit requires implementation of DAC directive besides, recovery of deficient stores.

DP-203(N)/2011-12

2.3.6(xi) Overpayment to Contractor for € 0.44 million

According to Rule-42 (C) (IV) of PPRA 2004, procurement under direct contracting, through repeat order (will be resorted to only) if

the procurement does not exceed 15% of the original procurement. Repeat order has been defined in Rule-2 (j) as procurement of the same commodity from the same source without competition and includes enhancement of the contract. This entails that contract rates cannot be changed in the repeat order.

While examining the record at DGDP Rawalpindi, it was observed that a Contract No. 1347/207/DGDP/PC-4 dated June 29, 2009 was concluded with M/S Rheinmetall for procurement of Mass/Chaff Launcher System. The original contract included procurement of 64 numbers MASS OMNI Trap Ammunition quoted @ Euro 1135 per unit but offered Free of Cost. The quantity of 64 was later on increased to 592 through Amendment No. 1 under repeat order and further another quantity of 568 through Amendment No. 03 but at enhanced rates of Rs.1530 each. Resultantly, the final cost of the contract increased by 48.2% of the original cost which crossed the maximum enhancement limit of 15%. It was not only irregular but by allowing rates more than the rate in the original contract caused an overpayment of Euro 444,280 to the firm. The deviations from purchase procedures were irregular and recovery of overpaid amount of Euro 444,280 from the supplier was required to be made expeditiously.

Audit pointed out the matter in Mar, 2012. It was replied that tender for procurement of Mass Chaff Firing was floated on open tender basis and also uploaded at PPRA website as per PPRA Rules-2004 by DP (N) but only one firm i.e. M/S Rheinmetall, Germany quoted rates which were found exorbitant (€ 1550) as compared with indented price. Subsequently, M/S Chemring Defence, UK was approached for obtaining P & A, but no response was received from the firm. Maximum efforts were made to procure the indented items by open tendering but except M/S Rheinmetall, no other firm quoted rates. Under these circumstances case was referred to DGDP by DP (N) for procurement of Ammo through amendment in existing contract for this system with M/S Rheinmetall. Furthermore, maximum discount was obtained and thus amendment was

finalized at discounted price and as a result a substantial amount of foreign exchange was saved, as compared to rates achieved by DP (N) as a result of open tendering. The reply was not satisfactory as repeat order was required to be made on the contract rate or with a further discount and that too within 15% permissible limit of the contract value. Increase in rate and quantity of repeat order beyond 15% was irregular. DAC in its meeting held on Dec 20, 2012 directed that justification in support of increasing the quantity of Equipment beyond 15% as laid down in PPRA Rules be produced along with increase in rates. Further progress was not intimated till finalization of this report.

Audit emphasizes on regularization of the issue besides, fixing responsibility against those held responsible.

DP-114(N)/2012-13

2.3.7 Public Financial Management Issues for US \$ 5.62 million

2.3.7(i) Un-authorized retention of money in revolving foreign currency account beyond authorized ceiling for US \$ 5.62 million

According to Para-3 of Government of Pakistan, Ministry of Defence (Defence Production Division) letter No 5/2/DP-15/2001(A)/PACB/1262/1/Accts, dated Dec 10, 2001, the revolving fund authorized in Foreign Currency account will have a ceiling of US \$ 20.00 million. Any amount over and above the ceiling will be transferred to Government Treasury.

Contrary to this, the Pakistan Aeronautical Complex (PAC) Kamra had a closing balance of US \$ 25,620,741 on June 30, 2011 but did not transfer US \$ 5,620,741 to Government account. This amount was over and above the ceiling fixed for their foreign exchange revolving fund account maintained in Habib Bank Kamra.

The irregularity was pointed out by Audit in July, 2011. It was replied that case for enhancement of ceiling from US \$ 20.00 million to US \$ 100.00 million was taken up with MODP in May, 2010 and was still in process. The amount retained over and above the ceiling included liabilities against contractual obligations. The reply was not satisfactory as the PAC Kamra was not authorized to retain any amount in excess of approved ceiling. Moreover, substantive evidences with regard to future liabilities and enhancement of authorized ceiling were not provided to Audit. The department subsequently intimated that the amount of US \$ 5.621 million had been deposited in Government treasury. Verification of record indicated that the PAC Kamra prepared a challan for depositing the amount in code # C02513 (Procurement Research and Project Development) which was not a government account. Payment of this amount in the bank and its subsequent accounting in government treasury could not be verified. DAC in its meeting held on Dec 12, 2012 directed that retention of any amount beyond authorized ceiling of Revolving Fund be got regularized from Ministry of Finance.

Audit emphasizes expeditious implementation of DAC directive besides fixing responsibility for violating the existing ceiling limit.

DP-132(N)/2011-12

CHAPTER-3

Ministry of Defence

3.1 Introduction

Ministry of Defence deals with all policy and administrative matters pertaining to all armed forces, matters relating to defence treaties, agreements with other Governments and military assistance to foreign countries. Defence Division under Ministry of Defence also administers matters relating to Military Engineer Services, Inter Services Organizations, Military Lands and Cantonments and Federal Government Educational Institutions (Cantonments / Garrisons).

3.2 Comments on Budget and Accounts (Variance Analysis)

The grant and expenditure of the Defence Services for the Financial Year 2011-12 were as under:-

<u>Rs in million</u>						
No and Name of the Grant	Original Grant	Supplementary Grant	Surrender	Final Grant	Expenditure	Expenditure compared with final grant More (+) Less (-)
1	2	3	4	5	6	7
No. 23 Defence Services	Rs. 495,000.000	Rs. 14,321.808	Rs. —	Rs. 509,321.808	Rs. 509,710.062	Rs. (+) 388.254

Against a modified Grant of Rs 509,321.808 million, a net expenditure of Rs 509,710.062 million has been incurred which indicates excess expenditure of Rs 388.254 million after adjustment of Rs. 3,179.262 million pertaining to Adhoc Suspense head of un-booked balances with Missions Abroad.

The breakup of expenditure is as follows:-

	<u>Rs in million</u>
a) Gross Expenditure	511,470.189
b) Less Advances with Mission Abroad	3,179.262
c) Add Recoveries	1,419.135
d) Net Expenditure	509,710.062

3. There is an overall excess expenditure of Rs 388.254 million. Following are the major factors in the excess expenditure:-

i) **Tpt & Misc:** - Rs. 195.002 million is due to large scale deployment and movement of the troops from different parts of the country to operational area of KPK and abnormal price hike of POL.

ii) **Military Farms:** - Rs. 71,443 million is due to price escalation of raw milk, skimmed milk powder, packing material and increase in the pay and allowances of RV&F employees.

iii) **Medical Stores:** - The excess expenditure of Rs. 91.713 million is due to the increase in the prices of medicine.

iv) **Capital Works (Non Reds):** - Rs 30.096 million excess expenditure under this head is due to increase in the prices of construction material (Steel, Cement, etc).

3.3 Brief comments on the status of compliance of PAC Directives by Ministry of Defence

Status of compliance of PAC directives for the Audit Reports from 1987-88 to 2008-09 discussed during various PACs held from July, 1992 to Aug, 2011 is given in the following table:-

Audit Year	Total Paras discussed by the PAC	Actionable points	Full Compliance	Partial Compliance	Nil Compliance
1	2	3	4	5	6
1985-86	5	5	0	2	3
1986-87	7	6	2	1	3
1987-88	31	8	1	5	2
1988-89	44	8	0	4	4
1989-90	3	3	0	0	3
1990-91	3	3	1	0	2
1991-92	5	4	0	0	4
1992-93	12	7	0	1	6
1993-94	148	141	13	64	64
1994-95	3	0	0	0	0
1995-96	18	9	1	2	6
1996-97	106	104	11	25	68
1997-98	17	5	0	0	5
*1998-99	-	-	-	-	-
1999-00	264	174	42	12	120
2000-01	85	85	31	20	34
2001-02	15	12	0	0	12
2002-03	0	0	0	0	0
2003-04	0	0	0	0	0
2004-05	54	0	0	0	0
2005-06	41	25	6	7	12
2006-07	31	31	0	0	31
2007-08	0	0	0	0	0
2008-09	22	8	0	3	5
Total	914	638	108 (16.93%)	146 (22.88%)	384 (60.19%)

* Report not yet discussed.

The above position shows that the compliance of PAC directive was very slow and the same was required to be expedited by the Principal Accounting Officer.

Military Lands and Cantonments

3.4 Audit Paras

3.4.1 Misappropriation / Embezzlement – Rs 2.81 million

3.4.1(i) Theft of stores for Rs 2.81 million

According to Rule-1 (b) of Financial Regulations Volume-II 1986, “the Government servant shall be held personally responsible for any loss sustained by the Government through fraud or negligence on his part”.

During scrutiny of stores at Cantonment Board Sargodha, it was revealed that a huge quantity of electric stores worth Rs. 2,812,084 were missing due to theft as reported in FIR No.1286818/12 dated Jan 16, 2012. It was further observed that department did not take appropriate steps and fix responsibility against the officers/officials for causing loss to the department. The detail of loss is given below:-

S#	Description	Quantity coil/No	Rate	Amount Rs
1	Cable 7/52 single core copper	178	13,265	2,361,170
2	Cable 7/29 single core copper	32	4,389	140,448
3	Cable 3/29 single core copper	13	2,132	27,716
4	Sodium choke 250 watts Philips	195	1,450	282,750
Total				2,812,084

Audit pointed out the matter in Feb, 2012 but the department did not reply. DAC in its meeting on Sep 25, 2012, directed the DG, ML&C to hold an inquiry to probe into the matter, take disciplinary action against the defaulter and report to audit and Ministry of Defence within

two months. Further progress was not intimated till finalization of this report.

Audit requires implementation of DAC directive, besides, fixing responsibility against the officers/officials involved.

DP-242(N)/2011-12

3.4.2 Recoverable for Rs 43.30 million

3.4.2(i) Less recovery from a contractor for Rs 23.36 million

According to Section-92 (1) of Cantonment Act-1924, if a person liable of the payment of any tax does not, within 30 days from the service of notice of demand, pay the amount due or show sufficient cause of non-payment of the same to the satisfaction of the CEO such sum with all costs of recovery may be recovered under a warrant.

The record at Cantonment Board Gujranwala revealed that a contract was concluded for Rs. 100.10 million per annum with M/S Zabta Khan for collection of fees from Cattle Mandi for the period of three years from July 1, 2011 to June 30, 2014. On Nov, 23 2011, the contractor was granted 35% rebate in violation of original contract which was an undue financial benefit.

Audit pointed out the matter in Aug, 2012. It was replied that rebate of 35% was granted due to start of new Mandi by the Tehsil Municipal Administration. The reply was not satisfactory as the action of Cantonment Board was not covered under the financial rules and the provisions of the contract itself. Moreover, there was no agreement between Cantonment Board and Tehsil Municipal Administration at the time of agreement with the contractor. The formula of 30% revenue sharing with TMA Gujranwala was also not in accordance with prescribed Financial Rules. DAC in its meeting held on Dec 27, 2012 directed the DG ML&C to resolve the issue with concurrence of Finance Division

(Military). Further progress was not intimated till the finalization of this report.

Audit requires expeditious recovery, besides, fixing responsibility for providing undue financial benefit.

DP-139(N)/2012-13

3.4.2(ii) Loss due to non-recovery of hoarding charges from DHA for Rs 12.89 million

According to Para-92 (1) of the Cantonment Act 1924, “if a person liable of the payment of any tax does not pay within 30 days from the receipt of notice of demand, pay the amount due or show sufficient cause of non-payment of the same to the satisfaction of the Cantonment Executive Officer such sum with all cost of recovery may be recovered under warrant, issued in the form set forth in Schedule-II, by distress and sale of the moveable property of the defaulter”.

The record at Cantonment Board Walton Lahore revealed that different Billboards/Sign Boards were installed in D.H.A but hoarding charges were not recovered by the Cantonment Board from D.H.A, which resulted into loss of Rs. 12,886,560 during the year 2011-12.

Audit pointed out the matter in Sep, 2012. It was replied that efforts were being made to recover the amount from DHA. The reply was not satisfactory as evidence regarding efforts on this account was not produced to audit. DAC in its meeting held on Dec 27, 2012 directed to recover hoarding charges. Further progress was not intimated till the finalization of this report.

Audit requires expeditious recovery, besides, fixing responsibility for not taking appropriate steps to recover the outstanding Government revenue.

DP-144(N)/2012-13

3.4.2(iii) Non-recovery of charges for services provided to DHA for Rs 4.64 million

According to Rule-71(i) of Cantonment Boards Budget Rules-1966, “executive officer must ensure that no financial irregularity is committed and no expenditure is incurred without sanction” Under Rule-42 of the rules *ibid*, “all items of new expenditure shall be scrutinized with due care and preference should be given to obligatory function of Board”. Further according to Rule-4(i) of Cantonment Account Code-1955 “every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money”.

It was observed from the record at Cantonment Board Clifton that since Jan, 2009 the Cantonment Board was supplying sludge water to Golf Club D.H.A. from Sump Pump Station No. 19 Kheyaban-e-Qasim without claiming any charges. An amount of Rs. 4,640,152 was incurred by the Board on account of electric charges on the Sump Pump Station No. 19. The Cantonment Board was not authorized to provide free services to the club.

Audit pointed out the matter in Mar, 2012 it was replied that the case would be taken up with D.H.A. for reimbursement of subject amount and outcome would be communicated to audit in due course of time. The reply was not satisfactory as the service provided by the board was un-lawful. DAC in its meeting held on Sep 25, 2012, directed CEO Clifton to negotiate with concerned authority for recovery of electricity charges and resolve the issue at the earliest. Further progress was not intimated till the finalization of this report.

Audit requires expeditious recovery, besides, fixing responsibility for providing undue service at the cost of Government exchequer.

DP-249(N)/2011-12

3.4.2(iv) Non recovery of 2% withholding tax for Rs 2.41 million

According to Commissioner of Income Tax Rawalpindi letter dated July 30, 2001, 2% withholding tax on cost of construction of commercial plots comprising more than 1000 Sq. yards, 1% at the time of approval of building plan and 1% at the time of completion of construction is required to be recovered.

Contrary to above, the Cantonment Board Rawalpindi did not recover withholding tax @ 2% against property No. 40/A, B & C Bank Road, which resulted into non recovery of Rs 2,408,400.

Audit pointed out the matter in May, 2012. It was replied that RCB vide letter No. City Centre/Bank Road/L/676 dated May 31, 2012 directed the lessee to deposit an amount of Rs 2,408,400 on account of 2% withholding tax. Further progress of the case would be intimated in due course of time which however, remained awaited till reporting of the case to the Ministry. DAC in its meeting held on Sep 25, 2012, directed CEO Rawalpindi, to recover the amount expeditiously within 06 months and get it verified by audit. Further progress was not intimated till the finalization of this report.

Audit requires implementation of DAC directive, besides, fixing responsibility for providing undue financial benefit to the lessee.

DP-101(N)/2012-13

3.4.3 Non-recovery of Cantonment / Government dues – Rs 36.66 million

3.4.3(i) Less charging of premium for conversion of property into regular lease for Rs 36.66 million

According to Para-2 (2) b of Government of Pakistan Ministry of Defence Rawalpindi letter No. 3/6/D-12(ML&C)/97-2007 dated Dec

31, 2007, “50% of the revenue rate (commercial) will be charged for conversion from residential to commercial lease in Schedule-IX-C”.

During scrutiny of record at Cantonment Board, Quetta, it was observed that a residential lease in Schedule-VIII bearing Survey No. 7, Khojak Road was converted into commercial lease in Schedule IX-C. Instead of charging an amount of Rs 71.16 million, Rs. 34.50 million was charged by application of incorrect rate, resulting into a loss of Rs 36.66 million.

Audit pointed out the matter in Oct, 2011. It was replied that EDO (Revenue) has been asked to clarify the position. Reply when received would be intimated to Audit. Further stated that EDO (Revenue) was corresponded for clarification and any reply when received from there, audit would be informed. The reply was not considered satisfactory it is a clear case of short recovery and is needed to be pursued properly. DAC in its meeting held on Oct 17, 2012, directed that amount of the DP be got reconciled with audit and balance be recovered within one month. Further progress was not intimated till the finalization of this report.

Audit requires expeditious recovery, besides, fixing responsibility for providing undue financial benefit to the lessee.

