



AUDIT REPORT
ON
THE ACCOUNTS OF
PUBLIC SECTOR ENTERPRISES
GOVERNMENT OF PAKISTAN
AUDIT YEAR 2021-22
AUDITOR-GENERAL OF PAKISTAN

PREFACE

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

This report is based on audit of the accounts of Public Sector Enterprises (PSEs) of Government of Pakistan for the financial year 2020-21. The Audit Report also contains audit observations of the previous financial years. The Directorate General of Commercial Audit & Evaluation, Islamabad conducted audit during the Audit Year 2021-22 on test check basis, with a view to report significant findings to the relevant stakeholders. The main body of the Audit Report includes only the systemic issues and audit findings carrying value of Rs. 1.00 million or more. Relatively less significant issues have been listed in the Memorandum for Departmental Accounts Committee **Annex-1**. The audit observations listed in the **Annex-I** shall be pursued with the relevant Principal Accounting Officers (PAOs) of the Ministries/Divisions at Departmental Accounts Committee (DAC) level. In case where the PAOs do not initiate appropriate action, the audit observations will be brought to the notice of the Public Accounts Committee (PAC) through the next year's Audit Report.

Thematic Audit - New concept, has been introduced and made part of this report at Chapter-15. It is an attempt to improve organization's performance through critically reviewing its business processes to identify those risks which are hindering from achieving its intended objectives.

Audit findings indicate the need for adherence to the regulatory frame work besides instituting and strengthening internal control 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 the DAC meetings.

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

Islamabad
Dated

(Muhammad Ajmal Gondal)
Auditor-General of Pakistan

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ABBREVIATIONS AND ACRONYMS

ABL	Allied Bank Limited
A.I.R	Audit Inspection Report
AC	Air Conditioner
ADBP	Agricultural Development Bank of Pakistan
AGP	Auditor General of Pakistan
AGPR	Accountant General Pakistan Revenues
AGR	Annual Ground Rent
AHAN	Aik Hunar Aik Nagar
AJK	Azad Jammu Kashmir
AKBL	Askari Bank Limited
AM	Assistant Manager
APP	Average Payment Period / Associated Press of Pakistan (Pvt.) Ltd.
ArcGIS	Aeronautical Reconnaissance Coverage Geographic Information System
ATCOP	Al Technique Corporation of Pakistan
ATV	A Shalimar Television Network Channel
AWC	Air Weapons Complex
B.Sc.	Bachelor of Science
BBA	Bachelor of Business Administration
BCS	Building Control Section
BG	Birmingham Gauge
BISP	Benazir Income Support Program
BoD	Board of Directors
BoG	Board of Governors
BOQ	Bill of Quantity
BPS	Basic Pay Scale
CA	Chartered Accountant
CBA	Collective Bargaining Agent / Cost Benefit Analysis
CBA	Collective Bargaining Agent
CCI	Council of Common Interest
CDA	Capital Development Authority
CDL	Cash Development Loan
CDWP	Central Development Working Party
CEO	Chief Executive Officer
CFA	Competent Financial Authority
CFO	Chief Financial Officer
CIA	Chief Internal Auditor
CLDP	Car Loan Depreciation Policy
CM	Cubic Meter
CMA	Controller Military Accounts
CMMI	Capability Maturity Model Integration
CNE	Cases Not Entitled
CNIC	Computerized National Identity Card
COAS	Chief of Army Staff

CPEC	China-Pakistan Economic Corridor
CPF	Contributory Provident Fund
CRG	Corporate Governance Rules
CSD	Canteen Store Department
CSR	Corporate Social Responsibility
CST	Comparative Statement
CV	Curriculum Vitae
CYN	Chinese Yuan
D.O	Demi-Official
DAC	Departmental Accounts Committee
DAGP	Department of the Auditor General of Pakistan
DDWP	Departmental Development Working Party
DEPO	Defence Export Promotion Organization
DG CA&E	Director General Commercial Audit & Evaluation
DGM	Deputy General Manager
DGP Army	Director General Procurement Army
DGR	Directorate General of Registration
DHA	Defence Housing Authority
DICR	Director Industrial & Commercial Relations
DOS	Defence Ordnance Store
DPEs	Defence Production Establishments
DRP	Disaster Recovery Plan
DRR	Disaster Risk Reduction
E&D	Efficiency and Discipline
ECC	Economic Coordination Committee
ECNEC	Executive Committee of the National Economic Council
EDF	Export Development Fund
EOI	Expression of Interest
EPE	Engineering Practice Examination
EPS	Earnings Per Share
ERP	Enterprise Resource Planning
F&PC	Finance and Procurement Committee
FA	Financial Advisor
FAM	Financial Audit Manual
FAOF	Financial Advisor Ordinance Factories
FAP	Foreign-Aided Projects
FBR	Federal Board of Revenue
FDC	Forest Development Corporation
FE	Foreign Exchange
FED	Federal Education Department / Federal Excise Duty
FIA	Federal Investigation Agency
FIR	First Information Report
FIU	Field Intelligence Unit
FOR	Free on Road
FPMU	Federal Project Management Unit

FY	Financial Year
GB	Gilgit-Baltistan
GBP	Great Britain Pound
GBPWD	Gilgit Baltistan Public Works Department
GFRs	General Financial Rules
GHQ	General Headquarters
GIS	Geographic Information System
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GM	General Manager
GM-PC	General Manager Production Coord
GoP	Government of Pakistan
GRN	Goods Receipt Note
GSD	General Service Department
GSM	Gram per Square Meter
GST	General Sales Tax
GT & G Div.	Geotechnical & Geo-Environmental Division
HLB	Habib Bank Limited
HEC	Higher Education Commission / Heavy Electrical Complex (Pvt.) Limited
HMT	Hired Mechanical Transport
HO	Head Office
HOD	Head of Department
HQ	Head Quarter
HR	Human Resource
HRM	Human Resource Management
HSD	Hi-Speed Diesel
I&B	Information & Broadcasting
IAS	International Auditing Standard
IBCC	Inter Board Committee of Chairmen
ICL	Inventory Control Ledger
ICMS	Institute of Computer and Management Sciences
ICT	Islamabad Capital Territory
IDA	Inspection Department Armaments
IDAC	Industrial Designing and Automation Centre
IESCO	Islamabad Electricity Supply Company
IET	Institute of Engineering and Technological Training
IFRS	International Financial Reporting Standards
IPC	Interim Payment Certificate
IRC	Insaaf Ration Card
ISSAIs	International Standards of Supreme Audit Institutions
IT	Information Technology
JV	Joint Venture / Journal Voucher
Kg	Kilogram
KIBOR	Karachi Inter Bank Offer Rates
KIU	Karakoram International University
KP	Khyber Pakhtunkhwa

KSSL	Kissan Support Services (Pvt.) Ltd.
KVA	kilovolt-ampere
LC	Letter of Credit
LD	Liquidated Damages
LDDDB	Livestock & Dairy Development Board
LEAs	Law Enforcement Agencies
LPR	Leave preparatory to retirement
LSR	Light Sniper Rifle
M&E	Monitoring & Evaluation
M.Kg	Million Kilogram
M.Sc	Master of Science
M/s	Messer
MBA	Master of Business Administration
MCB	Muslim Commercial Bank
MD	Managing Director
MES	Military Engineering Services
MFDAC	Memorandum for Departmental Accounts Committee
MIS	Management Information System
MoD	Ministry of Defence
MoDP	Ministry of Defence Production
MOE	Ministry of Education
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoI&P	Ministry of Industries & Production
MOI&P	Ministry of Industries & Production
MoIB	Ministry of Information & Broadcasting
MoITT	Ministry of Information Technology and Telecommunication
MOU	Memorandum of Understanding
MPC	Member Production Co-ordination
MT	Metric Ton
MTBs	Market Treasury Bills
NAB	National Accountability Bureau
NADRA	National Database and Registration Authority
NASPAT	National Strategic Program for Acquisition of Industrial Technology
NBCP	National Book Council of Pakistan
NBDP	National Business Development Program
NBF	National Book Foundation
NBP	National Bank of Pakistan
NDC	National Defence Complex
NDO	National Database Organization
NEFT	National Express Freight Train
NESCOM	National Engineering & Scientific Commission
NESPAK	National Engineering Services Pakistan (Pvt.) Ltd.
NEST	National Endowment Scholarships for Talent
NFC	National Fertilizer Corporation of Pakistan (Pvt.) Limited

NFML	National Fertilizer Marketing Limited
NHA	National Highway Authority
NICL	National Insurance Company Limited
NIDA	National Income Daily Account
NLC	National Logistic Cell
No.	Number
NOC	No Objection Certificate
NTC	National Telecommunication Corporation
NTU	National Textile University
NUST	National University of Science & Technology
OFSL	Ordnance Factories Liaison Services
OGDCL	Oil and Gas Regulatory Authority
OIC	Officer Incharge
OM	Office Memorandum
PAC	Public Accounts Committee
PAEC	Pakistan Atomic Energy Commission
PAO	Principal Accounting Officer
PASSCO	Pakistan Agricultural Storage and Services Corporation Limited
PATLO	Pakistan Army Technical Liaison Officer
PBC	Pakistan Broadcasting Corporation
PCATP	Pakistan Council of Architects and Town Planners
PCB	Pakistan Cricket Board
PC-I	Planning Commission Form-1
PCP	Printing Corporation of Pakistan
PCSIR	Pakistan Council of Scientific and Industrial Research
PD	Project Director
PEC	Pakistan Engineering Council
PECO	Pakistan Engineering Company
PEPAC	Pakistan Environmental Planning and Architectural Consultants (Pvt.) Limited
PHA	Pakistan Housing Authority
PHDEC	Pakistan Horticulture Development and Export Company
PHEDB	Pakistan Horticulture Development and Export Board
PHRDEF	Pakistan Human Resource Development Endowment Fund
PIA /PIAC	Pakistan International Airlines Corporation
PIBs	Pakistan Investment Bonds
PID	Press Information Department
PIDC	Pakistan Industrial Development Corporation (Pvt.) Ltd.
PIDE	Pakistan Institute of Development Economics
PLA	Personal Ledger Account
PLCE	Personal Load Carry Equipment
PM	Prime Minister / Program Manager
PMES	Project Monitoring Evaluation System
PMTF	Pakistan Machine Tool Factory
PMTL	POFs Metallurgical Testing Laboratory

PMU	Project Management Unit
POF	Pakistan Ordnance Factories
POF SAA	POF Small Arms and Ammunition
POFIT	Pakistan Ordnance Factories Institute of Technology
POL	Petroleum, Oil and Lubricants
PPC	Pakistan Penal Code
PPR	Public Procurement Rules, 2004
PPRA	Public Procurement Regulatory Authority
PSDC	Pakistan Stone Development Company
PSDP	Public Sector Development Programme
PSEB	Pakistan Software Export Board
PSEs	Public Sector Enterprises
PST	Punjab Sales Tax
PTB	Pakistan Tobacco Board
PTC	Pakistan Tobacco Company / Plastic Technology Center
PTDC	Pakistan Tourism Development Corporation
PTV	Pakistan Television
PTVC	Pakistan Television Corporation
PWD	Public Works Department
Qty	Quantity
RBS	Re-Broadcasting Station
RCC	Reinforced Cement Concrete
RD&R	Revenue, Debt & Remittance Fund
RFP	Request for Proposal
RM	Regional Manager
RO	Regional Office
Rs	Rupees
RTEs	Regular Temporary Employees
S&D	Selling and Distribution
SAM	Special Asset Management
SBP	State Bank of Pakistan
SC	Supreme Court
SCN	Stock Credit Note
SDF	Special Deposit Fund
SDN	Stock Debit Note
SEC	State Engineering Corporation
SECP	Securities and Exchange Commission of Pakistan
SFDAC	Synthetic Fiber Development and Application Center
Sft.	Square foot
SGA	Shot Gun Ammunition
SKU	Stock Keeping Unit
SME	Small and Medium Enterprises
SMEDA	Small and Medium Enterprise Development Authority
SOEs	State-Owned Entities
SOP	Standard Operating Procedure

SPD	Strategic Plans Division
SRBC	Shalimar Recording and Broadcasting Company
SRO	Statutory Regulatory Order
SST	Sindh Sales Tax
STN	Sale Tax Number / Shalimar Television Network
TA/DA	Travelling Allowance and Dearness Allowance
TCP	Trading Corporation of Pakistan
TCS	Tranzum Courier Service
TD	Term Deposit
TDR	Term Deposit Receipt
TE	Tender Enquiry
TFM	Tobacco Model Farm
TORs	Terms of reference
TPT	Technical & Profession Training
TSP	Training Service Provider
TUSDEC	Technology Up-gradation and Skill Development Company
U.O	Unofficial
US	United States
USAID	United States Agency for International Development
USC	Utility Stores Corporation
USD	United States Dollar
VIP	Very Important Person
VO	Variation Order
Vol	Volume
WAPDA	Water and Power Development Authority
WBM	Wah Brass Mill
WIL	Wah Industries Limited
WIP	Work in Progress
WMC	Wah Medical College
ZM	Zonal Manager
ZTBL	Zarai Taraqati Bank Limited

EXECUTIVE SUMMARY

The Directorate General of Commercial Audit & Evaluation, (DG, CA&E), (North & South) carry out audit and evaluation of Public Sector Enterprises (PSEs) established / controlled by Federal Government which maintain their accounts on commercial basis. Sections 8, 12 & 15 of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 empower the Auditor General of Pakistan to conduct audit of companies and corporations established in the public sector.

DG, CA&E (North & South) have human resource of 198 officers and staff equivalent to 49,329 man-days for audit. Out of which 31,124 person days were allocated for undertaking field audit activities. Out of these, 6,941 man-days were utilized for conducting audit of Federal Public Sector Enterprises by DG CA&E. The annual budget of the Directorate General for the year 2020-21 amounted to Rs. 37.080 million. This report contains results of audit inspection and evaluation of financial performance of public sector entities for the financial year 2020-21 and thematic audit on themes of "Compliance of Corporate Governance Rules" by four entities (PIAC, NICL, NESPAK and USC) and on the "Role of State Life Insurance Corporation (SLIC) in overall country's Life Insurance Sector" conducted during the audit year 2021-22.

This report also contains comments on the audited annual accounts of 42 public sector enterprises. However, comments on 57 PSEs (**Annex-2**) could not be included in this report as the concerned management failed to submit their audited accounts by the cut-off date i.e. December 31, 2021. Moreover, nine organizations (**Annex-3**) ceased their operational activities during the period 1990 to 2008. These are still under the process of liquidation / privatization.

Thematic Audit

A thematic audit is an in-depth examination of a selected area, which may involve more than one public sector entities. Such in-depth examination enables DAGP to report on good practices in financial governance and controls that it may come across in the course of audit, in addition to lapses. The area selected for thematic audit was compliance of Corporate Governance Rules, being the mother framework of public sector enterprises. NESPAK, Utility Stores

Corporation, Pakistan International Airlines Corporation and National Insurance Company Limited were the organizations audited thoroughly for compliance of Corporate Governance Rules. Moreover, another theme selected, contains areas of significance i.e. the role of State Life Insurance Corporation (SLIC) in overall country's life insurance sector and resultant audit observations of both themes were reported in a separate report in addition to main regularity audit report. Major procedural lapses were observed in thematic audit report and corrective measures were suggested.

a. Scope of Audit

This office is mandated to conduct audit of 93 entities working under 19 PAOs / Ministries. Total expenditure and receipts of these entities were Rs. 835.483 billion and Rs. 1,752.738 billion respectively for the financial year 2020-21.

Audit coverage relating to expenditure for the current year comprises 19 entities of 10 PAOs/Ministries having a total expenditure of Rs. 208.027 billion for the financial year. In terms of percentage, the audit coverage for expenditure is 24.89% of auditable expenditure.

Audit coverage relating to receipts for the current year comprises 17 entities of 10 PAOs/Ministries having a total receipts of Rs. 296.037 billion for the financial year. In terms of percentage, the audit coverage for auditable receipts is 16.89%.

In addition to this audit report, DG, CA&E conducted two (2) Financial Attest Audit, three (3) Performance Audit, one (1) Foreign Aided Project Audit, two (2) Special Audit and one (1) Forensic Audit. Reports of these audits are being published separately.

b. Recoveries at the instance of audit

As a result of audit, recovery of Rs. 142,285.340 million was pointed out in this report. Recovery effected from Jan. to Dec. 2021 is Rs. 4,806.136 million which has been verified by Audit. **(Annex-4).**

c. Audit Methodology

Audit methodology for conducting audit of the accounts for the year 2020-21 of the auditee organizations started from audit planning, consulting and updating permanent files. Desk audit helped the auditors in understanding the systems, procedures and environment of the entities before starting field activity. This facilitated to identify high risk areas for audit tests to be applied in the field. Audit was carried out based on adequacy of internal control system in the organization with specific emphasis on high value items and inherent risk areas. Audit checks were applied keeping in view the nature of transaction, accounting standards and best auditing practices as well as rules and regulations contained in relevant financial and operational manuals.

d. Audit Impact

Audit has contributed towards adding value to the control mechanism of organizations which complied with audit recommendations. As a result of audit, management's awareness about internal controls and overall financial discipline has improved. An example of better audit impact was witnessed in improved compliance of PPRA Rules 2004. The importance of management's adherence to competitive procurement processes, transparent recruitments and effective fund utilization was reinforced.

e. Comments on Internal Controls and Internal Audit Department

Though Internal Audit wing exists in most of the organizations, but the real spirit of independence has been compromised by placing it directly under the management. In other instances, it has been noticed that internal audit works under the supervision of heads of the finance wing leading to conflict of interest. Resultantly, free and fair opinion of the internal audit wing could not be achieved. The observations relating to violation of rules and regulations by the organizations are due to under performance of the internal audit wing. It is stressed that internal audit wing should be placed directly under the supervision of audit committee of the BoD, to make its role more effective and meaningful.

f. Key audit findings

- i. Nine cases of embezzlement/misappropriation of funds were identified - Rs. 415.781 million¹.
- ii. Irregularities in sixty seven cases of HR/ employees related issues were identified - Rs. 5,907.57 million².
- iii. Sixty cases of mis-procurement due to violation of rules, procedures & regulations were identified - Rs. 23,223.370 million³.
- iv. Ten cases of imprudent investments leading to loss - Rs. 12,294.264 million⁴.
- v. Seventy nine cases of recovery were identified – Rs. 115,102.050 million⁵.
- vi. One case of cumulative loss due to non-succession planning of Chief Executive by USC – Rs. 15,513.13 million⁶.
- vii. In eight cases, management did not produce auditable record – Rs. 76,431.779 million⁷.
- viii. Value for money was compromised in eight procurement cases - Rs. 22,028.052 million⁸

¹ Para-3.1.4.5, 5.1.4.3, 5.1.4.5, 5.3.4.8, 5.6.4.4, 5.6.4.10, 5.6.4.12, 13.2.4.12 & 14.1.4.5

² Para-1.1.4.28, 3.1.4.9, 3.3.4.7, 4.2.4.6, 4.2.4.28, 4.2.4.31, 4.2.4.32, 4.2.4.34, 4.4.4.2, 4.4.4.3, 4.4.4.4, 4.4.4.5, 4.4.4.15, 4.5.4.1, 4.5.4.9, 4.5.4.12, 5.2.4.3, 5.2.4.9, 5.3.4.13, 5.6.4.5, 5.6.4.6, 5.6.4.8, 5.6.4.10, 5.6.4.11, 5.6.4.13, 6.1.4.1, 6.1.4.2, 6.1.4.4, 6.1.4.5, 6.1.4.6, 6.1.4.13, 7.2.4.3, 7.3.4.1, 7.3.4.4, 7.3.4.6, 8.11.4.1, 8.11.4.2, 8.11.4.3, 8.11.4.6, 8.11.4.7, 8.11.4.8, 8.11.4.9, 8.11.4.10, 8.11.4.14, 10.2.4.6, 10.2.4.7, 10.2.4.9, 10.2.4.10, 10.2.4.17, 10.2.4.18, 10.2.4.19, 10.2.4.21, 10.2.4.22, 10.2.4.29, 10.2.4.32, 10.2.4.33, 10.2.4.39, 10.2.4.40, 12.3.4.10, 12.3.4.12, 13.2.4.5, 13.2.4.8, 13.3.4.10 & 13.3.4.11

³ Para-1.1.4.6, 1.1.4.21, 3.1.4.8, 3.2.4.2, 4.2.4.7 to 4.2.4.9, 4.2.4.11 to 4.2.4.17, 4.2.4.19 to 4.2.4.21, 4.2.4.25, 4.2.4.27, 4.2.4.30, 4.3.4.3, 4.4.4.6 to 4.4.4.10, 4.4.4.12, 4.4.4.13, 4.5.4.5, to 4.5.4.7, 4.5.4.10, 5.2.4.1, 6.1.4.8, 7.2.4.1, 7.3.4.2, 8.11.4.11, 8.11.4.15, 8.14.4.2, 8.14.4.6, 8.14.4.7, 9.1.4.1 to 9.1.4.4, 10.2.4.5, 10.2.4.12, 10.2.4.14, 10.2.4.20, 10.2.4.26, 10.2.4.37, 12.4.4.5, 13.2.4.14, 13.2.4.20, 13.3.4.9, 13.3.4.13, 14.1.4.1, 14.1.4.2, 14.1.4.4 & 14.1.4.5

⁴ Para-3.1.4.3, 3.1.4.7, 7.4.4.1, 7.4.4.3, 7.4.4.5, 8.11.4.13, 10.2.4.13, 10.2.4.30, 13.2.4.9, 13.3.4.4

⁵ Para-3.1.4.5, 3.2.4.1, 3.3.4.1, 3.3.4.4, 4.2.4.1, 4.2.4.3, 4.2.4.4, 4.2.4.7, 4.2.4.9, 4.2.4.10, 4.2.4.20 to 4.2.4.25, 4.2.4.29, 4.4.4.2 to 4.4.4.4, 4.5.4.4, 4.5.4.5, 4.5.4.10, 4.5.4.11, 4.5.4.13, 5.1.4.1, 5.6.4.2 to 5.6.4.8, 5.6.4.10, 5.6.4.12, 5.6.4.15, 6.1.4.4, 6.1.4.7, 6.1.4.9, 6.1.4.12, 7.3.4.1, 7.3.4.4 to 7.3.4.6, 7.3.4.8, 8.7.4.3, 8.11.4.1 to 8.11.4.3, 8.11.4.7, 8.11.4.9, 8.11.4.10, 8.11.4.14, 8.14.4.5, 8.14.4.7, 8.14.4.12, 9.1.4.1, 9.1.4.2, 10.2.4.2, 10.2.4.16, 10.2.4.24, 10.2.4.25, 10.2.4.34, 10.2.4.36, 10.2.4.38, 12.3.4.2, 12.4.4.4, 13.2.4.1, 13.2.4.3, 13.2.4.4, 13.2.4.6, 14.1.4.2, 14.1.4.3, 14.1.4.6 to 14.1.4.9 & 14.1.4.10

⁶ Para-6.2.2.5

⁷ Para-4.2.4.26, 4.2.4.33, 5.3.4.35, 8.1.4.2, 8.5.4.1, 8.7.4.15, 12.4.4.23, 13.3.4.6

⁸ Para-1.1.4.17, 3.1.4.2, 3.1.4.4, 5.3.4.5, 12.3.4.1, 13.2.4.21, 13.3.4.2, 14.3.4.5

g. Recommendations:

- i. Internal control structure needs to be strengthened to curb the incidence of embezzlement, fraud and misappropriation.
- ii. Appointments may be made in transparent manner and according to the respective HR policies of the organizations with due regard to Government policies on the subject.
- iii. Procedure of procurement in public sector enterprises should be streamlined to achieve economy, efficiency and value of money as per Public Procurement Rules, 2004.
- iv. Efforts should be made by the management to improve its fund management with commercial banks with respect to investments.
- v. PAOs should make efforts for early realization of receivables.
- vi. Mechanism be devised for succession planning of Chief Executive by USC.
- vii. Record should be provided to Audit besides fixing responsibility on the person (s) at fault.
- viii. All expenditure should be incurred after due diligence keeping in view the sense of probity & propriety.

Chapter-1

Aviation Division Cabinet Secretariat

Overview

The Aviation Division spearheads strategy, policy and oversight of all matters related to civil aviation. It has the primary focus on matters concerning civil aviation by virtue of its structural and human-resource oriented acumen. A developed civil air transport system is vital to economic development of a country. Important economic centers like trade and tourism rely on functioning of air transport system. This Division's activities hence are geared directly towards aviation and indirectly corroborating existing national economic growth plans. Aviation sector must thrive to some reasonable degree on its own terms. An entrepreneurial spirit and 'can-do' attitude among many other business values is encouraged.

Aviation Division had been working under Ministry of Defense as a wing until it was separated and created a new Division under the Cabinet Secretariat in June, 2013.

The vision is to promote and regulate civil aviation activities and to develop an infrastructure for safe, secure, efficient, adequate, economical and well-coordinated civil air transport service in Pakistan. Three main drivers of control to pursue this vision are strategy, policy and oversight.

Aims & Objectives

1. To improve governance and oversight for the compliance of ICAO standards of aviation safety, security and efficiency.
2. To provide level-playing field for national airlines and liberalize aviation sector in the country by allowing market forces to determine the price, quality, frequency and range of air services options.
3. To follow suitable Public-Private Partnership (PPP) models for the operations, management and development of airports.
4. To develop a state-of-the-art infrastructure for the provision of safe and efficient air transportation.
5. To incentivize aviation sector for socio-economic growth.

6. To create conditions conducive for affordable general aviation activities, i.e. sports flying and inter-city air travel by private aircraft /air-taxi service/charters, etc.

Governing Laws and Policies

- Aircraft (Removal of Danger To Safety) Ordinance, 1965
- Pakistan Civil Aviation Authority Ordinance, 1982.
- Airport Security Force Act, 1975.
- Civil Aviation Ordinance, 1960.
- Carriage by Air Act, 2012.

(Rs. in million)

S#	Description	Total	Audited	Expenditure audited FY 2020-21	Revenue/ Receipts audited FY 2020-21
1	Formations	2	2	141,668.887	95,014.153

Classified Summary of Audit Observations

Audit observations of Rs. 179,140.920 million were raised as a result of this audit. This amount also includes recoverable of Rs. 22,038.193 million as pointed out by audit. Summary of the audit observations classified by nature is as under:

S. #	Classification	Amount (Rs. in million)
1.	Non-production of record	-
2.	Reported cases of fraud, embezzlement and misappropriation	22.999
3.	Irregularities	-
4.	HR / Employees related irregularities	400.553
5.	Procurement related irregularities	15,811.375
6.	Management of Accounts with Commercial Banks	-
7.	Value for Money and service delivery issues	739.112
8.	Others	162,166.881

1.1 Pakistan International Airlines Corporation

1.1.1 Introduction

Pakistan International Airlines Corporation (PIAC) was incorporated on 18 April, 1956 under the Pakistan International Airlines Corporation Act, 1956 (PIAC Act 1956). With effect from April 19, 2016, the Company has been converted from a statutory company into a public limited company by shares as Pakistan International Airlines Company Limited through Act No. XV of 2016. As a result of conversion, its shares are quoted in Pakistan Stock Exchange. The principal activity of the Corporation is to provide air transport services. In addition, the Corporation is engaged in providing engineering and allied services to other airlines.

1.1.2 Financial Analysis/Comments on Audited Accounts

1.1.2.1 The working results of the Corporation as compared with the previous years are reflected hereunder:

(Rs. in million)							
Description	2020	% Inc / (Dec)	2019	% Inc / (Dec)	2018	% Inc / (Dec)	2017
Revenue - net	94,898.39	(42.36)	164,646.35	39.55	117,982.17	13.23	104,198.82
Other operating income	11,235.16	355.18	2,468.28	22.54	2,014.33	336.81	461.15
Operating expenses	(19,325.36)	(44.48)	(34,808.82)	3.38	(33,668.83)	(75.20)	(135,794.18)
Operating loss	(5,629.16)	(71.41)	(19,691.95)	(57.60)	(46,462.82)	49.23	(31,134.21)
Financial charges	(29,724.51)	(18.31)	(36,386.77)	72.84	(21,108.00)	33.73	(15,784.01)
Loss before taxation	(35,353.67)	(36.96)	(56,078.72)	(17.00)	(67,571.40)	44.02	(46,918.22)
Income tax expenses	710.86	1,592.93	41.99	(95.39)	(911.83)	11.48	(817.95)
Loss after taxation	(34,642.81)	(38.18)	(56,036.74)	(15.94)	(66,659.56)	39.64	(47,736.17)
Accumulated losses	(516,595.08)	5.71	(488,695.71)	14.61	(426,409.01)	23.91	(344,141.48)

(Source: Unconsolidated Annual Audited Accounts 2020)

1.1.2.2 Accumulated losses increased by 5.71% as compared with preceding year (2020: Rs. 516,595.08 million and 2019: Rs. 488,695.71 million) which may be elucidated.

1.1.2.3 Revenue has been decreased by 42.36% as compared to previous year (2020: Rs. 94,898.39 million and 2019: Rs. 164,646.35 million) which may be justified.

1.1.2.4 Long term financing increased by 12.075% as compared with preceding year (2020: Rs. 214,644.605 million, 2019: Rs. 191,517.237 million), which may be elucidated.

1.1.2.5 The management did not prepare consolidated Financial Statements for the year 2020; these comments are not reflecting the values of subsidiary and associate companies of PIAC.

1.1.2.6 Key ratios of the company for the years 2018-20:

Ratio	2020	2019	2018	Industry Standard
Current ratio	0.131	0.180	0.140	1.000
Quick ratio	0.122	0.170	0.130	0.500
D/E Ratio*	-	1.900	1.930	0.100

(*D/E ratio cannot be calculated as Equity of PIAC is negative. (Rs. 448,766.813 million)

1.1.3 Compliance of PAC Directives

Audit Year	No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	% age of compliance
1998-99	28	24	4	42,43,53,72	86
2001-02	31	16	15	74, 75, 77, 78, 79, 81, 83, 84, 85, 87, 90, 91, 93-94, 96	52
2002-03	31	24	7	37, 38, 39, 40, 40.1, 40.2, 40.4	77
2003-04	18	13	5	22, 23, 25, 26, 27	72
2004-05	11	3	8	21, 22, 24, 25, 26, 27, 28	27
2006-07	32	9	23	18, 19, 20, 22, 24, 25, 26, 28, 30	28
2007-08	29	23	6	27, 31, 32, 33, 34, 35	79
2009-10	12	6	6	38, 39, 41(i), 41(ii), 43, 44, 46	50
2010-11	48	30	18	3.1.2, 3.1.2.1, 3.1.2.2, 3.1.2.3, 3.1.2.4, 3.1.2.5, 3.1.2.6, 3.1.2.7, 3.1.3, 3.1.4.1, 3.1.4.2, 3.1.4.3, 3.1.4.18, 3.1.4.19, 3.1.4.20, 3.1.4.21, 3.1.4.23, 3.1.4.24,	63
2016-17	27	5	22	1.1.4.1, 1.1.4.7, 1.1.4.8, 1.1.4.30, 1.1.4.29, 1.1.4.19, 1.1.2.2,	19

				1.1.2.4, 1.1.3, 1.1.4.12, 1.1.4.13, 1.1.4.15, 1.1.4.16, 1.1.4.17, 1.1.4.20, 1.1.4.22, 1.1.4.23, 1.1.4.24, 1.1.4.25, 1.1.4.26, 1.1.4.27, 1.1.4.28	
2018-19	42	1	41	(1.1.4.1, 1.1.4.3, 1.1.4.9, 1.1.4.12, 1.1.4.18, 1.1.4.19, 1.1.4.20, 1.1.4.23, 1.1.4.27, 1.1.4.32, 1.1.2.1, 1.1.4.2, 1.1.4.4, 1.1.4.5, 1.1.4.6, 1.1.4.7, 1.1.4.8, 1.1.4.10, 1.1.4.11, 1.1.4.13, 1.1.4.14, 1.1.4.15, 1.1.4.16, 1.1.4.17, 1.1.4.21, 1.1.4.22, 1.1.4.24, 1.1.4.25, 1.1.4.26, 1.1.4.28, 1.1.4.29, 1.1.4.30, 1.1.4.31, 1.1.4.33, 1.1.4.34, 1.1.4.35, 1.1.4.36, 1.1.4.37, 1.1.4.38, 1.1.4.39, 1.1.4.40 PAC referred for DAC level)	2
Total	309	154	155		50

The overall compliance of PAC directives was not satisfactory which requires attention of the management.

1.1.4 Audit Paras

1.1.4.1 Non-payment of various taxes - Rs. 39,771.480 million

Federal Excise Duty and Advance Tax collected from passengers under Federal Excise Duty Act 2005, was required to be deposited into Government Treasury within 45 days from the date of deduction.

During audit of Pakistan International Airlines Corporation Limited (PIAC), Finance Department for the year 2020, it was observed that the management collected various taxes from their passengers under Federal Excise Duty Act 2005, which was required to be deposited into Government Treasury within 45 days from the date of deduction. However, the management retained the same and did not deposit the taxes during 2019 & 2020 within stipulated time as per details given below:

		Amount (Rs.in million)	
Description	To whom payable	2019	2020
Federal Excise Duty Payable	FBR	47.574	48.366
FED international	FBR	112.565	112.941
Salary related WHT payable	FBR	156.405	190.370
Embarkation Tax	CAA	22,220.120	23,654.29
Security Charges	CAA	571.490	553.781
Infrastructure Development Charges	CAA	12,785.715	14,847.48
Govt. Air Port Tax	CAA	344.378	364.253
Total		38,257.247	39,771.481

(Source: Annual Audited Accounts 2020)

Audit is of the view that the management failed to deposit the amount into Government Treasury within the required time which showed gross violation and in-effective financial management.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that an amount of Rs. 67.000 million has been deposited into government treasury and remaining amount will be deposited shortly. The DAC directed the management to verify the recovered amount and expedite the efforts to deposit the remaining amount in government treasury.

Audit recommends implementation of the DAC directives.

1.1.4.2 Losses due to poor operational performance - Rs. 26,955.373 million

As per Job Description Manual dated 15-01-2015, Chapter-14, Page No. 344 & 345, the General Manager, Network and Schedule Planning, PG-X (Reporting to Director Marketing) was responsible for:

- To generate new schedules accommodating new marketing opportunities as advised by sales or commercial departments considering passengers travel preferences, revenue management practices and market competition
- To manage loading of finalized Schedule in AIMS for crew management
- To supervise and monitor proper designing of long term and short term operating plans
- Focus on network management and evaluation of multiple scenarios of schedule changes

During audit of Pakistan International Airlines Corporation (PIAC), Revenue Management Department for year 2020, it was observed that the management operated different routes around the globe. Performance analysis on

these routes revealed that profitable routes having direct flights were not generating enough revenues to meet operational costs. Seat factor on these routes remained plus 70%, but due to mismanagement, Corporation is still not in a breakeven position on these routes. Annex-5.

Audit is of the view that despite having direct flights, Corporation was unable to generate enough revenues contributed towards the poor performance, fare policy, inventory management, higher operational costs, poor performance of station sales team, station manager etc.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that the year 2020 was not a normal year for Aviation industry due to COVID-19 restrictions therefore, flight operations were suspended. The DAC directed the management to verify the stated position by Audit.

Audit recommends implementation of the DAC directives.

(DP No.614, 618, 610, 613& 619)

1.1.4.3 Non-recovery from various parties – Rs.20,545.787 million

As per Article 9 of Passenger Sales Agency Agreement of Pakistan International Airlines Corporation (PIAC), the agent shall be under obligation to submit sales reports and remittances on fortnightly basis. Further, Article 27 says that agent will be liable for any outstanding amounts in default and immediately upon notification of default ticketing Authority will be de-linked and held-guarantees will be en-cashed to cover the amount in default.

During audit of Pakistan International Airlines Corporation (PIAC) for the year 2020, it was observed that an amount of Rs. 20,545.787 million was lying outstanding against various parties as detailed below:

(Rs. in million)			
S.#	Description	Department	Amount
1	M/s Sarhad Development Authority	Works Department	3,950.00
2	Trade Debtors (Domestic /International)	Finance	6,991.834
3	Insurance claim	Supply Chain Management	2,376.865
4	Defaulter Agents	PIAC Lahore	157.783
5	Cargo receivable	Finance	994.873
6	Speedex	Finance	184.448
7	Supplier	Supply Chain Management	2.832
8	Airlines	Supply Chain Management	257.048
9	Maintenance reserves	Engineering Department	6,741.250
10	Various parties	Corporate Planning	2,407.834
11	Cockpit Crew	Corporate Planning	25.000
12	M/s Alafco	Corporate Planning	66.560
13	Speedex	PIAC Lahore	4.685
14	Utility charges	Works Department	330.825
Total			20,545.787

Audit is of the view that non-recovery of outstanding amount reflects inefficiency and weak recovery mechanism.

The matter was reported to the management in June, 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that the amount pertains to advance rent of Rs.880.700 million which has been adjusted and claim of Rs. 1,161.000 million against aircraft AP-BHP has been received from insurance company. The DAC directed the management to verify the recovery position to Audit and expedite remaining recovery.

Audit recommends implementation of the DAC directives.

(DP No.391, 383, 30, 278, 398,394, 379, 373, 322, 416, 417, 414, 32, 276)

1.1.4.4 Non-depositing of provident fund and markup - Rs. 15,722.249 million

Section 218 of the Companies Act, 2017 states that all moneys or securities deposited with a company by its employees in pursuance of their contracts of service with the company shall be kept or deposited by the company within fifteen days from the date of deposit in a special account to be opened by the company.

During audit of Pakistan International Airlines Corporation Limited (PIAC), Finance Department for the year 2020, it was observed that the management has failed to fulfill their contractual obligation by non-depositing the employee's provident fund in a separate bank account on monthly basis for the years 2019 and 2020 as per details given below:

(Rs. in million)		
Particulars	2020	2019
Provident Fund	7,816.384	9,549.097
Accrued Markup	7,905.865	7,055.819
Total	15,722.249	16,604.916

Audit is of the view that management has failed to formulate a strategy to pay off their provident fund liability and to protect the interest of their employees. This shows in-efficiency, weak policy making and poor financial management.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that amount against Provident Fund (PF) was accumulated due to recurring losses effective from year 2008, however, during the year 2021, the liability has been reduced by Rs. 4,900.00 million in comparison to year 2020. The DAC directed the management to get the position verified by Audit.

Audit recommends implementation of the DAC directives.

1.1.4.5 Non-receipt of aircraft engines despite payments – Rs. 14,452.584 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.”

During audit of Pakistan International Airlines Corporation (PIAC), Engineering for the year 2019-20, it was observed that 11 engines along with 02 Auxiliary Power units were sent abroad for repair from April 2018 to December, 2020 but the same were not received back. Annex-6

Audit is of the view that management failed to receive engines despite making advance payments which reflects slackness and inefficiency.