DP-144(N)/2011-12

3.4.4 Non-recovery of composition fee / premium and development charges – Rs 26.76 million

3.4.4(i) Un-authorized change of purpose without deposit of premium and development charges for Rs 9.50 million

According to Para-3 of “General Conditions” Sub Para-h to Government of Pakistan, Ministry of Defence letter dated Dec 31, 2007, “cases of un-authorized change of purpose”, residential property being

used for commercial purposes will be charged premium on Revenue rates applicable for the said purpose and after approval, composition fee will also be charged as per existing rules. Furthermore, as per Government of Pakistan, Ministry of Defence letter No. 72/45/Land/67/3035/D-12/ML&C dated Jan 4, 1989, commercial buildings cannot be constructed on residential site unless full market price of land is paid as premium. Moreover, according to CBR No. 13 dated Oct 12, 2011 of Cantonment Board Wah the rate for recovery of development charges was fixed as Rs 1500 per Sq Yard against all leased out properties being used as commercial.

While examining the record at Cantonment Board Wah, it was revealed that Plot No B-81 measuring 3825 sft (425 Sq yards) Comprising Survey No.16 located at Post Office road Lala Rukh Wah Cantonment, was allowed to be converted from Residential to Commercial lease vide Director ML&C Rawalpindi letter No. 19/461/DRR/20 dated June 28, 2008 on payment of Rs 2,885,150 within six months from the date of issue of the letter. It was further observed that on Aug 16, 2008, the lease deed was executed by the CEO and was accordingly registered by the sub registrar Taxila on Sep 13, 2008.

Scrutiny of record further indicated that payment of Rs 2,885,150 was not available in the official record. That was either not recovered from the lease holder in connivance with the cantonment board or the amount paid was siphoned. Audit was also of the view that in such cases fresh demand at new rates is required to be raised and recovered this amount calculated to Rs 9.947 million @ Rs 1500 per sq yd as provided in CBR 13 dated October 12, 2011.

Audit pointed out the matter in Mar 2012. It was replied that the lessee of Property No.B-81 Lala Rukh (Post Office Road) have been directed vide this office letter No. IV/B-81/LR1/228, dated Mar 9, 2012 for provision of original receipt which shows the payments of Cantonment dues i.e. premium and development charges. If the lessee failed to provide

the solid proof of payment, further legal action in this regard shall be initiated under the relevant rules/policy. The audit authorities will be intimated progress of case in due course of time. The reply was not satisfactory as deed was executed without deposit of Government dues. DAC in its meeting held on Sep 25, 2012, directed CEO Wah to hold facts finding inquiry and finalize the actions thereon within three months. Further progress was, however, not reported till the finalization of this report.

Audit emphasizes expeditious recovery of premium and development charges according to rules, besides, fixing responsibility for executing lease deed without deposit of Government dues.

DP-258(N)/2011-12

3.4.4(ii) Non recovery of premium, development charges and composition fee for un-authorized change of purpose for Rs 9.01 million

According to Para-3 of “General Conditions” Sub Para-h to Government of Pakistan, Ministry of Defence letter dated Dec 31, 2007, “cases of un-authorized change of purpose”, residential property being used for commercial purposes will be charged premium on Revenue rates applicable for the said purpose and after approval, composition fee will also be charged as per existing rules. Further as per Government of Pakistan, Ministry of Defence letter No. 72/45/Land/67/3035/D-12/ML&C dated Jan 4, 1989, commercial buildings cannot be constructed on residential site unless full market price of land is paid as premium. Moreover according to CBR No. 13 dated Oct 12, 2011 of Cantonment Board Wah the rate for recovery of development charges was fixed as Rs 1500per Sq Yard against all leased out properties being used as commercial.

While examining the record at CB Wah, it was observed that

lease hold rights of Plot No. B-4 measuring 425 Sq yards located at Lala Rukh Post Office Road Wah Cantonment was transferred in the name of Mr. Khurram Shoaib Khan on Sep 13, 2003. The lessee, on Apr 27, 2004, applied and submitted Schedule-V for commercialization of 199.73 sq yards out of total lease area through his Attorney. The Cantonment Board Wah vide letter no. IV/4-B/LRI/57 dated June 12, 2004 forwarded the case to DGML&C for sanction of change of purpose for the land measuring 167 Sq. meters (199.73 sq yds). The sanction of Ministry of Defence (ML&C Deptt) Rawalpindi, accordingly, was conveyed vide letter No.19/196/Lands/ML&C/2005 dated Apr 26, 2006 for conversion of 125.20 Sqm for commercial purposes and 41.80 sqm for parking purposes on payment of charges. Validity of sanction was up to Oct 25, 2006.

The Cantonment Board Wah letter no. IV/4-B/LR dated Nov 10, 2008, addressed to Sub-Registrar, however, revealed that lease deed was executed for 425 sq yds instead of 199.73 sq yds. Moreover, Premium, Development Charges and Lease rent amounting to Rs. 1,813,413 were deposited by the lessee on Nov 18, 2008 i.e. after the expiry of sanction. Further scrutiny of the case revealed that building plan for commercial plaza consisting of basement, ground and first Floors was approved by the Board vide CBR No.44 dated Apr 10, 2009 for entire area of plot i.e. 425 Sq yds instead of 199.73 sq yds approved by the DG ML&C. The owner, however, had already constructed the building before approval of building plan.

In this context audit was of the view that matter be referred immediately to DGML&C for holding an inquiry for fixing responsibility against the concerned officer / officials besides recovery of 100% premium, development charges and composition fee for the extra area, used by lessee for commercial purposes, at present market value amounting to Rs 9,011,412 for un-authorized construction.

Audit pointed out the matter in Mar 2012, it was replied that the case has been taken up with the competent authority for final decision

i.e. cancellation of lease vide RHQ Rawalpindi letter No. 19/403/DRR/17 dated Mar 7, 2012. After receipt of final decision by the competent authority, the progress of case will be intimated to the audit authorities in due course of time. Reply was not satisfactory as execution of and registration of lease deed by the then CEO for the whole area instead of 199.73 Sq yds was a fraudulent act. DAC in its meeting on Sep 25, 2012, directed CEO Wah to hold facts finding inquiry and finalize the actions thereon within three months. Further progress was not intimated till the finalization of this report.

Audit requires implementation of DAC directive, besides, fixing responsibility and recovery of total due amount.

DP-259(N)/2011-12

3.4.4(iii) Non recovery of premium / development charges for change of purpose for Rs 8.25 million

According to Government of Pakistan Ministry of Defence letter No. 72/45/Land/67/3035/D-12/ML&C dated Jan 4, 1989, commercial building cannot be constructed on residential site unless full market price of land is paid as premium. Further, according to CBR No. 13 dated Oct 12, 2011 of Cantonment Board Wah the rate for recovery of development charges was fixed as Rs 1500 per Sq Yard against all leased out commercial properties.

The scrutiny of record at Cantonment Board Wah, revealed that the lessee of a residential property No. A-91/1, Survey No.16 measuring 5040 sft or 560 sq yds located at Post Office Road Lala Rukh Wah, started unauthorized commercial construction on the premises in 2002. Cantonment Board took cognizance and issued notices under Section-185 on Oct 30, 2002 and Nov 24, 2008 and under section-256 on Jan 24, 2009 and final notice dated June 11, 2010. The owner had, in the meanwhile, completed the commercial construction. The owner submitted his

willingness through Schedule-V to regularize his illegal commercial construction on June 28, 2010. Accordingly, the case was processed and placed before the board for regularization of lease on payment of Government dues. The board, vide CBR No. 13 dated Mar 28, 2011 and CBR No. 15 dated June 20, 2011 pended the case till next meeting without a plausible reasons. Audit was of the view that un-authorized change of purpose be regularized on payment of full market price as premium and development charges amounting to Rs 8,250,240.

Audit pointed out the matter in Mar 2012. It was replied that the lessee of property No. 91/1-A located at Lala Rukh had submitted an application on Schedule-V dated June 28, 2010 for commercialization of the property, which was placed before the board and board in its meeting held on April 18, 2012 and required to remove the encroachment. The reply was not satisfactory as cantonment board had failed to stop the commercial use of the property since 2002 and had also failed to remove the encroachment by now. The decision of the board had thus deprived the cantonment board from receipt of hefty financial consideration too. DAC in its meeting held on Sep 25, 2012, directed CEO Cantonment Board Wah to implement the Board's decision that applicant be asked to remove encroachment made upon Government land and remove un-authorized construction made on the 2nd floor with a copy to DML&C Rawalpindi with reference to his letter No. 19/33/DRR/10, dated Oct 27, 2011. Further progress was not intimated till finalization of this report.

Audit emphasizes implementation of DAC directives.

DP-260(N)/2011-12

3.4.5 Improper Land Management – Rs 363.11 million

3.4.5(i) Loss to Cantonment Board due to encroachment of Government / Cantonment Board Land for Rs 363.11 million

According to Rule-26(ix) (a) of Cantonment Land Administration Rules-1937, “an encroachment is an un-authorized

occupation of Government land and should not be permitted to remain in existence under any circumstances unless it is properly regularized”.

Further according to Cantt Board Lahore CBR No.48, dated July 15, 2010, Cantt Board's land measuring 11 acres and 3 kanals at survey No. 25/A-1, situated at Lahore Road Lahore Cantt was encroached by the NLC which was required to be vacated within 60 days effective from July 31, 2010.

The National Logistic Cell had un-authorizedly occupied the Cantonment Board Lahore land without payment of ground rent and premium since Dec, 2000. This irregularity resulted into a loss to Cantt fund amounting to Rs 363,110,000 on account of ground rent for usage of land.

Audit pointed out the matter in Oct 2010, it was replied that the Audit had already observed the non-recovery of amount of Rs 363.11 million on account of rent etc during the course of audit 2000-2001, which had been converted into Draft Para. However, now this office had retrieved the encroached land (excluding only 9 kanal under NLC office buildings). This effort of the administration of LCB should be appreciated. The reply was not satisfactory as neither the ground rent and premium was recovered nor was the retrieved land got verified by the Audit and that 09 kanals of land had still to be retrieved. DAC in its meeting held on Sep 25, 2012, directed DG ML&C to hold a meeting with Corp Commander 04 Corps Lahore immediately to resolve the issue and report to Ministry of Defence accordingly. No further progress was intimated till finalization of this report.

Audit stresses for implementation of the DAC directive and expeditious recovery of commercial rent from NLC, besides fixing responsibility for not taking appropriate steps since 2001 when audit first highlighted the matter.

DP-180(N)/2011-12

3.4.6 Irregular / un-authorized expenditure – Rs 453.57 million

3.4.6(i) Irregular expenditure on construction of roads for Rs 365.62 million

According to Rule-71 of Cantonment Boards Budget Rules-1966, executive officer (should) ensure that no financial irregularity is committed and no expenditure is incurred without sanction and under Rule-42, all items of new expenditure shall be scrutinized with due care and preference should be given to obligatory function of Board.

Further according to Rule 4(i) of Cantonment Account Code-1955 “Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure from his own money”.

The Cantonment Board Clifton re-constructed various roads which were destroyed during construction of Storm Water Drains in D.H.A. Karachi. The scrutiny of record revealed that the reconstruction of damaged roads was originally planned by DHA itself, as it was its responsibility as the developer of housing scheme. The works in DHA were not included in the obligatory functions of Cantonment Board Clifton. It was also observed that D.H.A. was collecting refurbishment charges from its residents on account of construction of Storm Water Drains. An amount of Rs 365.62 million incurred on this project by the Cantonment Board was irregular and required to be recovered from the DHA.

Audit pointed out the matter in Mar 2012, it was replied that “In this context, it is intimated that the case would be taken up with D.H.A. for reimbursement of subject amount and outcome would be

communicated to the audit authority in due course of time”. DAC in its meeting held on Sep 25, 2012, directed for recovery and verification of relevant rules/documents by Audit. No further progress was intimated till finalization of this report.

Audit desires implementation of DAC directive.

DP-246(N)/2011-12

3.4.6(ii) Irregular payment to DHA on account of construction of road for Rs 82.03 million

According to Para-67(7) to chapter-XVI of Pakistan Cantonments Account Code-1955, “All Stores received shall be examined, counted, measured or weighed, as the case may be, when delivery is taken, and they shall be taken on charge by the Executive officer or the person authorized by him in this behalf who shall verify that the quantities are correct and their quality good, and record a certificate to that effect. The official receiving the stores shall also be required to give a certificate that he has actually received the materials and recorded them in the appropriate stock register”.

Further according to Rule-71 of Cantonment Boards Budget Rules-1966, “executive officer should ensure that no financial irregularity is committed and no expenditure is incurred without sanction and under Rule-42, all items of new expenditure shall be scrutinized with due care and preference should be given to obligatory function of Board”.

Moreover, according to Rule-4(i) of Cantonment Account Code-1955 “Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure from his own money”.

The Cantonment Board Walton, transferred Rs 82,031,000 vide voucher No. 111 dated June 11, 2011, on account of deposit work for construction, maintenance and improvement of Roads in Phase-I to V of Defence Housing Authority, Lahore. It was an irregular payment. DHA was not included in the cantonment limits and fees and taxes collected by DHA from its residents/allottees were never remitted to cantonment board Walton.

Audit pointed out the matter in Mar, 2012 it was replied that the funds were released to DHA for maintenance/re-construction of existing roads. These roads are public roads and are being used by residents of other areas on the charge of Cantt Board. Payment was made after concurrence of the CFA. The reply was not satisfactory as DHA is a private housing authority and all the development charges and various other related charges were collected and retained by DHA, Lahore. It is also pertinent here that transfer of funds like this to a private body would not be subject to statutory audit. DAC in its meeting held on Sep 25, 2012, directed DG ML&C to hold inquiry within two months as to why funds were transferred to DHA. No further progress was intimated till finalization of this report.

Audit requires implementation of DAC directive besides, recovery of Rs. 82.03 million from DHA.

DP-239(N)/2011-12

3.4.6(iii) Irregular issue of stores to DHA for Rs 5.91 million

According to Para-67(7) to chapter-XVI of Pakistan Cantonments Account Code-1955, “all Stores received shall be examined, counted, measured or weighed, as the case may be, when delivery is taken, and they shall be taken on charge by the Executive officer or the person authorized by him in this behalf who shall verify that the quantities are correct and their quality good, and record a certificate to that effect. The official receiving the stores shall also be required to give a certificate that

he has actually received the materials and recorded them in the appropriate stock register”.

Further according to Rule-71 of Cantonment Boards Budget Rules-1966, “executive officer should ensure that no financial irregularity is committed and no expenditure is incurred without sanction and under Rule-42, all items of new expenditure shall be scrutinized with due care and preference should be given to obligatory function of Board”.

The Cantonment Board Walton Lahore, vide voucher No.77 dated Oct 8, 2010, issued stores worth Rs 5,914,237 to Defence Housing Authority irregularly. The details of stores issued and installed were not produced to audit. The maintenance work in DHA was not an obligatory function of the Cantonment Board Walton. It was violation of above mentioned rules.

Audit pointed out the matter in Mar 2012 it was replied that as per provision of Cantonment Act the responsibility of Street lights and roads being used by the public within Cantonment limit was that of Cantonment Board. The roads of DHA were being used by the general public and street lights are provided for the safety / security purposes. Hence, the supply of stores regarding DHA roads was quite in order and a valid charge, Moreover, Cantt Board was also recovering property tax, TIP tax etc from the residents of DHA, therefore, provision of Civic services were the primary responsibility of Cantt Board. The reply was not satisfactory as DHA was a private society; the development charges & approval of Maps Fee, collected by DHA, were not paid to the Cantt Board, therefore such a huge amount on accounts of “Purchase of Store” and handing over to DHA in Bulk was not covered under rules as DHA. Moreover the store transferred to DHA could not be audited by AGP. The DAC in its meeting on Sep 25, 2012, directed CEO Walton that verification be completed within two weeks.

On the directive of the DAC audit carried out the verification,

where it was observed that vide CB voucher No. 10 dated Sep 27, 2010 stores were purchased by DHA from Cantonment Board Walton but no payment was made by DHA to CB. Evidence regarding receipt of taxes from DHA was also not produced to audit.

Audit emphasizes that cost of stores be recovered from DHA, responsibility be fixed on unauthorized transfer of stores to a private housing society and necessary measures be taken to avoid this practice in future.

DP-241(N)/2011-12

Pakistan Army

3.4.7 Misappropriation/Embezzlement – Rs 154.29 million

3.4.7(i) Loss due to un-authorized sale/transfer of steel at lesser rate for Rs 121.50 million

According to Para-693-a of Defence Services Regulations for MES 1998, “Stores held on the books of MES formations of the Army, PAF and Navy Wings may be declared as surplus to Disposals Organization by the under mentioned authorities up to the limits indicated against each”:-

1.	CSO, E-in-C's Branch	Rs 90,000
2.	Dy. E-in-C's Branch	Rs 180,000
3.	E-in-C	Rs 315,000

According to Para-693-b all other stores in excess of the limits specified in (a) above which it is decided to declare surplus to Disposals Organization will require concurrence of the Ministry of Finance (Mil) before they are declared as such. For this purpose, a draft declaration together with a complete history of the case and/or a certificate on draft declaration form to the effect that stores are from pre-partition stocks will be forwarded by the E-in-C's Branch to the Ministry of Finance (Mil) for their agreement before being declared to disposals organization.

The Central Stocks depots at Gujranwala, Bahawalpur, Multan and Peshawar Cantonment transferred 2369455 Kg steel worth Rs 44,397,595 to Housing Directorate on cash payment under the authority of DGW&CE (Army) Rawalpindi in 2010. The surplus stock could only be disposed off through Disposal Organisation up to the limit mentioned in Para 693. For disposal of surplus stock beyond that limit, concurrence of Ministry of Finance (Mil) was required but not obtained. Moreover, steel was sold on stock book value instead of market price, which was around

Rs. 70 per kg at that time, to Housing Directorate which resulted in to loss amounting to Rs 121,503,905.

Audit pointed out the matter in July to Oct 2011, it was replied that surplus steel was sold to Housing Directorate GHQ Rawalpindi on cash payment under the provision of DSR Para 680 of MES Regulation. According to this para DW&CE concerned was competent to sell the store to other Department on cash payment at stock book rate plus 10% departmental charges. It was further added that steel was in rusty condition and it was impossible to sell on market price. Reply was not satisfactory as laboratory test reports of steel were not shown, besides, the stock book value was not calculated and sale was made un-authorizedly in violation of PPRA Rules 2004. Moreover, DW&CE was not competent to transfer the store to other department on ex-stock book rate or sell by public auction. Thus Government sustained a heavy loss. The DAC in its meeting on Sep 26, 2012 constituted a committee comprising of representatives from MoD, GHQ and Military Finance with the direction to inquire sale was transparent and public interest was watched. No further progress was intimated till finalization of this report.

Audit desires expeditious implementation of DAC directive and fixing of responsibility for causing a huge loss.

DP-149(N)/2011-12

3.4.7(ii) Fraudulent payment of Rs 32.79 million

According to Rule-51 of Financial Regulations Volume-II, “no money shall be drawn unless it is required for immediate disbursement. It is not permissible to draw any money to prevent the lapse of amount provided in the estimates”.

Eight contracts were concluded by the CMES/GE (Army) Services Rawalpindi for “Replacement of energy meters along with

service cables” at different locations of Cantonment at a cost of Rs 32,795,000 and finally paid during June, 2010 despite the fact that: -

- (i) Record indicated that the energy meters and service cables were not available on charge, not issued to the work or installed at required locations.
- (ii) Old energy meters and service cables were not removed and taken on charge.
- (iii) Meter reading books of relevant areas as mentioned in the Schedule-A/Bill of Quantities of above contracts revealed, that old meters were running in continuity which supported the point that meters were not replaced at site.

It was, therefore, obvious that payment was made without actually receiving the stores and completion of work. This was viewed as misappropriation.

Audit pointed out the matter in Feb 2012, it was replied that all material i.e. electric meters, boxes and cables were already arranged / provided by the contractor but physical work could not be executed due to some administrative problems and that the matter had already been referred to the senior officers. Installation of electric meters would be completed soon after receiving their advice. Reply was not tenable as the energy meters and cables were not installed in replacement and were also not received and taken on charge. The payment made was therefore a misappropriation. This needed a thorough inquiry with a view to fix responsibility. The DAC on Sep 26, 2012 apprised by the department that major chunk of replacement work had been carried out which could be verified. DAC directed that the matter be investigated through an inquiry committee and facts/findings be provided to Ministry of Defence/Audit within one month. Further progress was not intimated till finalization of this report.

Audit emphasizes implementation of DAC directive besides fixing responsibility and taking action against officials at fault.

DP-47(N)/2011-12

3.4.8 Recoverable for Rs 113.20 million

3.4.8(i) Loss due to irregular sale of Government land for Rs 106.95 million

According to Rule-11 of the Cantonment Land Administration Rules-1937 “all receipts from land entrusted to the management of the MEO, shall be credited in full to the Central Government”.

A piece of A-1 Land, svy No.184, measuring 137.52 Marla was acquired by National Highways Authority for construction of a flyover at Aziz Hotel Chowk Multan. The compensation of the government property amounting to Rs 106,956,000 was paid by NHA to HQ 2 Corps Multan; vide cheque No.6754889 dated Sep 13, 2010 instead to the Government. Moreover, sanction for transfer of this land to NHA was not obtained from Government of Pakistan.

Audit pointed the matter in Feb 2012, it was replied that NHA made payment of Rs 106.96 million to HQ 2 Corps without approval of the Federal Government, the same situation was brought in the notice of Land Acquisition Collector and Station HQ for the return of money from HQ 2 Corps to Government of Pakistan but no progress was yet made. The reply was not satisfactory as DGML&C and MoD did not take appropriate timely action to stop this irregularity and also did not make enough efforts to recover the amount from army authorities. The DAC in its meeting on Dec 27, 2012 directed that recovery of the amount should be ensured up to Jan 15, 2012. No progress was reported till finalization of this report.

Audit emphasizes implementation of DAC directive and fixing of responsibility for causing this loss.

DP-234(N)/2011-12

3.4.8(ii) Non-recovery of rent for Rs 3.44 million

According to Para-4 (2) c, g (3) and 9 b (1) of SOP issued by HQ 2 Corps regarding site clearance to cellular companies dated July 1, 2008, "Authorised representative to sign the joint agreement with HQ 2 Corps including AQ Additional Branch having technical detail of site, tower equipment being installed and annual rent charges Rs 400,000 as processing fee will be deposited by the cellular company. On installation of tower on A-1 land Rs 40,000 per BTS Tower per month will also be recovered from cellular company".

The Station HQ Okara allowed a cellular company to install one BTS tower on over head water tank on Aug 17, 2005 in its premises. It was observed from record that rent and processing fee received by the Army authorities were not deposited into Government treasury.

Audit pointed out the matter in Jan, 2012 it was replied that in line with standing operating procedure received from GHQ/HQ 2 Corps Multan vide letter No. 153/31/EW, dated Dec 1, 2008, this HQ asked Mobilink Company for data of their BTS Tower site for necessary clearance vide this HQ letter No. 512/R/G-1, dated Dec 17, 2008. The same information was received vide Mobilink letter No. 1017/PMCLF/685, dated June 2, 2009 which further communicated to HQ 2 Corps vide our letter No. 512/R/G, dated June 8, 2009. The HQ 2 corps concluded the contract with Mobilink and not this HQ. The reply was not tenable as the amount received by HQ 2 Corps from cellular company was not deposited into Government Treasury. DAC in its meeting on Nov 7, 2012 directed for deposit of full amount into Government Treasury and evidence be produced to audit for verification. No further progress was intimated till finalization of this report.

Audit desires implementation of DAC directive and fixing responsibility for not depositing government income into government account.

DP-248(N)/2011-12

3.4.8(iii) Loss due to non-recovery of Government dues for Rs 2.80 million

According to Rule-6 (a) Financial Regulations Volume-I 1986, “every officer should exercise the same vigilance in respect of expenditure incurred from Government revenue as a person of ordinary prudence would exercise in respect of the expenditure from his own money.”

During audit of record at GE (Services) Multan it was observed that UAGE (Services) issued a No Demand Certificate to 30 MP Unit on Nov 30, 2011 without recovering government dues amounting to Rs 0.451 million for excess consumption of Sui Gas in the cook house for the period from Dec 2002 to Nov 2011. Similarly, Multan Golf club remained under the management of 15 SP unit from July 2000 to June 2011 but rent and allied charges amounting to Rs 2.353 million were not recovered by UAGE (Services) Multan.

When pointed out in Apr 2012 it was replied that the case for regularization of Rs 389,128 and for depositing Rs 2,352,733 was under process. Reply was not satisfactory because effective steps were not taken to recover/regularize the Government dues. DAC in its meeting on Nov 7, 2012 directed that matter regarding issuance of wrong N.D.C be referred to MAG for disciplinary action against the UA. The DAC also directed that amount be deposited within one month and documents be got verified by audit. No further progress was intimated till finalization of this report.

Audit emphasizes expeditious implementation of DAC.

DP-50(N)/2011-12

3.4.9 Irregular / un-authorized expenditure for Rs 142.43 million

3.4.9(i) Irregular expenditure out of United Nations Reimbursement Account for Rs 68.89 million

According to Ministry of Defence Rawalpindi letter No.7/7/2004-05/D-21 (Budget) dated 27 Nov 2004, the releases from “UN-Reimbursement Account” shall be utilized for the following:-

- a) Purchase / replenishment of equipments and stores for Army Contingents deployed on UN Peace Keeping Missions.
- b) Pay and Allowances and transportation of troops.
- c) Incidental and Misc. expenditure of Army Contingents directly related to UN Peace Keeping Missions.

It was observed from record at GE (Army) Services Rawalpindi that an expenditure of Rs 68,888,569 was made out of “UN-Reimbursement Account” for uplift of Accommodation in the Army and purchase of stores which was irregular being not covered in the light of above Government orders.

Audit pointed out the matter in Feb 2011 it was replied that works mentioned in objection were executed for giving best facilitation / services to Army troops / families, MH, CMH, Army House / GHQ and other VIP area included. These projects were sanctioned by GHQ QMG (Qtg and Land Dte) Rawalpindi according to rules laid down in MES Regulations 1998 in Tables ‘A’ and ‘B’. Reply was not satisfactory as expenditure was booked against UN Reimbursement Account irregularly which was beyond the scope determined by MOD in its aforementioned letter. DAC in its meeting on Sep 26, 2012 directed that requirement of Government letter i.e. Approval of Chief of Army Staff and Secretary Finance be completed and produced to MoD/Audit for verification within

one month. No further progress was intimated till finalization of this report.

Audit emphasizes implementation of the DAC directive.

DP-28(N)/2011-12

3.4.9(ii) Irregular expenditure out of United Nations Reimbursement Account for Rs 34.37 million

According to Ministry of Defence letter No. 7/7/2004-05/D-21 (Budget) dated Nov 27, 2004, the releases from “United Nations Reimbursement Account” shall be utilized for the following:-

- a) Purchase/replenishment of equipment and stores for Army Contingents deployed on UN peace keeping missions.
- b) Pay & allowances and transportation of troops.
- c) Incidental and Misc expenditure of Army contingents directly related to UN peace keeping mission.

It was observed from record at GE (Army)-II Rawalpindi, that an expenditure of Rs. 34.372 million was made out of “UN Reimbursement Account” for renovation of officers accommodation and local purchase of stores and debited to head of Account 0/016/96 (uplift of Accommodation in Army) which was irregular being not covered in the light of above Government orders.

Audit pointed out the matter in Jan, 2011 it was replied that the case was being referred to higher authority for obtaining their comments in the subject matter. Final outcome of the case was not intimated to Audit so far. The irregular utilization of amount of UN reimbursement account needed regularization from the competent authority. DAC in its meeting on Sep 26, 2012 directed that requirement of Government letter i.e. Approval of Chief of Army Staff and Secretary Finance be completed and

produced to MoD/Audit for verification within one month. Further progress was not intimated till finalization of this report.

Audit emphasizes implementation of the DAC directive.

DP-20(N)/2011-12

3.4.9(iii) Irregular expenditure out of United Nations Reimbursement Account for Rs 15.16 million

According to Ministry of Defence letter No. 7/7/2004-05/D-21 (Budget) dated Nov 27, 2004, the releases from “United Nations Reimbursement Account” shall be utilized for the following:

- a) Purchase/replenishment of equipment and stores for Army Contingents deployed on UN peace keeping missions
- b) Pay & allowances and transportation of troops.
- c) Incidental and Misc expenditure of Army contingents directly related to UN peace keeping mission.

It was observed from record at GE (A) Hospital Rawalpindi that a sum of Rs 15.160 million was incurred out of “UN Re-imbursement Account” for renovation of officers accommodation and local purchase of stores debited to head of Account 0/016/96 (uplift of Accommodation in Army) which was irregular being not covered under the above Government orders. Moreover, administrative and technical sanction of the competent authority for the works was not available with the final bills. Therefore, expenditure was unauthorized and irregular.

Audit pointed out the matter in Jan 2011, it was replied that the works were sanctioned out of allocation UN Re-Imbursement by the competent authority and the same sanction was received vide GHQ (Qtg & Lands Dte) Rwp letter No.3678/7025/Accts/10/Qtg-4 dated Feb 20, 2010 and according to sanction the works were carried out accordingly.

The reply was not satisfactory because expenditure incurred from UN Reimbursement Account for uplift of Army Accommodation was not covered under the above Government orders. Besides, the GHQ letter on the authority of which the expenditure was incurred was not provided for scrutiny. DAC in its meeting on Sep 26, 2012 directed that requirement of Government letter i.e. Approval of Chief of Army Staff and Secretary Finance be completed and produced to MoD/Audit for verification within one month. Further progress was not intimated till finalization of this report.

Audit desires expeditious implementation of the DAC directive.

DP-26(N)/2011-12

3.4.9(iv) Irregular expenditure for improvement of particular building for Rs 9.55 million

According to Rule-26 of Quarters and Rent-1985 “an officer allotted accommodation shall be responsible for payment of rent of the accommodation whether he occupies it or not unless the allotment is formally canceled. Furthermore, Rule-40(a) stipulates that Unit Accountant attached with the GE will prepare and submit monthly rent bill including charges for electricity and water. Moreover, rule 06 of Financial Regulations V-I captioned as financial proprietary “Government revenue shall not be utilized for the benefit of a particular person or a section of the community unless”:-

- (i) The amount of expenditure involved is insignificant.
- (ii) A claim for the amount could be enforced in court of law.
- (iii) The expenditure is in pursuance of recognized policy or custom.

It was observed at GE (Army) Murree that Rs 9,546,553 was spent in June 2010 for improvement of Bungalow No. 36 (B Type) at Gharial Camp Murree whereas capital cost of this building was only Rs.

3.700 million. The building was constructed by MES and was taken on charge on May 14, 1991 but rent and allied charges were not recovered since then. Moreover, the building had also not been re-appropriated for any rent free use, hence, the expenditure so incurred on the renovation of the building was unnecessary.

Audit pointed out the matter in Apr, 2010 it was replied that the work was carried out as per contract, drawing and specification based on Admin approval issued by Quartering Directorate. The reply was not satisfactory as sufficient amount had so far been spent on the building without a return to the Government under the rules. DAC in its meeting on Dec 27, 2012 directed to hold an inquiry and finalize it within two months. No further progress was intimated till finalization of this report.

Audit stresses for expeditious implementation of DAC directive.

DP-01(N)/2012-13

3.4.9(v) Un-authorized payment of allowance equal to one month's basic pay for Rs 11.12 million

According to Ministry of Finance (Reg. Wing) OM No. F.1 (7) Imp/2009-11, dated July 21, 2009 following allowances were allowed to the armed forces personnel: -

- a) An allowance equal to one month's basic pay to the Armed Forces personnel deployed on the western front with effect from 1st July 2009.
- b) An Ad-hoc Relief Allowance-2009 (would be payable) to the remaining Armed Forces personnel (i.e. other than those mentioned at 'a' above) with effect from 1st July 2009 @ 20% of the basic pay for BPS 1-16 and @ 15% for BPS 17-22".
- c) An allowance equal to one month's pay to the personnel of all Armed Forces (i.e. other than those mentioned at 'a' above)

with effect from 1st Jan 2010. The Ad-hoc Relief Allowance-2009 to those mentioned at 'b' above will be discontinued w.e.f. 1st Jan 2010.

It was observed from record at HQ 101 Army Aviation Group (Qasim Aviation Base), Rawalpindi and Defence Coy of HQ 10 Corps Chaklala that an amount of Rs 11,120,092 was paid to all officers / JCOs /ORs on account of allowance equal to one month's basic pay w.e.f. July-Dec 2009 which was not in order as the officers /JCOs /ORs in receipt of said allowance were not actually deployed on the western front as required under the aforementioned Finance Division's letter. They were rather entitled to ad-hoc relief allowance 2009 falling under para 1 'b' of above mentioned letter. The expenditure of Rs 11.12 million was irregular and required to be recovered.

Audit pointed out the matter in Apr 2011 it was replied that allowance equal to one month's pay was paid to those officers /JCOs/ORs who were directly supported to Western Front units and manpower of this HQ was approved by M.O Directorate. The Defence Company HQ 10 Corps Chaklala did no reply. Reply was not satisfactory as documents showed that personnel were stationed Rawalpindi. The paras were discussed in the DAC meeting on Sep 26, 2012. The DAC directed that expenditure be regularized. No further progress was intimated till finalization of this report.

Audit stresses for issuance of clarification from Ministry that this allowance would be paid to only those personnel who were deployed on the western front.