The matter was reported to management in July 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that reason of delay in repair and induction of these Engines is non-payment to Vendors. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

(DP No.305 & 306)

1.1.4.6 Irregular award of contract of aircrafts on dry lease – Rs. 13,363.200 million (US\$ 83.52 million)

Rule No. 37(a) of PPRA Rules, 2004 states that single stage two envelope bidding procedure shall be used where the bids are to be evaluated on technical and financial grounds and price is taken into account after technical evaluation.

During audit of Pakistan International Airlines Corporation Limited (PIAC) Corporate Planning Department for the year 2020, it was observed that management awarded a contract to M/s AerCap Leasing for hiring of two wide body aircrafts on dry lease amounting to Rs.13,363.200 million (US\$ 83.520 million) for a period of 72 months. However, the contract was awarded on single stage one envelope basis instead of single stage two envelope basis.

Audit is of the view that award of contract on single stage one envelope basis is a clear violation of PPRA Rules, 2004, thus contract amounting to Rs. 13,363.200 million stands irregular and unjustified.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that the matter is under investigation by National Accountability Bureau (NAB) as per PAC's directives. The DAC directed the management to pursue the NAB case.

Audit recommends implementation of the DAC directives.

1.1.4.7 Non-achievement of sales / cargo targets – Rs. 10,455.800 million

As per Job Description and Responsibilities, the District Manager was required to perform sales activities pertaining to passengers/ freight and evolve local marketing plans for its implementation.

During audit of Pakistan International Airlines Corporation (PIAC) Lahore Station for the year 2020, it was observed that the management failed to achieve passenger sales targets/cargo sales targets as detailed below:-

(Rs. in million)			
Year	Sales Target	Achievement	Difference
2020	15,498.000	5,085.13	10,412.87

Year	Cargo Sales Target	Actual sales	Variance
2018	15.000	10.030	4.970
2020	55.000	17.040	37.960
Total	70.000	27.07	42.93

Audit is of the view that the management failed to achieve targets which reflects inefficiency.

The matter was reported to the management in June 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that PIA suffered an irregular operation throughout the year because of COVID related travel advisories. The DAC directed the management to provide Board's approval of revised targets and verify the stated position from Audit.

Audit recommends implementation of the DAC directives.

(DP No.25 & 450)

1.1.4.8 Non-utilization of VSS scheme for its intended purpose - Rs. 8,500.000 million

As per Standard Interpretations Committee (SIC) -10, Government Assistance to enterprises that is aimed at encouragement or long terms support of business activities meets the definition of Government grant in IAS-20. Such grant should not be credited directly to shareholder's interests.

Moreover, as per 4.12.1.3 of APPM, the delegated authority shall only approve grant in relation to those payment to be made in the current financial year.

During audit of Pakistan International Airlines Corporation Limited (PIAC), Finance Department for the year 2020, it was observed that Government of Pakistan, through the Economic Coordination Committee (ECC) of the Cabinet approved the Voluntary Separation Scheme (VSS) for 3,500 permanent employees of PIA. Subsequently, a conditional grant of Rs.8500 million was approved for VSS Scheme. However, the management recognized the grant as Other Income, thereby increasing its income through window dressing the P&L Account by not incorporating relevant accounting policy, disclosure about the other income and resultantly ending up in paying more taxes and improving shareholder equity in interests of shareholder since the undisbursed amount was not shown as deferred payment in violation of IAS-20. Moreover, related assignment account, subsequent disbursement of grant and correspondence with Ministry of Finance regarding recognizing grant as other income and utilization report were not provided to audit for scrutiny.

Audit is of the view that accounting treatment of VSS grant as other income and not following capital method of recognition is in violation of SIC-10 and it is without any approval from Ministry of Finance. Thus, the recognition of expense and income stands irregular and resulted in excess payment of taxes and inflated revenues.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that all relevant accounting rules and standards were followed for recording of grant received from GoP in our books of accounts. Moreover, our financial statements were also duly audited by two Chartered Accountants firms. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.9 Blockage of funds due to un-utilized inventory – Rs. 4,862.282 million

As per principles of procurement enunciated in the PIAC's Procurement Manual, one of the five basic concerns that govern PIAC's procurement policies is to ensure that the funds are used to buy only those Products/Goods, Services,

Works, Plant & Equipment and Information Systems which are needed to operate and maintain PIAC.

During audit of Pakistan International Airlines Corporation (PIAC) Supply Chain Management for the year 2020, it was observed that various stock items amounting to Rs. 4,862.282 million was lying idle since decades. Despite a considerable lapse of time, the management failed to utilize or dispose surplus/obsolete inventory.

Audit is of the view that the management procured huge quantity of inventory without planning and due diligence.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that inventory was purchased by SCM Department on user department's demand that was responsible for inventory planning and forecasting for their smooth operational need. The DAC directed the management to verify the selling and payment credited to Audit and expedite the process for outstanding.

Audit recommends implementation of the DAC directives.

1.1.4.10 Irregular and unauthorized expenditure on repair - Rs. 3,932.870 million

Rule 12 (2&3) of PPRA, 2004 states that that the 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. In cases where the procuring agency has its own website it may also post all advertisements concerning procurement on that website as well.

During audit of Pakistan International Airlines Corporation (PIAC) Engineering and Maintenance Department for the year 2019-20, it was observed that the management sent 03 aircraft engines of different make along with 09 Auxiliary Power Units (APU) for repair abroad without complying advertisement requirement of PPRA. Annex-7.

Audit is of the view that the management did not use open competitive bidding as prescribed by Public Procurement Regulatory Authority which accounts mis-procurements.

The matter was reported to the management in July 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management informed that Engines and APUs were sent abroad as per PPRA Rules and no violation was occurred in awarding tenders. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.11 Loss due to accidents of aircrafts - Rs. 2,796.200 million

Section (4) (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan International Airlines Corporation (PIAC), Engineering Department for the year 2019-20, it was observed that two aircrafts of PIAC faced sever accident and resulted in heavy loss due to complete destruction of aircrafts. The detail of incidents is as follows:

S. #	Description	Date of incident	Place of incident	Estimated Loss (Rs in million)
1.	ATR-72-212-A	24-Nov 2018	JlAP, Karachi	1398.10
2.	ATR-42-500	July 20,2019	Gilgit Airport	1398.10
TOTAL				2,796.20

Findings of investigation reports for each incident reveals following causes of incident.

Description	ATR-72-212-A	Description	ATR-42-500
Findings-Civil Aviation Report	1- Non-adherence of the laid down maintenance procedure by PIAC. 2- Deficiency in required maintenance support equipment at the organization	Findings - Safety Investigation Report	1- Failure to follow SOP 2- Decision making Error 3- Lack of situational

	level. 3- Lack of professionalism of maintenance crew of PIAC. 4- In-adequate assessment process for authorization of technical personnel for engine ground run up of ATR aircraft.		awareness 4- Lack of assertiveness by the first officer

Audit is of the view that there is negligence on the part of management which resulted in heavy loss to corporation.

The matter was reported to management in July 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management replied that inquiry has been made and the Captains were found guilty. The DAC directed the management to take disciplinary action as per rules against the incumbents and share the inquiry with Audit.

Audit recommends implementation of the DAC directives.

(DP No. 309 & 310)

1.1.4.12 Loss due to late payment of fuel - Rs. 2,189.170 million

According to clause 6.4 of the agreement between Pakistan International Airlines Corporation (PIAC) and Pakistan State Oil (PSO), if the buyer fails to make payment of the amount of any invoice on the due time, the seller may, at its option, charge interest rates of State Bank of Pakistan discount rates plus 4% on any amount on any amount overdue for payment for a period of more than one month.

During audit of Pakistan International Airlines Corporation (PIAC), Flight Operations Department for the year 2019 & 2020, it was observed that the management made a contract with Pakistan State Oil (PSO) on January 30, 2002 for the delivery of Jet fuel to their Aircrafts. However, management failed to made payment within due time i.e. on the 7th day of receipt of invoices(s). The details of penalty are given below:

Years	Rs. in million
2019	1,024.531
2020	1,164.639
Total	2,189.170

Audit is of the view that due to late payments; Corporation sustained a loss of Rs. 2,189.170 million as penalty.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management informed that from years 2008 to 2016, PIACL was unable to pay invoices on time due to liquidity crunch, resulting PSO started to charge interest. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.13 Non-existence of fuel efficiency program - Rs. 1,415.316 million

As per report published by International Air Transportation Association (IATA), an effective fuel management program can reduce total fuel cost by 2% to 6% for an airline and average fuel savings achieved up to 14% of fuel budget.

During audit of Pakistan International Airlines Corporation (PIAC), Flight Operations Department for the year 2019 & 2020, it was observed that the management failed to develop an effective fuel management program to improve its fuel efficiency. The details of total fuel cost and minimum saving of fuel are as under:

(Rs. in million)				
Year	Domestic-(A)	International-(B)	Total fuel cost uplift (A+B)	Min. 2% saving (A + B * 2%)
2019	28,113.719	21,622.069	49,735.788	994.715
2020	12,252.827	8,777.209	21,030.037	420.600
Total			70,765.826	1,415.316

Audit is of the view that due to non-implementation of fuel efficiency program the management failed to reduce its overall fuel cost.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management informed that they hired a consultancy team from IATA who suggest new techniques, improvement in corporation and are engaged with different departments of PIACL including Flight operations. After conclusion of their report and higher management concurrence things can be improved further. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.14 Blockage of funds at closed international stations – Rs. 1,375.679 million

Section 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan International Airlines Corporation Limited (PIAC), Finance Department for the year 2020, it was observed that significant funds were blocked in different banks at various international stations which were not transferred back to Pakistan on the closure of station. This has caused extra financial burden on company in the form of increased interest expense, which could have been saved in case of using company's own funds for financing working capital requirements. The details are as under:

S. #	Station	Rs. in million
1.	Barcelona	37.186
2.	New York	27.354
3.	Kuwait	22.759
4.	Thailand	13.127
5.	Singapore	2.689
6.	Bangladesh	1,272.561
Total		1,375.679

Audit is of the view that blocked funds at closed stations since long clearly shows negligence and non-seriousness of the management towards the funds of corporation.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that the amounts reflected are considerably low once reviewed in the local currency which either is kept to run the operations at stations or retained to keep accounts operative. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.15 Unjustified payment against engine rentals – Rs. 1,285.261 million

As per principles of procurement enunciated in the PIAC's Procurement Manual, one of the five basic concerns that govern PIAC's procurement policies is to ensure that the funds are used to buy only those Products/Goods, Services, Works, Plant & Equipment and Information Systems which are needed to operate and maintain PIAC.

During audit of Pakistan International Airlines Corporation (PIAC) Supply Chain Management for the year 2020, it was observed that the management paid huge payments against engine rentals amounting to Rs. 2,190.258 million, while due to COVID-19, PIAC flight operations remained halted during the year 2020. Surprisingly, PIAC operated full flight operations in the year 2019 and payment against engine rentals was remained only Rs 904.997 million. Apparently, management paid amounting to Rs. 1,285.261 million without utilization of engine.

Audit is of the view that the management granted undue favor to lessors as no actions were taken regarding to stop the payment against engine rentals as due to COVID-19 PIAC flight operations remained halted. The management has paid amounting to Rs. 1,285.261 million (Rs. 2,190.258 million – Rs.904.997 million) for non-utilization of engine to lessors resulting in loss to the corporation.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management replied that all the engines were remained under lease in 2020 were continuously utilized. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.16 Irregular handing over of PIA Sambara Inn Hotel, Larkana - Rs. 1,150.000 million

Chapter # 4 (54) of PIAC Employees Service and Discipline Regulations, states that, any employee who causes or attempts to cause any loss of revenue to

the corporation shall be liable to reimburse the loss caused by him and will also be liable to the disciplinary action including dismissal from services.

During audit of Pakistan International Airlines Corporation (PIAC), Works Department for the years 2019 & 2020, it was observed that PIAC operated Sambara Inn Hotel at Larkana, Sindh since 1974 to 1990 having assessed construction value of Rs. 60.754 million. The current market value is Rs. 1,150.00 million as per evaluation report of fixed assets on 04.12.2020 by SBP approved valuator. It was revealed that upon the verbal instructions of the erstwhile PIA Chief, the possession of hotel was handed over to the Government of Sindh on 01.11.1990 without any compensation by ignoring the commercial interest of the Corporation.

Audit is of the view that handing over Sambara Inn Hotel Larkana on verbal instructions of the incumbent PIA Chief shows total ignorance of the Corporation's assets. Further, neither the management able to secure the possession of this property nor received any compensation.

The matter was reported to the management in July, 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that PIA is the legal owner of this property and possess all the relevant property papers and actively pursuing the case, through the Aviation Division. The DAC directed the management to conduct an Inquiry by fixing the responsibility and report to be submitted to audit. Further, since title of property is still with PIAC then management to look if any way possible to take back the property. Further, Ministry to take up the issue with Council of Common Interest afterword's for further resolution.

Audit recommends implementation of the DAC directives.

1.1.4.17 Loss due to non-completion of repaired life of ATR Engines – Rs. 1,028.824 million

Rule 5(5) of Public Sector Companies (Corporate Governance) Rules 2013 states that Board shall establish a system of sound internal control which shall be effectively implemented at all levels within the public sector companies to ensure compliance with fundamental principle of probity and propriety, objectivity, integrity and honesty.

During audit of Pakistan International Airlines Corporation (PIAC), Engineering Department for the year 2019-20, it was observed that aircraft engine of PW series were removed earlier than the specified cycle. OEM-P&W specified 15,000 flying hours (cycles) that was reduced to 5000 cycles. But most of the engines were removed even before completing 5,000 cycles. Annex-8

Audit is of the view that early removal of ATR engines resulted in loss to the Corporation.

The matter was reported to the management in July 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that there was no cost wastage in terms of Short Life engine and warranty cases has also been taken with them. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.18 Non-recovery of dues from debtor parties – Rs. 1,036.990 million

All the outstanding amount should be recovered after issuance of invoices. (As per para 2.07 of credit term, Govt. parties are allowed 60 days only).

During audit of Pakistan International Airlines Corporation (PIAC), Engineering for the year 2019-20, it was observed that huge amount was outstanding against different parties as at December 31, 2020 (Annex-9).

Audit is of the view that the management could not recover outstanding dues. This indicates weak internal controls of management and reflects poor financial monitoring.

The matter was reported to the management in July 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management informed that efforts were being made to recover the outstanding amount. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.19 Irregular award of contracts of Jet fuel – Rs. 988.401 million

Clause 42.(c) (ii) of PPRA Rules, 2004 states that a procuring agency shall only engage in direct contracting if the following conditions exist, only one manufacturer or supplier exists for the required procurement: Provided that the procuring agencies shall specify the appropriate fora, which may authorize procurement of proprietary object after due diligence.

During audit of Pakistan International Airlines Corporation (PIAC), Flight Operation Department for the year 2019 & 2020, it was observed that the management procured Jet fuel for various stations without adopting the direct contracting process in violation of rules. The details are as under:

S. #	Name of Supplier	Station	Amount (Rs. in million)
1.	Bahrain Aviation Fueling Company (BAFCO)	Bahrain	6.967
2.	M/s Kuwait Fueling	Kuwait	30.799
3.	M/s Water Wadood	Qatar	304.456
4.	M/s Modern Consortium for Refueling Aircraft (MCRA)	Dammam	646.177
Total			988.401

Audit is of the view that neither the management specified the appropriate fora for direct contracting nor confirmed from respective Civil Aviation Authority that these suppliers were the sole suppliers at the station, hence extended undue favor to the suppliers.

The matter was reported to the management in April 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that there are locations where either refueling is provided by Govt. owned entities or by a sole supplier. As only one party provides refueling direct contract is initiated with the party as tender for that location is not beneficial. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

(DP No. 22 contains 04 files)

1.1.4.20 Loss due to selling in lower RBDs & inventory mismanagement - Rs. 573.363 million

As per the Fare Policy of Pakistan International Airline Corporation (PIAC), Revenue Business Designators (RBDs) are of Economy, Economy Plus, and Business class are further sub-divided with price difference. In each class, lowest fare RBD is opened about 10/11 months before the departure date of the flight progressively higher fare RBD are opened as the date and time of the flight approaches near the departure considering the seat factor/ occupancy ratio. The Revenue Management, Head Office, Karachi is authorized to open and close the RBDs and the agent can use only that RBD, which is opened at the particular time by the RM/Marketing department of the PIAC.

During audit of Pakistan International Airlines Corporation Limited (PIAC), Revenue Management for the year 2020, it was observed that there was imbalance in selling of seats between Higher and Lower RBD (Revenue Booking

Designators). It was evident from the flight data that the corporation sold majority of seats on lower RBDs which were on lower fares. Annex-10.

Audit is of the view that the corporation was not able to materialize and managed as planned casing revenue depreciation to the corporation.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that Revenue Management is a dynamic and complex airline functionality where prices constantly fluctuate and are adjusted to counter competition and ensure viable operation. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

(DP No. 611 & 609)

1.1.4.21 Irregular renewal of contracts - Rs. 520.756 million

Rule 12 of PPRA Rules, 2004 states that all procurement opportunities over two million Pakistani Rupees should be advertised on the authority's website as well as in other print media or newspapers having wide circulation.

During audit of Pakistan International Airlines Corporation (PIAC), Passenger Handling Service Department for the year 2019-20, it was observed that the management renewed the various ground handling services contracts instead of inviting fresh tenders in violation of rules as per detail shown below:

S. #	Name of Contractor	Name of Station	Rs. in million	Violation
1.	M/s. Al Manawala	Al - Ain	22.169	Contract was extended in 2019
2	M/s. Japan Airline International (JAL)	Narita - Tokyo	59.856	Contract is being extended since 1996
3.	M/s. Swissport	Manchester	349.283	Contract is being since 2016
4.	M/s. Ground force	Barcelona	89.718	Contract is extended since 2009
Total			520.756	

Audit is of the view that that the management extended undue favour to the contractors by renewing the contracts and deprived the benefits of competitive bidding.

The matter was reported to the management in February 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The

management in its reply stated that the agreement for Ground Handling is being established under proprietary rights without publishing the tender or advertisement on PIA and PPRA website/Newspapers, M/s JAL was evaluated as a lowest evaluated bidder, M/s Swissport rates validity was extended and rates increase, as per RPI was adjusted and flight operation to/from Barcelona Upon resumption in 2016, it was evident that awarding a new contract would entail rates increase, as price hike had occurred, in view of inflationary impact. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.22 Non-receipt of inventory despite payments - Rs. 495.455 million

Rule 5 of the Public-Sector Companies (Corporate Governance) Rules, 2013 states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan International Airlines Corporation Limited (PIAC), Finance Department for the 2020, it was observed that the management failed to receive various inventory items amounting to Rs.495.455 million despite making advance payments to the vendors / suppliers for the last 4-5 years.

Audit is of the view that non-receipt of inventory despite a lapse of more than five (5) years is a serious negligence on the part of management.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that due to certain limitations in the legacy system, a portion of these advances remained unmatched against its contra liability. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.23 Loss due to non-compliance of lease agreement – Rs. 458.060 million

As per clause 12.4 Non-compliance: To the extent that, at the time of Final Inspection, the condition of the Aircraft does not comply with this Agreement, Lessee will at Lessor's option:

- a. Immediately rectify the non-compliance and to the extent the non-compliance extends beyond the Expiry Date, the Term will be automatically extended and this Agreement will remain in force until the non-compliance has been rectified and, during the period of such extension, Lessee shall pay daily Rent at 100 % of the amount specified in Clause 5.3 for the first 5 days of such delay and, thereafter, Lessee shall pay Rent at 200 % of the amount specified in Clause 5.3 as “ Rent: Lessee will pay to Lessor or its order on each Rent Date Rent in advance in the amount of US \$ 267,500.”
- b. Clause 3.3 and 3.4 of lease agreement between M/s Abric and PIAC states that the lessee is obliged and shall return Manufacture Serial Number (MSN) 994 in compliance with the Re-delivery condition per schedule 2 of the SLA or shall compensate the Lessor for any non-compliance with the Re-delivery condition. Furthermore, the Lessor estimates that compensation for non-compliance with Re-Delivery conditions to be US \$ 1,300,000.

During audit of Pakistan International Airlines Corporation (PIAC) Corporate Planning and Engineering Department for the years 2019 & 2020, it was observed that the management signed Aircraft Lease agreement between PIAC and CVI Aergo Acquisitions VI Limited dated 18.04.2015 in respect of Airbus A-320 serial No.2719 having registration No. AP-BLU and Serial No. 2758 having registration No. AP-BLV. As per agreement, Aircrafts lease period ended on 16.06.2021 for AP-BLU and 05.05.2021 for AP-BLV, but management failed to comply with the condition regarding redelivery of aircrafts. Thus, M/s CVI Aergo Acquisitions VI Limited charged 200% of lease rent amounting to US \$ 1,560,416 to for non-compliance of the agreement against the invoices numbers 21RD000259 dated 26.08.2021, 21RD000209 dated 26.07.2021 and 21RD000260 dated 26.08.2021. Further, it was observed that management also paid an amount of Rs. 208.36 million (US \$ 1.300 million) on account of non-compliance of re-delivery condition of aircraft.

Audit is of the view that the management failed at the time of end of lease period to re-deliver the aircraft as per lease agreement resultantly M/s CVI Aergo Acquisition charged 200% of lease rent amounting to US \$ 1,560,416 due to non-compliance. Thus, Corporation sustained a loss of Rs. 458.060 million.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that negotiated revised terms which only original lease rental would be charged. DAC directed the management to submit revised reply and verify the position.

Audit recommends implementation of the DAC directives.

(DP No.415 & 409)

1.1.4.24 Loss due to non-realization of amount by lessor - Rs.404.309 million

Section 54 of S&D Regulations of Pakistan International Airlines Corporation on causing loss of revenue to the corporation states that any employee who causes or attempts to cause any loss or loss of revenue to the Corporation shall be liable to reimburse the loss caused by him and will also be liable to disciplinary action including dismissal from service.

During audit of Pakistan International Airlines Corporation (PIAC) Corporate Planning Department for the year 2020, it was observed that management issued invoices amounting to US\$ 26,865,442 to the lessor regarding overhauling / repair and maintenance of engines against Maintenance Reserves (MR). However, lessor only paid of USD 16,766,825 and refused to pay the remaining amount as the Long Life Parts etc were not timely replaced as per terms and conditions, which caused extra ordinary damage to engines. The details are as under:

S. #	Lessor	Aircraft	Aircraft No.	Engine No.	Invoiced amount claimed (USD)	Accumulated available MR (USD)	Claim Approved USD	Claim not Approved (USD)
1	GECAS	A320	AP-BLB	ESN 575793	9,768,946	6,950,089	6,513,819	436,270
2	GECAS	A320	AP-BLD	ESN 575818	8,388,305	6,841,344	5,193,511	1,647,833
3	GECAS	A320	AP-BLD	ESN 575883	8,708,191	5,502,326	5,059,495	442,831
Total (USD)					26,865,442	19,293,759	16,766,825	2,526,934
Total (Rs.)					(USD 2.526 million @ Rs.160) = Rs.404.309 million			

Audit is of the view that the management failed to replace the parts as per terms and conditions which resulted in a loss of Rs. 404.309 million which shows inefficiency.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that Lessors have reimbursed available Maintenance Reserves against Qualifying Maintenance Events as per Lease Agreements. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.25 Non-adjustment of advances of foreign vendors – Rs. 375.673 million

PIAC's schedule of Power states that, in order to cover anticipated financial losses, advances made against purchase, whenever allowed must be backed by either by Bank Guarantee or supplier's Bank letter of intent/undertaking to make good all financial losses in case of default.

During audit of Pakistan International Airlines Corporation (PIAC) Engineering & Maintenance for the year 2019-20, it was observed that huge advances to foreign vendors were unadjusted / settled amounting to Rs. 375.673 million (Annex-11) as detail under:

Description	Amount (Rs in million)
3 years & more	145.188
1-3 years	126.621
1-12 months	103.864
Total	375.673

Audit is of the view that the management failed to adjust / settle the advances amounting to Rs. 375.673 million which indicates weak internal controls and poor recovery mechanism.

The matter was reported to the management in July 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that as prudent accounting, this amount was kept as unadjusted good advance in the financial statement to fulfill the requirement of International Financial Reporting Standards. The DAC directed the management to furnish revised reply.

Audit recommends implementation of the DAC directives.

1.1.4.26 Loss due to allowing discounted agent tickets – Rs.353.517 million

As per Industry Affairs Doc #: COM/MM/02 clause 1.4 states that: It may kindly be noted that rebated transportation is not an entitlement of agents. It is discretion of the Airline on commercial consideration. Rebated transportation should be granted against written requests only duly signed by authorized persons.

During audit of Pakistan International Airlines Corporation (PIAC), Revenue Management Department for the year 2020, it was observed that the management allowed 2,620 tickets to various agents at discount amounting to Rs. 353.517 million. Detail of discounted tickets is as below:

(Rs in million)				
Year	Discount Category	Amount of Discount	No. of Tickets	Full Amount if Discount not allowed
2020	Agent Discount 100%	3.048	1,379	304.862
	Agent Discount 50%	1.759	96	3.519
	Agent Discount 75%	11.205	1,139	44.822
	Agent Discount 90%	0.031	6	0.314
Total		16.043	2,620	353.517

Audit is of the view that despite having a financial crunch, the corporation allowed discounted tickets to various agents which reflects favouritism.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that as per IATA Resolutions 880/881 the staff / owners of the travel agencies are entitled to AD-75% / AD – 50% discounted tickets on the airlines they are transacting business. Further, all airlines accordingly generously extend this facility to the owners and staff of travel agencies to lure them to sell their airlines. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.27 Loss due to non-optimal utilization of Pilots - Rs. 315.735 million

Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

During audit of Pakistan International Airlines Corporation (PIAC) Flight Operation Department for the year 2019 & 2020, it was observed that the management fixed minimum 75 flying hours per pilot. However, minimum flying hours remained under-utilized as detailed below:

Year	Total Aircrafts No.	Total Flights	Pilots No.	Average flying hours Pilots	Guarantee hours	Difference of Guarantee Flying Hours & Average		Average Flying Hours rate Rs / Hours	Loss (Rs. in million)
						Flying Hours	Total impact Hours		
1	2	3	4	5	6	7 = (6-5)	8 = (7 x 4)	9	10 = (8 x 9)
2019	34	31,166	426	73.16	75	1.84	32,023	7,000	224.161
2020	32	15,792	385	41.02	75	33.98	13,082	7,000	91.574
Total							45,105	14,000	315.735

Audit is of the view that due to non-optimal utilization of flying hours, the management incurred an additional expenditure of Rs.315.735 million which shows poor flight management.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that fixed minimum flying allowance is not for utilization purpose, but only to formulate the salary package. The DAC directed the management to provide revised policy.

Audit recommends implementation of the DAC directives.

1.1.4.28 Deployment of officers/ staff over and above the approved HRB - Rs. 265.818 million

As per PIAC approved HRB, the employees should have been within limit of sanctioned post in each department.

During audit of Pakistan International Airlines Corporation (PIAC) SCM, PHS, Flight Operations Dept. Works Dept, Multan Station and Lahore Station for the year 2020, it was observed that excess officers/officials were appointed against the approved HRB of PIAC. The detail of approved and existing HRB. Annex-12

Audit is of the view that the management appointed excessive staff in violation of approved HRB due to which excess expenditure is being incurred

annually despite the fact that the corporation is suffering into heavy loss. Thus, the expenditure on account of salaries amounting to Rs. 435.018 million is held irregular.

The matter was reported to the management in June 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that after 2002, the current management constituted a Manpower Rationalization Committee to figure out the HRB requirements of company for next 05 years. The HRB recommendations of the Committee has been approved by the BOD in its 59th meeting held on 27.10.2021. The DAC directed the management to verify the position of HRB and to share Contract Agreement with Audit and incorporated in future contract agreements.

Audit recommends implementation of the DAC directives.

(DP No. 08, 456, 27, 724, 380, 12 & 190)

1.1.4.29 Loss due to irregular award of contract – Rs. 259.643 million

Rule 38 of PPRA Rules, 2004 states that the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity.

During audit of Pakistan International Airlines Corporation (PIAC), Passenger Handling Service Department for the year 2019-20, it was observed that the management awarded the contracts of ground handling services at Jeddah and Muscat stations to the highest bidder as detail shown below:

S.#	Place	Name of Service provider	Amount (Rs. in million)	Remarks
1	Madina	M/s Saudi Ground Services	187.384	Rejected the bid of lowest bidder i.e. M/s Havas and awarded the contract to the highest bidder
2	Muscat	M/s Oman Aviation Handling Company	72.259	Scrapped the tender and extended the contract of existing service provider for three (3) years
Total				259.643

Audit is of the view that the management sustained loss in awarding contracts at higher rates.

The matter was reported to the management in February, 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that proper procedure was adopted through advertisements in press inviting tenders and lowest price package was accepted and further negotiated and finally reduced further. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.30 Loss due to non-delivery of aircraft – Rs. 208.000 million (US\$ 1.300 million)

Clause 3 of conditional settlement and lease termination agreement dated 10.12.2020 states that:

- 3.1 Lessee shall arrange for redelivery of the Aircraft ..., not later than 31st December 2020 at Lessee cost.
- 3.3 The lessee is obliged and shall return MSN 994 in compliance with the Re-delivery condition per schedule 2 of the SLA or shall compensate the Lessor for any non-compliance with the Re-delivery condition.
- 3.4 Without prejudice to clause 3.3above, the Lessor estimates that compensation for non-compliance with Re-Delivery conditions to be US \$ 1,300,000.

During audit of Pakistan International Airlines Corporation (PIAC) Corporate Planning Department for the year 2020, it was observed that the management signed Lease Termination agreement with M/s ACIA AERO LEASING (Ireland) Limited on 10.12.2020 on a condition that PIAC will redeliver aircraft before 31.12.2020 at mutually agreed location. However, the management failed to redeliver the aircraft as per scheduled date. Resultantly, management paid an amount of Rs. 208.000 million (US \$ 1.300 million) to lessor as compensation charges.

Audit is of the view that the management failed to re-deliver the aircraft on agreed terms which resulted in a loss of Rs. 208.00 million (US \$ 1.300 million).

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The

management informed that it could not arrange the finances. The DAC directed the management to get the stated position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.31 Loss due to deviations between published and actual rosters – Rs. 206.442 million

Rosters are required to be followed throughout the month ensuring smooth execution of planned flights. Flight Operational Manual Chapter 23 Page 9, Off Days: Eight (08) Off Days are planned in a Month, off days will be a clear day at home base after completion of required rest of last duty and will consist of 24 hours. The refused days off will be adjusted within 90 days.

During audit of Pakistan International Airlines Corporation (PIAC) Flight Operation Department for the year 2019 & 2020, it was observed that due to significant deviations between published rosters and actual rosters, none of the cockpit crew members carried out their flights at 100% of their published roster. Because of non-implementation of published rosters effectively, management incurred an additional expenditure as detailed below:

(Rs. in million)		
Year	Denied Rest	Refused days off
2019	13.773	137.970
2020	8.956	45.741
Sub Total	22.729	183.711
Total		206.442

Audit is of the view that due to frequent changes in the published rosters, flights operations were affected and also increased the cost to the Corporation.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that changes in the rosters were inevitable keeping in view the situation of Covid-19. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.32 Loss due to non-imposition of LD charges – Rs. 166.980 million

As per Board minutes of 42nd meeting of Board of Directors, held on 11.02.2020, Resolution No. 19 states that “On the compensation of delayed delivery, M/s ALAFCO had agreed to double the compensation amount from USD 2,000 per day to USD 4,000 per day”.

During audit of Pakistan International Airlines Corporation (PIAC) Corporate Planning Department for the year 2020, it was observed that the management signed a term sheet with M/s ALAFCO on 24.09.2019 on rental of USD 250,000 / month for delivery of A-320 Aircraft which scheduled to be delivered in October 2019. In case of late delivery, L.D charges will be imposed of USD. 4,000 per day. However, the aircraft was not delivered till June 30, 2021 and L.D charges were not imposed by the management on lessor.

Audit is of the view that the management failed to impose late delivery charges amounting to Rs. 166.980 million (USD 1.012 million) which shows inefficiency and weak financial management.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management stated that they did not sign the agreement for second Aircraft hence the payment of delivery charges were not applicable. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.33 Wasteful payment of incentives to GSA - Rs. 159.407 million

Section 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan International Airlines Corporation (PIAC), Revenue Management Department for the year 2020, it was observed that the management paid Rs. 159.407 million to different General Sales Agents (GSA) as cash and route incentives in order to boost sales and load factor. Despite offering incentives, sales of the Corporation were not increased. Thus, payment

of
Rs. 159.407 million stands imprudent and wasteful.

Audit is of the view that that route incentives did not achieve the desired results and seat factor also remained very low.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that it is Industry Practice to allow such incentives to GSAs clearly spelled out in IATA resolutions; therefore it may not be treated as an extra-ordinary measure only employed by PIA. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.34 Irregular award of contract for charter operations – Rs. 155.040 million (US\$ 969,000)

Rule 16 (a) (1) of PPRA Rule, 2004 states that the procuring agency shall arrange the procurement through framework agreements of recurrent or common use items, services including maintenance services and those commodities, whose market prices fluctuate during the term of the agreement, for a maximum period of three years.

(4) Open and closed framework agreements may be made with the selected suppliers and service providers. Maximum duration of open framework agreements shall not be more than three years and the closed framework agreements shall not exceed one year.

During audit of Pakistan International Airlines Corporation Limited (PIAC) Corporate Planning Department for the year 2020, it was observed that the management awarded a contract of charter operators for UK/European routes to M/s Hifly for each rotation to USD 153,000 for a period of six (06) months. After expiry of agreement, the management started fresh process of the same contract. Being the lowest bidder, the contract was again awarded to M/s Hifly at a rate of USD 170,000 per rotation of the same route. This award of contract in piecemeal basis resulted in excess payment of Rs. 155.040 million (USD 17,000 @ 57 flights = USD 969,000 @ Rs.160)

Audit is of the view that award of contract on piecemeal basis resulted in excess payment of Rs. 155.040 million which shows mis-management and lack of planning.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that the period of prequalification was kept as six months because the duration of currently imposed ban on PIA is not certain and PIA would like to start using its own aircraft to UK and Europe as soon as the ban is lifted. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.35 Non recovery of festival and welfare advances from employees - Rs. 153.944 million

Clause (c) (i) of Admin Order 33/2013 of PIAC states that if an employee fails to settle the form within 3 months, the advance shall be recovered from the salary of the concerned employee.

During audit of Pakistan International Airlines Corporation Limited (PIAC), Human Resource Department for the year 2020, it was observed that an amount of Rs. 153.944 million was outstanding against employees as detailed below:

S. #	Advance Type	Amount (Rs. in million)
1.	Festival Advance	138.401
2.	Welfare Advance	15.543
Total		153.944

Audit is of the view that the management failed to recover / adjust the advances which reflects inefficiency and weak recovery mechanism.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management informed that recovery process has been started after increasing the salaries. The DAC directed the management to get the stated position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.36 Unjustified repair of B-777 Auxiliary Power Units – Rs. 145.652 million

Rule 5(5) of Public Sector Companies (Corporate Governance) Rules 2013 states that Board shall establish a system of sound internal control which shall be effectively implemented at all levels within the public sector companies to ensure compliance with fundamental principle of probity and propriety, objectivity, integrity and honesty.

During audit of Pakistan International Airlines Corporation (PIAC), Engineering and Maintenance Department for the year 2019-20, it was observed that the management send B-777 Auxiliary Power unit for repair abroad despite having in-house facility. The financial impact of repair is as follows:

Description	No. of Units	Repair Cost (in US \$)	Rate (In PKR)	(Rs. in million)
APU-B-777	01	900,000	161.8366	145.652

Audit is of the view that the management failed to utilize its in-house facility which shows inefficiency and poor financial management.

The matter was reported to the management in July 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that as repair from OEM was also expensive so RFQ was floated per Management instructions for exchange units. After evaluation, M/s AAR Corporation was selected as the best / lowest bidder with flat exchange offer of USD 425,000 for exchanged Overhaul APU SN P-1545. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.37 Loss due to default by agents – Rs. 135.496 million

Clause 2.02 of Credit Policy of Pakistan International Airlines Corporation (PIAC) states that, credit period may be upto 30 days (Government of Pakistan 60 days), financing cost @ 1.25% per month is to be added to all overdue credit for such period(s) (except Government of Pakistan) and all further credit on overdue accounts should be stopped until all past dues are cleared.

During audit of Pakistan International Airlines Corporation Limited (PIAC), Finance Department for the year 2020, it was observed that various domestic and international cargo agents were defaulted by not depositing the cargo sales amount which was required to be deposited within the specified time. It was further observed that in default cases, the agents were allowed to sell the tickets beyond their prescribed limits/capping due to which they defaulted. Annex-13

Audit is of the view that management failed to recover the amount against defaulting cargo agents despite a lapse of considerable time, which caused loss to the corporation. This shows weak internal controls and poor financial management.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management stated that efforts were being made to recover the outstanding amount. The DAC directed the management to get the stated position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.38 Non-completion of Business Plan by consultant – Rs. 131.600 million (USD 822,500)

As per contract agreement for consultancy service to develop a detailed Business Plan signed between PIAC and International Air Transport Association (IATA) on February, 11, 2021, Article 17.2 states, The aggregate liability of the Consultant in respect of any claim arising out of or in connection with this Contract, the Work/Services, the Project or otherwise, whether arising in contract (including but not limited to warranties and implied warranties), in tort (including but not limited to negligence), in equity, by operation of statute or otherwise is limited to 100 % of the value of the Work/Services. The Consultant, however, shall remain liable to re-perform its Work/Services to rectify such deficient Work/Services as notified by PIA at no additional cost to PIA. In addition to the above, the Consultant agrees that it shall bear all costs and damages which results from the late or improper performance of Work/Services, provided that it shall

only be responsible for such costs and damages up to the aggregate liability limitation set out in this Article 17.2.

During audit of Pakistan International Airlines Corporation (PIAC), Corporate Planning Department for the year 2020, it was observed that the management awarded a contract to M/s International Air Transport Association (IATA) for development of Corporate Business Plan on 11.02.2021 amounting to Rs. 131.600 million (USD 822,500) which was required to be completed on 30.06.2021. However, the consultancy work was not completed till date and no L.D clause was inserted in the agreement.

Audit is of the view that the consultant could not complete the task within a specified period. The objective of Business Plan was to make PIAC a leading international airline that is sustainable and profitable which could play an important role in Pakistan's economy which was not achieved.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that the provision of additional time for incorporating the changes was covered under the contract signed between both parties. The DAC directed the management to furnish revised reply.

Audit recommends implementation of the DAC directives.