DP-209, 221(N)/2011-12

3.4.9(vi) Irregular payment of pay and allowances to Non-combatant Bearer and drawl of compensation in lieu of Bearer allowance by Mujahid officers for Rs 3.34 million

According to MAG's clarification regarding "payment of CILB to Mujahid Officers" issued vide No. 01/AT/POR/4356-NCB-III dated July 1, 2010, "provisions of A-1/2004 and corrigendum No. 1/2005 have not been made applicable to the officers / JCOs of Mujahid Force so neither officers of Mujahid Force are entitled to any Batman / CILB nor JCOs are entitled to batman allowance @ Rs 1,500 p.m. unless the aforesaid A-I is amended accordingly".

Contrary to above clarification, the officers of 641 Mujahid Force Bn, Bhimber were continuously being provided the services of NCBs or paid CILB allowance due to wrong interpretation of the A-1/2004. Therefore, expenditure of Rs 1,819,720 on pay and allowances paid to the NCBs attached with Mujahid Officers and Rs 1,519,500 paid as CILB allowance, totaling to Rs 3,339,220 was irregular which required recovery.

Audit pointed out the matter in Aug 2011, it was replied that case was under consideration with MoD. Before introduction of new military system the Mujahid Officers were authorized the services of Batman, therefore services of NCBs were provided in lieu of batman. Reply was not satisfactory as the same was against the spirit of Army instructions 2004 and clarification by MAG. DAC in its meeting on Sep 26, 2012 directed that the matter be investigated through court of inquiry. A representative from MAG be included in the Inquiry Committee. No further progress was intimated till finalization of this report.

Audit emphasizes implementation of the DAC directive.

DP-169(N)/2011-12

3.4.10 Improper Land Management for Rs 1,176.96 million

3.4.10(i) Un-authorized construction of CMH medical college on A-I land for Rs 1,161.60 million

According to Para-6 (b) to Government of Pakistan Ministry of Defence letter No.F-2/5/D-12/ML&C/99 dated Nov 20, 2009 “No new project or extension in any existing project shall be initiated/developed without prior written approval of the respective Service Chief.”

It was observed from the record at HQ 4 Corps Lahore, that C.M.H Medical College Lahore, a non public entity, was constructed on 12 acres A-1 land worth Rs 1161,600,000, located at Shami Road Lahore Cantonment without approval of COAS / Ministry of Defence which was in violation of above mentioned government instruction.

Audit pointed out the matter in Sep, 2011 but it was not replied. Audit reiterated that appropriation of government land for construction of non public entity was unauthorized because approval of competent authority was not obtained. DAC in its meeting on Nov 7, 2012 directed to obtain sanction of competent authority for establishment of CMH Medical College. No further progress was intimated till finalization of this report.

Audit desires that matter be investigated by the Ministry and measures be adopted to avoid future occurrence of such instances.

DP-235(N)/2011-12

3.4.10(ii) Un-authorized construction of marriage halls on A-I Land and non-deposit of rent for Rs 13.76 million

According to Para-6 (b) to Government of Pakistan Ministry of Defence letter No.F-2/5/D-I2/ML&C/99 dated Nov 20, 2009 “No new

project or extension in any existing project shall be initiated/developed without prior written approval of the respective Service Chief.”

The HQ 4 Corps Lahore constructed two banquet/marriage halls at Golf & Country club Lahore Cantonment without sanction of COAS which was contrary to above rule.

Audit pointed out the matter in Sep, 2011 it was replied that some clarifications were sought from DADS Lahore vide letter No 201/Gen/CAC dated Oct 18, 2011 and discussion would be held on receipt of the clarification. The reply was not satisfactory as the referred letter did not relate to irregular construction of marriage halls on A-1 Land without prior approval from the competent authority. The DAC in its meeting on Sep 26, 2012 directed for physical verification of site through a Board of Officers, measurement of the area, verification of amount already deposited and getting approval of the competent authority. No further progress was intimated till finalization of this report.

Audit desires expeditious implementation of the DAC directive and recovery of up-to-date outstanding amount.

DP-164(N)/2011-12

3.4.10(iii) Loss due to non-deposit of rent of A-1 land being used for commercial activities for Rs 1.60 million

According to Para-2 (a) (1) to Government of Pakistan Ministry of Defence letter No.F-2/5/D-12/ML&C/99 dated Nov 20, 2009, “A board of officers will be detailed by the respective Corps Headquarters within their area of responsibility to determine the actual area of A-I land being or required to be used, excluding roads, free parking space (s) and areas left for utility services etc. Calculation of rent shall be worked out @ 6% per annum of existing Revenue Rate (Old DC Rate) notwithstanding currency of the tenancy rent agreements of the military authorities with the user (s) and according to Para-2 a (2) of the letter ibid, the rent so

calculated shall be deposited into Government Treasury by the concerned Army Formation and TRs forwarded to the respective Controller of accounts.

It was observed from record at HQr 4 Corps Lahore 85.66 Marlas A-1 Land was being used for commercial purposes in Lahore Garrison but no rent was deposited into Government treasury as required under the Government policy, which resulted into loss of Rs 1,597,055.

Audit pointed out the matter in Sep 2011, it was not replied. DAC in its meeting on Sep 26, 2012 directed to deposit the amount within one month. No further progress was intimated till finalization of this report.

Audit emphasizes expeditious deposit of outstanding government money besides fixing responsibility for violating government directives.

DP-210(N)/2011-12

3.4.11 Diversion of Public Money for US \$ 107,430

3.4.11(i) Irregular credit of accommodation charges in private account for US \$ 107,430

According to JSI-4/2006, training and allied charges from the foreign trainees getting training in the institutions of Armed Forces of Pakistan are required to be recovered as agreed by the Government of Pakistan and foreign country concerned. Furthermore, under Rule 2 of Financial Regulations Volume-II 1986, all transactions to which any officer of Government, in his official capacity is a party, shall without any reservation, be brought to account and all moneys received by or tendered to govt officer which are due to, or are required to be deposited with Govt shall, without undue delay, be paid in full, into a govt. treasury or into the bank to be credited to the appropriate account”.

It was observed from record at NDU Islamabad that accommodation charges amounting to US \$ 107,430 were recovered from the trainees of foreign countries. However, instead of depositing these charges into Government treasury the same were credited into private fund of National Defence University maintained in Askari Commercial Bank Ltd, F-10 Markaz Islamabad which was irregular and in violation of above Rules. The amount needed to be deposited into government treasury instead of private account.

Audit pointed out the matter in Jan 2011 it was replied that allied charges were deposited into “Allied Officers Rent Account” which were utilized for improvement / additional facilities in the accommodation for allied officers vide Government of Pakistan Ministry of Defence letter No 30/1/D-16/92 dated Feb 8, 1995. Since the budget allocated by Ministry of Defence did not cater for living facilities up to the standard. The amount recovered was therefore utilized for provision of facilities to the allied officers. The reply was not satisfactory because Government letter referred to by executives was also not produced for audit scrutiny and non-deposit of this amount into public account was violation of Rule 2 of the Financial Regulations. DAC in its meeting on Oct 8, 2012 directed the AQMG (NDU) to deposit the amount in government account in Foreign Currency and TRs be produced to audit for verification within 10 days. No further progress was intimated till finalization of this report.

Audit stresses for expeditious implementation of DAC directive.

DP-172(N)/2011-12

3.4.12 Blockade of Public Money for Rs 85.63 million

3.4.12(i) Loss due to blockade of public money due to non-functioning of biplane angiography system for Rs 85.63 million

Under Rule-47(e) of Financial Regulations Volume-I 1986, “The most careful supervision over expenditure shall be exercised and on no account shall money be spent simply because it is available”. As per

Para-4 of Special instructions of contract, installation / initial commissioning of the equipment will be done by the firm's engineers in the Hospital/Unit.

It was observed from the record at DGP (Army) that, Biplane Angiography System along with Accessories was purchased by DGP (Army) vide Contract No. 27-1061-4-0 dated June 30, 2009 from M/S Matora Digionics (Pvt) Ltd Lahore against an emergent indent No. 0518-0025/Pak/OS-4/EM dated Dec 6, 2008 of LS Br (OS Directorate) GHQ. The subject machine was not made fully functional by the supplier till completion of audit but CRV was issued and full payment of machine amounting to Rs 85,626,000, excluding cost of additional 03 years warranty and deducting Rs 374,000 as price reduction for providing china equipment, was made in Nov 2010.

Audit pointed out the matter in Nov 2011 it was replied that M/S Matora Digionics Lahore had been approached in this connection. Reply was not satisfactory as despite lapse of 01 year after receipt of machine it was not made fully functional which negated the very purpose of emergent requirement. It resulted in blockade of Government Money Rs 85.626 and non-functioning of machine deprived the patients of desired benefits. DAC in its meeting on Dec 11, 2012 directed to shift the Para to Ministry of Defence for reply as to why the machine was not installed even after a long time since its purchase. Further progress was intimated till finalization of this report.

Audit requires that machine be made functional at the earliest and responsibility be fixed for releasing the payment before installation of machine.

DP-204(N)/2011-12

Pakistan Air Force

3.4.13 Diversion of Public Money for Rs 28.06 million

3.4.13(i) Non-recovery of ground rent from Commercial Bank for Rs 3.60 million

According to Rule-442 of DSR 1998, GE is responsible for making demand of all revenue and taking prompt action for its realization.

It was observed from record at GE (Air) Maintenance Islamabad that ground rent amounting to Rs 3,600,000 was not recovered from branches of Habib Bank, Allied Bank and MCB located on the government Land since 2009.

Audit pointed out the matter in December, 2011. It was replied that higher authorities had already been informed to assess the ground rent of the Banks and as soon as the rent of the banks would be assessed the recovery in question would be made accordingly. The DAC in its meeting held on Nov 30, 2012 directed to hold an Inquiry and recovery be made expeditiously. Further progress was not intimated till finalization of this report.

Audit suggests expeditious implementation of DAC directive.

DP-02(S)/2012-13

3.4.13(ii) Non-recovery of electric charges for Rs 20.86 million

According to Rule-15(b)(3) of DSR 1998, the funds are to be expended on those duly authorized services for which they are allotted and on no others and as per Rule-6(d) of Financial Regulations Volume-I 1986, Government revenue shall not be utilized for the benefit of a particular person or section of the community.

The scrutiny of record at GE (Air) Malir revealed that 253 unauthorized electric connections to Flats and Houses and 12 connections to shops of a private housing society, the Air Force Officers Housing Society (AFOHS), were provided by MES. A sum of Rs 20,864,000 was paid out of public fund to electric supply company but no recovery on this account was made from the private consumers which caused an unauthorized expenditure of Rs 20.86 million.

Audit pointed out the matter in Oct 2012. It was replied that the regular electric charges were being paid by occupants on the basis of KESC bills. Reply was not satisfactory as record of recovery of electric charges from consumers was not shown to audit. The DAC in its meeting held on Jan 2, 2013 directed to produce relevant record to audit for verification. Further progress was not reported till finalization of this audit report.

Audit suggests expeditious recovery from the consumers.

DP-103(S)/2012-2013

3.4.13(iii) Unauthorized establishment of a private university on A-1 land and non-recovery of rent for Rs 3.60 million

According to Rule-5 of CLAR 1937, A-1 land is meant for active use by Military authorities (i.e. for unit line, parade ground etc) and no building of any kind shall be erected on A-1 land except with the previous sanction of Government of Pakistan after reclassification and on payment of market price at prevailing rents. According to Para -2(b) (4) of Government of Pakistan, Ministry of Defence letter No.F-2/5/D-12/ML&C/99 dated April 2, 2008, “All use of A-1 land for any purpose shall be auditable”.

The scrutiny of record at PAF Base Korangi Creek revealed that Karachi Institute of Economics and Technology was established in

1997 as a private institute. In June 2002, PAF and Pakistan Educational Foundation (PEF) agreed to collaborate for the establishment of a high quality institution, PAF-KIET, at PAF Korangi Creek Air Base. It was observed that Government sanction was not obtained for this purpose. Audit was of the opinion that the A-1 land was being used for commercial activities but income earned from there was deposited into non-public fund. The estimated rent of A-1 land amounting to Rs 3.6 million for 2011-12 was not deposited into government account.

Audit pointed out the matter in Oct 2012. It was replied that PAF-KIET, Airmen Golf Course and Yacht Club were utilized for the educational, sports and welfare facilities of PAF troops in accordance with Ministry of Defence, Government of Pakistan letter No: F.2/5/D-12/ML&C/99 dated April 2, 2008 and letter dated Nov 20, 2009. Reply was not tenable as A-1 Land was being used for commercial purposes without government sanction. The DAC in its meeting held on Jan 2, 2013 directed that the case be referred to Anomaly Committee to decide whether the university, being higher education, was authorized in Category 'B' activity of the A-1 Land Policy 2008 or not. The decision of Anomaly Committee was not conveyed to audit till the finalization of this audit report.

Audit suggests that recovery be effected from the concerned and record produced to audit for verification.

DP-54(S)/2012-13

3.4.14 Disposal of Precious Functional Assets for Rs 8.47 million

3.4.14(i) Auction of a VVIP Boeing-707 aircraft without concurrence of Finance Division and determination of reserve price for Rs 8.47 million

According to existing financial powers as laid down in Appendix B to AHQ letter No. AHQ/10685/Accts (PF) dated Apr 3, 2008, revised financial powers for disposal of surplus stores qualifying Rule-45 (f) (1) of Financial Regulations Volume-I 1986, Rs 1,000,000 is the competence vested with a Principal Staff Officer concerned at AHQ for disposal of surplus stores. Under Para-6 of Air Force Order 67-50, if the Disposal advisory board considers that disposal of an item costing more than Rs 2.000 million is necessary the case is to be referred to Director General Defence Purchase. Furthermore, according to Para-20 of Annex-E to Rule-42 FR, Volume-I, the Director General Defence Purchase will be responsible for the disposal of Defence Stores-surplus, serviceable and repairable (whether current, obsolete or obsolescent etc) as per instructions and procedure detailed in Appendix 3 to this Annex. Under Para 6,7&8 of Appendix-3 to Annex-E qualifying, Para 20 of Annex ibid to Rule 42, procedure has been prescribed to obtain prior concurrence of Finance Division as to the determination of reserve price of aircraft and machineries before their disposal. Moreover, according to Para-1 (b) 1 (b)(c) of Ministry of Defence Production, Government of Pakistan letter No. 1349/91/DGDP/ Dis/15/3/2006DP-4 dated Oct 11, 2006, "Stores exceeding book value of Rs 2.00 million per item, will be reported to DGDP for disposal on Form DP-51 and disposed off through open tender."

The PAF Base Lahore auctioned a VVIP Boeing 707 aircraft bearing serial number 68-19635 to a private person at a total cost of Rs 8,468,000 (Including GST for Rs 1,168,000) on July 30, 2008. According to PAF Form 515 the air craft was in good condition. The book

value of the aircraft was not available on record and before auction reserve price was also not determined. The concurrence of Finance Division in terms of the aforementioned Government orders was not available. The procurement cost of the aircraft and its ownership could not be ascertained from record made available to audit. During discussion the management informed that the six yearly inspections of the aircraft was not done because Pakistan International Air Line Company (PIAC) refused to do so; the evidence to this effect, however, was not produced to audit. Audit was of the view that the price of Rs 8.468 million obtained from auction was not fair and disposal of aircraft was irregular.

Audit pointed out the matter in Nov 2008, it was replied that predisposal formalities were conducted at Air HQs; the base was advised to conduct the auction of said Boeing. The reply was not satisfactory because the mandate of auction rested with DGDP instead of PAF and that too after fulfillment of all formalities according to rules. The DAC on Dec 12, 2009 directed to provide evidence of processing of case in DGDP along with reserve price fixed in consultation with FA (DP) for verification. No progress was intimated till finalization of this report.

Audit holds that an investigation be held by MoD to determine the reasons of disposal of the aircraft without following the rules and fixing of responsibility on the basis of findings of the investigation.

DP-117(N)/09-10

3.4.15 Recoverable for Rs 17.12 million

3.4.15 (i) Loss due to non-recovery of tower fee for Rs 3.89 million

According to Para (7) of the policy for installation of Towers Base Transmission Station in Cantonment area circulated through Ministry of Defence ML&C Department Rawalpindi, vide letter No. 51/1411/Lands/ML&C/2005 dated June 24, 2005. "On provision of No Objection Certificate (NOC) an agreement will be executed with the cellular

companies for installation of Base Transmission Station towers/antennas in Cantonment Areas. The cellular companies will be required to pay antenna /tower fee @ Rs 20,000 per month (minimum) with an annual enhancement of 10%”. Further under Rule-2 of Financial Regulations Volume-II 1986 and Para- (j) to AFO-177-173, “All moneys received on account of Public Fund shall without undue delay be paid in full into Public Fund Account”.