1.1.4.39 Loss due to allowing sales beyond capping limits – Rs. 127.501 million

Clause 2.02 of Credit Policy of Pakistan International Airlines Corporation (PIAC) states that, credit period may be upto 30 days (Government of Pakistan 60 days), financing cost @ 1.25% per month is to be added to all overdue credit for such period(s) (except Government of Pakistan) and all further credit on overdue accounts should be stopped until all past dues are cleared.

During audit of Pakistan International Airlines Corporation Limited (PIAC), Finance Department for the year 2020, it was observed that M/s Cargo Aids was allowed a capping of Rs. 5.569 million, however due to non-monitoring of capping, the agent made sales of Rs. 132.983 million which resulted in default. The management en-cashed its bank guarantee of Rs. 5.569 million leaving an outstanding balance of Rs. 127.501 million.

Audit is of the view that the management failed to monitor the capping limit of agent effectively which resulted in loss of Rs.127.501 million.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management stated that the matter is subjudice. The DAC directed the management to pursue the case.

Audit recommends implementation of the DAC directives.

1.1.4.40 Non-adjustment of repair cost of APUs against maintenance reserve from lessor - Rs. 118.880 million

As per principles of procurement enunciated in the PIAC's Procurement Manual, one of the five basic concerns that govern PIAC's procurement policies is to ensure that the funds are used to buy only those Products/Goods, Services, Works, Plant & Equipment and Information Systems which are needed to operate and maintain PIAC.

During audit of Pakistan International Airlines Corporation (PIAC) Supply Chain Management for the year 2020, it was observed that management repaired two auxiliary power units of A-320 aircrafts from abroad and paid amount of Rs. 118.880 million (USD. 743,000 @ Rs. 160 per USD) without adjusting the maintenance reserves with lessor as detailed under:

Description	Name of Vendor	Repair Order No.	Receipt Voucher No.	Receipt Voucher Date	Amount (USD)
AUX.PWR UNIT (APU)	M/s Turbine Aero Repair	1906009	01131/20	03.08.2020	450,000
AUX.PWR UNIT (APU)	M/s Turbine Aero Repair	2011028	00071/21	15.02.2021	293,000
Total					743,000

Audit is of the view that the management failed to adjust the maintenance reserves on repairs and paid an amount of Rs. 118.880 million which shows negligence and weak financial management.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management stated that they have lodged claims for reimbursement of available Maintenance Reserves of both APUs mentioned in observation against Qualifying Maintenance events as per the agreements. The DAC directed the management to verify the actual recovery and expedite the balance amount.

Audit recommends implementation of the DAC directives.

1.1.4.41 Loss due to early termination of lease agreement – Rs. 111.243 million

Clause 4.2 of lease agreement between M/s Abric and PIAC states that the lessee (PIAC) agrees that the balance of the Security Deposit is waived in favour of the lessor as partial compensation for the early termination of the lease Agreement for the aircraft.

During audit of Pakistan International Airlines Corporation (PIAC), Engineering Department for the year 2019-20, it was observed that the management waived off security deposit amounting to Rs. 111.243 million (US \$ 1.300 million) on account of early termination of lease agreement.

Audit is of the view that management waived security deposit on early termination which resulted in loss.

The matter was reported to the management in July 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management stated that security deposit was waived off as per lease agreements. The DAC directed the management to get the stated position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.42 Irregular award of contracts to 2nd lowest bidders – Rs. 102.708 million

Rule 38 of PPRA states that the bidder with the lowest evaluated bid shall be awarded the procurement contract, within the original or extended period of bid validity.

During audit of Pakistan International Airlines Corporation Limited (PIAC), Food Services Division (FSD), Flight Kitchen for the year 2020, it was observed that the following contracts for various procurements were awarded to the 2nd lowest bidders amounting to Rs.102.708 million in violation of above rules as detailed below:

S. #		Name of Contractor	Description/ Item	Amount (Rs. in million)	Remarks
1.	a	M/s Enterprises	Casserole without Lid	40.200	2 nd lowest
	b	M/s Ducon	Aluminum Disposable	37.810	1 st lowest
2.	a	M/s Enterprises and M/s Afeef	Paper cups	38.317	2 nd lowest
	b	M/s Xianxtan		37.933	1 st lowest
3.	a	M/s Musk	Roll up napkins, Trolley cover & Table cover	20.937	2 nd lowest
	b	M/s Wise		15.772	1 st lowest
4.	a.	M/s Faisal Brothers	Seal Nylon with PIA Logo	3.254	2 nd lowest

Audit is of the view that the management awarded the above contracts to the 2nd lowest bidders in violation of rules which shows biasness and undue favour.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management stated that successful bidders were the lowest after calculation of overall cost. The DAC directed the management to verify the position

Audit recommends implementation of the DAC directives.

(DP No. 601, 593, 598 & 597)

1.1.4.43 Loss due to irregular award of contract for procurement of charter flights at exorbitant rates – Rs. 99.392 million (US \$ 621,200)

Rule 4 of PPRA, 2004 states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

Rule 16 (A) (5) of PPRA, 2004 states that the procuring agency may on need basis pre-qualify new suppliers or service providers during continuity of framework agreements with previously pre-qualified suppliers or service providers.

During audit of Pakistan International Airline Corporation (PIAC) Corporate Planning Department for the year 2020, it was observed that the management directly hired the charter flights between Pakistan and U.K. and signed the charter agreements with M/s Jordan Aviation (USD 195,000), M/s Iceland Air (USD 200,000) and M/s Euro Atlantic (EURO 195,000

equivalent to USD 226,200) equivalent to Rs. 99.392 million (USD 621,200 @ Rs. 160).

Audit is of the view that management awarded the contract without competitive bidding, thus, contract amounting to Rs. 99.392 million held irregular and unjustified.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management informed that the Chartered flights were hired due to suspension of PIA operations and Covid situation. The DAC directed the management that details of profit and cost to be shared with audit for verification.

Audit recommends implementation of the DAC directives.

1.1.4.44 Loss due to allowing discount in peak season - Rs. 87.390 million

According to Manual of Revenue Manual Management clause 4.1.2 SOPs for Inventory Management states that “to optimize flight revenue by adequate inventory allocation in different RBDs”.

Clause-vii of Code of Corporate Governance states that the directors of listed companies shall exercise their powers and carry out their fiduciary duties with a sense of objective judgment and independence in the best interests of the listed company.

During audit of Pakistan International Airlines Corporation (PIAC), Revenue Management Department for the year 2020, it was observed that the management allowed discount on tickets to passengers amounting to Rs.87.39 million during the peak season at U.K Region. Annex-14

Audit is of the view that despite these lucrative offers, seat factor declined which reflect poor financial management.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that during the period in question (January 15 till 31, 2020), traffic demand is at its peak ex – Pakistan as passengers are returning from Christmas vacations while the load ex – UK is at lean season. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.45 Non-deposition of taxes into Government treasury – Rs. 83.284 million

Section 137 of Income Tax Ordinance states that (1) of Part-IV, “Collection and recovery of tax” provides, “the tax payable by the taxpayer on the taxable income of the tax payer for the tax year shall be due on the due date for furnishing the tax payer’s return of income tax for that year.

During audit of Pakistan International Airlines Corporation (PIAC), Medical Centre for the years 2019 & 2020, it was observed that the management deducted taxes of Rs. 83.284 million from the payments made to the panel hospitals and chemists; however, the same was not deposited into Government treasury till date.

Audit is of the view that non-deposition of taxes amounting to Rs. 83.284 million into the government treasury shows negligence and mis-management.

The matter was reported to the management in May 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management informed that efforts are being made to deposit the taxes. The DAC directed the management to get the stated position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.46 Non-recovery of cost of Deportee – Rs. 83.086 million

The Standard Operating Procedure (SOP) for recovery of deportation fines / COD was circulated vide Circular No. 19/2014 dated June 02, 2014. The reason to develop the above SOP is to expedite the recoveries of exorbitant outstanding amount on account of fines and COD charges incurred for deportation; and concludes the cases within the time limits before it get too old and go beyond expectation of recovery.

During audit of Pakistan International Airlines Corporation (PIAC), Passenger Handling Service Department, Lahore Station and Revenue Management Department for the years 2019-2020, it was observed that an amount of Rs.83.086 million was lying outstanding on account of Cost of Deportee (COD) for the period up to December, 2020. Annex-15

Audit is of the view that management not only failed to recover the outstanding amount of Rs. 83.086 million but also made non-compliance of the Corporation's policy.

The matter was reported to the management in February, 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management informed that efforts are being made to recover the cost from Agents. The DAC directed the management to verify the recovery with Audit.

Audit recommends implementation of the DAC directives.

(DP No. 02, 35 & 627)

1.1.4.47 Loss due to outsourcing of meals at higher rates - Rs. 76.800 million

As per Public Sector Companies (Corporate Governance) Rules, 2013 "The Board shall establish appropriate arrangements to ensure it has access to all relevant information, advice and resources necessary to enable it to carry out its role effectively. Significant issues shall be placed before the Board for its information and consideration, in order to formalize and strengthen the corporate decision-making process. Section (2), (1) significant issues shall, inter-cilia, include the following, namely: — (a) annual business plans, cash flow projections, forecasts and long-term plans; budgets including capital, manpower and expenditure budgets, along with variance analyses";

During audit of Pakistan International Airlines Corporation Limited (PIAC), Food Services Division (FSD), Flight Kitchen for the year 2020, it was observed that the management outsourced meals at Domestic and International stations on higher rates as compared to their own cost. Details are as below:

(Rs. in million)									
Description	Break fast (Avg)	Snack (Avg)	Lunch / Dinner (Avg)	Total Avg cost per meal Rs.	Diff. in Avg cost per meal Rs.	Total % (higher)	Original Contract Value	Contract Value as per PIA Flight Kitchen rate	Diff. in Contract Value
PIA Flight Kitchen	124	59	169	353	-	-	-	-	-
Kuala Lumpur Station	600.2	480.2	790.9	1,871	1518	-430	84	19.5	64.5
Multan Station	305	171	399	875	522	-148	22.5	15.2	7.3
Lahore Station	323.5	184.5	210	718	365	-103	168	163	5
Total Loss									76.8

Audit is of the view that despite having own set up at Karachi and Islamabad, the management outsourced meals at Kuala Lumpur, Multan and Lahore stations at higher rates of 430%, 148% and 103% respectively more than its own meal cost which resulted in loss amounting to Rs.76.800 million.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that all outsourced station's agreements/ contracts are awarded through competitive bidding tender process to follow the PPRA rules. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.48 Irregular award of contract – Rs. 72.438 million

Clause 42 (c) (iv) of PPRA, 2004 states that repeat orders not exceeding fifteen percent of the original procurement.

During audit of Pakistan International Airlines Corporation (PIAC) Supply Chain Management for the year 2020, it was observed that the management awarded a contract to M/s. Excel Enterprises Pvt. Ltd. for Janitorial Services at Karachi Station amounting to Rs. 14.487 million per month for a period of six months starting from 01.06.2016 to 30.11.2016 extended for further two terms on same terms & conditions. The management awarded the contract upto 31.05.2019 in violation of PPRA rules. Details are as under:

Per month Financial Impact (rate based on previous contract) (A)	Completion date as per agreement (B)	Extension in violation of PPRA rule (C)	Total Financial Impact (D)
Rs. 14,487,592	Starting from 01.06.2016 to 30.11.2016 1 st extension 01.12.2016 to 30.11.2017 2 nd extension 01.12.2017 to 30.11.2018 15% as per PPRA 1.12.2018 to 27.12.2018 (27 days extension)	28.12.2018 to 31.05.2019 @ Rs. 14,487,592 for 5 months	Rs. 72,437,960

Audit is of the view that granting of extension from 28.12.2018 to 31.05.2019 (5 months) is a clear violation of above mentioned rule.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management informed that the contract was awarded as per rules. The DAC directed that CPC transgressed the authority, responsibility to be fixed and displeasure be issued, undue favor was extended by delaying next tendering process.

Audit recommends implementation of the DAC directives.

1.1.4.49 Irregular procurements without tendering – Rs. 44.314 million

Rule 12(1) of PPRA, 2004 states that procurement over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency.

Rule (9) of PPRA, 2004 states that save as otherwise provided and subject to the regulation made by the Authority, with the prior approval of the Federal Government, a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned.

During audit of Pakistan International Airlines Corporation Limited (PIAC), Food Services Division (FSD), Flight Kitchen for the year 2020, it was observed that the following procurements were made without competitive bidding and by splitting or regrouping as detailed below:

M/s	PO #	Qty.	Rate per unit (Rs.)	Total amount (Rs.)
Ducon Ltd UAE	19040006	1,491,000	8.6	12,852,420
		639,000	8.6	5,508,180
	19040151	1,491,000	8.6	12,852,420
		639,000	8.6	5,508,180
Arco Radio	19040002	50,000	8.6	431,000
	19040005	100,000	8.6	862,000
	19040107	50,000	8.6	431,000
	19040138	50,000	8.6	431,000
	-	50,000	8.6	431,000
	-	59,000	8.6	508,580
	19040048	50,000	8.6	431,000
	19040026	250,000	8.6	2,155,000
M/s Enterprises	-	250,000	7.7	1,912,500
Total		5,169,000		44,314,280

Audit is of the view that the management made interim procurements without tendering in violation of rules.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that interim supplies were arranged through RFQ from Airline Suppliers & Manufacturer on lowest basis. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.50 Irregular foreign posting of Manager, Revenue Management Division as Country Manager at Tokyo station - Rs. 43.200 million

PIA Admin Order # 09/2014 dated: 01.04.2014 states that employees selected on higher position will not be re-designated / transferred to another position / location (within Head Office or domestic outstation), for a period not less than 06 years". Furthermore, you will have to serve Revenue Management Division for a minimum period of 03 years at PIA Head Office, Karachi.

During audit of Pakistan International Airlines Corporation (PIAC), Human Resource Department for the year 2020, it was observed that Mr. M. Abubakar Wyne was selected to PG-VIII as Manager in Revenue Management Division of Marketing Department on 04.03.2016. Later on, he was selected for foreign posting on 08.08.2019 for a period of three years in violation of above rule. It is pertinent to mention here that Mr. M. Abubakar Wyne was not eligible to be transferred / posted to any other station without completing six years of service as specified under the rule. He was made illegally entitled to the following allowances:

- a. Foreign Allowance JPY = 400,000/- p/m
- b. Accommodation / house rent allowance JPY = 400,000/- p/m
- c. JPY 800,000/- @ Rs. 1.50 = Rs. 1,200,000 p/m x 36 months =
Rs. 43,200,000

Audit is of the view that Mr. M. Abubakar Wyne was irregularly posted as Country Manager at PIA-Tokyo station without completing required service after selection to PG-VIII. Thus, payment of Rs. 43.200 million was irregularly paid to Mr. M. Abubakar Wyne in violation of above said rule.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that appointment of Mr. M. Abubakar Wyne on contract basis for a period of five years is in order. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.51 Wasteful expenditure on surrendered land – Rs. 37.069 million

Chapter # 4 (54) of PIAC Employees Service and Discipline Regulations, states that any employee who causes or attempts to cause any loss of revenue to the corporation shall be liable to reimburse the loss caused by him and will also be liable to the disciplinary action including dismissal from services.

During audit of Pakistan International Airlines Corporation (PIAC), Works Department for the years 2019 & 2020, it was observed that an amenity plot (Football Ground) situated at KDA Scheme 1, Karsaz, Karachi having area of 38,340 sq yards was allotted to PIAC in 1981 by the Government of Sindh. In June 2005, the subject plot was surrendered and handed over to City District Government, upon the instruction of the then Chairman PIAC. In 2010, the management decided to retain this plot and an amount of Rs. 37.069 million was paid to City District Government for the period of 04.06.2004 to 30.06.2039 on account of restoration fees, license fees and ground rent. Despite payment of hefty amount, possession of the land was not taken.

Audit is of the view that the management failed to take possession of land despite incurring an expenditure of Rs. 37.069 million is wasteful and irregular.

The matter was reported to the management in July 30, 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that it is requested to recommend Govt. of Pakistan for the recovery of the charges. The DAC directed the management to pursue the matter in the High Court.

Audit recommends implementation of the DAC directives.

1.1.4.52 Irregular award of contract of disposable cutlery pack – Rs. 32.664 million

Rule 12(1) of PPRA, 2004 states that procurement over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency.

During audit of Pakistan International Airlines Corporation Limited (PIAC), Food Services Division (FSD), Flight Kitchen for the year 2020, it was observed that the management awarded the contract for purchase of cutlery pack 5x1 disposable to M/s Anwar Enterprises amounting to Rs.26.485 million. The supplier failed to supply the item within stipulated time. Later on, the management awarded the same contract to M/s Rainbow Corporation amounting to Rs.32.664 million without calling tenders which is held irregular and unjustified.

Audit is of the view that the management awarded the contract without calling tenders in violation of rules.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that as per PPRA protocols tender was called, Evaluation was made by FSD Joint Evaluation Committee. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.53 Loss due to non-refundable advance payment to M/s. Alafco Aviation Lease – Rs. 32.000 million (US\$ 200,000)

As per Alafco Aviation Lease and Finance DAC, Term Sheet dated 24-9-2019, "Initial Security: US\$200,000 per aircraft payable on execution of this Term Sheet. The initial security is non-refundable and is lessor's sole property,"

During audit of Pakistan International Airlines Corporation (PIAC), Corporate Planning Department for the year 2020, it was observed that management made advance payment of USD. 200,000 to M/s. Alafco Aviation

Lease and Finance DAC account /ID 10959792 dated 04.10.2019 for hiring of used A 320-200 aircraft having MSN 4414 on lease for seventy two (72) months from the delivery date. As per Term Sheet anticipated Delivery Date of aircraft MSN 4414 was in October 2019. However, no lease agreement was finalized between Alafco Aviation Lease and PIAC.

Audit is of the view that as the advance payment made by management to Alafco, however, management failed to finalized the lease agreement with lessor as per Term Sheet. Thus, due to non-finalization of lease agreement with lessor the advance payment of USD 200,000 equivalent to PKR 32.000 million (@ Rs. 160 per USD) which was non-refundable became the property of M/s. Alafco Aviation Lease which resulted in loss at corporation cost.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that the same was returned by ALAFCO by issuing a credit note to PIA which has been adjusted against rent payable to the Lessor. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.54 Irregular payment of encashment of LPR – Rs. 30.472 million

Clause 1 of Admin Order No.11/2018 dated 31.12.2018 states that the management has decided to discontinue the policy of Encashment of LPR of all categories of retiring employees with immediate effect.

During audit of Pakistan International Airlines Corporation (PIAC), Human Resource Department year 2020, it was observed that management paid an amount of Rs. 30.472 million to selected 14 officers / officials of various departments for encashment of LPR without observing uniform policy as detailed below:

S. #	Name	Staff No.	Cheque No.	Rs. in million
1.	Zafar Islam	48980	1979801	2.019
2.	Najib Amin Moghal	51735	1978950	3.342
3.	ArshadAkram Khan	45651	1979466	4.421
4.	Junaid Abbas	47426	1831789	0.375
5.	SirjUlArfeen	49010	1979613	1.105
6.	Zarak Khan	45691	1977766	2.123
7.	Saqib Ansari	51103	1831184	2.180
8.	Bayar Masood	48979	1831183	2.889
9.	Sibtain Shigri	54864	1831182	1.005
10.	Masood Aleem Opel	47431	1830863	2.991
11.	WajahatAkram	45638	1831457	0.220
12.	Ehsanullah Khan	45564	1979606	0.337
13.	Muhammad Shuaib	45562	1978385	2.642
14.	Changez Khan	49059	1977565	0.193
15.	Rasheed Ahmed	41724	1831051	1.734
16.	Ali ThairQasim	45568	1828155	2.887
Total				30.472

Audit is of the view that the management has granted undue favor to the officers / officials for encashment of LPR amounting to Rs. 30.472 million in violation of rules which is held irregular.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that considering the current manpower state Management has, recently restored encashment of LPR on operational requirements vide Admin Order No. 18/2021 dated December 17, 2021. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.55 Irregular appointment of Senior Reservation and Ticketing Officer – Rs. 30.400 million

Clause 34.03 of PIAC Personal Policy Manual (PPM) states that no dependent and close relative of PIAC officials in Pakistan or abroad shall be employed in local pay scale at foreign station.

During audit of Pakistan International Airlines Corporation (PIAC), Human Resource Department for the year 2020, it was observed that the management hired Mr. Sarfaraz Ahmed at as Senior Reservation and Ticketing

Officer (RTO) on salary of USD. 5,000 per month w.e.f. 13.11.2012 at Riyadh Station. He is a brother of Mr. Shahbaz Ahmed, Deputy General Manager serving in PIACL, Karachi. Thus, his appointment and payment of salary of Rs. 30.400 million (USD. 5,000 per month x 38 months = USD. 190,000 @ Rs. 160) stands irregular.

Audit is of the view that the management appointed the incumbent in violation of rules.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that as per the recommendation of the Commercial Audit an investigation has been carried out and has been shared with the Commercial Audit. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.56 Loss due to short items of inventory – Rs. 22.999 million

As per principles of procurement enunciated in the PIAC's Procurement Manual, one of the five basic concerns that govern PIAC's procurement policies is to ensure that the funds are used to buy only those Products/Goods, Services, Works, Plant & Equipment and Information Systems which are needed to operate and maintain PIAC.

During audit of Pakistan International Airlines Corporation (PIAC) Supply Chain Management for the year 2020, it was observed through Physical Inventory of Stores that Inventory worth Rs. 22.999 million of different stock items was short. Details of short Inventory items are tabulated below:

S. #	Stock Room No.	Description	Short Items	Value (Rs)
1.	SR-82	Chemical	22,505	981,616
2.	SR-79	Uniform	32,751	17,165,689
3.	SR-43	Uniform (ISB)	3,581	1,334,011
4.	SR-51	Press (ISB)	9604	2,501,756
5.	SR-49	Press (ISB)	288,564	1,016,303
Total			357,005	22,999,375

Audit is of the view that huge quantity of short inventory shows loose internal controls and weak inventory management.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that some items quantities were entered wrongly in ERP system during the migration from legacy system. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.57 Wasteful expenditure due to non-completion of hospital – Rs. 20.695 million

Rule 5 of Public Sector companies (Corporate Governance) Rules 2013 states that board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan International Airlines Corporation (PIAC), Medical Centre for the years 2019 & 2020, it was observed that the management purchased land measuring 9.93 acres in the year 1979 for constructing Hospital for PIA employees and commercial purposes. Subsequently, an amount of Rs. 18 million was incurred for construction of underground water tank, roads, sub-station, and boundary wall etc. besides making payment of Rs. 2.695 million to the consultant for development of land. However, the project has been suspended for last 25 years which resulted in wastage of Corporation's funds without residual benefits.

Audit is of the view that with the passage of considerable time wear and tear factors deteriorated the construction work. Thus, due to mis-management, the objective of construction and development cost of land of Rs. 20.695 million is a financial loss to the corporation.

The matter was reported to the management in May 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management informed that Lease has been canceled by the director land management. Further, Management in its reply stated that the financial consultant (M/s. I.consult) was hired to prepare a comprehensive financial model/feasibility report. The DAC directed to the management that matter may be taken at appropriate level of

SMBR/ DG KDA and payment of non-utilization charges to Government of Sindh and verify the position with Audit.

Audit recommends implementation of the DAC directives.

1.1.4.58 Non-receipt of weather radar despite payments – Rs. 18.739 million (US\$ 117,120)

As per Airbus commercial offer for the supply of A320-Navigation-single weather radar Collins multiscan V1+ dated 22.12.2020 clause # 3 Delivery Schedule, “Estimated SB delivery date 23.04.2021.”

During audit of Pakistan International Airlines Corporation (PIAC) Supply Chain Management for the year 2020, it was observed that management paid

Rs. 18.739 million (117,120 USD) for procurement of Radar Collins Multiscan from Airbus Industries. However, the item was not received till date. Resultantly, the aircrafts (02) were not allowed to fly and remained grounded.

Audit is of the view that the management failed to receive weather radars amounting to Rs. 18.739 million (USD 117,120 @ Rs. 160) which shows inefficiency and weak internal controls.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management stated that the radars have been installed. The DAC directed the management to verify the installed position of radar Collins.

Audit recommends implementation of the DAC directives.

1.1.4.59 Irregular procurement of medical products on direct contract basis – Rs. 18.443 million

Rule 15 (1) of PPRA, 2004 provides that a procuring agency, prior to the floating of tenders, invitation to proposals or offers in procurement proceedings, may engage in pre-qualification of bidders in case of services, civil works, turnkey projects and in case of procurement of expensive and technically complex equipment to ensure that only technically and financially capable firms having adequate managerial capability are invited to submit bids. Such pre-

qualification shall solely be based upon the ability of the interested parties to perform that particular work satisfactorily.

During audit of Pakistan International Airlines Corporation (PIAC) Medical Centre for the years 2019 & 2020, it was observed that the management signed agreements with different suppliers for placement of medical machines instrument at PIA Diagnostic Lab. Further management also procured the medical products amounting to Rs. 18.442 million through direct contacting. The details are as under:

(Rs in million)			
Account	Company Name	2019	2020
19040028	Lab Line	1.395	-
19040027	Roche Pakistan Ltd.	8.775	6.645
20040007	EtronixServices	-	1.627
Total		18.443	

Audit is of the view that management procurement medical instruments and products without competitive bidding process in violation of PPRA rules.

The matter was reported to the management in May 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that there is no loss to the corporation as approved SOPs have been followed. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.60 Irregular retention of officer after superannuation – Rs. 18.164 million

As per Cabinet Secretariat letter No. F.2/10/2007-E-I dated December 04, 2007 re-employment on contract after superannuation is restricted in few cases where the expertise of the servant is required by the Autonomous /Semi-Autonomous Bodies / Corporations under administrative control of Government and requires approval of the Prime Minister in all cases of re-employment subject to the following conditions.

- i. Non-availability of suitable qualified experienced officer;

- ii. The officer is a highly competent person with distinction in his professional field.

During audit of Pakistan International Airlines Corporation (PIAC) Supply Chain Management for the year 2020, it was observed that the management retained the services of Mr. Naveed Ahmed (Purchase Assistant) after attaining the age of superannuation i.e. 24.05.2018. Furthermore, he was also promoted as Store & Purchases Supervisor on 12.11.2019. Thus, management not only retained the services after superannuation but also promoted him in violation of rules.

Audit is of the view that the management extended an undue favor to the incumbent hence, payment of pay and allowances of Rs. 18.164 million (£ 2,025 per month x Rs. 230 x 39 months) is held irregular.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that there is no retirement age in U.K. The DAC directed the management to share Contract Agreement with audit and incorporate in future contract agreements.

Audit recommends implementation of the DAC directives.

1.1.4.61 Avoidable expenditure due to hiring of the Ground Support Equipment – Rs. 16.854 million

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

During audit of Pakistan International Airline Corporation (PIAC) Station, Multan for the years 2018 - 2020, it was observed that the management entered agreement with M/s Royal Airport Services, M/s Shaheen Airport Service

and M/s Gerry's in respect of providing Ground Supporting Equipment (GSE) despite having sufficient staff and equipment to provide GSE and a full fledged Passenger Handling Department. The management paid rental charges amounting to Rs.16.854 million to the service providers as detailed below:

		(Rs in million)
S.#	Year	Rental Charges paid to service provider
1.	2020	4.567
2.	2019	4.176
3.	2018	8.109
	Total	16.854

Audit is of the view that the management un-necessarily hired the services of contractors which resulted in excess expenditure of Rs.16.853 million.

The matter was reported to the management in March 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that PIA has started wide body operation of B-777 first time at MUX in 2018 whereas, relevant GSE i.e. AC Van, Tug Master, Lower Lobe Loader etc. were not available at site for handling of B-777 Operations. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.62 Loss due to imposition of immigration fines / penalties - Rs. 12.712 million

Clause 6, article 4 of Passenger Sales Agent (PSA) states that the duty of sales agent is to advise passenger concerning passport, health, currency, immigration and other regulations in force in countries to and through which they are to travel and ensure as far as practicable that such regulations are observed by all passengers. In case the passenger is found travelling on invalid documents at transit of destination and if a penalty is imposed on the principal, the loss shall be recovered from the agent.

During audit of Pakistan International Airlines Corporation Limited (PIAC), Finance Department for the year 2020, it was observed that the management paid an amount of Rs. 12.712 million on account of immigration penalties / fines which were required to be recovered from PSAs which was not done.

Audit is of the view that due to weak internal controls, management failed to recover immigration fines, which directly affected its revenues.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that there are a number of entities involved at airport including FIA whereby after deportation of any inad pax, same is handed over to FIA hence recovery matter and responsibility gets shifted thereby. The DAC directed the management to revise SOPs and get the recovery verified by Audit.

Audit recommends implementation of the DAC directives.

1.1.4.63 Unjustified payments of incentives to Pilots - Rs. 12.045 million

Section 4(3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan International Airline Corporation (PIAC), Revenue Management Department for the year 2020, it was observed that the management paid Rs. 12.045 million to Pilots as incentives to operate B-777 Long Range (LR). However it was noticed that despite having less flight from previous year amount of incentives increased. Comparison with previous year is given below:

Traffic	2020	2019
No. of Flights	844	1,395
Incentive Paid to B777LR (Rs)	12,045,969	7,294,240

Audit is of the view that flights were declined by 40% but incentives were increased by more than 65% which shows mismanagement, thus amount of Rs. 12.045 million allowed as incentive is unjustified and imprudent.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management stated that payments were made as per policy. The DAC directed the management to get the stated position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.64 Irregular award of contract to medicine supplier – Rs. 11.498 million

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

During audit of Pakistan International Airline Corporation (PIAC) Station, Multan for the years 2018 to 2020, it was observed that the management awarded contract for procurement of medicines from M/s Malik Medicine Company amounting to Rs. 11.498 million on direct contracting basis.

Audit is of the view that the management awarded the contract without calling tenders in violation of rules, thus held irregular.

The matter was reported to the management in March 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that investigation has been initiated by HR Department to investigate the matter and fix responsibility on personnel at fault. The DAC directed the management to initiate inquiry against the person(s) responsible.

Audit recommends implementation of the DAC directives.

1.1.4.65 Irregular payment of non-refundable security charges (E3) on refund of Ticket – Rs. 10.985 million

According to the Cabinet Ministries Decree number (183) that indicates adding of 2 US Dollars (equivalent to 7.5 SAR) nonrefundable, to each sector (arrival-departure-transit) of all international tickets value as (APP/PNR) Security charges to Fund the system operation, services and facilities, as per following collection procedures: Collecting amount of 2 USD (equivalent to 7.5 SAR) from every passenger for each international sector (arrival-departure-transit) by adding those Security Charge to the ticket value using the (IATA) dedicated Security Charge Code (E3) on collection. Carriers should start collection of those Security Charges starting from Saturday May 09, 2015 (20/07/1436H) Air Carriers are

required to settle those Security Charges to General Authority of Civil Aviation in accordance with the instructions declared in the monthly invoice.

During audit of Pakistan International Airlines Corporation (PIAC) Lahore Station for the year 2020, it was observed that an amount of Security Charge (E3) was refunded by agents and reservation counter staff to passengers on unutilized & partially used tickets which was non-refundable as per above mentioned circular amounting to Rs. 10.985 million as detailed below:

S.#	Period	(Rs. in million)
1.	Dec-2016 to June-2017	0.695
2.	July 2017 to Dec-2017	0.380
3.	Jan-2018 to Dec-2018	1.833
4.	Jan-2019 to Dec-2019	4.561
5.	Jan-2020 to June-2020	3.514
Total		10.985

Audit is of the view that refund of security charges (E3) to the passengers is held irregular and unjustified.

The matter was reported to the management in June 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that Rs. 8.109 million has been recovered from the total of Rs. 10.985 million. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.66 Loss due to imposition of penalty on non-construction - Rs. 9.331 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan International Airlines Corporation Limited (PIAC), Finance Department for the year 2020, it was observed that a payment was made to Capital Development Authority (CDA) on account of fines and penalties due to non-construction or utilization of plot at Islamabad.

Audit is of the view that due to delay in construction of plot, entity suffered a loss Rs. 9.331 million on accounts of penalties and fines.

The matter was reported to the management in June 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management stated that construction was not made due to financial crunch. The DAC directed the management to get the stated position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.67 Irregular award of contract to 3rd lowest bidder – Rs. 8.403 million

Rule 38 of PPRA, 2004 states that the bidder with the lowest evaluated bid shall be awarded the procurement contract, within the original or extended period of bid validity.

During audit of Pakistan International Airlines Corporation Limited (PIAC), Food Services Division (FSD), Flight Kitchen for the year 2020, it was observed that the management awarded the contract of Cellophane Roll Small (7,800 units @ Rs. 1,077) to M/s Enterprises amounting to Rs.8.403 million. Following irregularities were observed:

1. Financial bids of M/s FolienGmbhMonheim& M/s Lan Yu International were first and second lowest with USD 41,262 @ Rs. 154.935 = Rs. 6,187,484 CIF basis and USD 40,170 @ Rs. 154.935 = Rs. 6,223,739 respectively, but the contract was awarded to the third lowest i.e. M/s Enterprises at Rs. 8,402,745.
2. M/s Folien Gmbh Monheim quoted rates of USD 39,936 on FOB basis which were not taken into account in the financial bid.
3. Financial bid of M/s Enterprises was Rs. 8.403 million but it was taken in evaluation report as Rs. 7.995 million.
4. Financial bid of M/s Lan Yu International was accepted without 2% earnest money of USD 803.
5. Not a single quantity of item was received till 26.01.2021.
6. The tender was approved at a higher rate at Rs. 1,077 as compared to the same item purchased from other supplier i.e. M/s Amaar Merchant @ Rs. 409 per unit.

Audit is of the view that the management awarded the contract to the 3rd lowest bidder in violation of rules.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that rates on FoB Rotterdam were on higher side and also not feasible to accept that location. The DAC directed the management to submit revised reply and verify the position.

Audit recommends implementation of the DAC directives.

(DP No. 592 & 591)

1.1.4.68 Loss due to short collection of fare and service charges on special flights – Rs. 8.310 million

Section (4) 3 of Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan International Airlines Corporation (PIAC) Lahore Station for the year 2020, it was observed that agents issued tickets to passenger on several special flights which were not allowed to agents during Covid period. However, tickets were issued without collection of difference of fare and service charges from lower to higher class which resulted in revenue loss of Rs. 8.310 million. Annex-16

Audit is of the view that the agents unauthorizedly issued tickets to passengers on special flights during Covid period which caused a revenue loss of Rs. 8.310 million.

The matter was reported to the management in June 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that sales on Special or Repatriation flights was not restricted to agents unless categorically specified. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.69 Irregular award of transport contract – Rs. 7.897 million

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

During audit of Pakistan International Airline Corporation (PIAC) Multan Station for the years 2019 & 2020, it was observed that the management hired rental car services from M/s Executive Enterprises & M/s Sherwanion direct contract basis and paid amount of Rs. 6.075 million and Rs. 1.822 million respectively.

Audit is of the view that management hired services from the contractors without calling open tender in violation of rules.

The matter was reported to the management in March 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management informed that contract was awarded on emergency basis. The DAC directed the management that emergency clause of PPRA could not be invoked since no proper forum was there; later on process was covered in tendering process.

Audit recommends implementation of the DAC directives.

1.1.4.70 Loss due to irrational procurement of dry fruits – Rs. 7.315 million

As per principles of procurement enunciated in the PIAC's Procurement Manual, one of the five basic concerns that govern PIAC's procurement policies is to ensure that the funds are used to buy only those Products/Goods, Services, Works, Plant & Equipment and Information Systems which are needed to operate and maintain PIAC.

During audit of Pakistan International Airlines Corporation (PIAC) Supply Chain Management for the year 2020, it was observed that management procured dry fruits items in quantity of 4,412 Kg during the year 2020 as compared to procurement of 1,868 Kg in the year 2019. Annex-17.

Audit is of the view that the management procured excess quantity in the Covid period as compared to the year 2019 when flights were being operated at normal capacity.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that PIA was the only Airline (even during that difficult season) running its operation to bringing back the stranded Pakistanis to our country. During this operation, the consumed quantities are less than the previous year. The DAC directed the management to share Policy with Audit.

Audit recommends implementation of the DAC directives.

1.1.4.71 Irregular payment due to appointment on fake degrees / certificates- Rs. 7.200 million

Pakistan International Airline Corporation (PIAC) Personnel Policy Manual, Chapter- 4 para 75(a) Misconduct and Para 76(h) states that giving false information regarding name, age, father's name, educational or professional qualification, previous service or experience or anything relating to the record of service at the time of joining the service of the corporation or at any time during the service of the corporation will have penalty of dismissal from service.

During audit of Pakistan International Airlines Corporation (PIAC) Lahore Station, for the year 2020, it was observed that the management appointed 12 employees on fake/tempered/forged degrees, but no action was taken by the management against such employees.

Audit is of the view that continuation of services of the employees appointed on fake degrees reflects negligence. This resulted in irregular payment of approximate salary of Rs. 7.200 million (Rs. 50,000 per month x 12 months x 12 employees).

The matter was reported to the management in June 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that out of 12 employees mentioned in this para, 08 were dismissed on account of fake/forged educational documents, whereas, educational documents of 03 employees are found correct and 01 employee having fake

education document got stay order from the court of law. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.72 Unjustified payment due to non-completion of work – Rs. 6.592 million

As per agreement for consultancy service for preparing a comprehensive financial model/feasibility study for use of three plots owned by PIA at different locations signed on 17.10.2019, clause No 5 “fee for services and terms of payment”, the total fee of the services is PKR 10,300,000 payable as per payment stages.

During audit of Pakistan International Airlines Corporation (PIAC), Works Department for the years 2019 & 2020, it was observed that the management awarded contract to M/s. International Consulting Associated (Pvt) Ltd for preparing a comprehensive financial model/feasibility study for use of three plots owned by PIA at different locations amounting to Rs.10.300 million for a period of one year w.e.f. 17.10.2019 to 16.10.2020. However, the consultant could not complete the task within a specified period. It was further observed that the actual payment as per package was Rs. 2.060 million for work completed, however management paid an excess payment of Rs. 6.592 million was made to the contractor despite non-completion of work. Furthermore, no penalty clause was included in the agreement for non-completion of task.

Audit is of the view that the management extended an undue favor by making an excess payment despite non-completion of work which reflects poor management.

The matter was reported to the management in July 30, 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that PIA has only paid the consultant a total of Rs. 1.730 million so far. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.73 Irregular promotion of Deputy General Manager Finance and GM Funds - Rs. 5.299 million

PIAC Admin Order No.24/2011 dated 09.08.2011 Revised Promotion Policy-2011 Para 2 –B (i) Normally promotion of employees shall be considered for filling vacant positions, before considering internal/external advertisement.

As per criteria for promotion of PG V & Above, candidate required to complete Minimum 5 years in PG VIII.

During audit of Pakistan International Airlines Corporation (PIAC), Human Resource Department for the year 2020, it was observed that Mr. Asif Zia was appointed as Manager Finance in PG VIII on 24.01.2011. Later on, he was promoted twice in violation of rules as detailed below:

Date of Appointment	Designation	Selection Date	Promotion Due as per Rules	New Designation
24.01.2011	Manager Finance (PG VIII)	08.05.2015	23.01.2016	Dy. GM (PG IX)
24.01.2011	Deputy GM	26.07.2019	22.01.2021	GM Funds (PG X)

Audit is of the view that the promotions of the incumbent in violation of requisite criteria stands irregular and unjustified. Thus, excess salary amounting to Rs. 5.298 million (Rs. 511,677 - Rs. 119,600 = Rs. 391,677 x 14 months) also stands irregular.

The matter was reported to the management in November 2021. The matter was reported to the management in July 30, 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that Internal Selections of incumbent General Manager Funds Management is made in a transparent manner and in accordance with Company policy. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.74 Irregular appointment of employees on fake degree / licenses

The Secretary, Government of Pakistan, Establishment Division vide his DO letter dated March 08, 2011 communicated the instructions of the Prime

Minister states that measures should be taken to authenticate degrees/certificates of all federal Govt. employees of respective Ministries/Divisions, their subordinate offices and autonomous bodies under their administrative control. The verification process may be initiated by the respective Ministries/Divisions and heads of autonomous/semi-autonomous organizations at their own and verification charges may be borne by the respective Ministries/Divisions/organization. In case funds are needed by any organization, the same may be provided by the finance Division if no budgetary provision is available. Any foreign degree/diploma should be got verified from HEC. A certificate along with list of officers whose degrees / certificates have been verified should be furnished to the Establishment Division forty five (45) days of issue of these instructions.

During audit of Pakistan International Airlines Corporation (PIAC), Flight Operation Department for the year 2019 & 2020, it was observed that degrees / certificates / licenses of fourteen (14) employees/pilots were found fake/bogus during verifications. (Annex-18)

Audit is of the view that the degrees / certificates were required to be verified at the time of appointment which was not done which shows poor administration.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that out of 14 employees mentioned in this para, 10 were dismissed on account of Fake/forged documents, whereas 01 got retired in 2014, one name is duplicate. Remaining 02 are pilots having suspicious/fake License have taken injunction / stay orders from the courts. The DAC directed the management to get the position verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.75 Irregular promotions from account supervisor to Senior Accounts Officer

As per Admin Order No.24/2011 dated 09-08-2011 of PIAC, criteria for promotion (PG I to PG-VI) is as under:

Pay Group	Years of Service
III to IV Excluding Fixed Category	7 years in PG-III
III to IV Fixed Category	10 years in PG-III (Non Matric) OR 7 years in PG-III (Matric)
III to IV	5 years in PG-III
IV to V	5 years in PG-IV
IV to V Time Scale	10 years in PG-IV
V to VI	5 years in PG-V OR 12 years in PG-III and above

During audit of Pakistan International Airlines Corporation (PIAC), Human Resource Department for the year 2020, it was observed that Mr. MohsinIshaque Khan was inducted as Accounts Assistant (PG-III) on 06.07.2010 on regular basis. Followingirregularities were observed in his subsequent promotions as detailed below:

Date of promotion	Pay Group	Tenure in service	Length of Short Service
06,07,2012	IV	2 years	3 years
11.01.2013	V	6 months	4.5 years
25.08.2015	VI	2.5 year	2.5 years

Audit is of the view that promotions of incumbent from PG-III to VI were made in violation of criteria mentioned above which shows favoritism.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated thatan investigation has been ordered to pinpoint the responsibility. The DAC directed the management to investigate the matter and fix responsibility on the person(s) at fault.

Audit recommends implementation of the DAC directives.

1.1.4.76 Favoritism extended to General Manager (HRM)

As per Rule 78 of Employees (S&D) Regulations of PIAC, time limit for completion of disciplinary/enquiry proceedings, reply of Show Cause Notice within 03 to 07 days, declaration of reply as satisfactory or un-satisfactory within 03 to 07 days and completion of enquiry proceedings is 30 days.

During audit of Pakistan International Airlines Corporation (PIAC), Human Resource Department for the year 2020, it was observed that the management served a show cause notice to Mr. Shah Jehan Indher (General Manager HRM) on 27.09.2019 for being evidently involved in manipulation of results for the Promotion Board of Flight Services Division for PG-VII & VIII. As per enquiry report, the accused is found guilty of misconduct. However, after the lapse of more than one and half year, no action was taken.

Audit is of the view that the management granted undue favor to the incumbent as no action was taken.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that Mr. Shah Jehan approached the Hon'ble Sindh High Court and was granted stay order on 12.08.2020. The DAC directed the management to share Enquiry Report with audit.

Audit recommends implementation of the DAC directives.

1.2 Skyrooms (Pvt.) Limited

1.2.1 Introduction

Skyrooms (Pvt.) Limited was incorporated as a private limited company on May 20, 1975. The company is a subsidiary of Pakistan International Airlines Corporation registered under the Companies' Ordinance, 1984 and listed on all stock exchanges of Pakistan. Until June 30, 1999, PIA holdings (Pvt.) Limited was the holding company. The company owns and manages "Airport Hotel" at Karachi. The registered office of the company is situated at Airport Hotel, Karachi.

1.2.2 Comments on audited accounts

1.2.2.1 The working results of Skyrooms (Pvt) Limited for the year 2016 as compared with those of previous years are given as below:-

	(Rs in million)						
	2016	% Inc / (Dec)	2015	% Inc / (Dec)	2014	% Inc / (Dec)	2013
Net Revenue	266.60	(20.61)	335.82	(4.62)	352.10	9.11	322.70
Cost of Sales	(241.70)	(15.45)	(285.85)	(4.84)	(300.38)	8.50	(276.86)
Gross Profit/Loss	24.90	(50.16)	49.97	(20.33)	62.72	36.82	45.84
Administration Exp.	(55.94)	(3.08)	(57.72)	(5.56)	(61.12)	7.15	(57.04)
Other Exp.	(4.08)	(39.18)	(6.72)	(66.73)	(20.18)	3,005.08	(0.65)
Financial Charges	(0.18)	402.78	(0.04)	9,130.77	(0.003)	(80.50)	(0.002)
Other Income	13.52	11.75	12.10	(0.91)	12.21	697.91	1.53
Loss before Taxation	(21.79)	804.40	(2.41)	(86.13)	(17.37)	68.27	(10.32)
Taxation	(20.11)	(48.17)	(38.80)	968.87	(3.63)	467.19	(0.64)
Loss after Taxation	(41.90)	1.67	(41.21)	96.27	(21.00)	91.39	(10.97)
Accumulated Loss	(255.84)	19.58	(213.94)	23.86	(172.73)	13.84	(151.73)

(Source: Annual Audited Accounts)

1.2.2.2 Net Revenue of the Company shows a decreasing trend by 20.61% to Rs. 266.600 million in the year 2016 as against Rs. 335.820 million in the previous year 2015 which needs justification.

1.2.2.3 Gross profit to Rs. 24.900 million in the year 2016 as compared to previous years 2015 Rs. 49.970 million registering declined by 50.16% which needs justification.

1.2.2.4 Financial charges increased by 402.78% to Rs. 0.180 million in the year 2016 as compared to previous year 2015 Rs. 0.040 million, matter needs to be justified.

1.2.2.5 The Company made a provision of Rs. 22.870 million during the year 2016 in respect of management fee payable to the holding company which represents 7.5% of the company's revenue. However, a formal agreement has not yet been executed between the company and the holding company. The provision of the subject amounts had been created on the basis of letter. The matter needs to be justified.

1.2.2.6 The aggregate amount of Rs. 3.723 million was payable to the provident fund. The amount was not deposited within the stipulated time of fifteen days to the provident fund as required under Section 227(3) of the Companies ordinance, 1984. The company did not comply rule of the Public Sector Companies (Corporate Governance) Rules, 2013 regarding publish and circulate a statement of compliance alongwith annual report. The matter needs to be elucidated.

1.2.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	% age of compliance
2018-19	10	1	9	1.2.2.1, 1.2.2.2, 1.2.2.3, 1.2.2.4, 1.2.3, 1.1.2.1, 1.1.2.2, 1.1.2.3, 1.1.2.4 (PAC referred for DAC level)	10
Total	81	72	9		10

The overall compliance of PAC directives was not satisfactory which requires immediate attention of the management.

1.2.4 Audit Paras

1.2.4.1 Non-recovery from various parties - Rs. 218.383 million

Clause 2.01 of the credit policy of Skyroom (Pvt.) Limited states that the authority extending the credit is also responsible for its timely recovery whilst the Finance Department function is to ensure timely/proper accounting reconciliation

and providing an updated status of outstanding dues. Further, clause 2.03 states that credit period may upto a maximum of 30 days and financing cost @ 1.50% per month is to be added to all overdue credit for such additional period(s) till recovery. Furthermore, Rule 4(3) of Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its Producers in Financial and other matters, subject to the oversight and directions of the Board, in accordance with the ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the board, making appropriate arrangements to ensure that funds and resources are properly safeguard and are used economically, efficiently and effectively and in accordance with all statutory obligation.

During audit of Skyrooms (Pvt) Limited (SRL) for the year 2020, it was observed that the management failed to recover an amount of Rs. 218.383 million from various parties as detailed below:

(Rs. in million)		
S. #		Amount
1.	Different debtors	106.974
2.	Tax Authorities	104.260
3.	Other receivable	2.944
4.	Short tenants	4.205
Total		218.383

Audit is of the view that the management remained failed to recover huge amount from various parties which shows inefficiency and poor financial management.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that existing Management of Airport Hotel has realized to recover long outstanding dues. The DAC directed the management to verify the recovery and expedite the outstanding amount.

Audit recommends implementation of the DAC directives.

(DP No. 658, 655, 657 & 654)

1.2.4.2 Loss of revenue due to non-operational of rooms – Rs. 130.487 million

Rule 4(3) of Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its Producers in Financial and other matters, subject to the oversight and directions of the Board, in accordance with the ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the board, making appropriate arrangements to ensure that funds and resources are properly safeguard and are used economically, efficiently and effectively and in accordance with all statutory obligation.

During audit of Skyrooms (Pvt) Limited (SRL) for the year 2020, it was observed that the Airport Hotel consists of 310 rooms out of which 110 rooms are non-operational due to repair and maintenance etc. as detailed under:

S.#	Block's Name	Total Rooms at each Block	Operational Rooms	Non-Operational Rooms
1.	A	39	21	18
2.	B	32	07	25
3.	D	60	41	19
4.	E	60	16	44
5.	R	34	30	4
	Total	225	115	110

Audit is of the view that the management failed to utilize the total existing capacity which resulted in revenue loss amounting to Rs. 130.487 million per annum. (110 rooms x Rs. 3,250 Room rent per night x 365 days) which reflects inefficiency.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that due to poor load of transit passengers and shortage of funds rooms could not be made operational. The DAC directed the management to get the stated position verified from Audit.

Audit recommends implementation of the DAC directives.

1.2.4.3 Irregular award of contracts – Rs. 35.013 million

As per tender terms & conditions of contract, participant (bidder) must be registered with Sales Tax Authorities. Further, only those bidders will be considered further who fulfills all applicable mandatory.

During audit of Skyrooms (Pvt) Limited (SRL) for the year 2020, it was observed that the management awarded the contracts for supplying of sweat water and vegetables & fruits to the suppliers which was not registered with Sales Tax Authorities. The detail of payments are as under:

S. #	Contractor	Purpose of contract	Contract's Date	Rs. in million
1.	M/s H2O Enterprises	Sweat Water	01.09.2018 to 31.12.2020	15.260
2.	M/s Khan Vegetables	Vegetables & Fruits	01.09.2017 to 31.12.2020	19.753
Total				35.013

Audit is of the view that the management awarded the contracts in violation of tender terms and conditions which is held irregular.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that Ex-Manager Purchase, Mr Ejaz Hussain who had initially done this Tender. An Investigation was done but Mr Ejaz left the PIA under VSS. The DAC directed the management to share Inquiry Report with audit.

Audit recommends implementation of the DAC directives.

1.2.4.4 Violation of Board of Directors directives – Rs. 5.400 million

According to the minutes of 69th meeting of Skyrooms (Pvt) Limited (SRL) Board of Director (BoD) on 30.11.2018 decided that the security services of Airport Hotel should be centrally controlled. It decided that henceforth hiring of security services for SRL shall be done together with hiring the same for PIACL.

During audit of Skyrooms (Pvt) Limited (SRL) for the year 2020, it was observed that management continued the services of M/s Internet Security Systems (Pvt.) Ltd. for providing security guards till January 31, 2020 despite the

directives of BoD (SRL) to discontinue the services and done together with PIACL.

Audit is of the view that the management failed to comply with the directives of BoD decision mentioned above. Thus, payment of Rs. 5.400 million on hiring of security services service stands irregular / unjustified.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that PIA did not give any security Service plan to Skyrooms (Private) Limited, due to which the tender of Security Services was continued at same rate. The DAC directed the management to get the stated position verified from Audit.

Audit recommends implementation of the DAC directives.

1.2.4.5 Mis-procurement in award of contract of TV cable service – Rs. 2.050 million

Rule 40 of PPRA, 2004 states that there should be no negotiation with the bidder having submitted the lowest evaluated bid or with any other bidder. Further, as per tender terms & conditions “participant (bidder) must be registered with Sales Tax Authorities.” Only those bidders will be considered further who fulfill all applicable mandatory requirements.

In addition, second schedule to the Sindh Sales Tax on Service Act, 2011 states that Cable TV operators liable to deposit the sales tax @ 13%.

During audit of Skyrooms (Pvt) Limited (SRL) for the year 2020, it was observed that management awarded a contract to M/s Uzma Cable Network for supplying Cable TV Service and Maintenance at a monthly fee of Rs. 50,000 in April 2017. However, audit observed following irregularities:

- The management negotiated with bidder after submission of bid.
- The contractor was not registered with Sales Tax Authorities.
- Management did not deduct 13% Sales Tax on monthly payment.
- Contractor license was not valid at the time of submission of bid date i.e. 21.03.2017.

The details of payment and deductions are as under:

Contract Period	Rate per month (Rs.)	Total Period	Total Paid Amount (Rs.)
01.08.2017 to 31.12.2020	50,000	41	2,050,000

Audit is of the view that the management awarded the contract in violation of rules. Thus, payment of Rs.2.050 million stands irregular and unjustified on account of unauthorized award of contract.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management in its reply stated that irregularities have been found in awarding the contract to the cable operator. The DAC directed the management to share the Inquiry report.

Audit recommends implementation of the DAC directives.

1.2.4.6 Non-production of auditable record

Section 14 of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 states:

The officer in-charge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete form as possible and with all reasonable expedition (sub section-2).

- ii. Any person or authority hindering the Auditorial functions of the Auditor General regarding inspection of accounts shall be subject to disciplinary action under relevant E & D Rules (Sub Section-3).

During audit of Skyrooms (Pvt) Limited (SRL) for the year 2020, it was observed that the management could not produce the requisite record(s) despite frequent reminders. Thus, audit was unable to ascertain transparency of various transactions / expenditure and due to the non-production / concealment of record, chances of doubtful transactions could not be ruled out. Annex-19

Audit is of the view that non-production of record tantamount to concealment of facts and serious negligence on the part of management.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 19 & 20, 2022. The management stated that most of the record had been provided to Audit. The DAC

directed the management to reconcile the record produced and get the remaining record audited.

Audit recommends implementation of the DAC directives.

Chapter-2

Cabinet Division

Overview

The Cabinet Division's role is to facilitate Federal Cabinet, its meetings and official visits of delegations.

Aims & Objectives

1. All secretarial work for the Cabinet, National Economic Council and their Committees, Secretaries' Committee.
2. National Economic Council: Its constitution and appointment of members.
3. Secretaries Committee.
4. Central Pool of Cars.
5. All matters relating to President, Prime Minister, Federal Ministers, Ministers of State, Persons of Minister's status without Cabinet rank, Special Assistants to the Prime Minister.
6. Appointments, resignations, salaries, allowances and privileges of Provincial Governors.
7. Strength, terms and conditions of service of the personal staff of the Ministers, Ministers of State, Special Assistants to the Prime Minister, dignitaries who enjoy the rank and status of a Minister or Minister of State.
8. Rules of Business: Setting up of a Division, allocation of business to a Division and constitution of a Division or group of Divisions as a Ministry.
9. Implementation of the directives of the President/Prime Minister.
10. Follow up and implementation of decisions of all the bodies mentioned above.

Governing Laws and Policies

- Rule of Business 1973
- Establishment Rules 1973
- General Financial Rules

Audit Profile of Cabinet Division

(Rs. in million)					
S. No.	Description	Total	Audited	Expenditure audited FY 2020-21	Revenue /Receipts audited FY 2020-21
1	Formations	6	-		
2	Assignment Accounts (excluding FAP)				-
3	Authorities /Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit of Printing Corporation of Pakistan was not planned in the annual plan of the AGP for the year 2020-21. Audit observations amounting to Rs. Nil were raised in this audit. Summary of the audit observation classified according to respective subjects' nature is as under:

Overview of the Audit Observations

S. No.	Classification	Amount (Rs.)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities:	
A	HR/Employees related irregularities	-
B	Procurement related irregularities	-
C	Management of accounts with Commercial Banks	-
4	Value for money and services delivery issues	-
5	Others	

2.1 Printing Corporation of Pakistan (Pvt.) Limited

2.1.1 Introduction

Printing Corporation of Pakistan (Pvt.) Limited was incorporated on January 01, 1969 as a private limited company under the Companies Act, 1913 (now Companies Act, 2017). The entire shares of the Company are held by the Government of Pakistan. The registered office of the Company is situated at Khayaban-e-Suhrawardy, Islamabad.

The Company is principally engaged in the business of printing of government publications. Currently, the Company has the following presses:

1. PCP Printing Press Islamabad;
2. PCP Printing Press Lahore; and
3. PCP Printing Press Karachi.

2.1.2 Comments on Audited Accounts

2.1.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts of the organization for the years 2019-20 and 2020-21 till December 31, 2021.

Audit recommends that the annual audited accounts for the year 2019-20 and 2020-21 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (**Annex-2**).

2.1.2.2 The working results of the Corporation for the financial year 2018-19 as compared to previous years were as follows:

	2018-19	% Inc/ (Dec)	2017-18	% Inc/ (Dec)	2016-17
Sales	662.80	117	304.45	(1.52)	309.15
Cost of sales	356.15	(4.83)	374.22	14.08	328.02
Gross profit/(loss)	306.65	339.52	(69.77)	269.74	(18.87)
General & Admn. Expenses	232.15	8.95	213.08	0.06	212.96
Selling expenses	2.36	(50.52)	4.77	358.65	1.04
Operating Profit/(loss)	72.14	74.91	(287.61)	23.51	(232.87)
Other income	107.87	185.82	37.74	936.81	3.64

Financial charges	295.24	30.20	226.76	48.61	152.59
Profit/(Loss) before taxation	(115.23)	(75.82)	(476.63)	24.83	(381.82)
Taxation	8.28	117.32	3.81	(14.38)	4.45
Profit/(Loss) after taxation	(123.52)	(74.29)	(480.43)	24.38	(386.27)
Prior years adjustments	(1.74)	43.80	(1.21)	5950.00	(0.02)
Net profit/(loss)	(125.26)	(74)	(481.64)	24.68	(386.29)
Accumulated loss	(3,410.64)	3.81	(3,285.38)	17.18	(2,803.74)

(Source: Annual Audited Accounts)

The Sales of the Corporation increased to Rs. 662.80 million during the financial year 2018-19 as compared to previous year i.e. 117% from 2017-18. The Corporation is still in loss during 2018-19 and net loss of Rs. 125.26 million led to accumulated loss of Rs. 3,410.64 million. The trend of continuous increase in accumulated losses cast doubt on going concern of the Corporation. The reasons for sustaining loss needs justification.

2.1.2.3 Overall General & Admn Expenses have increased 8.95% as compared to previous years. The increase in Directors' remuneration, salaries & wages (Honorarium/Bonus, House rent and other benefit), travelling & conveyance, vehicle running expenses and miscellaneous expenses is above 50% which needs justification.

2.1.2.4 Loan and advances of Rs. 114.806 million which includes advances to suppliers are still receivable since long i.e. Rs. 107.254 million from Dar-o-Kaz Printers since 1995, Rs. 2.446 million since 2017 and Rs. 0.982 million from M/s. Hilal Graphics Corporation, Lahore. Audit stressed for early recovery of advances.

2.1.2.5 Deferred liabilities of the Corporation included liabilities against Pension Fund Contribution - Rs. 43.17 million and Gratuity Fund Contribution - Rs. 432.236 million as on 30.06.2019. Early settlement of liabilities is stressed.

2.1.2.6 Company's current liabilities exceeded its current assets by Rs. 389.806 million (2019: Current Assets Rs. 1,825.154 million and Current Liabilities

Rs. 2,214.960 million) resulting in an adverse current ratio. It is stressed that efforts may be made for making Corporation a going concern.

2.1.2.7 The Current ratio $(1,825.154/2,254.960) = 0.82$ times which was less than the generally accepted standard ratio of 2:1. It showed company's inability

to meet its obligations in near future. Efforts are required to improve its liquidity position.

2.1.2.8 The non-current liabilities of Rs. 2,994.265 million upto 2018-19 included long term borrowing of Rs. 2,173.281 million were interest bearing and Rs. 345.580 million interest free loans. Long term borrowing included loan of Rs. 864.00 million received during the year 2017-18 for procurement of new printing machines and Rs. 712.500 million to meet out immediate employees related financial requirements of PCP (including suppliers' payment at the interest rate of 6.62 % per annum). Operations of the Corporation by taking huge amount of interest bearing loan resulted in abnormal increase in interest on Govt. loan upto Rs. 295.241million. Further, it may jeopardize the entity as a going concern alongwith justification of loan for the purpose of which it was obtained.

2.1.2.9 Chartered Accountant has given qualified opinion on the following basis:-

- Contributory Provident Fund amounting to Rs. 956,589,419 (2018: Rs. 902,732,921) including accrued interest as on 30th June 2019 has not been paid to CP Fund trust which is against the provision of section 218 of Companies Act 2017, which is serious irregularity. The Management should have pay sum of Rs. 956.589 million including interest to CP Fund Trust account under intimation to Audit.
- The Company has not got actuarial valuation as required under IAS – 19 for employees benefit schemes. The management needs to conduct actuarial valuation as per requirement of IAS – 19.
- The financial statement of company shows advance amount of Rs. 107 million to M/s. Dar-o-Kaz Printers, which is dispute and doubtful recovery since 1995. Audit hold that recover the advance amount and got verify from Audit.

2.1.3 Compliance of PAC Directives

S. #	Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
1	1990-91	08	7	1	12	88
2	1991-92	08	7	1	8	88
3	1992-93	12	10	2	6, 10	83
4	1996-97	07	1	6	5, 6, 7, 9, 10, 11	14
5	1998-99	07	6	1	41	86
6	1999-00	11	8	3	14, 37, 44	73
7	2000-01	08	6	2	34, 35	75
8	2002-03	15	14	1	5.6	93
9	2003-04	08	0	8	3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 3.8	-
10	2004-05	03	2	1	3	67
11	2005-06	09	8	1	2.1	89
12	2006-07	06	4	2	2.4, 2.5	67
13	2007-08	03	3	0	0	100
14	2008-09	04	3	1	1.1	75
15	2009-10	06	0	6	1, 1.1, 1.2, 1.3, 2, 3	0
16	2010-11	08	0	8	1.1.1& 1.1.2.1, 1.1.2.3, 1.1.2.4, 1.1.4.2, 1.1.2.2, 1.1.3, 1.1.4.1, 1.1.4.3	0
17	2013-14	08	06	02	3.3.2.4, 3.3.2.5	75
18	2015-16	03	0	3	2.1.4.1, 2.1.4.2, 2.1.4.3	-
19	2017-18	13	0	13	2.1.1, 2.1.2.1, 2.1.2.2, 2.1.2.3, 2.1.2.4, 2.1.2.5, 2.1.2.6, 2.1.2.7, 2.1.2.8, 2.1.2.9, 2.1.2.10, 2.1.3	-
20	2018-19 to 2020-21	PAC not convened				
Total		147	85	62		58

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

2.2 Pakistan Tourism Development Corporation (Head Office) Rawalpindi

2.2.1 Introduction

Pakistan Tourism Development Corporation (Pvt.) Limited (the Company) was incorporated in Pakistan on March 19, 1977 under the Companies Act, 1913 (now Companies Ordinance 1984) as a public corporation limited by shares. Federal Government holds 99.75% of the paid up share capital of the Company. The Company also has deposited for shares of Rs. 623.15 Million representing the grants received from the Federal Government for capital expenditure on specified capital project. The core objective of the Corporation is the promotion and development of tourism industry in Pakistan and to carry on business connected therewith in Pakistan and elsewhere.

The associated objectives are:-

- To develop and improve its hotels, motels and tourist information centers.
- To produce publicity and promotional material for distribution at home and abroad.
- To conduct promotional programs, activities and events for attracting tourists.
- To create awareness of tourist through private sector, missions abroad, PIA offices, tour operators, travel agents and hoteliers.

The Head Office of the Company is situated at Ground Floor of Kohsar Block, Pak Secretariat Islamabad.

The Corporation owns and controls the following subsidiaries:

- a. Pakistan Tours (Pvt.) Ltd.
- b. PTDC Motels North (Private)
- c. Associated Hotels of Pakistan
- d. PTDC Motels South (Private)

These financial statements have been prepared on going concern basis without any adjustment to assets and liabilities.

2.2.2 Comments on Audited Accounts

2.2.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts of the organization for the year 2020-21 till December 31, 2021.

Audit recommends that the annual audited accounts for the year 2020-21 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (**Annex-2**).

2.2.2.2 The working results of the Company for the year 2019-20 as compared with the preceding years are as under:

(Rs. in million)					
Description	2019-20	% inc/(dec)	2018-19	% inc/(dec)	2017-18
Sales	49.77	(66.251)	147.46	(5.93)	156.76
Cost of sales	62.17	(58.17)	148.61	(9.63)	164.46
Gross Profit/loss	(12.40)	87.59	(1.15)	(85.06)	(7.70)
Administrative expenses	37.16	(4.13)	38.76	6.22	36.49
Hotels HO expenses	---	---	0.0001	-	0.14
Selling expenses	0.03	(40.00)	0.05	(86)	0.37
Financial Charges	2.18	7,180	0.03	(91.42)	0.35
Operating profit/(loss)	(51.78)	29.49	(39.99)	(11.23)	(45.05)
Other income	57.71	135.18	24.54	(52.05)	51.18
Under/(Overspent) grant					
Head Office expenses	(6.55)	(46.22)	(12.18)	(35.11)	(18.77)
Tourist Information Center	5.35	94.65	(13.76)	(201.75)	(4.56)
Publicity & promotion	24.44	2.32	23.89	(6.46)	(22.44)
Profit/(Loss) before taxation	29.18	66.73	(17.50)	(233.97)	5.24
Taxation	0.75	(80.44)	3.82	7.61	3.55
Profit/(Loss) after taxation	28.43	33.35	(21.32)	(1169.05)	1.68
Accumulated loss	679.83	(4.01)	708.26	4.13	680.18

The Company is continuously running in losses for many years and its accumulated losses of Rs. 679.83 million are 3.98 times of its paid up capital of Rs. 170.53 million which resulted into negative equity of the Company to the extent of Rs. 509.29 million. This trend clearly indicates that future of the Company is at risk and it will have to survive on the revenue grants from the Government. The management should take clear steps to increase its revenue and decrease its expenditure to run the Company at least at breakeven.

2.2.2.3 The sale of the Corporation decreased by 66.25% from 147.46 million in 2018-19 to Rs. 49.76 million in 2019-20 while cost of sales decreased by 58.17% from Rs. 148.62 million in 2018-19 to Rs. 62.170 million in 2019-20. This further increased gross loss of Rs. 1.15 million in 2018-19 to 12.40 million in 2019-20. The abnormal increase in gross loss needs to be explained.

2.2.2.4 The profit before taxation was Rs. 29.18 million in 2019-20 as compared to the loss of Rs. 17.50 million in the year 2018-19. This profit was mainly due to receipt of grant of Rs. 46.79 million for Flashman's Hotel under the head other income. Terms and Conditions of grant along with its head wise detail of expenditure need to be explained.

2.2.2.5 Against the grant of Rs. 136.00 million on account of Tourist Information Centre, an amount of Rs. 5.35 million has been lapsed which is a violation of Government instructions and needs to be investigated at appropriate level.

2.2.2.6 Capital Work in Progress was increased by 4.11% i.e. Rs. 269.13 million in 2019-20 as compared to 258.52 million in 2018-19. The scope of work has neither been capitalized as operating fixed assets nor did management conduct any impairment review of the assets classified under Capital Work in Progress. Required action needs to be taken besides details/nature of work may be provided.

2.2.2.7 Impairment loss on financial assets; investments in PTDC Motels South (Pvt.) Limited, a subsidiary Company and Malam Jabba Resorts Limited, amounting to Rs. 0.21 million and Rs. 2.75 million respectively have not been recognized in these financial statements as per applicable standards, as these companies have ceased their operational activities in prior years. Moreover, the related Equity Participation Reserve against shares in Malam Jabba Resorts Limited should also be adjusted accordingly.

2.2.2.8 Receivables amounting to Rs. 67.13 million (Note 13) from PTDC Motels North (Private) Limited, a subsidiary Company is overstated by an amount of Rs. 34.03 million. This amount was received by the Corporation from the Government of Pakistan in respect of Grant for the Subsidiary during the year ended June 30, 2013. Other receivables included an amount of Rs. 0.72 million

from Usman estates, a defaulter on account of office rent. Neither any provision has been made against the said amount nor valuation of office equipment and furniture recorded by the management.

2.2.2.9 The Corporation has not accounted for deferred taxation which is contrary to the requirements of the International Accounting Standards 12 “Income Taxes”. Moreover, deferred tax liability/asset as at June 30, 2020 cannot be quantified due to non-availability of the related records. Tax deducted at source in prior years up to June 30, 2019 amounting to Rs. 9.27 million has not been deposited with the Tax Authorities in accordance with the requirements of the Income Tax Ordinance, 2001 which may result in penal action against the Corporation. Reasons for non-deposit of income tax deducted at source need investigation.

2.2.2.10 Payables to subsidiary companies increased to Rs. 32.29 million (Rs. 32.06 million in 2017-18). The reason for its non-payment and piling up of liability needs to be justified.

2.2.2.11 As per note 30.1, an amount of Rs. 1.53 million was included in respect of staff salaries but there was a decrease of 4.53% in salaries payment i.e. (Rs. 33.51 million in 2019-20 while in 2018-19 Rs. 35.09 million). This decrease in the expense needs justification.

2.2.2.12 The Cantonment Board Rawalpindi has claimed Rs. 19.01 million vide bill No. 116781 dated 13.08.2015 in respect of assessment of property tax. The updated status of this liability should be intimated to audit.

2.2.2.13 As disclosed in note 27.1 (c) to the financial statements, in the light of decision made by Honorable Supreme Court of Pakistan, the Corporation has not accounted for interest on Rs. 4.54 million payable for acquisition of land at Saidu Sharif, Swat which may be explained along with updated status.

2.2.2.14 The management has not conducted physical verification of fixed assets on perpetual basis or otherwise; and has not carried out impairment review as required under International Accounting Standards 36 “Impairment of Assets”. In the absence of such a review, the accurate value of property, plant and equipment cannot be ascertained. Reasons for non-conducting physical

verification of fixed assets on perpetual basis needs to be explained and the same required to be carried out at the earliest.

2.2.2.15 Contingent liability of Rs. 2.10 million not acknowledged by the management needs explanation.

2.2.2.16 Stores valuing Rs. 2.24 million as on 30.06.2019 was shown in the accounts vide Note-10 whereas in 2019-20, nothing was shown and the same was not explained by notes to the accounts for 2019-20.

2.2.2.17 Financial charges were increased by 6140% i.e. Rs. 2,184 million in 2019-20 against Rs. 0.03 million in 2018-19. The same was not explained by notes to the Accounts. This abnormal increase in financial charges also needs to be explained besides provision of details of such expenditure.

2.2.2.18 The Current Ratio of the Company comes to 1:0.40 for the year 2019-20 (current liabilities Rs. 160.54 million: current assets 114.49 million) (2018-19 1:0.67). This indicated much poor liquidity position. The overall financial condition of the company further deteriorated despite sufficient resources for its successful operations causing significant doubts about the Company's ability to continue as a going concern. The Corporation should try to improve its current ratio according to prescribed international standard i.e. 2:1.

2.2.3 Compliance of PAC Directives

S. #	Audit Report	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of Compliance
1	2005-06	02	1	1	207	50
2	2006-07	07	04	03	203.2, 203.3, 203.4	57
3	2007-08	03	01	02	174, 175	33
4	2008-09	06	05	01	224.1	83
6	2014-15	07	01	06	2.4.2.1, 2.4.3, 2.4.4.1, 2.4.4.2, 2.4.4.3, 2.4.4.4	14
7	2015-16	05	0	05	2.4.1, 2.4.2, 2.4.3, 2.4.4.1, 2.4.4.2	0
8	2017-18	14	03	11	2.4.2.2, 2.4.2.3, 2.4.2.4, 2.4.2.5, 2.4.2.6, 2.4.2.7, 2.4.2.8, 2.4.2.9, 2.4.3, 2.4.4.1, 2.4.4.2	21
9	2018-19 to 2020-21	PAC not convened				
Total		44	15	29		34

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

2.3 PTDC Motels North (Private) Limited

2.3.1 Introduction

PTDC Motels North (Pvt.) Limited was incorporated in Pakistan on March 19, 1977 under the Companies Act 1913 (now Companies Act, 2017). The Company is a wholly owned subsidiary of Pakistan Tourism Development Corporation Limited.

Corporate information

Main objectives of the Company are:-

- To promote tourism industry in the Country.
- To run and manage motel business in Pakistan.

The Company is operating 26 motels situated as follows:-

Province	No. of Motels
Punjab	02
Khyber Pakhtunkhwa	14
Islamabad	01
Gilgit-Baltistan	09

The accounts for the year 2020-21 have not been signed and approved by the Board.

2.3.2 Comments on Audited Accounts

2.3.2.1 The working results of the Company for the year 2020-21 as compared to the preceding year are as under:-

(Rs. in million)					
Description	2020-21	% Inc/(Dec)	2019-20	% Inc/(Dec)	2018-19
Revenue	8.08	(95.50)	179.86	(31.96)	264.34
Direct cost	(2.48)	(98.73)	(195.57)	(13.98)	(227.36)
Gross profit/(loss)	5.606	64.31	(15.71)	(57.52)	36.98
Administrative expenses	(19.07)	(54.39)	(41.81)	(10.29)	(46.61)
Financial charges	(0.003)	(9.47)	(0.08)	(40.56)	(0.14)
Operating (loss)/profit	(13.46)	(76.62)	(57.60)	489.34	(9.77)
Other income	0.03	(99.62)	(7.35)	(8979.01)	0.08
Govt. Grant	000		64.46		0

Profit/Loss before taxation	(13.44)	(2587.40)	(0.500)	(87.79)	4.09
Provision for taxation	(0.12)	(94.62)	(2.25)	(31.96)	(3.30)
Loss after taxation	(13.56)	(393.38)	(2.75)	246.97)	0.79

(Source: Annual Audited Accounts)

Revenue of the Company decreased by 95.50% from Rs. 179.861 million in 2019-20 to Rs. 8.083 million in 2020-21 whereas direct cost also decreased by 98.73%, from Rs. 195.57 million in 2019-20 to Rs. 2.477 million in 2020-21. Resultantly the company earned gross profit of Rs. 5.606 million during the year 2020-21 as against Gross Loss of Rs. 15.71 million during preceding year 2019-20. The operating loss of the company decreased to Rs. 13.465 million in 2020-21 as compared to preceding year of Rs. 57.603 million in 2019-20.

2.3.2.2 Loss before taxation increased by 2587.40% from Rs. 0.500 million in 2019-20 to Rs. 13.437 million in 2020-21 which resulted in increase in accumulated losses by 4.25% i.e. Rs. 332.307 million in the year 2020-21 as compared to Rs. 318.749 million in 2019-20. Besides justification of the above, efforts should be made to control the cost.

2.3.2.3 Current liabilities of the company exceeded its current assets by Rs. 152.93 million. These conditions indicate the existence of material uncertainty which may cast significant doubt over the company's ability to continue as going concern.

2.3.2.4 Debts of the Company increased by 9.68% i.e. Rs. 30.178 million in 2020-21 as compared to Rs. 27.515 million in 2019-20. Similarly other receivables also increased by 20.84% from Rs. 1.137 million in 2019-20 to Rs. 1.374 million in 2020-21. Aging of the debts along with updated status of recovery may be furnished.

2.3.2.5 Out of total trade debts of Rs. 30.178 million lying outstanding as on 30.06.2021, debts of Rs. 1.785 million were considered doubtful and provision of such amount has been made in the accounts. Reasons for considering the debts as doubtful and corresponding efforts for recovery need to be explained.

2.3.2.6 Although the trade and other payables decreased by 10.06% from Rs. 191.661 million in 2019-20 to Rs. 172.374 million in 2020-21 yet an amount of Rs.71.750 million was payable on account of Provident Fund (2019-20: Rs. 73.09 million), an amount of Rs. 5.077 million was payable against leave encashment, and an amount of Rs. 82.553 million was payable against salary.

Slight decrease in payables under these heads showed that lesser amount had been repaid on this account in 2020-21. Reasons for not clearing the payables should be justified.

2.3.2.7 An amount of Rs.3.528 million was shown payable on account of net taxation as compared to the previous year Rs. 3.613 million. Accumulation of amount in this head indicated that the Company had no plan to clear this liability in near future. Management may work out a plan to clear the dues at an early date.

2.3.2.8 Current ratio was 1:0.17 as on June 30, 2021 as (2017-18 1:0.14) which was far less than the generally accepted ratio of 2:1. This showed Company's inability to settle its short term liabilities.