It was observed from the record at PAF Academy Risalpur that two Contract Agreements were signed by PAF Academy with M/S Warid Telecom Gulburg-II, Lahore, and M/S CM PAK Limited, Lahore, for setting up of (BTS) towers within the premises of the Academy, with a monthly rent @ Rs 60,000 P.M, for each BTS, payable in advance with 10% annual increase along with non-refundable security deposit of Rs 720,000. In violation of government instructions, Rs 3.895 received on this account were not deposited into Government treasury, thus, causing a loss to government.

Audit pointed out the matter in Feb 2011, it was replied that the instructions of Ministry of Defence and AHQ business ventures were divided into three categories. As the telecom towers were not included in the said categories, therefore, the amount was not to be deposited into Government Treasury. Reply was not satisfactory as rules were clear in this regard. DAC in its meeting held on Oct 2, 2012 directed that the amount recovered @ Rs 60,000 per month as per contract agreement must be deposited into Government treasury and be got verified, recovered amount was Government money. In-house meeting be held to resolve the issue. No progress was intimated till finalization of this report.

Audit desires expeditious implementation of DAC directive and explicit instructions be circulated by the Ministry to its subordinate formations that such amounts be deposited into public account in full.

DP-214(N)/2011-12

3.4.15 (ii) Non-recovery of rent of mobile towers for Rs 9.6 million

According to Rule-442 of DSR-1998, GE is responsible for making demand of all revenue and taking prompt action for its realization.

It was observed during audit of GE (Air) Maintenance Islamabad for the year 2010-11 that eight Towers of cellular (Mobile) Companies i.e. 3 of Warid, 2 of Telenor, 1 of Zong, 1 of U-Fone and 1 of Mobilink were erected on government land but rent on this account was not recovered from cellular companies. This resulted in a loss amounting to Rs 9,600,000. Furthermore, record involving contracts concluded with these companies and details of amount received in advance were not provided to audit.

The matter was pointed out in Dec 2011, it was replied that the authorities had already been informed to assess the rent of mobile towers. Reply was not satisfactory as effective steps were not taken to recover government dues. The DAC in its meeting held on Dec 10, 2012 directed to recover the amount.

Audit suggests that recovery from the concerned be expedited.

DP-03(S)/2012-13

3.4.15(iii) Non-recovery of electricity charges for Rs 3.622 millions

Rule-12, Appendix 'O' of Defence Services Regulations – 1998 states that the rates in distributed (metered) supplies are fixed by the Government of Pakistan. Moreover, Rule-442 of Defence Services Regulations 1998 stipulates that “Garrison Engineer is responsible for making demand of all revenue and taking prompt action for its realization”.

The examination of record of GE (Air) Faisal, Karachi for the period 2011-12 revealed that electricity charges amounting to Rs 3,622,783 were not recovered from M/s Mono Light Petrol Pump, which was not in order.

The matter was reported to the executive in Oct 2012. The executive replied that electricity charges would be recovered. The DAC in its meeting held on Jan 2, 2013 directed that relevant record reflecting recovery be produced to audit for verification. Relevant record was, however, not produced to audit till finalization of this audit report.

Audit suggests expeditious recovery of electric charges from a private business.

DP-50(S)/2012-13

3.4.16 Irregular / Un-authorized Expenditure for Rs 170.49 million

3.4.16 (i) Un-authorized payment of remuneration equal to one month's running basic pay to civilian employees of PAF for Rs 97.07 million

According to Rule-9 (f) (2) of Financial Regulations Volume-1 1986, the Service Chief cannot make payment to a Government Servant of any remuneration or allowance to which he is not entitled under the normal rules. Further, Rule-9 (g) of the said regulations stipulates that, the Services Chief shall be responsible for ensuring that expenditure is incurred in accordance with canons of financial propriety and relevant rules.

The PAF Academy Risalpur paid Rs 97.075 million to its civilian employees an allowance equal to one month running pay for the period from July 1, 2009 to Mar 31, 2010. The payment was made on the authority of Air Headquarters, letter No AHQ/10869/Accts (Pay) dated

Oct 27, 2009, whereas, Service Chief was not competent to authorize such payments.

Audit pointed out the matter in Apr 2010 it was replied that audit advice was noted and case was being referred to Government for regularization. Result of the reference as and when received would be communicated to Audit which, however, remained awaited till the matter was reported to the Ministry. DAC in its meeting held on Oct 2, 2012 directed AHQ to provide a copy of the decision of Supreme Court to audit. No further progress was intimated till finalization of this report.

Audit desires that matter be referred to Ministry of Finance for comments and regularization.

DP-254(N)/2011-12

3.4.16 (ii) Irregular payment of adhoc allowance equal to one month's pay to civilian staff for Rs 36.59 million

According to Government of Pakistan, Finance Division letter no. F-1 (7) Imp-2009-II dated July 21, 2009, "the adhoc relief allowance equal to one month's basic pay was authorized to Armed Forces personnel w.e.f. July 1, 2009".

It was observed that PAF Base Minhas, Kamra paid Rs 36.59 million on account adhoc relief allowance equal to one month's basic pay to its Civilian staff as well which was not authorized by Government.

When pointed out by Audit Feb 2010 it was replied that the said allowance was being paid to the civilian staff on the authority of Ministry of Finance letter No. F-1 (7) Imp-2009-11 dated July 21, 2009 and on the authority of AHQ. The reply was not satisfactory as the Ministry of Finance allowed adhoc relief allowance equal to one month's basic pay to Armed Force personnel only. The DAC in its meeting on Oct 2, 2012

directed AHQ to provide a copy of the decision of Supreme Court to audit. No further progress was intimated till finalization of this report.

Audit desires that matter be referred to Ministry of Finance for comments.

DP-229(N)/2011-12

3.4.16(iii) Irregular purchase of stores and doubtful payment to contractor for Rs 10.474 million

According to Rule-6(a) of Financial Regulations Volume-I 1986 “Every officer should exercise the same vigilance in respect of expenditure incurred from Government money, as a person of ordinary prudence would exercise, in respect of expenditure incurred from his own pocket”. Moreover, PPRA Rule-12 of 2004 stipulates that “All procurement opportunities over two million rupees should be advertised on the Authority’s website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu”.

During audit of PAF Base Malir for the period 2011-12, it was observed that the purchases of MT Stores were made in violation of above rules. The items purchased were taken on charge before advertising, which also rendered the process as being doubtful.

When pointed by audit in Oct 2012, it was replied that due to immediate requirements of the user units the stores were purchased by the Log Sqn through contractors. It was further informed that the documentary process was carried out at a later stage because of non-availability of system, assuring that the practice will not be repeated in future. Reply was not tenable as the items were purchased in violation of rules. The DAC in its meeting held on Dec 10, 2012 directed to produce relevant record to audit for verification and further necessary action. Relevant record reflecting

reasons of violation of rules was not produced to audit till the finalization of this audit report.

Audit holds that the matter be inquired into and responsibility fixed against the person(s) at fault.

DP-24(S)/2012-13

3.4.16(iv) Irregular issue of medicines on fake ID for Rs 15.239 million

According to Rule-6(a) of Financial Regulations Volume-I 1986 “Every officer should exercise the same vigilance in respect of expenditure incurred from Government money as a person of ordinary prudence would exercise in respect of expenditure incurred from his own pocket”.

During audit of accounts of PAF Hospital Islamabad for the period 2010-11, it was observed that a huge quantity of medicine was repeatedly issued on a fake ID i.e. Captain, PA 1234567, Non- Entitled Civilian on HMS. When such ID was searched on HMS, 73 records did not match ID of any PAF personnel. Cost of 35 records (out of 73 taken from sample data) is approximately Rs 15.239 Million. Booking of huge quantity medicine against a fake ID is irregular which needed thorough investigation.

When pointed out by Audit in Feb, 2012, it was replied that “due to load shedding the system remained shut down quite frequently as no alternate power supply was available at that time. During these intervals also, the patients were seen manually as a compulsion. This naturally resulted in difference of stock balance between electronic stock in the system and on ground stock. To regularize this difference, medicines were used to be entered in HMS against a created ID as a compulsion”. The DAC in its meeting held on Jan 2, 2013 pended the para as the executive failed to clarify the gross violation.

Audit recommends that the entire activity involving unjustified issuance of medicines be thoroughly probed and loss made good from the concerned.

DP-99(S)/2012-13

3.4.16(v) Irregular issue of extra ration against severe weather/climate conditions/night duty for Rs 2.543 million

According to Scales of Ration Store 1997, applicable to Pakistan Armed Forces, extra ration is permissible in severe weather and other extreme conditions.

During audit on the accounts of PAF Base Rafiqui for the period 2010-11, it was observed that a huge quantity of sugar, tea and milk powder amounting to Rs.2.54 million was issued against night duty / severe weather conditions but strength of individuals was not shown in RPs (Ration Returns). There was no mention of specific climatic conditions being regarded as severe weather and Base authorities simply issued extra ration throughout the year without recording reasons. Issuance of extra ration throughout the year was irregular as extreme weather did not continue all year round.

When pointed out by audit in December 2011, the executive replied that extra ration was issued to the personals performing round the clock securities duties due to prevailing security situation. Furthermore, this ration was issued after obtaining approval from Commanding Officer.

The DAC in its meeting held on Nov 30, 2012 directed the executive to produce authority on which extra ration was issued and to get the record of extra ration verified from audit. Relevant record proving severity of weather justifying issuance of extra ration was however not produced to audit for examination till the finalization of this report.

Audit suggests that matter be investigated for this irregular expenditure.

DP-18(S)/2012-13

3.4.16(vi) Irregular appointment, deployment and regularization of labour for Rs 5.370 million

According to Rule-6(a) of Financial Regulations Volume-I 1986 “Every officer should exercise the same vigilance in respect of expenditure incurred from Government money as a person of ordinary prudence would exercise in respect of expenditure incurred from his own pocket”. Similarly, AFO 42-72 (7) states that “the expenditure on temporary employment of personnel in excess of establishment is an extra burden on the PAF Budget”. Therefore, extreme care should be exercised in keeping this expenditure to the barest minimum so as to ensure that only inescapable requirements are met by these means.

It was observed during audit of PAF Base Korangi Creek for the period 2011-12 that eighty temporary employees were appointed at PAF Base K/Creek without justification and government sanction. The casual labour was employed mainly at the Golf Course (a commercial venture) as out of 80 temporary employees about 70 were working at Golf Course. The record further revealed that the services of 20 temporary/casual employees were regularized in the light of AHQ letter No. AHQ/17104/287/CP (M/S) dated March 12, 2012, which was also in violation of rules as the said vacancies were not advertised by the Base authorities.

When pointed out by audit in Oct 2012, it was replied that the casual labors appointed for the period 2011-12 were deployed at PAF Base Korangi Creek at different areas including Golf course, Base boundary wall and coastal area etc. under supervision of BWO in order to remove the wild jungle growth and level the uneven ground which can be used as hiding cover by the terrorists in the present volatile security

scenario. It was further informed that services of some of them were regularized on instructions of AHQ. The reply was not satisfactory as unjustified hiring for Golf Club and regularization of temporary labor later on was irregular. The DAC in its meeting held on Jan 2, 2013 pended the para, as the executive failed to clarify violations.

Audit is of the opinion that the engagement of casual labour for Golf Club may be discontinued and irregular regularization of services of 20 officials by AHQ be got regularized from the government.

DP-57(S)/2012-13

3.4.16(vii) Irregular conclusion of conservancy contract for Rs 3.20 million

In terms of PPRA Rule 12 of 2004, “All procurement opportunities over two million rupees should be advertised on the authority’s website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.” PPRA Rule 13-1 of 2004 stated that “the procuring agency may decide the response time for receipt of bids or proposals (including proposals for pre-qualification) from the date of publication of an advertisement notice, keeping in view the individual procurements complexity, availability and urgency. However, under no circumstances the response time shall be less than fifteen days for national competitive bidding and thirty days for international competitive bidding from the date of publication of advertisement or notice.”

It was observed during audit of PAF Base Rafiqui for the year 2010-11 that a sum of Rs 3.2 Million was spent on account of hiring of conservancy services. In this regard, an advertisement was floated in “Daily Business Report Faisalabad” on April 4, 2010 and the last date for the submission of tenders was April 5, 2010. The tender was not published

in any leading national Newspaper and the same was also not placed on PPRA website. The response time was only one day, which was a clear violation of PPRA Rules.

When pointed out by audit in Dec, 2011 it was not properly replied and did not justify violation of rules. Provision of conservancy services was the responsibility of Cantonment Board within the base limits and hiring of a contractor for this purpose was irregular. The DAC in its meeting held on Nov 30, 2012 directed the executive to produce relevant record to audit for verification and necessary action in order to justify the hiring of local staff and responsibility be fixed for violation of PPRA Rules. Further progress was not reported till finalization of this report.

Audit suggests expeditious implementation of DAC directive.

DP-15(S)/2012-13

3.4.17 Loss to State for Rs 13.42 million

3.4.17 (i) Loss to state due to payment of sui gas leakages for Rs 13.42 million

According to Rule-81(a) of Quarters and Rents 1985, free scale Sui Gas for cooking purposes in the unit cook house @ 300 cft (further revised @ 400) per month was laid down. Any excess consumption of Sui Gas over the authorized scales was payable by the consumer at the supplying agency rates for deposit into the Government treasury.

It was observed at GE (Air) Malir that Rs 13,419,518, including 16% GST, was paid to Gas Company on account of 57% gas leakage during 2011-12. The leakage was not checked and repaired in time, thus, resulted in a sizable loss.

When pointed out by audit in Oct 2012 it was replied that a new pipe network was being laid which would eliminate leakages. The progress of work was 80% and was likely to be completed shortly”. The reply was not satisfactory as gas leakage was not addressed in time. The DAC in its meeting held on Jan 2, 2013 directed that irregularity be got regularized from competent authority. Relevant record reflecting regularization of expenditure from the competent authority was not produced to audit till finalization of this report.

Audit suggests that irregularity be got regularized from the competent authority.

DP-102(S)/2012-2013

Pakistan Navy

3.4.18 Diversion of Public Money for Rs 292.56 million

3.4.18(i) Irregular award of government land to a private educational institution and non-deposit of revenue into government treasury for Rs 292.56 million

According to Rule-626(1) of Financial Regulations (Navy) 1993, all transactions to which any officer of the Government, in his official capacity is a party may without any reservation be brought to account and all money received be paid in full, without undue delay, into Government Treasury. Moreover, Rule 0104(d) of F.R (N) 1993 states that Government revenue shall not be utilized for the benefit of a particular person or section of the community. Rule 0110(2)(b) of FR(N) 1993, provided that nothing in these regulations shall be held to authorize an officer to sanction expenditure which is liable to establish a new rule or practice involving further expenditure in the future.

It was observed during review of record of PNS Shifa Karachi for the year 2011-12 that an agreement for affiliation of BAHRIA UNIVERSITY MEDICAL AND DENTAL COLLEGE (BUM & DC) Karachi with PNS Shifa as Teaching Hospital Karachi was signed on Nov 12, 2008. In continuation, MOU between Pakistan Navy (PNS Shifa) and BUM & DC Karachi was also signed on Aug 4, 2009. All indoor and outdoor facilities of PNS Shifa hospital were being utilized by BUM & DC and highly precious A-1 land was handed over to BUM & DC without reclassification of land. The examination of both the agreements revealed that government land was being used for commercial activities but income of Rs 292,560,000 generated from there was diverted towards nonpublic.

When pointed out by audit in June 2012, it was not replied. Audit was of the view that the use of A-1 military land along with

utilization of all hospital resources needed approval of government of Pakistan. The income earned from the commercial educational institution also needed to be deposited into government treasury. The DAC in its meeting held on Dec 10, 2012 directed to produce relevant record to audit for verification. Further progress was not reported till finalization of this audit report.

Audit suggests that the needful be done expeditiously.

DP-75(S)/2012-13

3.4.19 Irregular and Un-authorized Expenditure for Rs 180.45 million

3.4.19(i) Irregular expenditure due to conclusion of contracts without open tenders for Rs 16.65 million

According to Rule-12 of PPRA Rules 2004, all procurements over Rs 2 million shall be advertised on the PPRA website as well as in other print media or newspapers having wider circulation.

During audit of record of CMES (N) COMLOG Karachi it was revealed that five contract agreements valuing Rs 16.653 million were concluded but tenders for each work exceeding the value of more than 2 million were not advertised in newspapers and or floated on PPRA website as provided for in the rules.