2.3.2.9 The External Auditors highlighted following qualifications on the accounts.

- The Company has not complied with the provisions of Section 176 of the Companies Act, 2017, according to which the directors of a public company shall meet at least once in each quarter of a year, and section 132 of the Companies Act, 2017, according to which the Company shall hold its annual General meeting once at least in every calendar year not later than four months after the close of its financial year. The financial statements of the Company as at June 30, 2012, June 30, 2013, June 30, 2014, June 30, 2015, June 30, 2016, June 30, 2017 and June 30, 2018, June 30, 2019 and June 30, 2020 are also unapproved till date.
- Tax deducted at source in prior years up to June 30, 2021 amounting to Rs. 4.828 million has not been deposited till date with tax authority in accordance with the requirements of the Income Tax Ordinance, 2001 which may result in penal action against the company.
- Finance Division through its letter No. F.15(3) R-14/84 dated 16.10.1984 directed all autonomous bodies/semi-autonomous bodies and corporation under their administrative control, where the pension scheme does not exist that the payment of gratuity in addition to contributory provident fund should not be allowed to their employees on the quantity of service. However, the company has accounted for the provision of gratuity amounting to Rs. 86.542 million till year end which mainly relates to employees appointed after 1984.

- The company has not assessed impairment of financial assets as per Expected Credit Loss Model required by IFRS 9 “Financial instruments”. Instead, the company has recognized provision in bad debts based on incurred loss model as per provision IAS 39. In the absence of detailed assessment of Expected Credit Loss, the quantifying the impact of this non-compliance in the financial statements is impossible.
- The provision for gratuity has not been provided on the basis of actuarial as required by IAS 19 “Employees Benefits”. Further, the company has not accounted for charge for the year against provision for gratuity.
- The Company has not made any assessment for first time application of IFRS 9 “Financial Instruments” and IFRS 15”Revenue from contract with customer” and resultantly has not accounted for any adjustment for adaptation of these standards in these financial statements. In the absence of detailed assessment of Expected Credit Loss, the impact of non-compliance in the financial statements could not be quantified.

2.3.3 Compliance of PAC Directives

Sr. #	Audit Report	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of Compliance
1.	1991-92	05	04	01	91	80
2.	1994-95	04	01	03	117,118,119	25
3.	2007-08	03	02	01	176.2	67
4.	2008-09	04	03	01	225.1	75
5.	2009-10 to 2020-21	PAC not convened				
Total		16	10	6		63

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

2.4 Pakistan Tours (Pvt.) Limited

2.4.1 Introduction

Pakistan Tours (PTL) was incorporated as a private limited company under the Companies Act, 1913 (now Companies Ordinance, 1984) on December 26, 1970. The company is a wholly owned subsidiary of Pakistan Tourism Development Corporation Limited whose entire share capital is owned and held by the Government of Pakistan through Cabinet Division. Since incorporation, there is no change in the pattern of shareholding of the company. The registered office of the company is situated at Flashman's Hotel, the Mall Rawalpindi.

The company's equity is eroded considerably and if the existing situation continues over the next few years, future business prospects will it's come back. Due to increase in the administrative expenses the company may not continue as a going concern. The company may look for some viable business opportunities for continuing as a self-sustainable entity.

Corporate Information

The main objective of the company was to promote touring activities in the country. The Company is primarily engaged in the business of tour operations and transport services throughout the Pakistan, especially in the northern areas. Due to deterioration in law and order situation in the country, the business of the company (especially tourism) is adversely affected.

Future Outlook

Due to continuous losses, chances of company's capability to continue as a going concern are remote.

2.4.2 Comments on audited accounts:

2.4.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts of the organization for the year 2020-21 till December 31, 2021.

Audit recommends that the annual audited accounts for the year 2020-21 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (**Annex-2**).

2.4.2.2 The working results of the company for the year 2018-19 to 2019-2020 as compared to the previous year are as under:

Description	2019-20	% Inc/(Dec)	2018-19	% Inc/(Dec)	2017-18
Total Income	67.84	(26.95)	92.88	317.81	22.23
Cost of Services	(9.71)	(75.52)	(39.67)	0.12	(39.62)
Gross profit / (loss)	58.13	9.22	53.22	202.21	17.61
Operating Expenses					
Admin & General expenses	(41.56)	7.28	(38.74)	(13.33)	(44.70)
Financial cost	(0.007)	(12.50)	(0.008)	(52.94)	(0.017)
Operating Profit / (loss)	(16.56)	14.44	(14.47)	103.80	(7.10)
Other income	0.89	709.9	0.11	(62.07)	0.29
Net profit / (loss) before taxation	(17.45)	19.77	(14.57)	113.95	(6.81)
Taxation for the year	1.04	52.94	0.68	183.33	0.24
Net Profit / (loss) after taxation	16.41	18.14	13.89	97.58	(7.03)

(Sources: Annual Audited Accounts)

The working results of the company showed decreasing trend in profit. During the year 2018-19 profit was Rs. 13.89 million with percentage of increase of 97% which increased to Rs. 16.41 million in 2019-2020 at a % Increase of just 18%. These trends will erode the equity of the Company and ultimately render it commercially enviable in future.

2.4.2.3 Current ratio of the company is 0.89:1 “Current assets Rs. 28.547 million, current liabilities Rs. 31.857 million” (2020 0. 0.61:1 “Current Assets Rs. 31.037 million, current liabilities Rs. 50.783 million 2019). This ratio is considerably below than the generally accepted ratio of 2:1 and indicates Company’s ability to settle its liabilities in a near future. Efforts need to be made to improve the liquidity position of the company.

2.4.2.4 Total income decreased by 26.95% from Rs. 92.88 million in 2018-19 to Rs. 67.84 million in 2019-20. The decrease was due to decrease in revenue which comes to Rs. 17.023 million from 35.57 million in the previous year and the decrease was 52.14%. The decrease in total income and the decrease in revenue needs justification.

2.4.2.5 Revenue from operations decreased to Rs. 17.02 million in the year (Rs. 35.57 million 2018-19) registering 52.14% decrease. The decrease in

revenue from operations was mainly due to decrease in revenue income to Rs. 2.29 million (Rs. 12. 65 million) from Lahore Delhi Bus Service (LDBS). Keeping in view the ever increasing vehicles running cost, proportionate increase in income was essential. Causes for decline in revenue may be looked into at appropriate level.

2.4.2.6 Amount payable to Delhi Transport Corporation has decreased to Rs. 13.352 million in 2019-20 as compared to Rs. 15.128 million in 2018-19. Reason to which the payable amount could not be cleared fully have not been mentioned in the accounts. Early reconciliation and settlement of this liability is stressed upon the management.

2.4.2.7 The External Auditors had made the following qualifications:

- The Statutory Auditors stated that they were unable to verify amount due from Pakistan Tourism Development Corporation Limited as appearing under current assets as Holding Company Current Account to the tune of Rs. 21.170 million and hence their opinion was qualified in this regard.
- The Statutory Auditors were unable to physically verify the amount of cash in hand of Rs. 1.457 million as at June 30, 2020 hence their opinion was qualified in this regard.

2.4.3 Compliance of PAC Directives

Sr. #	Audit Report	Total Paras	Full compliance	Partial Compliance	Pending paras No.	% of compliance
1	2008-09	07	06	1	226.1	86
2	2009-10 to 2020-21	PAC not convened				
Total		7	6	1		86

Chapter-3

Ministry of Commerce & Textile

Overview

Ministry of Commerce is contributing to the national economy through trade liberalization and facilitation, improving export competitiveness and reducing cost of doing business. It aims to achieve higher market access for Pakistani products in existing markets as well as new markets with ultimate aim of improving quality of life of the people of Pakistan.

Aims & Objectives

Commerce Division is assigned the following objectives:

- Imports and exports across customs frontiers
- Exports promotion
- Commercial intelligence and statistics
- Tariff policy and its implementation
- Anti-dumping duties, countervailing duties and safeguard laws
- Inter-Provincial trade
- Domestic Commerce
- Organization and control of Chambers and trade associations
- Law of Insurance and regulation and control of Insurance companies
- Administrative Control of Attached Departments/Organizations
- Selection of Trade Officers for posting in Pakistan's Missions abroad

Governing Laws and Policies

- Rules of Business, 1973
- Studies on Domestic Commerce
- OIC Ten Year Plan of Action for Science & Technology for the years 2016-25
- Export /Import Policy Order, 2009
- Trade Organization Ordinance, 1961

Audit Profile of Ministry of Commerce & Textile

(Rs. in million)

Description	Total	Total audited	Expenditure audited FY 2020-21	Revenue /Receipts audited FY 2020-21
Formations	6	5	105,646.271	269,413.901
Assignment Accounts (excluding FAP)				-
Authorities /Autonomous Bodies etc. under the PAO	5	5	-	-
Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations of Rs. 161,168.240 million were raised as a result of this audit. This amount also includes recoverables of Rs. 86,572.767 million as pointed out by the audit. Summary of the audit observation classified by nature is as under:

Overview of the Audit Observations

S#	Classification	Amount (Rs. in million)
1.	Non-Production of record	-
2.	Reported cases of fraud, embezzlement and misappropriation	58.498
3.	Irregularities	
A	HR/Employees related irregularities	294.449
B	Procurement related irregularities	11,919.664
C	Management of accounts with Commercial Banks	1,354.751
4.	Value for money and services delivery issues	4,896.179
5	Others	142,644.200

3.1 National Insurance Company Limited

3.1.1 Introduction

National Insurance Company Limited (NICL) was established under the National Insurance Act, 1976. Later on, it was registered as a Public Limited Company under Companies Ordinance, 1984 on March 31, 2000 and renamed as National Insurance Company Limited (NICL).

The Company is principally engaged in Non-Life Insurance Business of Public Property comprising of Fire, Marine, Aviation and Transportation, Engineering and Crops/Agriculture Insurance etc.

3.1.2 Comments on Audited Accounts

3.1.2.1 The working results of the company for the year ended December 31, 2017 as compared to previous years is given below:

	(Rs. in million)						
	2017	% Inc/ (Dec)	2016	% Inc/ (Dec)	2015	% Inc/ (Dec)	2014
Premium Earned	6,390.75	23.23	5,186.13	(4.57)	5,434.30	(8.85)	5,961.83
Re-Insurance Expense	(2,681.22)	18.49	(2,262.76)	(20.66)	(2,851.79)	(10.28)	(3,178.83)
Net Premium Revenue	3,709.53	26.89	2,923.38	2.44	2,853.79	(12.55)	3,263.40
Net Claim Paid	(799.45)	60.32	(498.65)	(28.56)	(697.99)	484.16	(119.49)
Management Expenses	(721.75)	(4.97)	(759.46)	(9.11)	(835.61)	(1.21)	(845.85)
Commission from Reinsurer	85.44	110.96	40.50	(58.49)	97.56	(1.68)	99.23
Net Underwriting Expense	(636.31)	(11.50)	(718.96)	(2.59)	(738.05)	(1.15)	(746.62)
Underwriting Results	2,273.77	33.30	1,705.77	20.49	1,415.75	(40.97)	2,398.30
Investment Income	1,730.04	(45.13)	3,152.78	20.48	2,915.64	28.64	2,266.53
Rental Income	229.09	17.95	194.23	10.73	175.41	(25.26)	234.68
Other Income	10.59	140.88	4.40	103.96	(111.00)	(2,355.18)	4.92
General and Administration Expenses	(683.42)	(1.48)	(693.69)	13.50	(611.16)	(9.42)	(674.70)
Profit before tax	3,455.07	(21.68)	4,411.42	14.11	3,865.93	(7.60)	4,184.00
Taxation	(1,352.65)	7.67	(1,256.32)	4.39	(1,203.49)	35.52	(888.08)
Profit after tax	2,102.42	(33.36)	3,155.10	20.44	2,619.70	(20.51)	3,295.43

(Source: Annual Audited Accounts)

3.1.2.2 During the year 2017, Re-insurance expense increased by 18.49% from Rs. 2,262.760 million in year 2016 to Rs.2,681.220 million in 2017. Net claim paid increased by 60.32% from Rs.498.650 million in years 2016 to Rs. 799.450 million in 2017. Whereas, investment income declined by 45.13% from

Rs. 3,152.780 million in year 2016 to Rs. 1,730.04 million in 2017. Due to above circumstances the Profitability after Tax of the company decreased by 33.36% from Rs. 3,155.100 million in 2016 to Rs. 2,102.420 million in 2017. The matter required to be elucidated.

3.1.2.3 Amount due to reinsurer stood at Rs. 2,288.057 million as on 31st December, 2017. The matter needs to be justified.

3.1.2.4 During the year 2016, Premium earned declined by 4.567% from Rs. 5,434.300 million in the last year 2015 to Rs. 5,186.131 million in 2016 whereas commission from reinsurer decreased by 58.490% from Rs. 97.560 million in 2015 to Rs. 40.497 million in 2016. The matter needs to be justified.

3.1.2.5 It also noted that reinsurance recoveries against outstanding claims stood at Rs. 7,708.390 million as on 31st December, 2016 which requires justification.

3.1.2.6 During the year 2015, net premium revenues declined by 12.55% from Rs. 3,263.40 million in 2014 to Rs. 2,853.790 million in 2015 whereas claim paid registered significantly increased by 484.16% from Rs. 119.490 million in the year 2014 to Rs. 697.990 million in the year 2015. The matters need to be justified.

3.1.2.7 The “underwriting results” also decreased by 40.97% from Rs. 2,398.300 million in 2015 to Rs. 1,415.750 million in the year 2014. Rental Income downed by 25.26% from Rs. 234.680 million in 2015 to Rs. 175.420 million in the year 2014 which needs justification.

3.1.2.8 The company doesn’t maintain fixed assets register nor have an item wise detail of fixed assets available with it. Due to non-availability of this information the auditor remained unable to obtain sufficient appropriate evidence in relation to the existence, completeness, rights & obligations and valuation assertions of fixed assets recorded in the unconsolidated financial statements of the company as at December 31, 2014 to December 2017 which needs justification.

3.1.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
2004-05	3	2	1	4	67
2010-11	11	8	1	2.1.4.1	73
2011-12	15	12	3	3.1.3, 3.1.4.1, 3.1.4.2, 3.1.4.3, 3.1.4.4, 3.1.4.6, 3.1.4.7, 3.1.4.8, 3.1.4.9, 3.1.4.10, 3.1.4.11, 3.1.4.12	80
2012-13	4	1	3	3.1.4.2, 3.1.4.3, 3.1.4.4	25
2013-14	5	4	1	4.1.2	80
2014-15	7	4	3	4.2.4.1, 4.1.4.2, 4.1.4.3	57
2015-16	9	3	6	4.1.4.1, 4.1.2.1, 4.1.3, 4.1.4.2, 4.1.4.4, 4.1.4.5	33
2016-17	11	3	8	3.1.4.6, 3.1.2.1, 3.1.3, 3.1.4.2, 3.1.4.3, 3.1.4.5, 3.1.4.6, 3.1.4.7	27
2017-18	7	4	3	4.1.3, 4.1.4.3, 4.1.4.4,	57
Total	72	41	29		57

The overall compliance of PAC directives needs improvement.

3.1.4 Audit Paras

3.1.4.1 Non-achievement of business revenue in violation of BoD directives – Rs. 3,843.000 million

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

Section 166 of Insurance Ordinance, 2000 states that all insurance business relating to any public property or any risk or liability appertaining to any public property, shall be placed with NICL only and shall not be placed with any other insurer.

During audit of National Insurance Company Limited (NICTL) (HO) for the year 2020, it was observed that the management failed to generate revenue through its Business Development Units (BDUs) from its prospective clients amounting to Rs. 3,843.00 million. The performance of the BDU's remains below standard since 2020 despite that the Board Sub-Committee emphasized to bring the business from the prospective clients through BDU's and Zonal Head in the meeting held on November 24, 2020. Annex-20.

Audit is of the view that the management failed to generate revenue despite the directives of the Board which reflects slackness and negligence.

The matter was reported to the management in August 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management explained that due to Covid situation, could not achieve targets. The DAC directed the management to submit the revised reply incorporating the efforts made by the management on the matter.

Audit recommends implementation of the DAC directives.

3.1.4.2 Non-reconciliation of balances with Pakistan Re-insurance Company Limited – Rs. 2,763.000 million

Rule 5 (1) of the Public Companies (Corporate Governance) Rule 2013 states that the Board shall exercise its powers and carry out fiduciary duties with a sense of objective judgment and independence in the best interests of the company.

During audit of National Insurance Company Limited (NICTL) (HO) for the year 2020, it was observed that the management failed to reconcile balances with Pakistan Re-insurance Company Limited (PRCL) amounting to Rs. 2,763.000 million since 2018.

Audit is of the view that non-reconciliation of balances shows inefficiency and poor financial management.

The matter was reported to the management in August, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management intimated that an exercise shall be initiated with the help of professional auditing firm and with direct engagement with Operating department

from both organization from PRCL and NICL to resolve the un-reconciled balance. The DAC directed the management to get reconcile the figures with PRCL at the earliest and report progress to Audit.

Audit recommends implementation of the DAC directives.

3.1.4.3 Irregular / unjustified direct payment to reinsurer - Rs. 533.790 million (US \$ 3.422 million)

Section 58 of Insurance Rules, 2017 stipulates that no insurance policy shall be issued where premium has not been received by the insurer. Further, the policy schedule must clearly specify the number of agreed installments and their due dates, along with a stipulation that cover under the policy shall stand suspended in case any installment is not received within the schedule due date thereof.

During audit of National Insurance Company Limited (NICL) (HO) for the year 2020, it was observed that the management renewed PIAC insurance cover for Hulls, Spares, Liabilities, Cargo Legal Liability, Excess AVN52 E, Hull War and Hull deductible for the period from 30.12.2018 to 29.12.2019 and the annual premium was to be paid on installment basis. On the turn of 4th installment, the management issued NoC to PIAC for direct transfer of broker's share to PRCL. The detail of 4th installment of premium receivable and payable to reinsurer is as under:

S.#	Type of Risks	4th Installment of premium & service charges received from PIAC (in USD)	4th Installment of Reinsurance Premium & Service Charges Payable to PRCL (in USD)
1	Hull Spares & Liabilities	2,426,296.98	2,283,224.24
2	Hull War	217,946.34	206,581.99
3	Hull Deductible	153,415	142,237.94
4	Excess AVN52E	70,210	65,374.87
5	Additional premium for loss of AP-BKW	785,346.48	724,279.15
Total		3,653,214.8	3,421,698.19

Audit is of the view that the management violated the insurance rules by giving NoC to PIAC for direct payment to reinsurance. Hence, approval of direct payment to reinsurer amounting to Rs.533.78 million (US\$ 3.421 million @ Rs.156) stands irregular / unjustified.

The matter was reported to the management in August 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management intimated that NOC was issued to save PIACL from grounding of their aircraft because due to financially weak position of PIACL they were not able to pay the 4th Installment premium on due date and major share of PRCL / reinsurers (i.e. 92.50%) remain unpaid due to which Notice of Cancellation could have issued by reinsurers. The DAC directed the management to submit the revised reply and get verify the factual position with Audit.

Audit recommends implementation of the DAC directives.

3.1.4.4 Non-recovery from PRCL under treaty arrangement – Rs. 456.207 million

Rule 5 (1) of the Public Companies (Corporate Governance) Rule 2013, states that the Board shall exercise its powers and carry out fiduciary duties with a sense of objective judgment and independence in the best interests of the company.

During audit of National Insurance Company Limited (NICTL) (HO) for the year 2020, it was observed that the management re-insured its heavy sum assured business with Pakistan Re-Insurance Company (PRCL) under treaty arrangement. The loss reported by insured was paid by the management first and then recovered it from M/s PRCL. However, re-insurance claims amounting to Rs. 456.207 million was lying un-recovered from M/s PRCL as detailed below:

S. #.	Name of Insured	Date of Loss	Treaty category	Non-recovered amount (Rs. in million)
1	M/s D.G.D.P	22.12.2016	Marine Cargo	169.182
2	M/s SSGCL	14.08.2010	Fire	205.496
3	M/s PPL	08.07.2013	Fire	81.528
Total				456.207

Audit is of the view that the management failed to recover a huge amount from M/s PRCL which reflects poor financial management and weak recovery mechanism.

The matter was reported to the management in August 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The

management intimated that Glovis Corona claim recovery of Rs. 169.000 million all claim documents were provided to PRCL. Further, SSGC claim of Rs.355.000 million whereas NICL received premium of Rs. 1.932 billion and against PPL claim of Rs. 231.000 million and received premium of Rs. 7.654 billion in 13 years. Therefore, SSGC & PPL claims may please treated as NIL. The DAC directed the management to pursue the recovery proceedings with PRCL more vigorously under intimation to Audit.

Audit recommends implementation of the DAC directives.

3.1.4.5 Non-payment of tax - Rs. 98.594 million

Section (14) of Federal Excise Duty Act, 2007 states that “goods insurance” includes fire, marine, theft, accident and other such miscellaneous insurance. Table II of Excisable Services (8) states that there will be 16% tax charge on the provided or rendered by Insurance companies.

As per Finance Act 1989, the Federal Insurance Fee (FIF) was levied @ 1% on premium paid on all types of insurance.

During audit of National Insurance Company Limited (NICL) (NZ), Islamabad for the year 2020, it was observed that the management charged Central Excise Duty (C.E.D) and Federal Insurance Fee (FIF) on the premium issued to insured. However, the management failed to deposit the taxes into government exchequer amounting to Rs. 98.594 millionas detailed below:

Description	Outstanding (Rs. in million)	
	(2019)	(2020)
Federal Insurance Fee	2.1660	3.801
Federal Excise Duty	31.979	60.648
Total	34.145	64.449
Grand Total	98.594	

Audit is of the view that delay in payment of taxes reflects negligence of management and violation of rules.

The matter was reported to the management in February 2021.The irregularity was discussed in DAC meeting held on January 18, 2022.The management intimated that North Zone collects duties (FIF & FED) from the

Insureds and sends them to Head Office for payments to Govt Treasury every month. This pertains to the state of Azad Kashmir's Inland Revenue Authority. Further, Mechanism of AJK authorities has recently been established. Accordingly Head office NICL has given the approval to deposit the same in their accounts. The DAC directed the management to submit the revised reply and share the factual position with Audit.

Audit recommends implementation of the DAC directives.

3.1.4.6 Irregular and unjustified payment of premium - Rs. 88.841 million

Section 2 (xxvii) of the Insurance Ordinance, 2000, "insurance" means the business of entering into and carrying out policies or contracts, by whatever name called, whereby, in consideration of a premium received, a person promises to make payment to another person contingent upon the happening of an event, specified in the contract, on the happening of which the second-named person suffers loss, and includes reinsurance and retrocession.

According to IFRS 4, appendix B19 stated that, the following are examples of items that are not insurance contract; (c) Self-insurance, in other words retaining a risk that could have been covered by insurance (there is no insurance contract because there is no agreement with another party).

During audit of National Insurance Company Limited (NICL) (Head Office) for the year 2020, it was observed that the management had insured its own assets by itself through issuing policies including miscellaneous, engineering, fire, and motor etc for head office & branches.. Furthermore, International Financial Reporting Standards (IFRS) 4 explains that self-insurance means to retain risk by itself whereas insurance contract is a contract between two parties. Being regulator Securities Exchange Commission Pakistan (SECP) also declared that an insurance company cannot engage in self-insurance by insuring its own assets and issuing different policies for covering its risk itself. Thus, NICL underwrote the insurance risks which were violation of the Insurance Ordinance & IFRS 4. The details of of assets underwritten are as under:

(Rs in million)				
S#	Business class	No. of policy issued	Total sum insured(Rs.)	Premium of one year policy period(Rs.)
1	All risk	02	2.567	0.060
2	Machine breakdown	01	256.500	0.584
3	Private car	37	44.226	1.700
4	Fire normal	03	1,437.027	6.495
Sub total			1,740.321	8.841
Grand total of ten years premium				88.841

Audit is of the view that Insurance Ordinance, 2000 and IFRS 4 clearly forbids to insurer to insure own assets and also disallowing to enter itself in contractual obligations through self-insurance. Thus, self-insurance contract is considered to be contrary to the core principle of an insurance contract, as it can neither be termed as contract of insurance nor can it be treated as in the case of any other insurance contract. Hence, payment of premium for the policy period for the last ten years amounting to Rs. 88.841 million stands irregular / unjustified.

The matter was reported to the management in February 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management intimated that NICL assets fall in the definition of public property therefore insured through NICL in compliance of insurance ordinance 2000. The DAC directed the management to seek clarification from SECP on the issue and report progress will be shared with Audit.

Audit recommends implementation of the DAC directives.

3.1.4.7 Irregular underwriting of accident policy– Rs. 71.500 million

Section (4) of Insurance Ordinance, 2000 states that notwithstanding anything in this Ordinance to the contrary, the effecting and carrying out of a contract that provides for the payment of money on the death of a person shall not constitute the carrying on of life insurance if the contract is effected and carried out by an insurer who is registered to carry on non-life insurance business; and both of the following conditions exist:

- (a) By the terms of the contract, the duration of the contract is to be not more than one year;

(b) Payment is only to be made in the event of death by accident.

During audit of National Insurance Company Ltd (NICL), Lahore for the years 2018-2020, it was observed that the management underwrote 09 Personal Accident policies amounting to Rs.71.500 million in favor of M/s Atomic Energy Minerals covering injury and death risks under life insurance business.

Audit is of the view that issuance of life insurance policies was in violation of rules which reflects regulatory lapses.

The matter was reported to the management in June, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management intimated that accident & Health Business comes in the domain of Non Life Insurance Business in Insurance Ordinance 2000 and there is no irregular underwriting of Life Insurance Business and violation of Insurance Ordinance 2000 and Insurance Rules 2017. The DAC directed the management to provide the record to Audit for further comments and verification of facts.

Audit recommends implementation of the DAC directives.

3.1.4.8 Irregular / unjustified settlement of Marine Cargo Claims – Rs. 66.612 million

According to the Marine Open Policy of declaration of shipment procedure for payment premium stipulates that declaration of each every shipment to be made to the NICL (South zone) Karachi by the assured and / or their shippers / suppliers and / or other agents enclosing therewith a copy of non-negotiable B/L & invoice immediately after the shipment.

During audit of National Insurance Company Limited (NICL), Head Office for the year 2020, it was observed that M/s Pakistan Petroleum Limited (insured) lodged claims of 11 consignments after 68-78 days in violation of above rule amounting to Rs.66.612 million. The details of claim settled are as under:

S.#.	Sailing Date (A)	Declaration date of consignment / shipment for Marine Insurance policy (B)	No. of Days delayed in respect of declaration of consignment / shipment © (A-B)	Claim lodge Date	Claim Paid (Rs)
1	21.05.2014	07.08.2014	76	27.06.2014	17,938,851
2	29.05.2014	07.08.2014	68	27.06.2014	14,287,096
3	19.05.2014	07.08.2014	78	27.06.2014	28,407,091
4	29.05.2014	07.08.2014	68	27.06.2014	3,617,690
5	29.05.2014	07.08.2014	68	27.06.2014	1,733,026
6	29.05.2014	07.08.2014	68	27.06.2014	629,220
Total					66,612,974

Audit is of the view that the management extended undue favor to insured on account of settling of the claims amounting to Rs.66.162 million.

The matter was reported to the management in August 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management intimated that insurance declarations were made within one/two months will be processed under declaration clause where no time limit is defined Six (06) consignment fall under one / two months. On the ground of declarations clause and prevailing procedure of declaration in vogue at NICL, whereas the two (02) consignments declared after six months delay and three (03) consignments never declared were rejected by NICL. In order to cope with the scenario the declarations clause of marine open policy for the year of 2021-2022 has been amended limiting the time for declaration not more than 60 days. The DAC directed the management to submit the revised reply to Audit.

Audit recommends implementation of the DAC directives.

3.1.4.9 Loss of re-insurance Commission – Rs. 50.833 million

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

During audit of National Insurance Company Limited (NICT) (HO) for the year 2020, it was observed that the management granted exemption to Pakistan International Airlines Company Limited (PIACL) for placement of fleet risk directly. PIACL placed the risk to international broker through local private company i.e. M/s Security General Insurance Company Limited. The detail of premium as under:

S#	Type of Risk	Premium paid by PIACL (US\$)
1	Hull, Spares & Liabilities	28.765
2	Hull War	0.982
3	Hull Deductible	0.955
4	Cargo legal Liability	0.790
5	Excess AVN52E	0.277
Total Premium (in US\$)		31.771

Audit is of view that the management granted NoC to PIACL for re-insurance through private company, which resulted in revenue loss of Rs. 50.833 million (US\$ 31.771 million * 1% = US \$ 318,000 @ Rs. 160) on account of Re-insurance commission which reflects poor financial management.

The matter was reported to the management in September, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management intimated that due to late submission of underwriting information by PIACL all the process of inviting quotations was delayed. Furthermore, in view of increase in premium cost year by year it was decided to go on broker selection tender basis Not to Exceed Rate basis which bound broker to place the risk with in quoted premium rate. Unfortunately, out of four (04) quoting brokers three (03) brokers did not comply Not to Exceed Rate tender condition as such declared non compliant. The DAC directed the management to submit the revised reply and share the factual position with Audit.

Audit recommends implementation of the DAC directives.

3.1.4.10 Irregular / unjustified payment of engineering claim – Rs. 22.036 million

Section 4(3) of Public Sector Companies (Corporate Governance), 2013 states that the chief executive is responsible for the management of the Public

Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of National Insurance Company Limited (NICL) (HO) for the year 2020, it was observed that the management paid an insurance claim amounting to Rs.22.036 million to M/s Pakistan Petroleum Limited (insured) on account of loss / damage of Gas Engine at Khandhkot, PPL. The joint surveyors i.e.

M/s Joseph Lobo & M/s Oceanic also confirmed that the root cause of the failure was not confirmed. Furthermore, the claim was paid without ascertaining the salvage value of damaged items and due diligence.

Audit is of the view that the management paid the claim without observing due diligence and SOPs regarding claim which reflects slackness and negligence.

The matter was reported to the management in September, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management intimated that surveyors are prohibited to show any interest in disposal of salvage hence their responsibility does not include determining value of the damaged/salvaged items. It may be ascertained after acquiring quotations from salvage dealers. The salvage is available at Kandhkot Field Store of PPL as per usual practice. The DAC directed the management to submit the revised reply and share the factual position with Audit.

Audit recommends implementation of the DAC directives.

3.1.4.11 Non-recovery of dues from tenants – Rs. 16.556 million

Section 4(3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for the management of the Public-Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance. His responsibilities include implementation of strategies and policies

approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.”

During audit of National Insurance Company Limited (NICL) (HO) for the year 2020, it was observed that an amount of Rs. 16.556 million was lying outstanding from various tenants on account of rental & services charges as per detail shown below:

S. #	Name of Tenant	Outstanding Amount (Rs. in million)
1.	M/s IBL	1.519
2.	M/s NesPak	15.036
Total		16.556

Audit is of the view that management failed to recover a huge amount from tenants which reflects poor financial management and weak recovery mechanism.

The matter was reported to the management in August, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management intimated that outstanding rent has been recovered from the client and M/s. IBL has vacated the premises on 07.12.2020 leaving the outstanding rent i.e. Rs. 1,519,983 for the period 01.10.2020 to 07.12.2020. NICL has filed the suit in the Honourable Sindh High Court, Karachi. The DAC directed the management to get verify the recovered amount with Audit and pursue the case for remaining recovery at the earliest.

Audit recommends implementation of the DAC directives.

3.1.4.12 Non-payment of Federal Insurance Fee and Federal Excise Duty - Rs. 9.267 million

Section 40(3) and (5) of Federal Excise Duty, 2005 states that the duty in respect of an insurance policy shall be accounted for in the same month when the premium is received and shall be deposited by the insurance company. In case duty is not paid by any insurance company by the due date, the insurance company shall, in addition to the payment of duty and default surcharge, be also liable to penalty under the Act or these rules.

During audit of National Insurance Company Ltd (NICL), Lahore for the years 2018-2020, it was observed that the management had not deposited Federal Insurance Fee & Federal Excise Duty, amounting to Rs.9.267 million into Government treasuries as detailed below:

(Rs in million)		
S.#	Particulars	Amount
1	Federal Insurance Fee	6.611
2	Federal/Central Excise Duty	2.656
Total		9.267

Audit is of the view that non-depositing of dues amounting to Rs.9.267 million in Government treasury tantamounts to loss to national exchequer.

The matter was reported to the management in June, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management intimated that FIF and FED (sales tax on services) has been deposited by NICL within the time limits defined and there is no violation of law. The DAC directed the management to verify the factual position with Audit.

Audit recommends implementation of the DAC directives.

3.1.4.13 Mis-procurement of I.T equipment's on splitting basis – Rs. 4.247 million

Rule 12 (1) of PPRA, 2004 states that over **five hundred thousand Pakistani Rupees and up to the limit of ***three million Pakistani Rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency. Further, rule 09 stipulates that limitation on splitting or regrouping of proposed procurement; save as otherwise provided and subject to the regulation made by the Authority, with the prior approval of the Federal Government, a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned.

During audit of National Insurance Company Limited (NICL) (HO) for the year 2020, it was observed that the management procured various I.T related items e.g. Apple I-pad, HP laptop, Microsoft tablet, scanners, network interface units etc. amounting to Rs.4.247 million through direct procurement. The purchases were done by way of splitting the purchase order, without considering the financial limit and not including the items in annual procurement plan.

Audit is of the view that the procurement on direct contracting and splitting of items is a serious violation of rules. Thus, contracts amounting to Rs. 4.247 million stand irregular.

The matter was reported to the management in August, 2021. The matter was discussed in DAC meeting held on January 18, 2022. The management intimated that items were purchased on need basis as and when requisitioned and as and when required, through method of petty purchases, request for quotations and direct contracting. The DAC directed the management to submit the revised reply and share the factual position with Audit.

Audit recommends implementation of the DAC directives.

3.1.4.14 Non-recovery of house building loan – Rs. 4.000 million

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

During audit of National Insurance Company Ltd (NICL), Lahore for the years 2018-2020, it was observed that the management sanctioned house building loan to an Acting Executive Director amounting to Rs. 4.000 million upon furnishing two sureties of NICL officials in the year 2013. The house building loan was granted without registering mortgage in favor of NICL. However, after issuance of advance, the incumbent left the job without paying the loan. The

management neither recovered the loan from his admissible dues, gratuity or GPF nor from the sureties, despite being employees of NICL.

Audit is of the view that the management failed to recover the loan from the incumbent and sureties reflects inefficiency and weak recovery mechanism.

The matter was reported to the management in June 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management intimated that loan borrower Syed Saad Shah also recorded statement before the Court that he is ready to pay off the loan from final settlement and on the direction of the Court, NICL submitted final settlement before the Court. The loan amount will be recovered after announcement of the decision by the Court. The DAC directed the management to pursue the court case more vigorously.

Audit recommends implementation of the DAC directives.

3.1.4.15 Irregular / unjustified claim paid on defective Surveyor's Report – Rs. 3.642 million

Rule 5 (1) of the Public Companies (Corporate Governance) Rule 2013, states that the Board shall exercise its powers and carry out fiduciary duties with a sense of objective judgment and independence in the best interests of the company.

During audit of National Insurance Company Limited (NICL) (HO) for the year 2020, it was observed that the management paid insurance of following vehicles amounting to Rs. 3.642 million on the basis of Surveyors Report which stated that “there is no other alternate but to declare the vehicle as Constructive Total Loss as the damages of the vehicles were extensive and attributable to the sever nature of accident”. Furthermore, repairer also stated that repairing works on vehicles might escalated after dismantling and may not come in a satisfactory / road worthy condition even after repair. However, the management retained the vehicles and carried out the repair works amounting to Rs. 0.849 million and vehicles become road worthy. The details are as under:

Rs. in million					
S.#	Insured's Name	Brand & Model	Claim Paid	Date of retention	Amount paid to

			(Rs.)		Repairer (Rs.)
1	National Bank of Pakistan	Corolla –2016	1.650	15.03.2021	-
2	Sui Southern Gas Company Limited	Suzuki-Cultus 2012	0.562	16.09.2020	0.338
3	-do-	Suzuki Cultus – 2015	0.710	16.09.2020	0.313
4	Civil Aviation Authority	Suzuki Cultus – 2008	0.720	16.09.2020	0.198
Total			3.642		0.849

Audit is of the view that the management paid claims of Rs. 3.642 million despite the fact that the vehicles were repairable at minor cost which reflects lack of due diligence and prudence. Thus, claim amounting to Rs. 3.642 million stands and irregular.

The matter was reported to the management in August, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management intimated that it is a prevailing practice / routine in the insurance industry that total lost vehicles are being retained by the insurers for the official uses after necessary repairs. The DAC directed the management to get verify the factual position with Audit.

Audit recommends implementation of the DAC directives.

3.1.4.16 Irregular approval of motor claim - Rs. 3.169 million

As per general conditions of motor policy, notice shall be given in writing to the Company immediately upon the occurrence of any accident or loss or damage and in the event of any claim and thereafter the Insured shall give all such Information and assistance as the Company shall require.

During audit of National Insurance Company Ltd (NICL), Lahore for the years 2018-2020, it was observed that management settled two claims amounting to Rs. 3.169 million under motor insurance policy of M/s. SNGPL. Further, it was observed that during heavy floods in 2010 in Nowshera, the insured vehicles were drowned in the flood water requiring reinstatement of vehicle through repair and replacement of damaged parts. Joint Survey was conducted by surveyors, M/s. Dusam& Co. Pvt. Ltd and M/s. Malcolm Gaskill Insurance services Pvt. Ltd in November, 2017. Detail of motor insurance claims is as under:

Rs. in million					
S.#	Claim Number	Insured party	Insured vehicle	Sum insured	Expected Loss assessed / adjusted by surveyors
1	A-478/17	M/s SNGPL	LPT-692	1.600	1.600
2	A-477/17	M/s SNGPL	LEC-07-2745	1.740	1.569
	Total			3.340	3.169

While scrutinizing the relevant claim files, following observations were noted:

1. The incident of flood causing damage to vehicles occurred in 2010, whereas insurance claims were intimated through letter No. NICL/LF/296/10 in 2015, almost 5 years after the damage to vehicles.
2. Damaged vehicles were moved to different locations in Pakistan and finally gathered at Manga Mondri, a different location than that of damage. Hence, usage of the vehicles by the insured after incidence causing damage could not be ruled out.
3. Initially, the insured company, M/s. SNGPL, neither invited the surveyors for attending the workshop jointly where the vehicles were parked for repairs nor was ready to provide any supporting documents. Responses from SNGPL remained very poor.
4. Neither the surveyors were present at the time of repair of damaged vehicles nor did the insured take any photographs at that time to assess the extent of the damages. Additionally, delayed intimation of claim by 5 years along with delayed inspection by 7 years by joint surveyors from unfortunate event of flood, raised serious doubts over the authenticity of damages and claims.

Audit is of the view that insured company was granted undue favor by management in approving motor insurance claims while ignoring above mentioned observations. Hence, audit considers approval of the motor insurance claims as irregular and unjustified.

The matter was reported to the management in June, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management intimated that since no payment has been made to the insured and

loss was notified well in time by the insured. The DAC directed the management to hold departmental inquiry and share the outcome with Audit/Ministry.

Audit recommends implementation of the DAC directives.