When pointed out by audit in May, 2012 it was replied that PPRA Rules were not applicable to MES works. However, the tenders were vastly advertised amongst all the formations at station through notice board". The reply was not tenable as the expenditure should have been advertised as per PPRA rules which were applicable at that time. The DAC in its meeting held on Dec 10, 2012 directed that ex-post facto approval of all the anomalies be obtained within two months and record

got verified from audit. The record was, however, not produced to audit till the finalization of this audit report.

Audit suggests that the needful be done expeditiously.

DP-37(S)/2012-13

3.4.19(ii) Irregular award of supply of medicines contract valuing Rs 65.53 million and undue favour to the supplier for Rs 3.03 million

According to Para-0104 (1)(a) of Financial Regulations 1993 (Navy) “every officer should exercise the same vigilance in respect of expenditure incurred from Government revenue as a person of ordinary prudence would exercise in respect of the expenditure of his own money”. According to Rule-12 (1) of PPRA Rules 2004, procurements over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority’s website in the manner and format specified by regulation of the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency. All procurements over Rs 2 million shall be advertised on PPRA website as well as in other print media or newspapers having wide circulation. According to Rule 13, under no circumstances the response time shall be less than 15 days for national competitive bidding.

The examination of record at PNS Shifa for the year 2010-11 revealed that Bahria pharmacy was awarded a contract for supply of medicines valuing Rs 65,527,108 in violation of above quoted rules. It was also observed that according to tender documents successful bidder was to submit 5% bank guarantee, whereas, Bahria Pharmacy deposited only Rs 250,000 as bank guarantee instead of Rs 3,276,355 which was a violation of contract agreement. The supplier, in this way, was extended an undue favour.

When pointed out by audit in June, 2012 it was replied that PPRA Rules 2004 were overlooked in the past but in the financial year 2012-13 the same would be adopted. It was further informed that the 5% bank guarantee was under consideration for current financial year as it was not done earlier. The reply was not satisfactory as violation of PPRA Rules 2004 and other contractual obligations was required to get regularized from PPRA and award of contract with performance guarantee of lesser amount was irregular. The DAC in its meeting held on Jan 2, 2013 directed to prove adherence to PPRA Rules and obtain Bank Guarantee as per rules. Relevant record was not produced till finalization of this audit report.

Audit suggests expeditious implementation of DAC directive and fixing of responsibility on the concerned officials.

DP-83(S)/2012-13

3.4.19(iii) Irregular expenditure due to conclusion of contracts without administrative approval and open tenders for Rs 35.37 million

According to Para-25 of Defence Services Rules administrative control is exercised by Authority empowered to sanction the execution of a detailed service at a stated cost. Such sanction is accorded by the competent engineering authority. Rule-12 of PPRA Rules 2004 stipulates that all procurements over Rs 2 million shall be advertised on the PPRA website as well as in other print media or newspapers having wider circulation.

It was observed during audit of CMES (Navy) COMLOG Karachi that ten contract agreements valuing Rs. 35,366,873 were concluded by CMES without administrative approval and in violation of PPRA rules.

When pointed out by audit in May 2012 it was replied that in view of critical law and order situation of the country especially security threats to Armed Forces, it was an essential need to prevent / secure the boundaries of a defence establishment. In view of the necessity, the works were approved by the CFA as specific work of HQ COMLOG. The reply was not tenable as the works were executed without fulfilling the codal formalities according to rules. Furthermore, the DCNS (N) was the competent authority instead of COMLOG in this case. The DAC in its meeting held on Dec 10, 2012 directed that ex-post facto approval of all the anomalies be obtained within two months and record got verified from audit. Further progress was not reported till finalization of this report.

Audit suggests implementation of DAC directive fixing of responsibility against the concerned officials.

DP-36(S)/2012-13

3.4.19(iv) Irregular expenditure due to execution of contracts without administrative and technical approval for Rs 62.61 million

According to Para-25 of Defence Services Regulations, administrative control is exercised by authority empowered to sanction the execution of a detailed service at a stated cost. Such sanction is accorded by the competent engineering authority.

The audit of GE (Navy) Logistics Karachi for the year 2011-12 revealed that 21 contract agreements valuing Rs 62,608,933 were executed by GE (N) Logistics without administrative and technical approvals, thus, the expenditure incurred on this account was irregular.

When pointed out by audit in September, 2012, no reply was furnished by the executive. The DAC in its meeting held on Dec 10, 2012 directed that requisite administrative/ technical approvals be got verified from audit within one month. Relevant record reflecting accord of

administrative/technical approvals in the works was not produced to audit till finalization of this report.

Audit suggests that the irregularity be got regularized from the competent authority.

DP-63(S)/2012-13

3.4.19(v) Doubtful payment to contractor against supply of water for Rs 1.00 million

According to Para-6(a) of Financial Regulations Volume-I 1986, “every public officer should exercise the same vigilance in respect of expenditure incurred from Government revenues as a person of ordinary prudence would exercise in respect of expenditure of his own money.” According to Para-342 of DSR, the MES will maintain a “Register of Military Buildings” in which will be entered every building, etc, in their charge.

The scrutiny of contract No KCI 35/2012 executed by AGE (N) Maintenance Manora for the FY 2011-12 revealed that an amount of Rs. 1.00 million was paid to the contractor against supply of 540,541 gallons of fresh water through bowzer for 2x CPOs & 2x PO Blocks at Khalid SRE, Younisabad from 17-02-2012 to 10-03-2012. During that period these blocks were vacant as per occupation vacation register. Hence the entire expenditure incurred was doubtful.

When pointed out by audit in Oct, 2012 it was replied that on the authority of allotment orders issued by the competent authority the flats were occupied by the troops & the recovery of HRA, Rent, Electric, Water & Sui Gas started from the date of occupation. It was further informed that the handing / taking over was under process at HQ COMKAR. Reply was not tenable as according to record these blocks were vacant and no expenditure was admissible on buildings which were not on charge of the MES. The DAC in its meeting held on Dec 10, 2012

directed for regularization, fixing of responsibility for non-observance of Government orders. The DAC further directed for recovery of amount involved and adoption of remedial measures to avoid recurrence of such instances in future. Relevant record reflecting compliance of DAC directives was not produced to audit till finalization of this report.

Audit requires expeditious implementation of DAC directives.

DP-85(S)/2012-13

3.4.19(vi) Irregular expenditure on containers used as office accommodation for Rs 3.10 million

According to Rule-2 and 21 of Defence Services Regulations for the Military Engineering Services - 1998, “MES is responsible for provision and replacement of buildings, together with the accessory services, repairs and upkeep of the said works. The services authorized by Government in regulations, or by separate orders; of a general or specific nature and services which are customary to provide for troops etc, as laid down in Defence Services Accommodation Scale, or other authorities issued by the Government of Pakistan, these are referred to broadly as "authorized Works”. Moreover, Rule-12(2) & (3) of PPRA Rules, stipulates that “all procurements over two million rupees should be advertised on the Authority’s website as well as in at least two national dailies. As per Section 3 of Sales Tax Act 1990, “Sales Tax @ 17% of the value of taxable supplies specified in the Third Schedule shall be charged”.

The PNS Iqbal incurred an expenditure of Rs 3.996 million on local purchase of 4 containers for using them as additional office accommodation for their Commander Coastal Area during 2010-11. Audit observed following irregularities in this arrangement.

1. The conversion of containers into office accommodation had not been authorized by the Government of Pakistan.
2. The expenditure exceeded Rs. 2 million but it was not advertised on PPRA website or in two national dailies. The Navy had its own website but no advertisement was posted on it either.
3. The expenditure on civil works is not permissible out of I & M grant which is for petty expenses and it is the mandate of MES to undertake works authorized for the purpose.
4. All payments were made in cash instead of cheque.
5. The GST was not recovered as per rules.

When pointed out by audit in June 2012, no reply was furnished by the executive. The DAC in its meeting held on Dec 10, 2012 directed that expenditure incurred from incidental and miscellaneous head and violation of PPRA rules be got regularized by Dec 20, 2012. DAC further directed that GST be recovered in full. Further progress not reported till finalization of this report.

Audit suggests that the needful be done immediately.

DP-13(S)/2012-13

3.4.19(vii) Irregular expenditure on refurbishment of office building out of irrelevant head for Rs 2.50 million

According to Rule-102 (i) (f) and 130 of Financial Regulations (N) 1993 “Contingencies include the cost of postage, telegrams, telephone charges etc. Further, as per Directorate of Pay Pension and Accounts (N) Naval Headquarters Islamabad letter No.AC/0202 dated 31-05-2001 Inc. and Misc. grant is a part of pay and allowances head and caters only for contingent expenditure as laid down in Reg.130 of FR (N) 1993. Rule 12 of PPRA Rules 2004 states that all procurements over Rs 2 million shall be advertised on the PPRA website as well as in other print media or newspapers having wider circulation. Rule 13 of PPRA Rules 2004 further

states that the response time for receipt of bids or proposals shall not be less than fifteen days in case of local bidding.

Contrary to above, PNS Zulfiqar incurred an expenditure of Rs 2.500 million on refurbishment of COMDESRON-18 Office during 2010-11, which was irregular as MES was the custodian of all military buildings and was responsible for their repair/maintenance and original works but this refurbishment was carried out from I&M head by the formation itself. This head of I&M is meant for petty expenses only. Moreover, the work was not uploaded on PPRA website and the response time allowed was only seven days instead of 15 days in local bidding, which was a violation of PPRA rules.

When pointed out by audit in June 2012, the executive stated that the setup of COMDESRON-18 was newly established in BSO building keeping in view the operational requirement on priority basis. Since, the normal procedure to fulfill requisite formality is lengthy and time taken, therefore, HQ COMPAK issued admin approval out of I&M allocation after concurrence of CNA.

The reply was not satisfactory as the expenditure was required to be charged to MES instead of charging it to I&M head.

The DAC in its meeting held on Dec 10, 2012 directed that the expenditure be got regularized within three months. Which, however, was not reported till finalization of this report?

Audit recommends fixing of responsibility for irregular expenditure and violation of rules.

DP-40(S)/2012-13

3.4.19(viii) Irregular expenditure on account of hiring of civil transport for Rs 3.88 million

According to PPRA Rule-12 of 2004, “All procurement opportunities over two million rupees should be advertised on the authority’s website as well as in other print media or newspapers having wide circulation.” Also, PPRA Rule-13-1 of 2004 states that, “the response time shall not be less than fifteen days for national competitive bidding and thirty days for international competitive bidding from the date of publication of advertisement or notice.”

During the scrutiny of record at PNS Mehran for the period 2009-11 it was observed that a sum of Rs 3.88 million was paid to the contractor on account of hiring of buses for transportation of Naval personnel out of I&M fund under the approval of Headquarters COMPAK. However, the transaction was unauthorized on account of the following:-

- The COMPAK was not competent to issue such sanction according to rules.
- Inc. & Misc grant was for petty expenditures only and not heavy outlays as this.
- The invitation of tender was not advertised on PPRA website and newspapers which was a negation of PPRA rules.
- Only 2 days’ response time was allowed instead of minimum 15 days as tender was advertised in Newspaper on June 20, 2009 and opened on of June 22, 2009.

When pointed out by audit in June 2012 replied that the expenditure was made in accordance with item No. 80 of FOC 3/86, stating further that a separate budget was allocated in I&M grant for hiring of Civil Transport for under-training sailors and quotations were invited from registered firms only. Reply was not tenable as the financial powers of Comkar in such cases was up to Rs 0.9 million only whereas, the

expenditure was well above this limit. Besides, all such expenditure was made from I & M head which was meant for petty expenditure only. The DAC in its meeting held on Nov 30, 2012 directed for inquiry for fixing responsibility and regularization of expenditure from the competent authority. Further was not conveyed till finalization of this report.

Audit suggests expeditious implementation of DAC directives.

DP-34(S)/2012-13

3.4.19(ix) Irregular payment of daily messing allowance for Rs 4.12 million

According to Rule 210(b)(c) of Pay & Allowances Regulations 1976 (Navy), “the Daily Messing Allowance will be admissible w.e.f. 1/8/1970 to officers and men (CPOs, POs & Sailors) participating in exercise/Maneuver orders by NHQ/Administrative authorities viz. COMPAK, COMKAR & COMLOG. Furthermore, in order to authorize for payment, Gen-form will be issued, which is to quote a reference to exercise order. All payment vouchers will be countersigned by the Commandant and supported by a copy of the relevant Gen-form”.

The examination of record at PNS Mehran for the year 2009-11 revealed that payment amounting to Rs 4.165 million was made to the Officers, CPOs & Sailors on account of DMA in violation of above quoted rules. Audit held that the Officers, CPOs & Sailors were performing security duty as a regular function, not participating in exercises / maneuvers.

When pointed out in June 2012 it was stated that DMA was paid in the light of Rule-210(b) of Passage Regulation 1980 and letter of concerned admin authorities. Since Ship Company was deployed as defence watches throughout the exercises, DMA for the same period had been paid to all the personnel who were actually deployed on defence

watches. The reply was not tenable as security was the regular function and it could not be termed as exercise/maneuver. The DAC in its meeting held on Dec 10, 2012 directed to produce the Operation Orders and other relevant record to audit for verification. Record, however, was not produced till finalization of this report.

Audit suggests that the irregularity be stopped forthwith and overpaid amount recovered from the concerned immediately.

DP-58(S)/2012-13

3.4.19(x) Irregular payment of daily messing allowance for Rs 5.84 million

According to Rule-210(b)(c) of Pay & Allowances Regulations 1976 “The Daily Messing Allowance (DMA) will be admissible w.e.f. 01.08.1970 to officers and men (CPOs, POs & Sailors) participating in exercise/Maneuver orders by NHQ Administrative authorities viz. Compak, Comkar & Comlog. Furthermore, in order to authorize for payment, Gen-form will be issued, which is to quote a reference to exercise order. All payment vouchers will be countersigned by the Commandant and supported by a copy of the relevant Gen-form”.

The scrutiny of record at PNS Shifa for the year 2010-11 revealed that Rs 5.844 million was paid to the Officers, CPOS & Sailors on account of DMA in violation of above rule. Audit was of the opinion that the Officers, CPOS & Sailors performed their regular functions at PNS Shifa hospital which could not be termed as exercise/ maneuver.

When pointed out by audit in June 2012, no reply was furnished. Audit held that when an operational order is issued by armed forces it carries specific time-bound operation mentioning name of the operation, persons deployed, period and resources deployed. In case of general duty, the grant of DMA was unjustified as it regular activity

throughout the year with no specific operation involved. The DAC in its meeting held on Dec 10, 2012 directed to produce relevant record to audit for verification. Further progress was not reported till finalization of this report.

Audit suggests that the irregularity be stopped forthwith and overpaid amount be recovered from the concerned.

DP-73(S)/2012-13

3.4.19(xi) Irregular and unjustified payment of Internal Security Allowance for Rs 11.23 million

According to Article-245 (1) of Constitution of Pakistan, the armed forces shall under the direction of federal Government, defend Pakistan against the external aggression or threat of war, and subject to law, act in aid of civil power when called upon to do so. The Government of Pakistan Ministry of Defence Regulations further stipulate that when troops are called in aid of the Civil Power, the civil authority asking for aid should make the demand in writing, or in an emergency may ask verbally but should confirm the verbal demand later on. According to Para-0104 (1)(a) of Financial Regulations 1993 (Navy) “every officer should exercise the same vigilance in respect of expenditure incurred from Government revenue as a person of ordinary prudence would exercise in respect of the expenditure of his own money”.

The audit of PNS Qasim for the year 2011-12 revealed that the formation received IS allowance amounting to Rs 11,298,355 during 2011-12. The Chief Minister vide letter No.PS/Secy/CMS/92/419 dated May 23, 1992 asked the armed forces to initiate anti-dacoity operation in entire Sindh, which was however a time-bound operation after which the troops were called back. However, PNS Qasim continued to claim the IS allowance without lawful authority and necessity as no subsequent extension in such orders was made after 1992. The PNS Qasim continued to claim IS allowance for surveillance of Creek area in District Thatta

whereas, such surveillance was part of general defence activity of Pakistan Navy, therefore, claiming of IS allowance after 1992 was not according to rules.

When pointed out by audit in July 2012, the executive stated that “the Chief Minister Sindh vide letter dated 23/5/1992 requested for deployment of Pak Navy to maintain Law and Order in Urban and Rural areas of Sindh. The deployment was not only for anti-dacoity operations but was also for maintenance of law and order. Every month IS vouchers are submitted to DC Thatta for approval and the payment is only made after his explicit signing of the document”. The reply was not satisfactory as the signing of IS Allowance bills by DC office Thatta did not constitute approval of the competent authority i.e. Chief Minister. The extension orders from the CM in this regard were mandatory. The DAC in its meeting held on Dec 10, 2012 directed to produce relevant record to audit for verification substantiating the need and further extension of personnel on IS duty. Further progress was reported till finalization of this report.

Audit holds that the irregularity be stopped forthwith and unjustified payment already made be recovered.

DP-68(S)/2012-13

3.4.20 Recoverable for Rs 9.90 million

3.4.20(i) Non-recovery of monthly rent from private occupants for Rs 9.90 million

According to Para-442 of Defence Services Regulations for Military Engineering Services, 1998, “Garrison Engineer (GE) is responsible for making monthly demand and prompt realization of rent and utility charges from the users of military buildings and utility services”.

During scrutiny of Revenue Ledger & ROR of GE (N) Logistics, for the year 2009-10, it was noticed that military buildings were

rented out to various private individuals / Banks but the monthly rent was not recovered since 2005, which was irregular. Estimated recoverable rent of the military buildings for the last five years amounted to Rs. 9.9 million. Moreover, the rental agreements and authority for renting out the military buildings was not provided to audit.

When pointed out by Audit in Nov, 2010 it was stated that the Board of Officers for fixing of rent was in progress vides HQ COMLOG, Karachi letter No.CL/CW/13/4949 dated May 21, 2010 and the rent would be recovered on finalization of Board of Officers proceedings accordingly. The DAC in its meeting held on Dec 10, 2012 directed that assessment of rent be finalized and recovery made and got verified from audit within one month. Further progress was not reported till finalization of this report.

Audit suggests that the recovery action be completed on priority.

DP-08(N)/2012-13

Military Accountant General

3.4.21 Recoverable for Rs 2.61 million

3.4.21(i) Unjustified payment of electricity charges of a private entity for Rs 2.61 million

According to Rule-06 of Financial Regulations Volume-I, “in incurring or sanctioning expenditure following canons shall be observed by officers exercising financial powers. Audit officers shall also be responsible for watching that the canons are observed: (d) Government revenues shall not be utilized for the benefit of a particular person or a section of the community unless:

- (1) The amount of expenditure involved is insignificant.
- (2) A claim for the amount could be enforced in court of law.
- (3) The expenditure is in pursuance of a recognised policy or custom”.

During test audit of DCAAF Lahore for the year 2011-12, it was observed that electricity charges amounting Rs 2,612,040 pertaining to a private business concern, M/s Shaheen Airport Services, Cargo Complex, Lahore Airport were paid from public fund. Payment of this liability by Air Force was irregular required prompt recovery.

When pointed out by audit in August, 2012, the executive stated that Shaheen Air Port Cargo Complex of CAA has been handed over to PAF authorities since 2011, therefore, its maintenance is the responsibility of MES. The reply is not satisfactory as the expenditure did not pertain to Air Force.

The DAC in its meeting held on Nov 30, 2012 directed that the para may be shifted to GE (Air) Lahore for reply and necessary action in order to discuss it in the next DAC meeting.

Audit suggests that the amount be recovered from the concerned expeditiously.

DP-87(S)/2012-13

3.4.22 Public Financial Management for Rs 10.96 million

3.4.22(i) Non-formulation of policy on payment of house rent allowance to officers living in MOQs for Rs 10.96 million

The PAC in its meeting on Dec 5 to 7, 2006, while considering Para-1.1 of ARDS of 2000-2001, issued following directive regarding admissibility of HRA to the officers living in MOQs and BOQs etc.

“The PAC considered the given reply. The committee expressed the opinion that the matter warrants either amendments in the Rules or a policy review in the matter by the Competent Authority. However, till the decision by competent forum rent may be recovered @ 5% of the basic pay from the married officers who have availed or are availing accommodation in the BOQs / MOQs. The matter of paying house rent allowance to such officers should also be clarified in the policy to be framed in consultation with Ministry of Finance”.

It was observed from the record at CMA (NA) Gilgit that 116 officers were living in Married Officers Quarters (MOQ) and house rent allowance was also being paid to them. Despite lapse of a considerable time since issuance of PAC directives, no policy was framed regarding payment of house rent to officers living in BOQs / MOQs. A sum of Rs 10,964,699 paid to the officers living in MOQs on account of HRA, therefore needed regularization from CFA.

When pointed out by the audit in Oct 2010 it was replied that recovery of rent is made on the authority of rent bill received from UA (MES) and the UA was not in position to raise rent bill without receipt of allotment of accommodation and occupation return from the controlling

authorities. Reply was not satisfactory because in spite of issuance of directive by PAC the policy regarding recovery of house rent allowance from occupants of BOQs / MOQs was not framed. The DAC in its meeting on Oct 2, 2012 directed that DP may be shifted to Army. No further progress was intimated till finalization of this report.

Audit desires that matter be expeditiously resolved by the Ministry in consultation with Ministry of Finance.

DP-165(N)/2011-12

3.4.23 Un-authorized Expenditure for Rs 1.18 million

3.4.23(i) Un-authorized payment of pay & allowances for Rs 1.18 million

Fundamental Rule-69 provides that employment during LPR shall not be permitted except with the approval of President of Pakistan (being the competent authority).

Scrutiny of record at CMA (HIT) Taxila revealed that HIT Board Taxila re-employed three officers, who were on LPR, on contract without obtaining approval of the president. An amount of Rs 1,185,000 paid to these officers for pay and allowances was irregular.

Audit pointed out the matter in Oct 2010, it was replied that Contract Agreements were concluded with the officers by HIT Board by issuing Government letters; hence, payments were admitted in audit accordingly. The reply was not satisfactory as approval of the President was required which was not obtained. DAC in its meeting on Oct 2, 2012 directed to hold an inquiry, fix responsibility for re-employment of officers during LPR and recover the salaries paid (during LPR) from officers concerned. DAC further directed that in future such cases be

referred to Ministry of Finance for their concurrence/advice. No further progress was intimated till finalization of this report.

Audit desires expeditious implementation of DAC directive and fixing of responsibility who hired officers during LPR without approval of the President.

DP-175(N)/2011-12

3.4.24 Non-recovery of risk & expense amount for Rs 8.61 million

3.4.24(i) Non-recovery of risk and expense amount from contractor for Rs 8.61 million

According to Rule-106(a) of Financial Regulations Volume-I “A contractor is liable to pay to Govt. compensation for loss or inconvenience that may result from his default or from recession of his contract”.

It was observed at CMA (DP) that some contracts were cancelled at Risk & Expense of contractors by DP (Navy); an amount of Rs 8,613,287 was outstanding on account of Risk & Expense for which recovery action was yet to be completed by CMA (DP).

When pointed out by Audit in Oct, 2010 it was replied that cases for recovery had been taken up with DP (Navy) and as and when reply received, audit would be informed accordingly. Reply was not satisfactory as CMA (DP) was responsible for recovery of Risk and Expense amount from the contractor. DAC in its meeting on Oct 2, 2012 directed that the DP be shifted to MODP, DP (Navy) to file suit against the contractor for recovery of balance amount. No further progress was intimated till finalization of this report.

Audit emphasizes implementation DAC directive.

DP-231(N)/2011-12

Annexure-1

MFDAC Paras (DGADS North)

Brief description of paras included in MFDAC.

Pakistan Army

Rs in million

S #	DP #	Year	Unit / Formation	Title of the Para	Amount
Irregular/Un-authorized Expenditure					
1	DP-21	2011-12	GE (A) Hospital Rwp	Irregular expenditure on abnormal repair works	9.705
2	DP-31	2011-12	GE (Army) Mangla	Irregular payment on account of credit of stores to contractors	15.455
3	DP-40	2011-12	GE (Army) Svcs Rwp	Un-justified payment to contractor against the work neither required nor executed at site	1.572
4	DP-45	2011-12	GE Army-II Rwp	Irregular expenditure on execution of extra work	2.334
5	DP-46	2011-12	702 PWS Bhimber	Extra expenditures on provision of excess area	2.832
6	DP-51	2011-12	GE (Services) Multan	Embezzlement	0.209
7	DP-155	2011-12	HQ 37 Division, Kharian	Unjustified payment to labourers for watering the plants	2.924
8	DP-157	2011-12	HQ Engr 10 Corps	Irregular expenditure on account of pay and allowances of staff (Surveyors)	0.233
9	DP-191	2011-12	CMH Lahore	Irregular expenditure on pay and allowances of Army Doctors officers attached with as non public institution.	55.25
10	DP-206	2011-12	SCARP-VI Rahim Yar Khan	Irregular replacement of pumps	3.628
11	DP-217	2011-12	HQ 31 Corps Bawalpur	Irregular expenditure on employment of conservancy sweepers beyond authorization	1.795

12	DP-220	2011-12	641 Mjd Bn	Loss to State due to un-due payment to Hired Mechanical Transport contractor	0.278
13	DP-244	2011-12	CMH Multan	Irregular payment of Pay and Allowances	1.071
	TOTAL				96.69
Recoverable					
14	DP-22	2011-12	GE (Svcs) Okara Cantt.	Non-recovery of market rent of Government accommodation from staff of APS	0.585
15	DP-29	2011-12	GE (Army) Svcs Rwp	Non-recovery of cost of Sui Gas utilized beyond authorization	0.998
16	DP-32	2011-12	GE (Army) Mangla	Non-recovery of outstanding electricity charges	2.415
17	DP-44	2011-12	GE (Army) Svcs Rwp	Non-recovery of Electricity charges consumed in excess of authorized scale	3.007
18	DP-212	2011-12	CMT&SD Golra	Non-recovery of 15% surcharge from bidders	0.732
19	DP-218	2011-12	CMT&SD Golra	Non-recovery of cost of burnt staff car from Pakistan Railways	0.861
20	DP-238	2011-12	CMH Peshawar	Non deposit of tender fee into Government Treasury	0.212
	TOTAL				8.81
Overpayment					
21	DP-23	2011-12	GE (Army) Abbottabad	Over-payment to contractor on various counts	0.241
22	DP-49	2011-12	GE (A)-II Okara Cantt.	Overpayment to contractor	0.466
23	DP-52	2011-12	GE (Army) Svcs Rwp	Over-payment to contractor due to taking excess quantities in the BOQs of contract.	29.643
	TOTAL				30.35
Violation of Rules					
24	DP-39	2011-12	GE (Army) Svcs Rwp	Irregular expenditure due to splitting	19.23

25	DP-135	2011-12	HQ 32 Bde Kail	Irregular expenditure out of Special ATG in next Financial year to avoid lapse of funds	0.350
26	DP-152	2011-12	Army Medical College	Irregular payment of pay and allowances out of Army budget	1.452
27	DP-154	2011-12	HQ 6 Armoured Div Gujranwala	Irregular payment made through cash instead of cheques	3.212
28	DP-156	2011-12	21 Army Aviation	Irregular transfer of Public Money to regimental fund	0.484
29	DP-163	2011-12	HQ 491 Engineer Abbotabad	Non-production of auditable documents	—
30	DP-179	2011-12	6 Armoured Div Gujranwala, HQ 17 Div, 37 Div Kharian	Irregular expenditure on plantation without concluding lease agreement with the Punjab Forest Deptt	64.312
31	DP-207	2011-12	Central Ammunition Depot Sargodha	Irregular expenditure beyond scope of sanction	2.00
32	DP-213	2011-12	AFIC Rawalpindi	Loss to State due to less accountal of stores on ledger	0.100
33	DP-219	2011-12	CMT&SD Golra	Local purchase of items Not in Vocabulary (NIV) without obtaining Government sanction	1.599
34	DP-134	2012-13	HQ Log Area Gujranwala	Non-production of Auditable documents	—
TOTAL					92.74
G.TOTAL					228.59

Pakistan Navy

Rs in million

S #	DP #	Year	Unit / Formation	Title of the Para	Amount
Irregular/Un-authorized Expenditure					
1	DP-34	2011-12	GE (N) Const Islamabad	Irregular expenditure beyond admin approval	5.156
2	DP-37	2011-12	GE (N) Const-III Islamabad	Irregular payment to contractor without accountal of store arranged by him	1.298
3	DP-208	2011-12	PNS Punjab Lahore	Irregular consumption of extra ration	1.025
TOTAL					7.479
Violation of Rules					
4	DP-35	2011-12	GE (Navy) Maint Islamabad	Non-accountal of store arranged by the contractor	0.331
TOTAL					0.331
Recoverable					
5	DP-43	2011-12	GE (N) Maint Islamabad	Non-recovery of rent and allied charges	2.381
TOTAL					2.381
G.TOTAL					10.191

Pakistan Air Force

Rs in million

S #	DP #	Year	Unit / Formation	Title of the Para	Amount
Overpayment					
1	DP-25	2011-12	GE (Air) Minhas Kamra	Overpayment to contractor due to taking excess quantity of steel in BQ	0.12
2	DP-48	2011-12	GE (Air) Rafiqui Shorkot	Overpayment to contractor due to non omission of items of work not required at site	0.66

3	DP-257	2011-12	PAF Academy Risalpur	Overpayment on account of provision of substandard store beyond specification	0.487
TOTAL					1.105
Irregular/Un-authorized Expenditure					
4	DP-160	2011-12	PAF Academy Risalpur	Irregular issuance of cheques without supplies	9.088
TOTAL					9.088
Recoverable					
5	DP-173	2011-12	PAF Academy Risalpur	Non-recovery of Foreign Training Charges	US\$ 690,394
TOTAL					US\$ 690,394
G.TOTAL					10.355 US\$ 690,394

Military Accountant General

Rs in million

S #	DP #	Year	Unit / Formation	Title of the Para	Amount
Irregular/Un-authorized Expenditure					
1	DP-189	2011-12	CMA (NA) Gilgit	Irregular expenditure on local purchase of Conveyer Belt	2.650
2	DP-133	2012-13	CMA (KC)	Irregular payment of Rs. 276,996	0.276
3	DP-109	2012-13	CAAF Peshawar	Irregular loan and expenditure	632.500
4	DP-146	2012-13	MAG Rwp	Infrafructuous Expenditure	58
TOTAL					693.426
Violation of Rules					
5	DP-145	2012-13	MAG Rwp	Non-implementation of new accounting model	—
TOTAL					—
G.TOTAL					693.426

Military Lands and Cantonments

Rs in million

S #	DP #	Year	Unit / Formation	Title of the Para	Amount
Recoverable					
1	DP-138	2011-12	CB Quetta	Non-recovery of conservancy charges from Army Authorities.	24.57
2	DP-139	2011-12	CB Kamra	Non-recovery of outstanding dues	1.924
3	DP-140	2011-12	CB Kamra	Non-realization of BTS/Tower Fee	1.27
4	DP-141	2011-12	CB Mardan	Loss to Cantt Fund due to less assessment of property	2.938
5	DP-142	2011-12	CB Quetta	Irregular conversion of Property into Sch-IX-C without recovery of premium of land held in excess	1.462
6	DP-145	2011-12	MEO Lahore	Less recovery of cost of auction of plots near ranger HQ.	78.92
7	DP-159	2011-12	MEO Gujranwala	Less recovery of premium on conversion of property from residential to commercial in Sch-ix-C.	17.55
8	DP-247	2011-12	CB Sialkot	Non recovery of 15% Surcharge on Income Tax	1.239
9	DP-250	2011-12	CB Malir	Non deposit of Income Tax & Sales Tax	2.333
10	DP-138	2012-13	CB Gujranwala	Non-recovery of cost of land transferred to Army Golf Club	563.400
11	DP-140	2012-13	CB Walton Lahore	Non-recovery of share of hoarding charges from SWOL	55.414
12	DP-143	2012-13	CB Walton Lahore	Loss due to non-recovery of hoarding fee	8.414
TOTAL					759.43
Irregular/Un-authorized Expenditure					
13	DP-148	2011-12	CB Quetta	Un-due benefit to lessee due to non accountal of outstanding balance	0.179
14	DP-102	2012-13	CB Rwp	Irregular expenditure from Cash Book	8.824

15	DP-136	2012-13	CB Gujranwala	Irregular/un-authorized expenditure	0.726
16	DP-137	2012-13	CB Gujranwala	Irregular payment of Adhoc increase	1.304
17	DP-141	2012-13	CB Walton Lahore	Irregular payment of desilting charges	0.950
TOTAL					11.98
Violation of Rules					
18	DP-158	2011-12	CB Quetta	Non-production of available documents	—
TOTAL					—
Overpayment					
19	DP-103	2012-13	CB Rwp	Over-drawl of pay and allowances from the bank for temporary / daily wages staff	0.517
20	DP-135	2012-13	CB Gujranwala	Overpayment made to contractor	0.415
TOTAL					0.93
Public financial management issues					
21	DP-243	2011-12	CB Walton Lahore	Non-refund of un-utilized Grant-in-aid	12.50
TOTAL					12.50
G.TOTAL					784.85