3.1.4.17 Irregular / unjustified award of contract – Rs. 2.486 million

Clause 36-b (viii) of PPRA, 2004 stipulates that after the evaluation and approval of the technical proposal the procuring agency, shall at a time within the bid validity period, publicly open the financial proposals of the technically accepted bids only. The financial proposal of bids found technically non-responsive shall be returned un-opened to the respective bidders. Further, bid found to be the lowest evaluated bid shall be accepted.

During audit of National Insurance Company Limited (NICL) (Head Office) for the year 2020, it was observed that the management awarded a contract amounting to Rs. 2.486 million to M/s KPMG for developing operational policies & manuals. However, management ignored the 1st lowest bidder i.e. M/s BDO who was offering Rs.1.500 million for the same job.

Audit is of the view that the management extended undue favour to M/s KPMG and ignored the 1st lowest bidder. Thus, the award of contract amounting to Rs. 2.486 million stands irregular / unjustified.

The matter was reported to the management in August 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management initiated that work awarded to the M/s KPMG on full marks based on experience, scope of work and project based familiarity. The DAC directed the management to verify the factual position with Audit.

Audit recommends implementation of the DAC directives.

3.1.4.18 Doubtful payment of marine claim – Rs.2.260 million

As per Code of Corporate Governance Rules for Insurers, 2016, Claim Settlement Committee shall devise the claims policy of the company. It shall oversee the claims position of the insurer and ensure that the adequate claims reserves are maintained. It shall also oversee the implementation of the measures for combating fraudulent claim cases.

During audit of National Insurance Company Ltd (NICL), Lahore for the years 2018-2020, it was observed that management paid a claim amounting Rs. 2.263 million to M/s. WAPDA against Marine Policy for Circuit Breakers, transformers along with spare parts. M/s. Oceanic Surveyor Pvt. Ltd was appointed to assess the loss. Notwithstanding anything to the contrary, it was observed that the name of Vessel carrying the product was MSC LUCY as per survey report and WAPDA's record, whereas as per NICL record and M/s Pakistan National Shipping Corporation (PNSC), Vessel carrying goods was MSC SUSANNA. This position inferred that payment of Marine claim was suspicious and doubtful.

Audit is of the view that management paid the claim without due diligence and vigilantly which reflects doubtful payment.

The matter was reported to the management in June, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management intimated that there is no misrepresentation involved by insured WAPDA and surveyor has issued the report with due care and the case has been processed with due diligence / vigilance. The DAC directed the management to get verified the factual position with Audit.

Audit recommends implementation of the DAC directives.

3.1.4.19 Irregular and unjustified settlement of claims – Rs. 2.100 million

Section 4(3) of Public Sector Companies (Corporate Governance), 2013 states that the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.”

During audit of National Insurance Company Limited (NICL) (HO) for the year 2020, it was observed that the management received an insurance claim from M/s Pakistan Security Printing Corporation. As per joint surveyor's report, the subject vehicle reported a total loss / beyond repair duly certified by M/s

Toyota Central Motors. The management repaired the vehicles and incurred an expenditure of Rs. 2.100 million. Later on, the claim was approved and payment was made to M/s Pakistan Security Printing Corporation.

Audit is of the view that the management extended undue favour to the insured without justification, which reflects weak internal control and weak financial management.

The matter was reported to the management in August 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management intimated that M/s Pakistan Printing Corporation was not interested in total loss they wanted to get the vehicle repaired. On request of insured, management appointed third surveyor to inspect and assess the loss with already appointed two surveyors. The DAC directed the management to submit the revised reply to prove the department's contention that depreciated value was higher than the repaired cost of the vehicle.

Audit recommends implementation of the DAC directives.

3.1.4.20 Non-preparation of annual accounts

Rule (xxviii) (c) of Code of Corporate Governance for insurers, 2016 stated that the insurer shall insure that the annual audited financial statements are circulated not later than four months from the close of the financial year unless an extension in terms of sub-section (1) of section 51 of the insurance Ordinance, 2000 is granted by SECP, in which case the insurer shall circulated the said financial statements on or before the expiry of such extension.

During audit of National Insurance Company Limited (NICL) (HO) for the year 2020, it was observed that the annual accounts for the year 2020 have not been audited by the Chartered accountants so far. Furthermore, the management remained unable to get audited and certified accounts of the company since 2018 from the auditor which is a gross violation of the rules.

Audit is of the view that the management failed to comply with the rules which resulted in non-finalization of Accounts.

The matter was reported to the management in August, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The

management intimated that annual accounts for the year 2018 are pending approval of the AGM and year 2019 is under process of finalization. The management is targeting to get updated all pending audited accounts by second quarter, year 2022. The DAC directed the management to place the matter before forthcoming BoD meeting and efforts will be made for early finalization of audited accounts.

Audit recommends implementation of the DAC directives.

3.2 Pakistan Re-insurance Company Limited

3.2.1 Introduction

Pakistan Insurance Corporation was re-organized as Pakistan Re-insurance Company Limited (PRCL) under the Insurance Corporation (Re-organization) Ordinance, 2000 and incorporated on March 30, 2000 under the Companies Ordinance, 1984. The PRCL is a public sector company under the administrative control of the Ministry of Commerce, Government of Pakistan. The prime objective of the Company is the development of insurance as well as reinsurance business in Pakistan. The Company is a national reinsurer playing its role in the economic development of Pakistan. It provides reinsurance protection to the local insurance companies by way of treaty and facultative business.

3.2.2 Comments on Audited Accounts

3.2.2.1 The working results of the company for the year ended December 31, 2020 as compared to previous years is given below:

(Rs. in million)					
Description	2020	%	2019	% Inc/ (Dec)	2018 (restated)
Gross premium	16,896	(4.30)	17,655	64.48	10,734
Net premium	6,706	(2.88)	6,905	26.37	5,464
Net claim paid	(3,924)	(7.86)	(4,259)	42.44	(2,990)
Management expense	(666.78)	(26.16)	(902)	6.87	(844)
Commission paid	(925.195)	(25.28)	(1,243)	18.72	(1,047)
Underwriting profit/(loss)	765.719	52.69	501	(14.07)	583
Investment income	1043.379	03.47	1,008	45.88	691
Rental income	83.419	16.90	71	14.52	62
Exchange gain/(loss)	(15.30)	-	603	45.30	415
General & admin expenses	-	-	(13)	18.18	(11)
Profit Before Tax	1,971	(09.96)	2,189	26.53	1,730
Taxation	(580)	(17.73)	(705)	39.60	(505)
Profit after tax	1,391	(06.27)	1,484	20.85	1,228

(Source: Annual Audited Accounts-2019)

3.2.2.2 In 2020, the gross premium is Rs. 16,896 million as compared to Rs. 17,655.000 million in preceding year which indicates a decrease of 4.30%. Net premium retention has also increased to Rs. 6,706 million in 2020 from Rs. 6,905.000 million in 2019, showing a decrease by 2.88%. Net claims paid

decreased 7.86% from Rs. 4,259.000 million in 2019 to Rs. 3,924 million during 2019.

3.2.2.3 Management expenses in 2020 were Rs. 666.000 million as compared to Rs. 902.00 million of previous year, showing a decrease of 26.16%, whereas Company witnessed decrease of 25.28% in net commission expenses from Rs. 1,243.000 million in 2019 to Rs. 925.000 million during 2020. Underwriting profit shows an increase of 52.69% from Rs. 501.00 million in 2019 to Rs. 765.000 million in 2020. Investment income increased 03.47% from Rs. 1008.00 million in 2019 to Rs. 1,043.000 million during 2020 and rental income also increased 16.90% from Rs. 71.00 million in 2019 to Rs. 83.000 million during 2020.

3.2.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
2003-04	7	6	1	6	86%
2004-05	-	-			-
2010-11	13	10	3	2.2.4.1, 2.2.4.2, 2.2.4.3	77%
2011-12	9	8	1	3.2.2.1, 3.2.2.2, 3.2.2.3, 3.2.3, 3.4.4.1, 3.4.4.2, 3.4.4.3, 3.4.4.4	89%
2013-14	6	3	3	4.2.2.1, 4.2.2.2, 4.2.3	50%
2014-15	10	6	4	4.2.4.2, 4.2.2.4, 4.2.4.1, 4.2.4.4	60%
2015-16	9	3	6	4.2.4.3, 4.2.2.3, 4.2.2.4, 4.2.3, 4.2.4.1, 4.2.4.2	33%
2016-17	6	3	3	3.2.3, 3.2.4.1, 3.2.4.3,	50%
2017-18	14	5	9	4.2.2.1, 4.2.4.3, 4.2.4.11, 4.2.3, 4.2.4.1, 4.2.4.4, 4.2.4.5, 4.2.4.6, 4.2.4.10	36%
Total	74	44	30		59%

The overall compliance of PAC directives needs improvement.

3.2.4 Audit Paras

3.2.4.1 Non-recovery of insurance premium - Rs. 1,489.198 million

Rule 4(3) of the Corporate Governance Rules, 2013 states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and

resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

Section 43 (1) of the Insurance Ordinance, 2000 makes it obligatory upon the Reinsured to pay the amount payable on account of reinsurance with the Company (Reinsurance Company) within the prescribed period and in default of such payment, is liable to pay a penalty for the period during which the default continues.

During audit of Pakistan Reinsurance Company Limited (PRCL) for the year 2020, it was observed that an amount of Rs. 1,489.198 million was lying outstanding against insurance premium and claims from local, Foreign Resident, ceding and inactive insurance companies on account of premium. Annex-21.

Audit is of the view that the management failed to recover the dues which reflects slackness and weak recovery mechanism.

The matter was reported to the management in June & August, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management informed that out of Rs. 646.975 million, an amount of Rs. 402.600 million has been recovered till date. The DAC directed the management to get verify the recovered amount and efforts be made for the recovery of the remaining balance.

Audit recommends implementation of the DAC directives.

(DP No. 137 & 331)

3.2.4.2 Mis-procurement in award of reinsurance contract – Rs. 1,323.550 million (US \$ 7,953,072)

Section 23(4) and (5) of PPRA, 2004 states that procuring agencies shall use standard bidding documents as and when notified by regulation by the Authority and the procuring agency shall provide a set of bidding documents to any supplier or contractor, on request and subject to payment of price, if any. Further, Section 29 of PPRA, 2004 states that procuring agencies shall formulate an appropriate evaluation criterion listing all the relevant information against which a bid is to be evaluated. Such evaluation criteria shall form an integral part of the bidding documents. Failure to provide for an unambiguous evaluation criteria in the bidding documents shall amount to mis-procurement.

During audit of Pakistan Re-insurance Company Limited (PRCL) for the year 2020, it was observed that the management awarded the contract of renewal of insurance policies of Quid-e-Azam Thermal Power Limited, Bhikki Power Plant for the period of 20.05.2020 to 19.05.2021 to M/s.FIB/Lockton and M/s. SIB/AON amounting to Rs. 1,323.550 million (US\$ 7,953,072) on tender invitation letters basis instead of open tender.

Audit is of the view that the contract was awarded without open tender which reflects favoritism, hence tantamount to mis-procurement amounting to Rs. 1,323.550 million.

The matter was reported to the management in August, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management informed that PPRA rules follows in letter and spirit and the tender was published in daily newspaper, PPRA website and company's website. The DAC directed the management to get the factual position verified by Audit.

Audit recommends implementation of the DAC directives.

3.2.4.3 Imprudent investment in equity - Rs. 895.848 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules 2013, states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Reinsurance Company Limited (PRCL) for the year 2020, it was observed that the management invested a sum of Rs. 895.848 million in listed, unlisted shares and mutual funds. However, the market value of these investments decreases with the passage of time as detailed below:

(Rs in million)				
S. #	Equity/shares	No. of shares	Cost (Rs.)	Market value
	Listed shares			
1	MCB Bank Limited	500,000	93.131	92.640
2	KotAddu Power Company Limited	30,000	1.481	0.816
	Unlisted shares			
3	State Bank of Pakistan	4,900	0.517	0.517
4	Industrial Development Bank of Pakistan	6,213	0.618	
5	National Investment Trust Limited	79,200	0.100	0.100

	Mutual funds	units		
6	National Investment Unit Trust	8,292,733	800.000	576.676
	Total	8,913,046	895.848	670.650

Audit is of the view that the management imprudently made investments in equity market which reflects slackness and weak financial management.

The matter was reported to the management in August 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management informed that the investment was not made in the period as can be inferred from the Audit observation. The DAC directed the management to verify the factual position with Audit.

Audit recommends implementation of the DAC directives.

3.2.4.4 Non-reconciliation of erroneous reporting of receivable / payable balances – Rs. 593.306 million

Section 43 (2) of the Insurance Ordinance, 2000 makes it obligatory to the insured to submit to the Company in such manner and form and within such period as may be prescribed by regulations, a statement relating to his business reinsured with the Company. Moreover, Section-43(3) provides that a contravention of the above directions shall be punishable with a fine which may extend to ten thousand rupees and with a further fine which may extend to one thousand rupees for every day after the day on which the contravention continues.

During audit of Pakistan Reinsurance Company Ltd (PRCL), (North Zone) Lahore for the years 2018-2020, it was observed that receivable & payable amounts from ceding / insurance companies up to year ended 31.12.2020 amounted to net of receivables of Rs. 593.306 million. Audit requisitioned the reconciliation of same amounts with insurance / ceding companies. However, un-reconciled sheet was provided to Audit. Annex-22.

Audit is of the view that non-reconciliation of balances may deprive the management from the right of contraventions and penalties, moreover it would also result in erroneous reporting in financial reporting.

The matter was reported to the management in June, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management informed that reconciliation is ongoing process and PRCL on

quarterly basis confirms receivable/payable position with ceding companies. The DAC directed the management to get the position verified with Audit.

Audit recommends implementation of the DAC directives.

3.3 State Life Insurance Corporation of Pakistan

3.3.1 Introduction

State Life Insurance Corporation of Pakistan (SLIC) was incorporated on November 1, 1972 under the Life Insurance (Nationalization) Order, 1972, which has been replaced by Insurance Ordinance, 2000. The main objective of the Corporation is to engage in the life insurance business, to maximize the return to the policy holder economizing on expenses and increasing the yield on investment and to use the policyholders fund in the wider interest of the community.

3.3.2 Comments on Audited Accounts

3.3.2.1 The working results of the Corporation for the year 2020 as compared to those of the previous years are tabulated below:

Description	2020	% inc/ (dec)	(Rs. in million)		
			2019	% inc/ (dec)	2018
Premium revenue	119,519.33	6	112,876.78	(2)	115,331.76
Investment Income (net)	87,267.44	19	73,236.09	15	63,844.80
Net realized fair value gain/(loss) on financial assets	207.64	1,737	-12.682	(303)	6.24
Net fair value gain on financial assets at fair value through profit or loss	602.73	(83)	3,606.62	(140)	(9,069.26)
Net rental income	559.52	(3)	574.24	7	536.17
Other income	17,019.28	(8)	18,471.75	23	15,021.39
Insurance benefits	64,938.33	14	57,158.84	7	53,257.43
Second Year Renewal Premium (Premium Revenue)	9,348.287	(28)	12,948.715	-	-
Recoveries from reinsurers	(219.07)	75	-125.42	(27)	(171.07)
Claim related expense	13.72	8	12.64	100	-
Net change in insurance liabilities (other than outstanding claims)	129,039.49	6	121,376.79	29	94,088.77
Acquisition expenses	16,617.26	1	16,517.05	(31)	23,876.67
Marketing and administration expenses	8,042.09	(20)	9,997.93	(11)	11,270.96
Total expenses	154,130.91	4	148,640.61	15	129,597.53
Finance cost	(2.16)	(18)	-2.63	100	-
Profit before tax	5,921.41	110	2,825.88	8	2,620.66
Profit after tax	4,203.37	109	2,011.20	15	1,741.46

(Source: - Annual Audited Accounts-2020)

3.3.2.2 Net fair value gain on financial assets at fair value through profit or loss has significantly decreased by 83% from Rs. 3,606.620 million in the year 2019 to Rs. 602.730 million in the year 2020 which needs justification.

3.3.2.3 Net rental income and other income has decreased by 3% & 8% from Rs. 574.24 and Rs. 18,471.75 million in the year 2019 to Rs. 559.52 and Rs. 17,019.28 million in the year 2020 which needs to be elucidated.

3.3.2.4 Insurance benefits has increased by 14% from Rs. 57,158.84 million in the year 2019 to Rs. 64,938.33 million in the year 2020 which requires justification.

3.3.2.5 Recoveries from reinsurers (Receivables) has increased by 75% from Rs. 125.42 million in the year 2019 to Rs. 219.07 million in the year 2020 which requires elaboration.

3.3.2.6 Claim related expenses has increased by 8% from Rs.12.64 million in the year 2019 to Rs. 13.72 million in the year 2020 which requires justification.

3.3.2.7 Second Year Renewal Premium (Premium Revenue) has decreased by 28% from Rs. 12,948.715 million in the year 2019 to Rs. 9,348.287 million in the year 2020 which requires justification.

3.3.3 Compliance of PAC Directives

Audit Year	No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
1996-97	11	9	2	56 & 59, 57(a)(b)	82
1998-99	11	9	2	46, 49	82
2002-03	9	8	1	13	89
2003-04	10	8	2	8, 9	80
2004-05	8	7	1	13	88
2006-07	4	3	1	9	75
2007-08	6	4	2	10, 11	67
2008-09	7	4	3	5, 6, 7	57
2010-11	17	15	2	2.3.4.4, 2.3.4.9	88
2011-12	6	5	1	3.3.2.1, 3.3.2.2, 3.3.3, 3.3.4.1, 3.3.4.2	83
2012-13	22	15	7	3.3.4.3, 3.3.4.1, 3.3.4.11, 3.3.4.7, 3.3.4.9, 3.3.4.2, 3.3.4.5	68
2013-14	4	3	1	4.3.2	75
2014-15	17	16	1	4.3.2.11	94
2015-16	14	2	12	4.3.4.1, 4.3.4.6, 4.3.2.1, 4.3.2.2,	14

				4.3.2.3, 4.3.2.4, 4.3.2.5, 4.3.3, 4.3.4.2, 4.3.4.3, 4.3.4.4, 4.3.4.7	
2016-17	8	2	6	3.3.2.1, 3.3.2.2, 3.3.3, 3.3.4.1, 3.3.4.2, 3.3.4.4	25
2017-18	25	7	18	4.3.4.6, 4.3.4.19, 4.3.4.1, 4.3.4.21, 4.3.3, 4.3.4.2, 4.3.4.5, 4.3.4.8, 4.3.4.9, 4.3.4.11, 4.3.4.12, 4.3.4.13, 4.3.4.14, 4.3.4.15, 4.3.4.16, 4.3.4.17, 4.3.4.18, 4.3.4.20	28
Total	179	117	62		65

The overall compliance of PAC directives needs improvement.

3.3.4 Audit Paras

3.3.4.1 Non-recovery of various receivables – Rs. 82,649.246 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that responsibilities of Chief Executive include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of State Life Insurance Corporation of Pakistan (SLIC), Principal Office, Karachi for the year 2020, it was observed that an amount of Rs. 82,649.246 million was lying outstanding against various receivables as detailed below:

	(Rs. in million)
Description	2020
Insurance / reinsurance receivables	32,600.487
Loans and other receivables	49,928.402
Reinsurance recoveries against outstanding claims	120.357
Total	82,649.246

Audit is of the view that non-recovery of receivables reflects poor financial management and weak recovery mechanism.

The matter was reported to management in September, 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management states that various receivables of Rs.47.000 million pertains to

investment division calculate the accrued interest and will continue till the maturity of the bond, no receivable is delayed and confirms that no dividend nor any PIB coupons remains outstanding for the period 31.12.20. The DAC directed the management to provide complete details of Ratio & yearwise payments with aging, with comparison of details with other regions.

Audit recommends implementation of the DAC directives.

3.3.4.2 High ratio of surrender of policies in 3 to 5 years – Rs. 16,187.689 million

As per condition (8) of SLIC policy document on Privileges and Conditions states: Automatic Non-Forfeiture Options: If the policy has acquired a surrender value and a premium has remained unpaid beyond the grace period, the policyholder will be entitled to benefits under one of the following two options given hereinafter, depending on the options exercised (if any) in his Proposal for this policy. Option A: Automatic Paid – Up & Option B: Automatic Premium Loan. Provided the surrender value of the policy exceeds the total of due premium(s) remaining unpaid and any other amount owed to State Life. The option can be exercised at the time of taking the policy is in force. The option can be changed subsequently by written intimation to and endorsement in the policy by State Life, so long so no premiums remain unpaid beyond the grace period. If no option has been exercised by the policyholder, benefits under ‘automatic paid-up option will apply.’

During audit of State Life Insurance Corporation of Pakistan, (SLIC) Principal Office, Karachi for the year 2020, it was observed that most of the policy holders surrendered their policies within 03 to 05 years of commencement of policy. Considering such higher surrender ratio, Board Audit Committee in its 80th Meeting instructed the management to devise workable strategy to curtail the surrender ratio. However, no efforts were taken by the management to manage the surrender ratio. Detail of surrender ratio is given below:

(Amount in Rs.)

	Total Premium Deposited	No. of policies	Option	Risk Year	Surrender in years	Surrender Amount	% of Surrender Amount
	4,321,138,536	54,263	A	2014 to 2018	3	3,693,791,333	85
	2,334,814,521	17,623	B	2014 to 2018	3	2,263,726,782	97
Sub-total	6,655,953,057	71,886			3	5,957,518,115	90
	3,931,701,886	39,035	A	2014 to 2018	4	3,515,745,949	89
	3,733,389,386	24,170	B	2014 to 2018	4	3,375,975,516	90
Sub-total	7,665,091,272	63,205			4	6,891,721,465	90
	1,815,392,385	16315	A	2014 to 2017	5	1,752,319,346	97
	1,660,266,988	10283	B	2014 to 2017	5	1,586,053,977	96
Sub-total	3,475,659,373	26,598			5	3,338,373,323	96
	10,068,232,807	109,613	A	2014 to 2018	3,4&5	8,961,856,628	89
	7,728,470,895	52,076	B	2014 to 2018	3,4&5	7,225,756,275	93
Grand-Total	17,796,788,637	161,690			3,4&5	16,187,689,722	91

Audit is of the view that the management failed to curtail the ratio of surrendered policies which resulted in loss of premium revenue.

The matter was reported to management in September, 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management in its reply stated that management is under contractual obligation to fulfill the request of policyholders for surrendering of policies. However, policies surrendered in earlier years receive lesser surrender value compared to premiums paid by the policyholder. Moreover, efforts are being taken by management to reduce this surrender ratio. The DAC directed the management to get the stated position verified from Audit.

Audit recommends implementation of the DAC directives.

3.3.4.3 Non-achievement of targets by sales managers - Rs. 1,261.000 million

As per State Life Annual Targets for the Sales Managers for the year 2019 and 2020 was Rs.1.130 million.

During audit of State Life Corporation of Pakistan (SLIC), Rawalpindi Zone for the year 2019 & 2020, it was observed that the management failed to achieve the sales targets as detailed below:

(Rs. in million)					
S. #	Period	Number of Sales Managers	Premium earned	Target	Less achieved
1	2019	928	324.555	1,049.097	(724.541)
2	2020	681	233.075	769.865	(536.790)
Total			557.631	1,818.963	(1,261.331)

Audit is of the view that non-achievement of sales targets reflects inefficiency of the Sales Managers.

The matter was reported to management in September, 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management stated that the targets were not achieved due to Covid situation. DAC directed the management to share policy and get the stated position verified from Audit.

Audit recommends implementation of the DAC directives.

3.3.4.4 Non-recovery of outstanding premium – Rs. 957.938 million

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

During audit of State Life Insurance Corporation of Pakistan, (SLIC) Rawalpindi Zone for the year 2019 & 2020, it was observed that an amount of Rs. 957.938 million was lying un-recovered against outstanding premium as detailed below:

Outstanding premium	(Rs. in million)
First year	0.142
Second year	53.098
3 rd year & over	904.697
Total	957.938

Audit is of the view that non-recovery of outstanding amount reflects slackness and poor pursuance.

The matter was reported to management in September, 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management informed that efforts were being made for recovery. The DAC directed the management to expedite the recovery and get the stated position verified from Audit.

Audit recommends implementation of the DAC directives.

3.3.4.5 Irregular issuance of insurance policies - Rs. 579.500 million

As per Section 79(3) and (4) of Insurance Ordinance, 2000, the Corporation may avoid the contract if the failure to disclose any material information or any misrepresentation of facts, disclose the insurer was fraudulently or the misrepresentation was made fraudulently and corporation has the right to recover the damages from me in respect of loss suffered by the Corporation, as result of fraudulent act committed by me, or any criminally liability I may be subject by reason of fraudulently act by me or forfeit to the corporation all money paid thereof.

Rule 34 of Underwriting Guidelines, 2019 states that Annual premium of present proposal and previous should not preferably be more than 20% of a proponent's annual income. Otherwise, check the possibility of moral hazard and over-insurance. Such cases should be referred to Zonal Underwriting Committee to eliminate the above aspect. However, possibility of understating the income should be kept in mind while underwriting such cases.

During audit of State Life Insurance Corporation of Pakistan, (Central Zone & Western Zone) Lahore for the year 2019 and 2020, it was observed that the management issued multiple insurance policies to policyholders amounting to Rs. 330.000 million and Rs. 249.500 million without ensuring financial soundness through financial documents, income tax return, bank statement showing adequate balance etc in violation of rules. Annex-23.

Audit is of the view that the management failed to obtain and verify financial and other relevant documents which reflects inefficiency and favoritism.

The matter was reported to the management in June 2021. The irregularity was discussed in DAC meeting held on January 26, 2022.

- a) The management informed that after issuance of policy there were rumors that submitted financial evidences leading to issuance of policy were forged and fake which the policy was cancelled, and premium was forfeited. Further, an amount of commission Rs.1.440 million was paid to the Sales Manager (SM) out of which Rs. 772,957 has been recovered and balance amount Rs. 667,043 to be recovered from his previous policies. DAC directed the management to verify recovered amount and conduct fact finding inquiry in the matter and share the factual position with audit.
- b) The management informed that financial evidence on case to case basis were obtained and available in the record.

DAC directed the management to get the record/documents verified by the audit.

Audit recommends implementation of the DAC directives.

(DP No. 153 & 162)

3.3.4.6 Non-recovery of dues from various parties – Rs. 164.202 million

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

As per policy regarding recovery of excess cost from Area Managers issued by Principal Office in 1996 that “On resignation, termination, dismissal, superannuation, early retirement, ill-health retirement or cessation of service for any other cause, in these cases the recovery of excess cost should be made lump sum”.

During audit of State Life Insurance Corporation (SLIC) Multan, Lahore and Faisalabad Zones for the year 2019 & 2020, it was observed that the various loans and advances amounting to Rs. 29.209 million were lying outstanding against Sales Managers, Sales Officers, Sales representatives and Area Managers

on account of misappropriation, vehicle loan, emergency advance and Eid advances etc.

S. #	Zone	Nature of Recovery	Category	Amount (Rs in million)
1	Multan	Vehicle, Emergency, Eid Loan	Sales Agents	24.347
2	Faisalabad	Advances against expenditure	Area Managers	3.634
3	Faisalabad	Fraud , Advance	Filed Force	1.228
4	Faisalabad	Advances against expenditure	Area Managers	30.500
5	Lahore	Advances against expenditure	Area Managers	29.074
6.	Islamabad	Rent	Tenants	75.419
Total				164.202

Audit is of the view that the management failed to recover the outstanding loans and advances which shows poor internal control and weak recovery mechanism.

The matter was reported to the management in June 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management informed that excess cost recovery makes till the end of year on monthly equal installments as per schedule by state life. Further, Area Manager writ a jointly petition in the Court which ordered to cease the recovery of excess cost till the decision. DAC directed the management to get verified the recovered amount and pursue the court case vigorously.

Audit recommends implementation of the DAC directives.

(DP No. 42, 45, 55, 57, 150 & 52)

3.3.4.7 Posting of employees in Gulf Zone without any selection procedure and policy – Rs. 124.157 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that responsibilities of Chief Executive include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of State Life Insurance Corporation (SLIC) (PO) for the year 2020, it was observed that there was not any policy or selection criterion for the

transfer and posting of SLIC regular employees in Gulf Zone. Audit requisitioned the list of overseas SLIC employees and received following four employees list:

S#	Name of Officers	Date of posting at Gulf Zone	Total period of posting	Total Amount
				In Dirham (approx.)
1	Mr. Abdul Manan Shaikh, AGM	17.05.2019	01 Year & 07 Months	DHS 355,902 (PKR 14,591,982)
2	Mr. M. Arshad Bhatti (Zonal Accountant)	28.03.2013	07 Years & 09 Months	DHS 1,574,772 (PKR 49,441,860)
3	Mr. Muhammad Sohail (Manager)	06.10.2015	05 Years & 03 Months	DHS 859,428 (PKR 30,114,144)
4	Mr. Rustam Ali (DM/In-charge P&GS)	Feb. 2013 to Dec. 2015 & 26.08.2018	03 Years & 10 Months	DHS 892,056 (PKR 30,009,624)
Total				PKR 124.157 million

During further scrutinization of previous record of transfer posting in overseas SLIC office, audit did not find any selection procedure detail, seniority list or any overseas transfer policy, performance measures and Performance Criteria regarding posting for second term. The absence of any selection criteria further indicated that there was not any transfer policy or standard procedure for the transfer and posting of SLIC employees in Gulf Zone which in turn raises doubts of merit-based posting, transparency, and equal opportunities.

Audit is of the view that due to absence of overseas transfer policy, selection and performance criteria, chances of management's favoritism cannot be ruled out.

The matter was reported to management in September, 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management stated that postings were made according to policy. DAC directed the management to share the rotation policy and BoD approval with Audit for verification.

Audit recommends implementation of the DAC directives.

3.3.4.8 Non-adjustment of advance bonus - Rs. 116.497million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that responsibilities of Chief Executive include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used

economically, efficiently and effectively and in accordance with all statutory obligations.

As per State Life Delegation of Financial Powers – Guidelines & Chart Para (44) (iii) Advance bonus will also be issued on the order of P&GS Division after approval from Chairman.

During audit of State Life Insurance Corporation of Pakistan, (SLIC) Principal Office, Karachi, for the year 2020, it was observed that an amount of Rs. 116.497 million was lying un-recovered against advance bonus to officers which was paid without the approval of Chairman as detailed below:

		Rs. in million	
PO		Real Estate Division (RED)	
YEAR	NET	YEAR	NET
2011	0.287	-	-
2012	2.413	2,012	1.136
2013	3.191	2,013	1.369
2014	4.557	2,014	1.427
2015	21.328	2,015	1.373
2016	22.814	2,016	1.992
2017	24.418	2,017	2.808
2018	11.348	2,018	3.380
2019	15.493	2,019	5.012
2020	-7.856	Sub-total	18.501
Sub-total	97.995	Grand-total	116.497

Audit is of the view that non-adjustment of advances reflects in efficiency and weak recovery mechanism.

The matter was reported to management in June 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management informed that performance based bonus policy for officers for the years 2011-19 has been approved by the BoD. Advance bonus paid to the officers for the year 2011-19 has been recovered / adjusted and nothing outstanding against the advance bonus which is reflected in the books of SLIC. The DAC directed the management to verify the recovered/adjusted amount and BoD approval by audit.

Audit recommends implementation of DAC directives.

3.3.4.9 Excess deployment against approved strength - Rs. 65.825 million

As per Establishment Division's O.M.No.F.53/1/2008-SP dated 22nd October, 2014 (xii) Vacancies in posts should be filled only against the approved sanctioned strength of the said category.

During audit of State Life Corporation of Pakistan (SLIC), Principal Office, Rawalpindi, Multan, Lahore and Islamabad Zones for the year 2019 & 2020, it was observed that the working strength of different cadres in various Zones / PO is in excess than the approved strength in violation of rule as detailed below:

S. No	Name of Zone	Approved Strength	Existing Strength	Surplus	Amount (Rs. in million)
1.	Principal Office	498	525	27	19.556
2.	Rawalpindi	63	77	14	21.580
3.	Multan	79	104	25	1.748
4.	Lahore	44	63	19	22.941
5.	Islamabad	31	62	31	-
Total		715	831	116	65.825

Audit is of the view that the management posted excess staff against the approved strength which resulted into recurring loss of Rs. 65.825 million which is held irregular.

The matter was reported to management in September, 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management states that efforts were being made for rationalization of staff. The DAC directed the management to formulate comprehensive HR policy and share its implementation with Audit.

Audit recommends implementation of the DAC directives.

(DP No. 38, 49, 43, 702 & 155)

3.3.4.10 Overstay of officers at Gulf Zone - Rs. 58.383 million

As per terms and conditions of the contract, duration of posting /transfer of the officer(s) will be for a period of three years, however the management reserves the right to call back the officers at Pakistan, as Zonal Accountant F&A Department, State Life, Gulf Zone, UAE.

During audit of State Life Insurance Corporation of Pakistan (SLIC) (PO) Karachi, for the year 2020, it was observed that the management posted/transferred three (3) officers from SLIC Pakistan to State Life, Gulf Zone. The officer(s) were posted for a period of three years, however they remained posted till date despite expiry of 03 years as detailed below:

S. #	Name of officers	Date of posting at Gulf Zone	Date of expiry of the contract	Excess Tenure	Total Amount
					In Dirham (approx.)
1	Mr. M. Arshad Bhatti (Zonal Accountant)	27.06.2013	26.06.2016	5 years 3 months	922,472
2	Mr. Muhammad Sohail (Manager)	08.01.2016	07.01.2019	2 years 9 months	520,620
3	Mr. Rustam Ali (DM/In-charge P&GS)	26.08.2018	25.08.2021	1 month	16,500
Grand Total					1,459,592 (PKR 58.383 million)

Audit is of the view that management has extended undue favor to the above-mentioned officers by extending their stay irregularly. Hence, the total payment of Rs. 58.383 million paid in lieu of pay and allowances is held irregular.

The matter was reported to management in September, 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management in its reply stated that the incumbents were not repatriated due to risk of non-compliance of continuous changing regulations of UAE and risk of business interruptions in case of posting/transfer of fresh employee. DAC directed the management to share the rotation policy and BoD approval with Audit for verification.

Audit recommends implementation of the DAC directives.

3.3.4.11 Irregular/unjustified payment on death claims - Rs. 43.678 million

As per Insurance Ordinance, 2000, amended upto November 2011 (76) Insurer not to engage in misleading or deceptive conduct.- (1) An insurer shall not, in the course of its business as an insurer, engage in conduct that is misleading or deceptive or is likely to mislead or deceive (2) The inclusion in an insurance policy of unusual terms tending to limit the liability of the insurer,

without the express acknowledgement of the policy holder, shall constitute misleading or deceptive conduct (77) Construction of ambiguities in favour of policy holder.- (1) Any ambiguity in a contract of insurance shall not be capable of being construed in a manner which is contrary to the interests of the policy holder.

During audit of State Life Corporation of Pakistan, (SLIC) Rawalpindi Zone for the year 2019 & 2020, it was observed that management made payment of death claims to 03 policy holders despite having various irregularities. Annex-24.

Audit is of the view that management made irregular payment of death claim of Rs. 43.678 million in violation of rules.

The matter was reported to management in September, 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management states that payments were made as per rules. The DAC directed the management to conduct fact finding inquiry in the matter and share the factual position with audit.

Audit recommends implementation of the DAC directives.

3.3.4.12 Irregular & unjustified payment of advance bonus to officers - Rs. 30.391 million

As per office order No P&GS/PO/267/2019 dated 22.07.2019 payment will be released to all officers against the performance based bonus as and when finally declared or refund of the same in case the approval is not granted by the Chairman, by the Board of Directors or by the Ministry of Commerce / Finance.

During audit of State Life Insurance Corporation of Pakistan (SLIC) (Central Zone & Western Zone), Lahore for the year 2019-20, it was observed that an amount of Rs. 30.3921 million was paid to the officers as advance bonus without sanction of competent authority. Details are as under:

Zonal Office	Description	Period	(Rs. in million)
Central Zone	Advance Bonus to the officers	2019	20.116
Western Zone	Advance Bonus to the officers	2019	10.274
Total			30.391

Audit is of the view that the management paid the advance bonus in violation of existing rules & regulations which is held irregular and unjustified.

The matter was reported to management in June 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management informed that performance based bonus policy for officers for the years 2016-19 has been approved by the BoD. Advance bonus paid to the officers for the year 2016-19 has been recovered / adjusted and nothing outstanding against the advance bonus which is reflected in the books of SLIC. The DAC directed the management to verify the recovered/adjusted amount and BoD approval by audit.

Audit recommends implementation of DAC directives.

3.3.4.13 Irregular award of contract for Janitorial Services - Rs. 29.030 million

Rules 12(2) of PPRA, 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.

During audit of State Life Insurance Corporation (SLIC), North Zone, Islamabad for the year 2019 and 2020, it was observed that the management initially made agreements of Janitorial Services for different buildings of Islamabad Zone with M/s. NOHA GROUP for one-year w.e.f. November 01, 2017 to August 31, 2018. The details are as under:

(Amount in Rs)						
Location	Period	Extended period	No. of months	Per month Amount	Per year	Total
State Life Building No.8, Rawalpindi	01.09. 2017 to 31.08.2018	01.09.2018 to 31.12.2020	28	0.198	2.377	5.548
State Life Building No.9, Islamabad	01.09. 2017 to 31.08.2018	01.09.2018 to 31.12.2020	28	0.279	3.354	7.827
State Life Building No.01, Rawalpindi	01.09. 2017 to 31.08.2018	01.09.2018 to 31.12.2020	28	0.279	3.354	7.827

State Life Building No.05 and 07, Islamabad	01.09. 2017 to 31.08.2018	01.09.2018 to 31.12.2020	28	0.279	3.354	7.827
Total						29.030

The above mentioned agreements were expired on September 01, 2018 but the management neither renewed the agreements nor advertised for fresh tenders and the said agreements were still continued.

Audit is of the view that management gave undue favor to the contractor by not advertised the tender in violation of rules.

The matter was reported to management in February, 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management stated that contract was awarded as per PPRA Rules. The DAC directed the management to get the stated position verified from Audit.

Audit recommends implementation of the DAC directives.