Ministry of Defence Production

Rs in million

S #	DP #	Year	Unit / Formation	Title of the Para	Amount
Overpayment					
1	DP-224	2011-12	DP (Navy)	Excess payment of Sales Tax	1.249
2	DP-117	2012-13	DGDP Rwp	Excess payment of US \$ 3900.20 Equivalent to Rs. 354918/- (taking @ US \$ 91).	0.355
3	DP-129	2012-13	KARF Kamra	Loss to State due to procurement of store at higher rates	0.326
TOTAL					1.93
Violation of Rules					
4	DP-133	2011-12	PAC Board Kamra	Irregular conclusion of contract without proper circulation	20.76
5	DP-134	2011-12	PAC Board Kamra	Un-authorized inclusion of GST in the contract for Purchase of Fork Lifter	1.13
6	DP-166	2011-12	DP Navy Rwp	Procurement of Suzuki Motor Cycle without Government approval	8.514
7	DP-177	2011-12	AMF Kamra	Non-production of auditable documents involving heavy payments	—
8	DP-196	2011-12	DP (Navy)	Non production of record	US \$ 1.694
9	DP-198	2011-12	DP (Air) Chaklala	Non-refund of cost of rejected store by the defaulting firm	1.7
10	DP-223	2011-12	DP (Navy)	Irregular Procurement of Printing Machines without Fair Competition	5.554
11	DP-256	2011-12	AMF Kamra	Non-Replacement of Rejected Store	US \$ 0.110

12	DP-108	2012-13	DW&CE (DP)	Undue holding of phenomenal Quantity of stores caused Blockade of Government Money.	10.927
13	DP-112	2012-13	DGDP Rwp	Non-imposition of LD	Euro 21000
TOTAL					48.585 US\$ 1.804 Euro 21,000
Irregular/Un-authorized Expenditure					
14	DP-24	2011-12	GE (DP) Construction Kamra	Issuance of store to the contractor in excess of requirement	1.828
15	DP-27	2011-12	GE (DP) Construction Kamra	Issuance of store to the contractor in excess of requirement	1.223
16	DP-42	2011-12	GE (DP) AMF Kamra	Un-due benefit to contractor due to excess issue of steel	0.509
17	DP-178	2011-12	Descom HIT Factory Taxila	Over stocking of store	8.617
18	DP-193	2011-12	DP (Air) Chaklala	Un-authorized expenditure on procurement of vehicles	32.74
19	DP-225	2011-12	DP (Navy)	Loss to state due to procurement of store at exorbitant rate	1.355
20	DP-252	2011-12	F-6 Rebuild Factory Kamra	Irregular Expenditure on Boarded out Vehicles	0.411
21	DP-261	2011-12		Un-authorized purchase of PLCE items without open tenders	1002.56
22	DP-107	2012-13	MRF PAC Kamra	Extra expenditure due to inclusion of Holidays in Conservancy Agreement	4.513
23	DP-104	2012-13	HRF (T) Taxila	Un-authorized payment of sales tax	1.873

24	DP-110	2012-13	DGDP Rwp	Irregular award of contract.	US \$ 64.750
25	DP-115	2012-13	DGDP Rwp	Loss of CHF 57500 to the State due to Mis-management.	-
26	DP-120	2012-13	DGDP Rwp	Irregular drawing of contract and amendment there to causing extra cost.	US \$ 21.562
27	DP-124	2012-13	MVRDE Rwp	Irregular award of work	34.14
28	DP-126	2012-13	DGDP Rwp	Loss of Euro 3.75 million due to occupation of defective vehicle	Euro 3.75
29	DP-128	2012-13	MVRDE Rwp	Loss due to improper evaluation of financial proposal/bid	4.252
30	DP-130	2012-13	KARF Kamra	Blockade of public money due to un-necessary stocking of store	2.189
TOTAL					994.02 US\$ 86.31 Euro 3.75
Embezzlement					
31	DP-36	2011-12	GE JF-17 Kamra	Irregular local purchase of store against fictitious sanctions	0.97
32	DP-151	2011-12	HIT Board Taxila	Doubtful payment on account of a contract amounting to	1.763
TOTAL					2.733
Recoverable					
33	DP-38	2011-12	GE (DP) Construction Kamra	Less recovery for an item of work not executed at site	0.447
34	DP-147	2011-12	PAC Hospital Kamra	Loss to state, due to non-depositing of cost of X-Ray films into Government treasury	0.145
35	DP-176	2011-12	HIT Board Taxila	Non-recovery of cost of Bullet Proof Vehicle	5.084

36	DP-181	2011-12	DP (Navy) Rawalpindi	Non-recovery of risk & expense amount from various firm.	13.80
37	DP-188	2011-12	DGP (Army) Rwp	Non-recovery of risk and expense money from defaulter contractors	2.192
38	DP-192	2011-12	DGP (Army) Rwp	Non-recovery of risk and expense (RE) money from defaulting firm	7.708
39	DP-228	2011-12	DGP (Army) Rwp	Non return of packing material issued to contractor valuing	1.161
40	DP-02	2012-13	GE (DP) Const Kamra	Non-Recovery of 15% surcharge for payable on Income Tax	0.325
41	DP-125	2012-13	DGDP	Non-payment of Sales Tax	US\$ 22.01
TOTAL					30.86 US\$ 22.01
Weak Contract Management					
42	DP-200	2011-12	DP (Air)	Un-due favour due to non-encashment and non cancellation of contract at risk and expense of the defaulter firm.	8.26
43	DP-211	2011-12	DGP (A)	Un-due financial benefit to a contractor due to acceptance of substandard gamma camera	18.76
TOTAL					27.02
G.TOTAL					1236.35 US \$ 110.12 Euro 3.84

Annexure-II

MFDAC Paras (DGADS South)

Brief description of paras included in MFDAC.

Pakistan Air Force

Rs in Million

S #	DP #	Year	Unit / Formation	Subject	Amount
Diversion of Public Receipts					
1	S-01	2012-13	PAF Academy Risalpur	Non Recovery of Foreign Training Charges	13.296
2	S-05	2012-13	GE (Air) Risalpur	Non-Recovery of Ground Rent from Commercial Banks.	0.840
3	S-17	2012-13	PAF Base Rafiqui	Un-authorized cultivation of land and non-deposit of rent & production of record to audit.	18.30
4	S-19	2012-13	GE (Air) Risalpur	Non-deposit of rent of ice factory in Government Treasury.	1.72
5	S-64	2012-13	PAF Base Mushaf	Non-recovery of Rent from Commercial/Welfare projects established on A-1 land.	11.760
6	S-55	2012-13	PAF Base Korangi Creek	Irregular Purchase of Sugar in violation of PPRA Rules	0.798
Recoverable					
7	S-04	2012-13	GE (Air) Risalpur	Non-recovery of rent from Cellular (Mobile) Companies.	1.440
8	S-10	2012-13	PAF Base Rafiqui	Non-recovery of rent of 35 MOQs	6.30
9	S-16	2012-13	GE (Air) Risalpur	Loss to state due to non-recovery of rent from shops / buildings.	1.396

10	S-20	2012-13	PAF Base Malir	Loss to state due to non-deduction of GST	2.00
11	S-71	2012-13	AGE (AIR) Kalabag	Non recovery of liquidated damages	0.671
12	S-74	2012-13	PAF Base Samungli	Irregular payment of House Rent Allowance.	0.303
13	S-76	2012-13	GE (AIR) Kalabag	Non-recovery of rent & allied charges.	1.938
14	S-82	2012-13	PAF Base Samungli	Loss to state due to non levy and non recovery of lab investigation charges from families of Lascars.	0.360
15	S-90	2012-13	PAF Base Mushaf	Non recovery of Rent from 52 MOQs.	9.360
16	S-104	2012-13	GE (Air) Malir	Irregualr expenditure	9.355
17	S-105	2012-13	GE (Air) Malir	Non-recovery of rent from shops	4.104
Violation of Rules					
18	S-22	2012-13	PAF Base Rafiqui	Irregular purchase of Sugar in violation of PPRA Rules	2.414
19	S-25	2012-13	PAF Base Malir	Violation of PPRA Rules on purchase of wooden flooring of squash court.	0.500
20	S-27	2012-13	PAF Base Malir	Irregular Purchase of Sugar by splitting of sanction in peace meal and violation of PPRA Rules	0.978
21	S-33	2012-13	GE (Air) Faisal	Irregular expenditure in violation of rules.	9.953
22	S-53	2012-13	PAF Base Korangi Creek	Loss to state due to irregular use of Government land as Airmen Golf Club and non deposit of revenue generated from commercial activities	
23	S-55	2012-13	PAF Base Korangi Creek	Irregular Purchase of Sugar in violation of PPRA Rules	0.798

Irregular/un-authorized					
24	S-07	2012-13	PAF Base Rafiqui	Irregular utilization of Defence paid officers/officials in Non-public Fund maintenance duties	7.104
25	S-23	2012-13	PAF Base Rafiqui	Un-authorized payment on account of SMA (special messing allowance) for Rs 2.869 million	2.869
26	S-52	2012-13	PAF Base Korangi Creek	Irregular issue of extra ration against severe weather / climate conditions / night duty.	0.224
27	S-21	2012-13	PAF Base Rafiqui	Loss to state due to excess amount claimed on account of hair cutting and washing allowances	4.714
28	S-26	2012-13	PAF Base Malir	Irregular payment on account of hiring of civil transport	3.572
29	S-49	2012-13	AGE (AIR) Chaklala	Irregular execution of work costing	29.841
30	S-51	2012-13	PAF Base Korangi Creek	Un-justified payment on account of hair cutting and washing allowances.	1.079
31	S-52	2012-13	PAF Base Korangi Creek	Irregular issue of extra ration against severe weather / climate conditions / night duty.	0.224
32	S-56	2012-13	PAF Base Korangi Creek	Un-authorized payment on account of SMA (Special Messing Allowance) and DMA (Daily Messing Allowance).	0.814
33	S-62	2012-13	GE (Air) Faisal	Irregular expenditure on abnormal repair.	5.790
34	S-69	2012-13	GE (AIR) Kalabag	Non accounting of stores arrange by the contractor	1.614
35	S-77	2012-13	AGE (Air) Kalabagh	Non-recovery of from the contractor.	0.524
36	S-80	2012-13	PAF Base Samungli	Irregular/Unjustified payment on account of hair cutting and washing allowances.	15.691

37	S-81	2012-13	PAF Base Samungli	Overpayment on account of Self Shaving Allowance.	3.642
38	S-100	2012-13	PAF Hospital Islamabad	Loss to state due to irregular issuance of medicines.	0.314
39	S-106	2012-13	GE (Air) Malir	Irregular Expenditure out of Public Fund.	0.954
40	S-107	2012-13	PAF Base Mushaf	Doubtful payment o account of Batmen Rs. 69.015 (M)	69.015
Total					131.71

Pakistan Navy

Rs in Million

S #	DP #	Year	Unit / Formation	Subject	Amount
Diversion of Public Receipt					
1	S-31	2012-13	PNS Shifa	Non-deposit of revenue generated from different sources into Govt. treasury.	0.846
Loss					
2	S-41	2012-13	PNS Zulfikar	Non-finalization of Loss Statement.	17.27
Overpayments					
3	S-38	2012-13	CMES (N) COMLOG	Overpayment to the contractor due to acceptance of contract at higher rate.	1.242
4	S-39	2012-13	CMES (N) COMLOG	Overpayment to contractor due to acceptance of contract at higher rate.	0.892
Recoverable					
5	S-09	2012-13	GE (N) Log Dockyard	Non-Recovery of monthly Electric charges from Mess/Private consumers.	0.416
6	S-28	2012-13	PNS Iqbal	Non-recovery of rent and allied charges.	19.20

7	S-29	2012-13	GE(N) Maint Karsaz	Non-recovery of electric charges from BOQs.	25.800
8	S-30	2012-13	PNS Shifa	Non-recovery of Professional Tax.	0.625
9	S-43	2012-13	GE (N) Lahore	Loss on account of Non-Recovery of rent from allottees of MOQs.	5.760
10	S-44	2012-13	GE (N) Lahore	Non recovery of Rent from Cellular companies.	1.440
11	S-46	2012-13	GE (N) Lahore	Non recovery of Rent & Allied charges from shops.	0.384
12	S-60	2011-12	GE (Navy) East Karachi	Non-recovery of rent of MOQs.	19.230
13	S-65	2012-13	PNS Jauhar	Non-recovery of Training and Allied charges from the international trainees attending course US \$ 7,330.	0.820
14	S-61	2012-13	GE (N) Logistics Dockyard	Un-authorized execution of work.	12.049
15	S-70	2012-13	GE (N) Fleet	Non recovery of General Sales Tax.	0.930
16	S-72	2012-13	PNS Dilawar	Excess payment of salary to PN Officers on LPR.	2.352
17	S-78	2012-13	GE (Navy) South Karachi	Non-recovery of rent and allied charges from private consumers	6.367
18	S-84	2012-13	VSD Khi	Non-deduction of price reduction charges from suppliers	1.857
19	S-94	2012-13	AGE (N) Maint. Manora	Outstanding recovery of electricity charges on account of R.O plant	13.687
20	S-98	2012-13	VSD Khi	Non-recovery of interest on late deposit of Bank Guarantee.	10.86
Irregular					
21	S-06	2012-13	PNS Iqbal	Irregular expenditure & overpayment.	2.664

22	S-11	2012-13	PNS Iqbal	Irregular purchase on account of Exercise Aman-2011.	0.413
23	S-14	2012-13	PNS Jauhar	Irregular and non-transparent purchase of stores.	2.175
24	S-35	2012-13	PNS Mehran	Irregular expenditure on account of hiring of conservancy services.	1.200
25	S-32	2012-13	Naval Supply Depot Khi	Irregular bifurcation of Naval Stores Depot into three separate depots without Government sanction.	452.00
26	S-37	2012-13	CMES (N) COMLOG	Irregular expenditure due to conclusion of contracts without open tenders.	16.653
27	S-35	2012-13	PNS Mehran	Irregular expenditure on account of hiring of conservancy services.	1.200
28	S-32	2012-13	Naval Supply Depot Khi	Irregular bifurcation of Naval Stores Depot into three separate depots without Government sanction.	452.00
29	S-42	2012-13	PNS Tariq	Un-authorized purchased of Fuel at Foreign Port US\$ 0.295 (M) x 90 PKR	2.655
30	S-45	2012-13	GE (N) Lahore	Irregular conclusion of contracts in violation of PPRA Rules.	1.911
31	S-47	2012-13	GE (N) Lahore	Irregular conclusion of contract	238.469
32	S-48	2012-13	GE (N) Lahore	Irregular conclusion of contracts and non-recovery of GST	1.636
33	S-59	2012-13	PNS Haider	Un-justified payment of Special Area Compensatory Allowance (SACA).	0.586
34	S-61	2012-13	GE (N) Logistics Dockyard	Un-authorized execution of work.	12.049
35	S-66	2012-13	GE (Navy) Fleet Karachi	Un-justified/irregular expenditure on building not held on charge of the formation.	1.899

36	S-79	2012-13	PNS Shifa	Irregular payment of Conveyance Allowance to Doctors/Staff residing within office premises.	4.524
37	S-93	2012-13	PNS Haider	Irregular Local purchase of CCTV Cameras out of Incidental and Misc. head	0.997
38	S-95	2012-13	VSD Khi	Store not taken on charge.	2.608
39	S-96	2012-13	VSD Khi	Non-transparent and doubtful exchange of stores costing.	0.794
40	S-97	2012-13	PNS Shifa	Irregular local purchase of medicines/surgical items in violation of PPRA Rules	24.604
42	S-37	2011-12	PNS Dilawar	Irregular payment of Pay Allowances to officers/officials of PN working in non-Defence organization	102.19
43	S-38	2011-12	PNS Qasim	Irregular Payment of IS Allowance.	78.50
44	S-40	2011-12	PNS Dilawar	Un-authorized Payment of Special Money in lieu of Ration.	737.00
Total					2141.391

Military Accountant General

Rs in Million

S #	DP #	Year	Unit / Formation	Subject	Amount
Irregular					
1	S-88	2012-13	DCAAF LHR	Unjustified payment of electricity bills	3.480
2	S-89	2012-13	DCAAF LHR	Unjustified/ Excess payment pertaining to ration contract	20.129
Recoverable					
3	S-91	2012-13	C.N.A Khi	Loss to state due to non inclusion of hiring amount in taxable salary.	2.185
4	S-92	2012-13	C.N.A Khi	Excess payment on soil testing at higher rate	0.360

5	S-39	2011-12	C.N.A Khi	Loss on account of non-inclusion of value of accommodation in taxable salary	17.835
Total					20.38
Weak Internal Control					
6	S-108	2012-13	DCAAF LHR	Improper PAF Accounting and Book-keeping procedures	-