3.3.4.14 Non-adjustment of outstanding receivables – Rs. 23.842 million

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

During audit of State Life Corporation of Pakistan (SLIC), Rawalpindi Zone for the year 2019 & 2020, it was observed that an amount of Rs.23.842 million was lying outstanding against following head of accounts since long as on 31st December 2020 as detailed below:

S. #	A/c	Description	Amount in Rs
1	170-SH	Two months salary advance-staff after 18.08.2000	8,495,260
2	174	Advance against - 2 months salary(a&b)	18,126
3	177-SH	Two months salary advance-officer after 18.08.2000	7,587,500
4	178	Advance against - house rent	497,250
5	178-SH	Advance against - house rent paid after 18.08.2000	1,617,304
6	183	Advance against - medical bills	2,453,773
7	184	Advance against - telephone bills	2,882
8	186	Advance against - Dr-BI of salary	176,650
9	188	Advance against - rain loan	2,970
10	189	Advances to staff for expenses	1,295,263
11	192	Security deposit	156,730
12	194	Security deposits against death claims	758,427
13	199	A/c rcvbl defalcation - by FLD Staff	623,780
14	200	A/c rcvbl defalcation - policy holder	5,227
15	201	A/c rcvbl defalcation - by others	28,345
16	206	A/c rcvbl – others	122,856
Total			23,842,343

Audit is of the view that management failed in timely adjustment of advances which shows poor financial management and weak internal controls.

The matter was reported to management in June, 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management stated that efforts were being made to recover / adjust the amount. The DAC directed the management to verify the adjusted / recovered amount from Audit.

Audit recommends implementation of the DAC directives.

3.3.4.15 Irregular payment of claims without obtaining of premium - Rs. 8.468 million

Section (xxvii) of Insurance Ordinance 2000 “insurance” means the business of entering into and carrying out policies or contracts, by whatever name called, whereby, in consideration of a premium received, a person promises to make payment to another person contingent upon the happening of an event, specified in the contract, on the happening of which the second-named person suffers loss, and includes reinsurance and retrocession:

During audit of State Life Insurance Corporation of Pakistan, (SLIC) Principal Office, Karachi for the year 2020, it was observed that management paid 41 claims of Rs. 18.468 million to their clients against the group insurance without obtaining of due premium as detailed below:

S #	Policy No.	Name of Groups	Policy Date	No. of Empls.	Premium Due	Outstanding Premium	No. of Claims Settled	Amount (Rs.)
1	10038	T-M-A- Hyderabad City	27.11.2020	1,405	7,637,990	7,637,990	15	5,570,000
2	1893	In House State Life	01.01.2020	209	410,700	410,700	2	2,750,000
3	6225	Lasbela Industrial Devlp- Auth-	26.09.2020	401	1,243,856	1,243,856	3	2,100,000
4	5798	In House State Life	01.01.2020	139	230,400	230,400	4	1,800,000
5	11209	Siddiq Sons	02/07/2020	5,564	4,274,235	4,274,235	2	1,600,000
6	4655	K-B-C-A	01.07.2020	1,000	3,872,333	3,872,333	5	975,000
7	10101	Sindhi Adabi Board	09.12.2020	52	286,507	286,507	1	900,000
8	5794	In House State Life	01.01.2020	645	1,024,650	1,024,650	2	650,000
9	3449	S-E-S-S-I	01.07.2020	1,977	5,708,469	5,708,469	1	450,000
10	11060	Hadeed Welfare Trust	06.03.2020	626	381,860	381,860	2	400,000
11	5797	In House State Life	01.01.2020	168	308,500	308,500	1	347,925
12	8214	Cantonment Board Quetta	01.04.2020	384	937,125	937,125	1	325,000
13	11043	Municipal Committee Gambat	14.11.2020	152	699,475	699,475	1	300,000
14	5796	In House State Life	01.01.2020	250	334,200	334,200	1	300,000
		Total					41	18,467,925

Audit is of the view that management irregularly paid the claims of Rs. 18.468 million without obtaining due premium which shows poor financial management and weak internal controls.

The matter was reported to management in September, 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management stated that premium was paid as per policy. DAC directed the management to verify the stated position from Audit.

Audit recommends implementation of the DAC directives.

3.3.4.16 Irregular/unjustified payment of death claims - Rs. 14.650 million

Clause 6 of declaration of the terms of the policy issued to the policy holders states that if any untrue statement be contained therein the contract of the insurance shall be absolutely null and void; all money paid in respect thereof shall be forfeited to the Corporation, because the insured did not disclose pre-insurance ailment. Furthermore, as per State Life Insurance Employee (Service) Regulations, 1973, the following acts constitute misconducts: Regulation No. 30(1)(a): Commits breach of Rules, regulation or order of the Corporation. Regulation No. 30(1)(c): Displays negligence or inefficiency.

During audit of State Life Corporation of Pakistan, (SLIC)(Central and Western Zone) Lahore for the year 2019 &2020, it was observed that management made payment of death claims against various claims of Rs.14.650 million to policy holders despite having various irregularities. Annex-25.

Audit is of the view that payment of death claims without requisite documents reflected weakness of the internal controls, negligence & inefficiency of the management.

The matter was reported to management in June 2021. The irregularity was discussed in DAC meeting held on January 26, 2022.

- a). The management informed that acceptance of death claim have been paid in accordance with terms and conditions of contract and applicable provision of Section 79 and 80 of insurance ordinance 2000. DAC directed the management to conduct fact finding inquiry in the matter and share the factual position with Audit. (Rs. 2.872 million)
- b). The management informed the DAC that death claim have been paid in accordance with terms and conditions of the contract and applicable provision of section 79 and 80 of Insurance Ordinance, 2000 along with AIB and FIB additional supplementary contracts. The DAC directed the management to hold departmental inquiry on the issue and share the outcome with Audit. (Rs. 2.745 million)
- c). The management informed the DAC that death claim has been made after ensuring that death has occurred, claim is admissible and therefore no doubtful payment has been made. DAC directed the management to conduct fact finding inquiry in the matter and share the factual position with Audit. (Rs. 3.743 million)
- d). The management informed the DAC that claim has been settled on contingency of accidental death supported by evidences of death certificates issued by PAF and Pak Army. DAC directed the management to revise the policy for ADB and get the record/documents verified by the Audit. (Rs. 5.290 million)

Audit recommends implementation of DAC directives.

(DP No. 152, 159, 151 & 161)

3.3.4.17 Irregular engagement of External Auditor - Rs. 13.680 million

Rule (6) of Public Sector Companies (Corporate Governance) Rules, 2013 states that every Public Sector Company in the financial sector shall change its external auditors every five years. Financial sector, for this purpose, means banks, non-banking finance companies, mutual funds, modarabas, takaful companies and insurance companies. Every Public Sector Company other than those in the financial sector shall, at a minimum, rotate the engagement partner after every five years”.

During audit of State Life Insurance Corporation of Pakistan, (SLIC) Principal Office, Karachi for the year 2020, it was observed that the management engaged M/s Nabeel Al-Sai as external auditor for Gulf Zone since 2009 to 2020. However, as per rule the management was required to appoint new external auditor after five years which was not done.

Audit is of the view that the management extended undue favour to audit firm in violation of rules. Hence, payment of Rs. 13.68 million (AED 52,000 x 6 years x Rs. 43.846) was held irregular.

The matter was reported to management in September, 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management stated that corrective measures were being made. The DAC directed the management to get the approval from AGP and verify the same from Audit.

Audit recommends implementation of the DAC directives.

3.3.4.18 Non-recovery of embezzled amount - Rs. 10.356 million

State Life Insurance Corporation of Pakistan (SLIC) letter dated April 30, 2007 provides that Zonal Head should ensure to arrange proper security at all cash counters at zonal office as well as at all collection centers, Zonal Accountant should himself make periodic visits of collection centers on surprise basis or authorize any officer of F&A to visits theses collection centers and check cash collection. Both Zonal Head and Accountant should check proper maintenance of banking operations.

During audit of State Life Insurance Corporation (SLIC), Multan and Faisalabad Zones for the year 2019 & 2020, it was observed that the following officers/officials committed fraud by making forged deposit slips as per detail shown below:

S.#	Name	Designation	Remarks
1	Muhammad Amjad	AGM (F&A)	Inquiry was conducted
2	Muhammad Saleem	Manager (F&A)	
3	SaleemRaza	AM (Incharge Bank)	
4	M. Abbas	Cashier (Khanewal)	
5	Tariq Mehmood	-do-	
6.	Sabir Ali	Area Manager (Faisalabad Zone)	No Inquiry was conducted

The accused persons managed to destroy the deposit slips (original) and prepared the fake counter part of deposit slips. Inquiry Committee was constituted to probe into the matter which ascertained that the loss suffered by the corporation was Rs. 10.100 million and complaint was lodged with FIA during the year 2016, however no recovery and action was taken till date.

Audit is of the view that the management failed to recover the amount from above accused along with mark up after lapse of more than 08 years. However, only an amount of Rs.1.350 million was recovered.

The matter was reported to management in June 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management stated that efforts were in process to recover the amount. The DAC directed the management to verify the factual position and conduct the inquiry.

Audit recommends implementation of DAC directives.

(DP No. 40 & 53)

3.3.4.19 Irregular/unjustified sanctioning of house building loan - Rs. 5.200 million

As per State Life delegation of financial powers (19.2): House Building Loan to officers is allowed ... subject to maximum of 48 basic pay in accordance with approval of Board of Directors at the rate of mark up as revised by the management of State Life from time to time. Furthermore, as per State Life guideline#19 (c) House building loan sanctioning committee: Zonal Head = Convener, Zonal Accountant = Member, In charge (P&GS) = Member, Zonal Auditor = Member & Incharge (Law) = Member.

During audit of State Life Corporation of Pakistan (SLIC), Rawalpindi Zone for the year 2019 & 2020, it was observed that the management sanctioned

House Building Loan to Mr. Saleem Ahmed, AGM (LAD) of Rs.5.200 million with following discrepancies;

1. Site plan was not approved and Valuation was carried by unregistered company.
2. Original Sale Deed/ Sale Agreement/ Lease Deed was not available in file.
3. Internal auditor raised query that legal position of subject society is not clear i.e. License No and registration number issued by Govt. authorities.
4. License number is not mentioned in original letter of society.
5. Loan was not sanctioned by Zonal Head as per rules.
6. Mr. Saleem Ahmed, AGM sanctioned his owned loan as member of loan sanctioning committee.
7. Construction was carried out without any photos and other evidence.

Audit is of the view that management sanctioned an irregular loan of Rs. 5.200 million in violation of rules which reflects serious procedural lapses.

The matter was reported to management in June 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management stated that loan was disbursed as per policy. The DAC directed the management to verify the factual position from Audit.

Audit recommends implementation of DAC directives.

3.3.4.20 Irregular insurance policy with Accidental Death Benefit (ADB) - Rs. 5.000 million

Section 50 (1) of SLIC Underwriting Guidelines, 2019 states that Accidental Death Benefit (ADB). i. Females under category A & B only can be offered also to avail this benefit. 27. Insurance of Females Lives: Insurance will be available to female lives as per following categorization: Category-A: This category includes females who have been an independent and self-earned income from employment in government department & private organization. Category-B: This category includes females who have been an independent earned income from business as sleeping partners (or not actively engaged). However, qualification must normally be substantiated with proof of source of income. Category-C: Housewives and others no independent earned income, ladies having unsteady source of income vocation like tailoring, handcrafting, selling animals

& birds breeding, tutoring, working unregulated Madrassa's or small low lines school/institution etc., fall under this category.

During audit of the State Life Insurance Corporation of Pakistan (SLIC), (Western Zone) Lahore for the year 2019 to 2020, it was observed that the management issued a policy to Ms. Madiha Zulfiqar (Housewife) for sum assured Rs. 5.000 million. The management applied / added Accidental Death Benefits (ADB) @ Rs. 6,250 per annum with insurance policy in violation of rules.

Audit is of the view that the management issued a policy with ADB to housewife is a clear violation of above rule as policy holder falls under Category-C.

The matter was reported to management in June 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management informed that error on the part of zonal underwriting committee is admitted and rectified. The ADB contract has been deleted after expressed written consent of policy holder and premium was revised. DAC directed the management to get the record/documents verified by the Audit.

Audit recommends implementation of DAC directives.

3.3.4.21 Irregular award of courier services contract – Rs. 3.782 million

Rule 10 of PPRA, 2004 states that Specifications shall allow the widest possible competition and shall not favour any single contractor or supplier nor put others at a disadvantage. Specifications shall be generic and shall not include references to brand names, model numbers, catalogue numbers or similar classifications. However if the procuring agency is convinced that the use of or a reference to a brand name or a catalogue number is essential to complete an otherwise incomplete specification, such use or reference shall be qualified with the words 'or equivalent'.

During audit of State Life Insurance Corporation of Pakistan (SLIC), Lahore (Western Zone), for the year 2019 to 2020, it was observed that the management invited bids for procuring of courier services on Single Stage Two Envelope basis. Three (03) bidders participated, out of which two were technically rejected on the basis that they did not meet the criteria of technical evaluation i.e. 1. Operation Hub in UAE. 2. Dedicated Chartered Aircraft and 3.

Electronic Devices for Booking. This condition reflects that the criteria were defective which limited the competition amongst the bidders. The contract was awarded to M/s TCS amounting to Rs. 3.782 million which reflects favoritism and thus, held irregular and unjustified.

Audit is of the view that the management devised a defective criterion for hiring services of courier which depicts undue favor and violation of rules.

The matter was reported to management in June 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management informed that contract for courier service was awarded after adopting all codal formalities. The DAC directed the management to get the record/documents verified by the audit.

Audit recommends implementation of DAC directives.

3.3.4.22 Non-verification of degrees/certificates of the employees/officers

Establishment Division through its D.O. No. 6(28)2011-DG-II dated March 08, 2011 issued a directive of the Prime Minister to the effect that measure should be taken to authenticate degrees/certificates of all employees by the Secretaries of offices under their administrative control. The verification of degrees / certificates will be the responsibility of concerned Secretary and Head of the Department / Organization.

During audit of State Life Insurance Corporation of Pakistan (SLIC) (Western Zone), Lahore for the years 2019 & 2020, it was observed that management did not get verified the degrees & certificates of 24 employees / officers from the concerned institutes / universities.

Audit is of the view that non-verification of degrees / certificates of the employees reflect inefficiency and weak internal controls.

The matter was reported to management in June 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management informed that zone has 199 employees of whose certificates/degrees have almost been completed. The DAC directed the management to get the record verified by audit and expedite verification of remaining degrees/certificates of officials/officers.

Audit recommends implementation of DAC directives.

3.4 Trading Corporation of Pakistan (Pvt.) Limited

3.4.1 Introduction

Trading Corporation of Pakistan Limited (TCP) was set up as a private limited company in July, 1967, registered under the Companies Act 1913 (now Companies Act 2017). The shares of the Corporation are owned by the Ministry of Commerce, Government of Pakistan. The main objectives of the Corporation are as under:

- Acting on the directives of the Federal Government, TCP undertakes import of essential commodities to help ensure their availability to the common man at affordable prices. It intervenes in the market in the larger public interest to ensure fair price to public, as well as to preempt hoarding and profiteering.
- Import of essential commodities in the emergent conditions.
- Export of selected items of Public Sector Corporation, agencies, etc.
- To perform innovative role of undertaking export of non-traditional items to non-traditional markets on experimental basis.

3.4.2 Comments on Audited Accounts

3.4.2.1 The working results of the Corporation for the year ended 2020-21 as compared to previous years are given below:

(Rs. in million)					
Head of accounts	2020-21	% Inc / (Dec)	2019-20	% Inc / (Dec)	2018-19
Long term investment	9,991.495	1.885	9,806.574	2	9,643.072
Due from Govt. of Pakistan	72,766.063	12.94	64,429.367	28	50,523.021
Trade debts	44,244.461	(0.64)	44,529.944	(4)	46,462.710
Prepayments & other receivables	15,001.459	4.70	14,327.623	57	9,135.725
Taxation – net	1,269.084	2.431	1,238.958	9	1,138.171
Commission Income	628.049	546.500	97.146	(4)	101.234
Administrative exp.	(964.699)	(13.954)	(846.566)	(4)	(886.062)
Other income	2,415.294	(11.66)	2,734.102	22	2,246.100
Profit before taxation	2,078.644	4.734	1,984.682	36	1,461.272
Taxation	(580.788)	(5.829)	(548.798)	46	-375.515
Profit after taxation	1,497.856	4.316	1,435.884	32	1,085.757

(Source Annual Audited Accounts 2019-20 & 2020-21)

3.4.2.2 Due from GoP increased by 12.94% from Rs. 64,429.367 million in 2019-20 to Rs. 72,766.063 million which needs to be elucidated.

3.4.2.3 Prepayments and other receivables increased 4.7% during 2020-21 from Rs. 14,327 million in 2019-20 to Rs. 15,001 million in 2020-21 which needs justification.

3.4.2.4 Other income decreased by 11.66% from Rs. 2,734.000 million in 2019-20 to Rs. 2,415.000 million in 2020-21 which needs to be elucidated.

3.4.2.5 Commodity finance under markup arrangements increased from Rs. 129,940.823 million during the year 2020 to Rs. 141,263.048 million during the year 2021 which needs to be justified.

3.4.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
1992-93	23	18	5	49, 50, 51, 52, 53	78%
1994-95	29	27	2	56, 60	93%
1996-97	24	14	10	44, 49, 63-64, 66, SAR b-2, b-3, b-6, b-7, b-8, b-9	58%
1997-98	14	9	5	32, 33, 34, 35, 37	64%
1999-00	14	13	1	49	93%
2000-01	11	10	1	10	91%
2003-04	11	10	1	15	91%
2004-05	3	1	2	15, 17	33%
2005-06	13	12	1	21	92%
2007-08	6	5	1	13.2	83%
2008-09	10	6	4	8.3, 9, 10, 11, 12	60%
2010-11	14	11	3	2.4.2.3, 2.4.4.3, 2.4.4.6	79%
2011-12	16	15	1	3.4.2.1, 3.4.2.2, 3.4.2.3, 3.4.2.4, 3.4.2.5, 3.4.2.6, 3.4.2.7, 3.4.3, 3.4.4.1, 3.4.4.2, 3.4.4.3, 3.4.4.4, 3.4.4.5, 3.4.4.6, 3.4.4.7	94%
2012-13	16		1	3.4.4.1	0%
2013-14	16	6	9	4.4.2.1(A), 4.4.2.1(B), 4.4.2.1, 4.4.2.1(C), 4.4.2.1(D), 4.4.2.1(E), 4.4.2.2, 4.4.2.7, 4.4.3	38%
2014-15	16	2	19	4.4.2.1, 4.4.4.1, 4.4.2.2, 4.4.2.3, 4.4.2.4, 4.4.2.5, 4.4.2.6, 4.4.2.7, 4.4.3, 4.4.4.2, 4.4.4.4, 4.4.4.5, 4.4.4.6, 4.4.4.7, 4.4.4.8, 4.4.4.9, 4.4.4.10, 4.4.4.11, 4.4.4.12	13%
2015-16	16	3	8	4.4.4.1, 4.4.4.2, 4.4.4.6, 4.4.2.1, 4.4.3, 4.4.4.3, 4.4.4.4, 4.4.4.7	19%
2016-17	16	3	9	3.4.2.1(a), 3.4.2.3, 3.4.4.1, 3.4.4.2, 3.4.2.1(b), 3.4.2.4, 3.4.3,	19%

				3.4.4.4, 3.4.4.5	
2017-18	16	4	7	4.4.4.8, 4.4.4.2, 4.4.4.3, 4.4.3, 4.4.4.5, 4.4.4.6, 4.4.4.7	25%
Total	284	136	36		48%

The overall compliance of PAC directives needs improvement.

3.4.4 Audit Paras

3.4.4.1 Loss to national exchequer - Rs. 9,584.126 million

Section 4(3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

Rule 4 of PPRA, 2004 states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of Trading Corporation of Pakistan (TCP) for the year 2020-21, it was observed that the management sold goods on behalf of government of Pakistan amounting to Rs. 85,900.359 million and incurred cost of sales amounting to Rs. 95,483.785 million as detailed below:

(Rs. in million)				
S. No	Description	Sales	Cost	Loss on Sale
1	Sugar	9,348.040	95,483.785	9,584.126
2	Wheat	76,552.319		
	Total	85,900.359	95,483.785	9,584.126

Audit is of the view that the management had not applied an efficient and economical process that resulted in cost of sales higher than the sales of commodities.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management stated that there is no loss during the operations of current year, rather the extra mark up cost pertains to operations of previous years on outstanding receivables and they have taken vigorous efforts for recovery. The DAC directed the management to get the factual position verified from Audit.

Audit recommends implementation of DAC directives.

3.4.4.2 Non-disposal of stock - Rs. 3,259.536 million

Section 4(3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Trading Corporation of Pakistan (TCP) for the year 2020-21, it was observed that the stock in trade amounting to Rs. 3,259.536 million was lying in godowns for years which has become waste. The details are as under:

S. #	Description	Amount (Rs. in million)
1	Sugar	35.381
2	Rice	2,925.801
3	Wheat	297.288
4	Black Matpe	1.066
Total		3,259.536

Audit is of the view that the corporation has sustained loss due to negligence of the management because the management fails to take effective steps to save goods lying in warehouses from becoming the waste by not selling the stock on timely basis.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management explained the Committee that out of 04 commodities, para against rice has already been settled and only provision made in the books of account against remaining 03 commodities. The DAC directed the management to get verify the facts with Audit and where the court cases involved, pursue more vigorously.

Audit recommends implementation of DAC directives.

3.4.4.3 Investment in TDRs without approval of BoD - Rs. 19,900.000 million

Section 3 (b) of Finance Division letter No.F.4 (1)/2002-BR.II Islamabad, dated: 02.07.2003 the process of selections of banks should be transparent.

Therefore, prior to placing deposits with a bank under this new policy, and in case the total working balances exceed Rs. 10 million, the selection of the bank as well as the terms of deposits will be approved by the concerned Board of Directors/Governing Body on the basis of competitive bids from at least three independent banks;

During audit of Trading Corporation of Pakistan (TCP) for the year 2020-21 it was observed that the management invested an amount of Rs. 19,900.000 million in Term Deposit Receipts (TDRs) for a period of 03 months on the recommendation of Finance Committee and without approval of the Board of Directors (BoD) in violation of above rules.

Audit is of the view that management made investment in violation of rules. Thus, investment amounting to Rs. 19,900.000 million is irregular and unjustified.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management explained the Committee that investment was made as per approved policy duly endorsed by the BoD. The DAC directed the management to verify the factual position by Audit.

Audit recommends implementation of DAC directives.

3.4.4.4 Loss due to delayed procurement on higher prices – Rs. 10,530.670 million (US\$. 66.523 million)

Rule 5 (1) of public sector companies (Corporate Governance) Rules, 2013 state that the board shall exercise its power and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Trading Corporation of Pakistan (TCP) for the year 2020-21, it was observed that the management was directed by Cabinet on 04.08.2020 to import 1,500,000 MT wheat in the country. However, management made delay in procurement/imports, resultantly the prices of wheat increased in international markets which resulted in loss of Rs. 10,530.670 million (US \$ 66.523 million x Rs. 158.30). The details are as under:

Tender date	Rate of tender	Difference from first tender @ USD 233.85	Quantity (MT)	Amount of higher price in US\$ (in million)
19.08.2020	233.85	-	330,000	-
05.10.2020	278.50	44.65	330,000	14.734
14.10.2020	284.00	50.15	340,000	17.051
03.11.2020	286.20	52.35	320,000	16.752
18.11.2020	286.75	52.90	340,000	17.986
Total			1,660,000	66.523

Audit is of the view that the management made delayed procurement and in piece meal which resulted in loss of Rs. 10,530.670 million (US\$ 66.523 million x Rs. 158.30) which reflects poor planning and imprudent decision making.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management explained the Committee that procurement was made on the basis of demand of the respective Ministry / Division and TCP acts only as procuring agency and did not ascertain the demand / forecasting. The DAC directed the management to share the copy of Cabinet / ECC decision with audit for further comments.

Audit recommends implementation of DAC directives.

3.4.4.5 Non-recovery of pre-payments and other receivables - Rs. 725.229 million

Section 4(3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Trading Corporation of Pakistan (TCP) for the year 2020-21, it was observed that the management failed to recover pre-payments and other outstanding receivables amounting to Rs. 725.229 million from different parties. Moreover, these pre-payments and outstanding receivables are declared doubtful by the management that means that there are few chances of recovery.

Audit is of the view that the management is unable to recover outstanding funds which shows inefficiency and absence of policy for accounting of bad debts due to which the corporation may sustain loss of Rs. 725.229 million.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management stated that Rs. 725.229 million is primarily subjudice in the Court. The DAC directed the management to verify the factual position by Audit.

Audit recommends implementation of DAC directives.

3.4.4.6 Opportunity loss due to non-utilization of vacant godown spaces - Rs. 102.831 million

Section 5 (1) (1) of Corporate Governance Rule, 2013 states that the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

During audit of Trading Corporation of Pakistan (TCP) for the year 2020-21, it was observed that TCP possess three godowns at different locations of Karachi. However, most of the spaces were lying vacant as detailed below:

S. #	Godown	Area in sq. ft	Base rate sq.ft in Rs.	Amount (Rs. in million)
1.	Korangi godown	735,680	52.10	38.328
2.	Landhi godown	704,189	20	14.083
3.	Pipri godown	3,863,546	13.05	50.419
Total		5,303,415		102.831

Audit is of the view that the management failed to rent out the vacant spaces which reflects poor financial management.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management stated that godowns are neither meant for rent purpose nor recorded as Investment property, as such, there is no loss sustained by the corporation on account of loss of rental income. The DAC directed the management to verify the factual position by Audit.

Audit recommends implementation of DAC directives.

3.4.4.7 Non-recovery of rent from godown tenants - Rs. 39.726 million

Section 4(3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Trading Corporation of Pakistan (TCP) for the year 2020-21, it was observed that the management failed to recover an amount of Rs. 39.725 million on accounts of rent from godowns tenants as detailed below:

S. No.	Description	Outstanding Amount (Rs. in million)
1.	Godowns	19.611
2.	Sindh Board of Revenue	2.041
3.	FBR	18.072
Total		39.725

Audit is of the view that non-recovery of rent reflects poor financial management and weak recovery mechanism.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management informed the Committee that an amount of Rs.4.200 million has been recovered and efforts are underway for remaining recovery. The DAC directed the management to get verify the recovered amount and efforts may be made for remaining recovery. Moreover, wherein the court cases involved, pursue it more vigorously.

Audit recommends implementation of DAC directives.

3.4.4.8 Non-recovery of embezzled fund - Rs. 23.688 million

Section 4(3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Trading Corporation of Pakistan (TCP) for the year 2020-21, it was observed that the management failed to recover an amount of Rs. 22.560 million from M/s Allied Bank. The bank has accepted its liability

against an embezzlement of Rs. 22.560 million in the year 2015. Accordingly the management is liable to be compensated at the net present value of Rs. 23.688 million (Rs. 22.560 million + Rs. 1.128 million expected profit at minimum Rate of interest 5%).

Audit is of the view that the management has failed to safeguard the funds by not ensuring recovery of embezzled funds along with interest which shows inefficiency.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management informed that M/s ABL's representative showed positive response and verbally agreed to refund the amount. The DAC directed the management to verify the factual position by Audit.

Audit recommends implementation of DAC directives.

3.4.4.9 Non-recovery of loans and advances - Rs. 11.963 million

Section 4(3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Trading Corporation of Pakistan (TCP) for the year 2020-21, it was observed that the management disbursed loans and Advances amounting to Rs. 40.792 million to different employees/parties out of which loans and advances amounting to Rs. 14.076 million were disbursed without obtaining any guarantee/security. Out of the unsecured advances, the management has made provision of doubtful advances amounting to Rs. 11.963 million, reflecting inefficient financial management. The detail is as under:

S.#	Description	Amount (Rs. in million)
Unsecured Advances		
1	Considered good	2.113
2	Considered doubtful	11.963
Total		14.076

Audit is of the view that due to imprudent decision of granting loans without security, the organization is facing probable loss in shape of provisioning as doubtful assets.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management informed the Committee that these are the only provisions made in books of accounts which were transferred to defunct RECP and CEC at the time of merger. The DAC directed the management to place the matter before BoD for further appropriate action.

Audit recommends implementation of DAC directives.

3.4.4.10 Irregular appointment on fake / bogus degree - Rs. 11.000 million

Establishment Division through its D.O. No. 6(28)2011-DG-II dated March 08, 2011 issued a directive of the Prime Minister to the effect that measures should be taken to authenticate degrees/certificates of all employees by the Secretaries of offices under their administrative control. The verification of degrees / certificates will be the responsibility of concerned Secretary and Head of the Department / Organization.

During audit of Trading Corporation of Pakistan (TCP) for the year 2020-21, it was found that the management appointed Mr. Muhammad Raza as Deputy Project Manager on July 22, 2010 at a monthly salary of Rs. 35,000 without scrutiny / verification of required qualification/ experience. After receiving reminder for submission of documents in 2015, he submitted MBA degree of Al Khair University which was found bogus and he was suspended. However, his services were reinstated despite having fake degree which is irregular and unjustified.

Audit is of the view that the management extended undue favour to the incumbent at appointment and reinstatement, thus payment of Rs. 11.00 million (approx) stands irregular and unjustified.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management informed the Committee that departmental inquiry is underway and the concerned employee also took stay order from the court. The DAC directed the

management to share the outcome of the inquiry with audit and pursue the court case more vigorously.

Audit recommends implementation of DAC directives.

3.4.4.11 Loss due to deferment of annual increase in godown rent - Rs. 2.518 million

Rule 5(1) of Public Sector Companies (Corporate Governance) Rules, 2013 state that the Board shall exercise its power and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Trading Corporation of Pakistan (TCP) for the year 2020-21, it was observed that the management exempted all the tenants to pay annual 10% increase in the rent for one year due to Covid-19 situation with the approval of Board of Directors (BoD) which resulted in loss of Rs. 2.518 million as detailed below:

(Rs. in million)						
S. No.	Godown	Total area	Rented area	Base rate	Total rent (approx)	Loss of 10% increase (approx)
1.	Pipri	4,225,036	361,490	13.05	4.717	0.471
2.	Landhi	1,270,143	565,954.5	20	11.319	1.131
3.	Korangi	911,680	176,000	52.10	9.169	0.916
Total					25.205	2.518

Audit is of the view that the exemption granted by the management to tenants stands irregular and unjustified.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management informed the Committee that BoD has taken the decision to not increase the rent on the basis of prevailing situation of Covid-19 in the country. The DAC directed the management to verify the factual position by Audit.

Audit recommends implementation of DAC directives.

3.4.4.12 Delay in import of sugar resulting into higher prices

Rule 5(1) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the board shall exercise its power and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Trading Corporation of Pakistan (TCP) for the year 2020-21, it was observed that the management was directed by Cabinet on 04.08.2020 to import 300,000 MT and on 09.02.2021 500,000 MT Sugar in the country. Accordingly, 11 international tenders were floated and scrapped as detailed below:

Tender No	Date of opening	Lowest bid price USD	Quantity	Status
No.TCP/MA&ID/Sugar/20-1/2020	18.08.2020	474.91	-	scrapped
No.TCP/MA&ID/Sugar/20-2/2020	08.09.2020	434.80	25,000	awarded
No.TCP/MA&ID/Sugar t/20-3/2020	15.09.2020	425.00	26,700	awarded
No.TCP/MA&ID/Sugar /20-4/2020	30.09.2020	471.90	-	scrapped
No.TCP/MA&ID/Sugar/20-5/2020	07.10.2020	458.90	-	scrapped
No.TCP/MA&ID/Sugar/20-6/2020	20.10.2020	504.00	-	scrapped
No.TCP/MA&ID/Sugar/20-7/2021	02.03.2021	540.10	-	scrapped
No.TCP/MA&ID/Sugar/20-8/2021	16.03.2020	544.10	-	scrapped
No.TCP/MA&ID/Sugar/20-9/2021	14.04.2020	520.20	-	scrapped
No.TCP/MA&ID/Sugar/20-10/2021	27.04.2021	550.50 & 447	-	cancelled
No.TCP/MA&ID/Sugar/20-11/2021	02.06.2021	533.90	-	scrapped

Audit is of the view that the management had not searched the sugar prices in international market in prudent and timely manner caused unnecessary delay in import and getting higher prices. Had the management been efficient in awarding tenders in time, the TCP could have availed better prices of sugar closer to the lowest tender. Delay in import of sugar caused loss of opportunity of availing better prices. The same needs justifications.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 26, 2022. The management explained the Committee that procurement was made on the basis of demand of the respective Ministry / Division and TCP acts only as procuring agency and did not ascertain the demand / forecasting. The DAC directed the

management to share the copy of Cabinet / ECC decision with audit for further comments.

Audit recommends implementation of DAC directives.

3.5 Pakistan Horticulture Development and Export Company

3.5.1 Introduction

Pakistan Horticulture Development and Export Board (PHEDB) was established under a notification dated August 05, 2002 issued by the Ministry of Commerce, which was subsequently incorporated on July 15, 2009 under Section 42 of the Companies Ordinance 1984, (now Companies Act, 2017) namely Pakistan Horticulture Development and Export Company (PHDEC). The main objectives of the company include economic welfare of all the stakeholders in the horticulture value chain and introduction of Pakistan to the high end international markets through strategic initiatives.

3.5.2 Comments on Audited Accounts

3.5.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts of the organization for the year 2017-18 to 2020-21 till December 31, 2021.

Audit recommends that the annual audited accounts for the years 2017-18 to 2020-21 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

3.5.3 Compliance of PAC Directives

S. #	Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of Compliance
1	2015-16	20	06	14	4.5.4.1, 4.5.4.2, 4.5.4.3, 4.5.4.5, 4.5.4.7, 4.5.4.8, 4.5.4.9, 4.5.4.11, 4.5.4.12, 4.5.4.13, 4.5.4.14, 4.5.4.15, 4.5.4.16, 4.5.4.17	30
2	2017-18	07	04	03	4.7.2.4, 4.7.2.5, 4.7.2.6	57
Total		27	10	17		37

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

3.5.4 Audit Paras

3.5.4.1 Wasteful expenditure due to non achievement of objectives – Rs. 105.940 million

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

During audit of Pakistan Horticulture Development & Export Company (PHDEC) for the years 2019-20 to 2020-21 it was observed that MOU was signed with Pakistan Atomic Energy Commission (PAEC) in June 2004 for the establishment of Joint Venture Company “Paras Foods (Pvt.) Limited” with total cost of Rs. 78.132 million. The project cost was shared between the Joint Venture partners as under:

(Rs. in million)		
Project Item	Approved cost	Joint Venture Partner
Land One Acre (Approx) Building	18.052	PAEC
Plant & Machinery and procurement of inventory	60.080	(50% PAEC 50% PHDEC)
Total	78.132	

The main objectives of the project were to eradicate horticulture products through Gamma Radiation (using cobalt 60) to achieve dis-infections, extend shelf life of the products and meet quarantine requirements of the importing countries.

The Company started its operations in April 2009, but failed to achieve the objectives of the project. In 2013, the Company closed its operation because it did not eradicate horticulture products at 250 greys and below. Thus, expenditure of Rs. 105.940 million incurred by the Company gone waste.

The following serious lapses were observed in management of the affairs of the company:

- The approval of PHDEC Board's regarding establishment of the company was not available on record.
- The company closed its operations in 2013-14 due to non-achievement of desired objectives. The PHDEC Board directed for the liquidation of the Company in its meeting August 2017. However, the liquidation process was not initiated till close of audit.
- Huge liabilities payable to PAEC/ATCOP on account of lease rental & technical services worth Rs. 52.253 million accumulated after closure of the Company's operations.
- Original record of the expenditure incurred of Rs.105.940 million could not be produced to Audit for scrutiny.

Audit holds that poor management of the Company resulted into wastage of public money worth Rs. 105.940 million.

The matter was reported to the management on 10.12.2021 but no reply was received.

Despite repeated requests, no DAC meeting was arranged till finalization of this report.

Audit recommends to justify the matter. Besides investigating and fixing responsibility on the persons at fault.

Para-2 (PHDEC), 2018-21

3.5.4.2 Non-achievement of policy objectives and development targets resulting into loss due to non-operationalization of Companies – Rs. 355.311 million

As per clause 3(2) of Memorandum and Article of Association, the main objective of the Company (PHDEC) was “to work for Production, Development and Export of Horticulture Products, which include fruits, vegetables, flowers and herbs.”

During audit of Pakistan Horticulture Development & Export Company (PHDEC) for the years 2019-21 it was observed that 08 projects were approved as a part of Trade Policy 2003-04 to leverage the export potential of horticulture projects through independent Companies under supervision and technical/operational assistance of PHDEC. Export Development Fund (EDF) released funds of Rs. 210.376 million out of which Rs. 118.480 million were fully utilized

while the remaining funds of Rs. 91.896 million were not utilized. In addition to that three JV Companies were also established visualizing the same objective with a cost of Rs 236.831 million but all the 11 Companies could not achieve their desired objectives.

The PHDEC Board in its meeting held on September 22nd 2020 expressed serious displeasure that the PHDEC had not been able to run these projects efficiently and decided to cancel the 5 projects which did not start their operations and return back funds to EDF. Four projects which were established in collaboration with Provincial Governments be handover to the respective Provincial Govt. and their company structure be dissolved. As regards remaining two projects, Bord decided to sale/disinvest a project and the other being a joint venture with private sector and in litigation be continued in its present form.

Audit is of the view that the Companies failed to achieve their policy objectives hence, public money amounting to Rs. 355.311 million have gone waste.

The matter was reported to the management on 10.12.2021 but no reply was received.

Despite repeated requests, no DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter regarding failure of Companies to run their operations with a view to fix responsibility thereof.

Para-3 (PHDEC), 2018-21

3.5.4.3 Loss due to imprudent investment and interest thereon - Rs 169.296 million

According to clause (15) of the Memorandum of Association of Pakistan Horticulture Development & Export Company (PHDEC), “The Company shall make no investment, whatsoever, in the associated companies except with the prior approval of the Commission and subject to such condition as it may deem fit to impose.”

During audit of Pakistan Horticulture Development & Export Company (PHDEC) for the years 2019-21 it was observed that PHDEC entered into joint venture agreement with M/s Durrani Associates (Pvt.) Ltd. Karachi to set up a

fruit and vegetable processing facility on Sep 14, 2010. The parties agreed to contribute equally in the project cost of Rs. 177.507 million. The management invested an amount of Rs. 88.753 million in the project in Jul 22, 2010.

The Joint Venture was established without the approval of PHDEC Board. Moreover, the management invested sum of Rs. 88.753 million, but failed to start the business of the Company.

The imprudent decision of investment of Rs 88.753 million in Joint Venture Company resulted into loss of Rs. 169.269 million i.e. interest loss of Rs. 80.543 million (i.e. Rs. 88.753 million x 8.25% x 11 years) plus actual investment of Rs. 88.753 million.

The matter was reported to the management on 10.12.2021 but no reply was received.

Despite repeated requests, no DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter and fix responsibility thereof.

Para-4 (PHDEC), 2018-21

3.5.4.4 Non-execution of planned activities - Rs. 386.00 million

According to Rule-2A (3) of Public Sector Companies (Corporate Governance) Rules 2013, “the Public Sector Company shall not be regarded as conducting its business in sound and prudent manner if it fails to conduct its business with due regard to the legitimate policy objectives and development targets of the government.”

During audit of Pakistan Horticulture Development & Export Company (PHDEC) for the years 2018-21 it was observed that the main objectives of the Company were “to work for Production, Development and Export of Horticulture Products, which include fruits, vegetables, flowers and herbs.

During 2019-20 and 2020-21, various activities like Developing Knowledge Base, Infrastructure Development, Market Access, Trade Promotion etc. of

Rs. 378.000 million and Rs. 92.900 million respectively were planned and approved. However, only Rs. 40.00 million and Rs. 44.900 million were expended

for the said activities leaving unspent balance of Rs 338.00million and Rs 48.00 million respectively. Thus, the objectives and development targets set by the company could not be achieved in the said period.

The non-execution of planned activities led to non-achievement of core objectives of the Company.

The matter was reported to the management on 10.12.2021 but no reply was received.

Despite repeated requests, no DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter and fix responsibility thereof.

Para-5 (PHDEC), 2018-21

3.5.4.5 Embezzlement of PSDP funds under Agribusiness Development and Diversification Project – Rs. 24.454 million

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

During the audit of Pakistan Horticulture Development and Export Company (PHDEC) for the year 2018-21 it was observed that “Agribusiness Development and Diversification Project was started in July 2005 with the main objective of economic growth and sustainable agribusiness sector through provision of support services, strengthening of institutions to facilitate agribusiness and creating policies. The project was funded by Asian Development Bank and Government of Pakistan through PSDP funds. Funds of Rs. 46.00 million were allocated for establishment of Horticulture Project Unit (HPU) and training/ capacity building of PHDEC in the approved PC-I of the project.

It was observed that funds of Rs. 98.635 million were released during the period from 2005 to 2011. PSDP funds worth Rs. 16.245 million were transferred

to PHDEC account in 2010 without any cogent reasons which were not returned. Moreover, a sum of Rs. 6.299 million was available in the project bank account at the time of closure of the project in 2011. The unspent PSDP funds were neither deposited in government treasury nor any detail available on record.

Furthermore, it was observed that a sum of Rs. 1.910 million was drawn by Chief Executive of the Company for his personal use and not returned till date.

The matter was reported to the management on 10.12.2021 but no reply was received.

Despite repeated requests, no DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter and fix responsibility on the persons at fault.

Para-6 (PHDEC), 2018-21

3.5.4.6 Irregular sale of State assets (Land) - Rs. 13.747 million

According to Rule-2A (3) of Corporate Governance Rules, 2013, the Public Sector Company shall not be regarded as conducting its business in a sound and prudent manner if it fails to conduct its business with due regard to the legitimate policy objectives and development targets of the Government.

During audit of the accounts of Pakistan Horticulture Development & Export Company, Islamabad for the year 2018-21, it was observed that companies established with Export Development Funds in collaboration with Provincial Governments sold their land provided by the Provincial Governments in dis-regard to the above policy objectives. The objectives of these companies were to provide cold storage for preservation of Horticulture Products. Different category of Plots i.e. A, B, C & D with covered area of 300 sq.ft. 250 sq.ft. were sold without any approved policy and transparent auction process. The Board of Director of PHDEC conducted inquiry in the case. The inquiry officer in his finding appraised the Board that “Haripur Collection Point & Cold storage is ill conceived, planned, executed and operated project.”

Detail of sale of land is as under:

S. #	Name of company	Funds from EDF	(Rs. in million)
			Sale of Land

1.	Khuzdar Collection Point and Cold storage	35.510	5.200
2.	Haripur collection point and cold storage	40.110	8.546
	Total	75.461	13.747

The sale of state land in deviation of the standing rules is held irregular in audit and needs justification.

The matter was reported to the management on 10.12.2021 but no reply was received.

Despite repeated requests, no DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter at Board level and fix responsibility thereof.

Para-7 (PHDEC), 2018-21

3.5.4.7 Loss of interest Rs. 37.410 million due to non-investment of surplus funds - Rs. 1,148.045 million

According to Rule-12 “Powers of the Company” under Memorandum and Article of Association of Pakistan Horticulture Development and Export Company (PHDEC), “the surplus moneys of the company not immediately required in such a manner as may from time to time be determined by the company in the light of directives/ rules framed for such funds by the Finance Division.’

During the audit of Pakistan Horticulture Development and Export Company (PHDEC) for the year 2018-21 it was observed that in deviation to the above rules, surplus funds of Rs. 1,148.045 million were placed in savings accounts of the company on a very low interest rate i.e. 2.9% to 3.5% instead of investment in some profitable schemes.

The company sustained loss of Rs. 37.410 million due to non-investment of their surplus funds as per detail given below:

(Rs. in million)					
Description	Funds placed in saving bank accounts	Interest rate	Interest rate of TDRs	Difference in Interest Rate	Loss of Interest
Available funds 2017	521.235	2.5	6.25	3.75	19.546
Available funds 2018	626.810	3.5	6.35	2.85	17.864
Total funds	1,148.045				37.410

Furthermore, it was observed that the company was receiving markup ranging from 6.25% to 6.35% on short term investment in TDRs during the same period.

The matter was reported to the management on 10.12.2021 but no reply was received.

Despite repeated requests, no DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter and fix responsibility thereof.

Para-8 (PHDEC), 2018-21

3.5.4.8 Loss due to procurement of Pakistan Investment Bonds (PIBs) above the face value from secondary market - Rs. 12.219 million

According to Rule-4 “Aims and objectives of Endowment Fund” of Endowment Funds Rules 2016, the objectives of the funds shall be to generate and provide financial resources for achievement of objectives of the company, performance of functions as prescribed under clause-III of Memorandum of Association.

During the audit of Pakistan Horticulture Development and Export Company (PHDEC) for the year 2018-21 it was observed that management of the Company invested sum of Rs. 478.519 million in Pakistan Investment Bonds (PIBs) on coupon rate of 9% on April 16th 2020.

The company sustained loss of Rs. 12.219 million by procuring the securities above the face value from secondary market. Detail is as under:

Date	Investment Value/ amount Rs.	Face Value of PIBs Rs.	Difference in Value in Rs.	Time period
April 16 th 2020	389,549,899	378,800,000	10,749,899	3 Years
April 16 th 2020	88,969,460	87,500,000	1,469,460	3 Years
Total	478,519,539	466,300,000	12,219,359	

Furthermore, it was observed that company invested funds of Rs. 478.538 million in short term investment on 11% markup in MTBs purchased at discounted value. However, investment in PIBs was made for long term i.e. 3 years at lower

interest rate of 9% and purchase was made above the face value from secondary market without any justification.

The company sustained loss of Rs. 12.219 million due to procurement of PIBs at higher rates i.e. above the face value from secondary market.

The matter was reported to the management on 10.12.2021 but no reply was received.

Despite repeated requests, no DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter and fix responsibility thereof.

Para-9 (PHDEC), 2018-21

3.5.4.9 Irregular appointment of Chief Operating Officer on deputation basis - Rs. 4.693 million

In accordance with Establishment Division O.M. No. 1/28/75-D. II/R-I dated 18.02.1987, “All cases of initial deputation of Government Servants holding posts in BPS-17 and above would be transferred to the establishment Division for approval of the competent authority. Grant of extension in deputation beyond the initial period of three years would be approved by Secretary of the Administrative Ministry concerned.”

During audit of the accounts of Pakistan Horticulture Development & Export Company, Islamabad for the year 2018-19 to 2020-21, it was observed that Mr. Muhammad Ashraf (Director General M/o Commerce) who was already acting as Chief Executive Officer (CEO) on Additional Charge basis in PHDEC since 25.08.2017. The officer was appointed as Chief Operating Officer on deputation basis w.e.f. 29.03.2019 in violation of the instruction of the Establishment Division. The officer was relieved on Jan. 06, 2020. The payment of pay & allowances Rs. 4.693 million (Rs. 521,458 salary per month x 9 months)

The matter was reported to the management on 10.12.2021 but no reply was received.

Despite repeated requests, no DAC meeting was arranged till finalization of this report.

Audit recommends to investigate reasons behind hiring of the officer without the approval of the Establishment Division besides taking ex-post facto approval from the competent authority. Further, cases of the officers in future may be referred to Establishment Division through Secretary of the parent Ministry for approval.

Para-10 (PHDEC), 2018-21

3.5.4.10 Unjustified payment of income tax due to non-renewal of tax exemption certificate – Rs. 13.492 million

According to FBR Notification, The PHDEC is an approved non-profit organization under section 2 (36) of the Income Tax Ordinance, 2001 and its income is subject to 100% tax credit in terms of Section 100 C of the Income Tax Ordinance, 2001 read with Section 159 (1) of the Income Tax Ordinance, 2001 is deductible in its case from profit on debt from deposit in Government Schemes.

During audit of Pakistan Horticulture Development & Export Company, Islamabad for the years 2019-20 to 2020-21, it was observed that Federal Board of revenue granted the approval of PHDEC as non-profitable organization under Section 2 (36) of the Income Tax Ordinance, 2001 for a period of three years w.e.f July, 2017 to June 30, 2020 vide its letter dated 25.05.2018. As per provision, PHDEC was exempted from payment/deduction of Income Tax on profit.

However, audit observed that advance withholding tax Rs 13.492 million was deducted from the interest income of the Company during the period from 20017-18 to 2020-21. The management failed to renew the tax exemption certificate and did not provide to bank for tax exemption at the time of investment.

The matter was reported to the management on 10.12.2021 but no reply was received.

Despite repeated requests, no DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter of such irregular deduction of income tax and fix responsibility thereof.

Para-11 (PHDEC), 2018-21

Chapter-4

Ministry of Defence Production

Overview:

This organization was established to meet the requirements of the Armed Forces through a cautious combination of procurement (local and import) and indigenous production of arms & ammunition with a continued effort to enhance the component of indigenous production and in the process, export surplus capacity of defence products to regional and friendly countries.

Functions of MODP under Rules of Business 1973

The functions of the MoDP under Rules of Business 1973 authority have been reviewed and revised in the light of its expanded activities in 2003 and are shown below:

- Laying down policies or guidelines on all matters relating to defence production.
- Procurement of arms, firearms, weapons, ammunition, equipment, stores and explosives for the defence forces.
- Declaration of industries necessary for the purpose of defence or for the prosecution of war.
- Research and development of defence equipment and stores.
- Co-ordination of defence science research with civil scientific research organizations.
- Indigenous production and manufacture of defence equipment and stores,
- Negotiations of agreements or MOUs for foreign assistance or collaboration and loans for purchase of military stores and technical know-how or transfer of technology.
- Export of defence products.
- Marketing and promotion of activities relating to export of defence products.
- Coordinate production activities of all defence production organizations or establishments.

This mandate is actualized through Defence Production Establishments

(DPEs) that include Pakistan Ordnance Factories at Wah, Heavy Industries Taxila; Pakistan Aeronautical Complex at Kamra; Directorate General Defence Purchase; Directorate General Munitions Production. Two Corporations were placed under the Ministry in recent years viz. Karachi Shipyard & Engineering Works and National Radio Telecommunication Corporation. Defence Export Promotion Organization is a special institution for Defence production exports. Much of the initial growth and development of DPEs was obtained through PSDP allocations.

Sectoral Analysis

Pakistan Ordnance Factories is country's premier defence production organization. Established in 1951 and POFs Board was established in 1961. The objective of POFs is to meet the Arms and Ammunition requirements of Pakistan Armed Forces during peace and war. For this purpose, it has 14 manufacturing units. POFs' main source of revenue is regular budget from Ministry of Defence Production. In addition to this, POFs also earns a small portion of revenue from export and local sales of Arms and Ammunitions. The SWOT analysis carried out reveals highly skilled manpower, strong internal controls system, ISO 9001 certification and sound financial backup of the organization. Weaknesses on the other hand relate to the use of old technology, weak inventory management and liberal estimates resulting in high cost of products. However, the organization has a potential to improve production through standardization, accessing international markets for Ordnance related products and utilization of spare capacity for production of civil products. Threats include international sanctions on purchase of raw materials, production and export to other countries and high dependency on purchase by defense forces. The operational performance reveals application of a net capital of Rs.103.578 billion and a net profit earning of Rs. 2,421.547 million which is a good achievement as compared to previous year and needs to be further improved in coming years keeping in view the vast potential for production and sales.

Audit Profile of Defence Production

(Rs. in million)

Description	Total	Audited	Expenditure audited FY 2020-21	Revenue /Receipts audited FY 2020-21
Formations	6	5	54,652.018	61,889.736
Assignment Accounts (excluding FAP)	-			
Authorities /Autonomous Bodies etc. under the PAO	5	4		
Foreign Aided Projects (FAP)	-			

Classified Summary of Audit Observations

Audit observations amounting to Rs. 27,006.388 million were raised in this audit. This amount also includes recoverable of Rs. 9,742.057 million as pointed out by the audit. Summary of the audit observation classified according to respective subject's nature is as under:

Overview of the Audit Observations

Sr. No.	Classification	Amount (Rs. in million)
1	Non-Production of record	2,368.486
2	Reported cases of fraud, embezzlement and misappropriation	0
3	Irregularities:	0
A	HR/Employees related irregularities	829.364
B	Procurement related irregularities	14,080.108
C	Management of accounts with Commercial Banks	0
4	Value for money and services delivery issues	0
5	Others	9,728.430

4.1 Karachi Shipyard and Engineering Works Limited

4.1.1 Introduction

Karachi Shipyard and Engineering Works Limited (the Company) was incorporated on 18 May, 1957 as an unquoted Public Company Limited by shares under the Companies Act, 1913 (now the Companies Act, 2017), wholly-owned and controlled by the Federal Government. The Company is mainly engaged in ship-building, ship-repairing and general engineering activities. The registered office and its engineering workshops are situated at West Wharf, Dockyard Road, Karachi.

4.1.2 Comments on Audited Accounts

4.1.2.1 The working results of the Company for the financial year 2019-20 as compared with the preceding years are given below:

	2019-20	% Inc/ (Dec)	2018-19	% Inc/ (Dec)	2017-18
Net contract revenue	4,697.86	17.41	4,001.20	2	3,924.49
Contract Costs	(3,722.57)	17.93	(3,156.54)	8	(2,912.12)
Gross profit/(loss)	975.29	15.46	844.67	(17)	1,012.37
Administrative expenses	(721.82)	(8.39)	(787.96)	12	(700.97)
Other charges	45.11	(237.85)	(32.72)	(67)	(97.79)
Profit from operations	208.36	768.52	23.99	(89)	213.61
Other income	605.95	1.55	596.73	21	494.66
Finance costs	(2.14)	31.85	(1.62)	9	(1.48)
Profit before taxation	812.18	31.19	619.10	(12)	706.79
Taxation	(210.02)	40.85	(149.11)	(27)	(204.62)
Profit/(loss) after taxation as audit	602.16	28.12	439.56	(11)	494.75
(Accumulated losses) closing/Un-appropriated profit	1,936.03	52.42	1,270.16	62	786.36
Long term deposits paid	(1.49)	(88.08)	(12.47)	597	(1.79)
Income tax paid	(348.60)	10.78	(314.67)	10	(286.06)
Capital expenditure incurred	(2,624.63)	(32.93)	(3,913.01)	112	(1,842.54)
Govt Grant received as per cash flow	1,703.48	(21.45)	2,168.75	25	1,733.81
Cash & cash at beginning of the year	3,997.89	(10.68)	4,475.91	(24)	5,879.12
Amount due from customers	1,207.40	(57.19)	2,820.27	30	2,163.34
Contract receivables	1,684.03	108.96	805.91	115	374.09
Trade deposits & short term prepayments	67.20	27.29	52.79	658	6.96
Sales tax receivable	332.68	(24.63)	441.42	15	384.70
Taxation-net	411.31	55.15	265.11	127	116.84
Cash generated from operations	1,272.21	(29.77)	1,811.42	(255)	(1,169.69)

(Source: Annual Audited Accounts 2019-20)

4.1.2.2 Contract receivables increased by 108% to Rs. 1,684.03 million in the year 2019-20 as compared to Rs.805.91 million in the year 2018-19 which requires justification.

4.1.2.3 Other receivables increased by 924% to Rs. 16.97 million as compared to Rs. 1.65 million during 2019-20 which requires justification.

4.1.2.4 Contract liability increased by 32.96% to Rs. 2,887.93 million as compared to Rs. 2,172.11 million during 2019-20 which requires elucidation.

4.1.2.5 Other expenses increased by 38% to Rs.45.100 million as compared to Rs. 32.710 million during 2019-20 which requires justification.

4.1.2.6 Financial charges increased by 32% to Rs.2.136 million as compared to Rs. 1.620 million during 2019-20 which requires justification.

4.1.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
2010-11	6	3	3	4.1.4.1, 4.1.3, 4.1.2.1	50
2011-12	8	2	6	5.1.2.5, 5.1.3	25
2012-13	5	2	3	5.1.2.2, 5.1.3	40
2016-17 (Paras More Than 50 M)	2	-	2	5.1.4.4, 5.1.4.5	0
2017-18	7	5	2	7.1.4.2, 7.1.4.4	71
Total	28	12	16	-	42

The overall compliance of PAC directives needs improvement.

4.1.4 Audit Paras

4.1.4.1 Non-recovery of services charges - Rs. 1,734.331 million

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

During audit of Karachi Shipyard & Engineering Works (KS&EW) for the year 2019-20, it was observed that an amount of Rs. 1,734.331 million is recoverable from various clients/customers on account of Ship repairs, Ship Building and General Engineering Services as on 30-06-2020 as detailed below:

S. #	Description	(Rs. in million)
1	Ship building	836.023
2	Ship repair	445.637
3	General Engineering	402.371
Sub-total		1,684.031
	Considered doubtful	50.300
Grand Total		1,734.331

Audit is of the view that non-recovery of service charges from its clients shows in-effective & poor internal controls of the recovery mechanism of the Corporation.

The matter was reported to the management in June, 2021. The irregularity was discussed in DAC meeting held on December 28, 2021. The management informed that out of trade debts of Rs. 1,734.334 million as on June 30, 2020, Rs. 1,687.885 million has been received / adjusted upto 31.08.2021 and balance amount will be settled in due course. DAC directed to recover 100% amount and accordingly the record be got verified by the audit on priority basis.

Audit recommends implementation of the DAC directives.

4.1.4.2 Delay in pursuance of sale tax recovery – Rs. 332.680 million

Section 10 Sales Tax Act 1990 states “Refund of input Tax: If the input tax paid by a registered person on taxable purchases made during a tax period exceeds the output tax on account of zero-rated local supplies or export made during the tax period, the excess amount of input tax shall be refunded to the registered person not later than forty-five days of refund claim in a manner and subject to such condition as the Board may, by notification in the official Gazette specify”.

During audit of Karachi Shipyard & Engineering Works (KS&EW) for the year 2019-20, it was observed that the management failed to recover the refundable sales tax amount of Rs. 332.681 million from FBR.

Audit is of the view that the management has not taken any serious efforts to recover its refundable sales tax in time which shows poor financial management.

The matter was reported to the management in June, 2021. The irregularity was discussed in DAC meeting held on December 28, 2021. The management informed that an amount of Rs. 175.260 million received/adjusted out of Rs. 332.680 million. DAC directed to expedite efforts to recover the balance amount from FBR and get verified recovered amount from Audit.

Audit recommends implementation of the DAC directives.

4.1.4.3 Irregular award of contracts – Rs. 22.838 million

As per terms and conditions of the tender documents, the tenderer was required to submit the following:

- i. Packing should be made as the wood should be preserved/ stored lasting upto 2 years after supply;
- ii. The Wood should be tested from PCSIR/PFI at supplier's cost and certificate should be provided for each wood type separately with Technical Bid;
- iii. A Wood Sample of position numbers 25 & 22 with certified specification certificate should be provided with Technical Bid.

During audit of Karachi Shipyard & Engineering Works (KSEW) Karachi for the year 2019-20, it was observed that the management awarded the contracts for the procurement of 'Platform Wood' for Ship Lifting Transferring System (SLTS) Project to M/s Huteb General Trading Company amounting to Rs. 22.838 million. The vendor was technically qualified despite the non-submission of Testing Reports, Samples and required certificates of each Wood separately from PCSIR/PFI in the Technical Bid which was a mandatory requirement.

Audit is of the view that the management extended an undue favor to the vendor by not fulfilling the mandatory requirements while submitting the technical bid. Hence, contract amounting to Rs. 22.838 million stands irregular and unjustified.

The matter was reported to the management in June 2021. The irregularity was discussed in DAC meeting held on December 28, 2021. The DAC observed

that the management did not follow the mandatory requirements as per tender specification regarding testing reports of PCSIR while technical evaluation stage. Hence, DAC directed the management to be careful in future and further directed the management to get case regularized from Board of Directors.

Audit recommends implementation of the DAC directives.

4.1.4.4 Irregular award of contract without tender - Rs. 13.547 million

Rule 12(2) of PPRA, 2004 states that all procurement opportunities over three 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 Karachi Shipyard & Engineering Works (KS&EW), for the year 2019-20, it was observed that the management obtained the manpower services related to the ship construction for (a) welding; (b) Grinding/fairing work; (c) Block and fabrication (d) Block painting (e) Pipe fabrication (f) Pipe installation onboard ships (g) Block erection on berth and Electrical outfitting through sub-contractor M/s Bahria Foundation since 2015. The management continued their services by obtaining quotations instead of calling tenders. Thus, payment of Rs. 13.547 million on account of salary/wages of contract workers held irregular and unjustified.

Audit is of the view that engagement of manpower without inviting tender is held irregular and unjustified.

The matter was reported to the management in June 2021. The irregularity was discussed in DAC meeting held on December 28, 2021. DAC directed the management to submit revised reply and streamline the procedure.

Audit recommends implementation of the DAC directives.

4.1.4.5 Irregular sale of scrap without open tender – Rs. 13.529 million

Rules 12(2) of PPRA, 2004 states that all procurement opportunities over three 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 Karachi Shipyard & Engineering Works, Karachi for the year 2019-20 it was observed that management awarded contracts for disposal of scrap material amounting to Rs. 13.529 million without calling tender. The details are as under:

S. #	Name of Party	Amount (Rs. in million)
1	M/s Noorani Kanta & Steel Goods	6.964
2	M/s Muhammad Javed Irshad	6.565
Total		13.529

Audit is of the view that award of contracts without tender is held irregular and unjustified.

The matter was reported to the management in June 2021. The irregularity was discussed in DAC meeting held on December 28, 2021. The management informed that all scrap material in and around the dry docks area needs to be removed/disposed off on most immediate basis to ensure safety of Pak Navy ships being strategic assets. DAC was not satisfied with the explanation given by the management before DAC. DAC directed the management to make SoP before disposal of scrap and adopt pre-qualification procedure from the contractor in this regard in future.

Audit recommends implementation of the DAC directives.

(DP No. 181 & 182)

4.1.4.6 Loss due to inefficiency – Rs. 11.200 million

Rule 5(1) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Karachi Shipyard & Engineering Works (KSEW), Karachi for the year 2019-20, it was observed that the Honorable High Court of Sindh in its decree dated May 02, 2016 on suit 13 of 1972 has given decision against the Company i.e. (KSEW) under which the company was liable to pay Rs.2.000 million along-with markup @10% from December 02, 1971 till realization of the amount. The details are as under:

S.	Name	Total	Decree	Decree date	Amount	10% interest	Total (Rs.)

#		amount		Rs.	p.a. (Rs)	
1	K.S.E.W	2,796,446	08.08.2016	2,000,000	9,200,000	11.200
2	A.E.G. Ltd			796,446	3,663,651	4.460
Grand Total						15.660

Audit is of the view that the legal department was required to take remedial measures well in time. However, despite lapse of more than five (5) years the case has not so far been disposed and the company is liable to pay an amount of - Rs.11.2 million. It depicts not only the weak internal control but also negligence by legal department. Moreover, Premier Insurance Company (decree holder) has filed execution application for implementation of decree passed in the suit No.13/1972 on 11.2.2019, which also needs justification.

The matter was reported to the management in June 2021. The irregularity was discussed in DAC meeting held on December 28, 2021. The management informed that the case is subjudice in the Sindh High Court for recovery. DAC directed the management to pursue the case vigorously.

Audit recommends implementation of the DAC directives.

4.1.4.7 Loss on sale of vehicles at lower rates – Rs. 3.470 million

Rule 5(5) of Public Sector Companies (Corporate Governance) Rules 2013, Board shall establish a system of sound internal control which shall be effectively implemented at all levels within the public sector companies to ensure compliance with fundamental principle of probity and propriety, objectivity, integrity and honesty.

During audit of Karachi Shipyard & Engineering Works (KS&EW), Karachi for the year 2019-20, it was observed that the management sold out/ disposed-off fifteen (15) surplus vehicles at lesser rates than the market value which resulted in a loss of Rs. 3.470 million (Annex-26).

Audit is of the view that the management failed to generate maximum revenue on disposal of vehicles which reflects poor financial management resulting in loss of Rs. 3.470 million.

The matter was reported to the management in June, 2021. The irregularity was discussed in DAC meeting held on December 28, 2021. The management informed that vehicles have been sold in most transparent manner at best offered

rates through tender advertisement in newspapers and PPRA website.DAC directed to get the relevant record verified by the Audit within two weeks.

Audit recommends implementation of the DAC directives.

4.1.4.8 Non-production of record

Section 14 of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 states:

The officer in-charge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete form as possible and with all reasonable expedition (sub section-2).

- ii. Any person or authority hindering the Auditorial functions of the Auditor General regarding inspection of accounts shall be subject to disciplinary action under relevant E & D Rules (Sub Section-3).

During audit of Karachi Shipyard & Engineering Works (KS&EW), for the year 2019-20, it was observed that the management could not produce the requisite record(s) despite frequent reminders. Thus, audit was unable to ascertain transparency of various transactions / expenditure and due to the non-production / concealment of record, chances of doubtful transactions could not be ruled out. Annex-27.

Audit is of the view that non-production of record tantamount to concealment of facts and serious negligence on the part of management.

The matter was reported to the management in June, 2021. The irregularity was discussed in DAC meeting held on December 28, 2021. The management apprised that almost all record was provided to Audit Team during the audit period. DAC directed the management to provide rest of record for verification by the audit within two weeks and streamline the procedure regarding provision of record to Audit.

Audit recommends implementation of the DAC directives.

4.2 Pakistan Ordnance Factories (POFs)

4.2.1 Introduction

POFs Board, Wah Cantt was established under the provisions of POFs Board Ordinance, 1961. POFs are governed by the Board of Directors, chaired by serving Army personnel.

POF's Board consists of six members including the Chairman. Other members are Financial Advisor Ordnance Factories (FAOF), Director Industrial & Commercial Relations (DICR) and Member Production Co-ordination (MPC), Joint.

The objective of POFs is to meet the Arms and Ammunition requirements of Pakistan Armed Forces during peace and war. For this purpose, it has 14 manufacturing units along with certain services departments i.e. POFs Board with its secretariat, Directorate of Services, PMTL, Directorate of MIS, Directorate of Export, Hospital, IDA, DSG, FIU, Controller Military Accounts (CMA), FA, and POFIT.

POFs main source of funds is regular budget from Ministry of Defence Production under grant. In addition to this, POFs also earn a small portion of revenue from export and local sales of Arms and Ammunitions and related products. For receipts from local and export's sales, POF is operating two public accounts funds as under:

- 1 Revenue, Debt and Remittance Fund (RD&R) for Civil Sales through WIL
- 2 Special Deposit Fund (SDF), for Export Sales.

Receipts and expenditure (variance analysis) for 2020-21

(Rs. in million)			
Head	Allocation	Expenditure	Excess/(Saving)
Pay & Allowances	16,052.638	15,647.665	(404.973)
Tpt. & Misc. (Normal)	1,444.485	1,444.455	(0.030)
Revenue Works			
Building Maintenance	627.556	627.555	(0.001)
Utilities	4,830.996	4,829.458	(1.538)
Total Revenue Works	5,458.552	5,457.013	(1.539)
Capital Works			
Capital Works	653.318	653.318	-
Common User Items			
POL	169.500	169.500	-
Medical Store	450.000	448.987	(1.013)
Ration	110.637	110.631	(0.006)
Total Common User Items	730.137	729.118	(1.019)
Assistance Package	874.000	873.982	(0.018)
Indigenous Purchases	6,067.352	6,067.352	-
FE Carry Over	3,837.669	4,116.277	278.608
Fresh Import	4,267.728	2,173.469	(2,094.259)
Custom Surcharge	861.026	861.026	-
Sales Tax	1,122.204	1,122.204	-
Total	41,369.109	39,145.879	(2,223.230)

4.2.2 Comments on Audited Accounts

3.1.2.1 Comments on audited accounts are included in the Commercial Appendix to Appropriation accounts of the Defence Services for the year 2021-22.

4.2.3 Compliance of PAC Directives:

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
1991-92	22	20	02	7, 8	91
1992-93	12	11	01	49	92
1994-95	38	36	02	14, 78	95
1995-96	12	08	04	66, 67, 68, 107	67
1997-98	18	16	02	42, 44	89
1999-00	18	16	02	15, 16	89
2003-04	04	01	03	1.3.14, 1.3.18, 1.3.19	25
2009-10	16	08	08	50 & 51, 52, 53, 54, 55, 56, 58, 1.2	50
2012-13	17	13	04	5.2.3, 5.2.4.12, 5.2.4.14, 5.2.4.15	76
2017-18	16	09	07	7.2.3, 7.2.4.5, 7.2.4.8, 7.2.4.10, 7.2.4.11, 7.2.4.12, 7.2.4.13	56
2017-18 (POF CADS)	15	03	12	1.4, 1.4.3, 1.4.4, 1.4.5, 1.4.6, 1.4.7, 1.4.9, 1.4.10, 1.4.11, 1.4.12, 1.4.13, 1.4.14	20
Total	188	141	47		75

The compliance of the PAC directives is poor which needs immediate attention of the PAO.

4.2.4 Audit Paras

4.2.4.1 Sale of scrap without open tenders and loss due to non-deposit of sale proceed into government treasury – Rs. 193.149 million

According to Rule-20 of PPR, Principal method of procurement, “Save as otherwise provided hereinafter, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works. According to Memorandum of Association of WIL, “the company is engaged in manufacture and sale of 12-Bore Ammunition and sale of Civil Products purchased from POF. The Company also acts as commission agent for POF to facilitate its sale of obsolete/surplus stores and scraps generated in POF”. Moreover, as per disposal policy, sale proceed of scrap must be deposited into Government Treasury.

During Audit of POF Export Division, Wah Cantt for the 2018-20, it was observed that the management sold out scrap of tungsten Alloy and Molybdenum to M/s Metal Magnus Netherland and M/s London Metals UK vide contracts No. 8.35100.01/84 dated 10.7.2018 valuing US \$ 632,949.09 equivalents to Rs. 89.372 million (US \$ 632,949.09 @ Rs. 141.20/dollar) and contract No. 204803 dated 29.3.2019 valuing US \$ 734,965.18 equivalents to Pak. Rs. 103.777 million (US \$ 734,965.18 @ Rs. 141.20/dollar) respectively. Audit noticed following irregularities in sale of scrap:

- a. Scrap was sold by obtaining 3-4 quotations and without obtaining competitive rates through open tendering / press advertisement.
- b. POF Export Division has no mandate to sold scrap whereas M/s WIL (a subsidiary of POF) has mandate for sale of obsolete/surplus stores & scraps generated in POF”. Thus sale of scrap by POF Director Export is against its mandate.
- c. Sale proceeds of scrap amounting to Rs. 193.149 million (Rs. 89.372 million + Rs.103.777 million) was required to be deposited in Govt. treasury but the management deposited in Special Deposit Fund (SDF) of POF Export Division.

Thus, Govt. ex-chequer sustained loss of Rs. 193.149 million.

In the DAC meeting held on 31.01.2022, the management intimated that scrap was sold to international buyers and SDF account is being maintained by CMA to keep sale proceeds from exports. DAC directed to share relevant documents with audit authorities for verification.

Audit recommends compliance of the directives of the DAC.

Para-3 (POF Export, 2018-20)

4.2.4.2 Irregular execution of export orders in violation of Government directives – Rs. 6,771.743 million

As per Clause-3 of MoDP's letter No.1/6/73-TS/DP-2 dated 22.08.1973 "Export prices will be normally fixed by the POFs Board, in consultation with the FA (OF), keeping in view the prevailing international prices, where available, and in a business like manner.

As per Clause-1 of MoDP's letter No.1/6/73-TS/DP-2 dated 22.08.1973; ii, iii & iv) Enquiries, if any received direct by the POFs Board will be immediately referred to the Ministry of Foreign Affairs for clearance, with a copy to the Defence Production Division. The Ministry of Foreign Affairs will send their reply to the POFs Board, with copy to the Defence Production Division. A final clearance should be obtained by the POFs from the Ministry of Foreign Affairs.

As per Clause-3(a) of MoDP's letter No.1/6/73-TS/DP-2 dated 22.08.1973 "Marginal cost of production is recovered in full in every case. Marginal costs shall include all variable costs and fixed costs.

During the audit of POF Export Division, Wah Cantt for the year 2018-20, it was observed that 53 export contracts for the supply of POFs Defence products to different countries valuing Rs. 6,771.743 million were made by the management. Record revealed that management did not follow the above referred govt. instructions and made the export contracts by committing the following irregularities:

- i. Export prices should be fixed by the POFs Board, in consultation with the FA(OF) which was not done. In addition, it was observed that competitive rates of Export products were also not being observed by the management from the international market.

- ii. Management did not immediately refer the enquiries received to Ministry of Foreign Affairs, as per above rules.
- iii. In 2013 the POFs Board revised its costing method and the concept of State Compulsion was introduced by which the expenditure of non-production units was not included in production cost. Now, the Marginal or Full Cost provided by the CMA (POF) Wah Cantt by considering the State Compulsion as Rebate for fixing the export product prices cannot be termed as rational price for POFs product. Similarly, the profit rate calculated on these Export prices of product cannot be justified / rational / authenticated. However, management should ensure the competitive prices w.r.t. the inclusion of State Compulsion in the cases where the prices of POF are less compared to international market in order to obtain maximum profit to the organization.

Audit is of the view that as per above mentioned violation of Govt. rules / instructions / orders, exports of POF products amounting to Rs. 6,771.743 million were irregular.

In the DAC meeting held on 31.01.2022, the management apprised that the input regarding costing is being considered at the appropriate level and a mechanism is being evolved to cover the suggested cost elements. DAC directed to share the costing procedure vis-à-vis FA concurrence with Audit authorities.

Audit recommends compliance of the directives of the DAC.

Para-1 (POF Export, 2018-20)

4.2.4.3 Loss due to non-recovery of sale proceeds of uniforms – Rs. 25.554 million

As per Ministry of Defence Production letter No. 5 /18/DP-1/2000 dated 05.08.2016, GHQ is responsible for provision of funds against equipment dispatched as gift to border units of Tajikistan committed by Chief of Army Staff (COAS) during his visit to Tajikistan w.e.f. 29.02.2016 to 02.03.2016.

During the audit of POF Export Division Wah Cantt for the year 2018-19 & 2019-20, it was observed that Chief of Army Staff (COAS) during his visit to Tajikistan w.e.f 29.02.2016 to 02.03.2016 committed for provision of 5,000 camouflage uniforms as gift to border units of Tajikistan valuing Rs. 25.554

million. The uniforms were prepared vide extract No. 4332/clothing dated 24.5.2016 and dispatch to Tajikistan on 12.08.2016 to 14.08.2016.

As per Ministry of Defence Production letter dated 05.08.2016, GHQ was responsible for provision of funds / cost of exported uniform to POF but did not paid after lapse of 04 years. Thus, due to non-recovery of funds / cost of exported uniforms from GHQ, POFs sustained loss of Rs. 25.554 million.

In the DAC meeting held on 31.01.2022, the management clarified that Rs. 25 million have been received and the remaining amount is in the process of realization. DAC directed to get the record verified by the Audit authorities within 15 days.

Audit recommends compliance of the directives of the DAC.

Para-2 (POF Export, 2018-20)

4.2.4.4 Non-recovery of space and stall fabrication charges of exhibition from participants - Rs. 3.443 million

According to Rule-26 of General Financial Rules, it is the duty of the departmental controlling officers to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the Public Account.

During audit of POFs Export Division Wah Cantt for the year 2018-20, the management paid an amount of Rs. 2.295 million and Rs. 1.148 million to Defence Export Promotion Organization (DEPO) on account of space and stall fabrication charges for participation in exhibition IDEAS-2018 held on 23.11.2018 to 30.11.2018 on behalf of M/s Wah Brass Mills and M/s Hi-Tech respectively. Record revealed that the said amount of Rs. 3.443 million could not be recovered even after lapse of two & a half years.

In the DAC meeting held on 31.01.2022, the management apprised that POF Exports Division has already requested all subsidiary groups for payments of space and fabrication charges during IDEAS-2018. DAC directed the management to ensure recovery and verify the same from Audit authorities.

Audit recommends compliance of the directives of the DAC.

Para-7 (POF Export, 2018-20)

4.2.4.5 Loss of interest income due to using of sundry accounts of banks for foreign remittance purposes – Rs. 20.495 million

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

During Audit of POF Export Division Wah Cantt for the 2018-20, it was observed that this division was established solely to deal with the export orders of foreign countries. The amount of foreign orders is remitted through LCs for which the Export Division opened sundry accounts in NBP, ABL and MCB banks. Record revealed that the amounts received against foreign orders were retained with the banks for a period ranging between 03 to 95 days before deposited into POF Special Deposit Fund (SDF) account. Audit noticed that the management did not make any kind of agreement with the respective banks for payment of interest on retaining of huge foreign remittance in their bank accounts. Due to non-retaining of foreign remittances on interest basis with the banks, POF Export Division sustained interest loss at an average rate of 10% on NIDA account amounting to Rs. 20.495 million during the year 2018-19 and 2019-20

In the DAC meeting held on 31.01.2022, the management informed that POF receive FE against export orders in Sundry Accounts operative with various scheduled banks and ultimately transfers the FE in SDF account maintained by the State Bank of Pakistan. Audit informed the Committee that there was delay up to 100 days in remittance of amount in POF account. DAC directed the management to review the mechanism of foreign remittance and ensure timely remittance of funds in POF account. Committee further directed the management to share the improvement in the matter with Audit.

Audit recommends compliance of the directives of the DAC.

Para-5 (POF Export, 2018-20)

4.2.4.6 Irregular appointment and award of additional charge – Rs. 153.728 million

As per para-123 (a) and 125 (ii & iii) of EstaCode additional charge of a vacant post may be held by an officer for three months. This term may be

extended for another three months. On expiry of six months of additional charge of a particular vacant post, the post would be treated as having been abolished, and it cannot be revived without the concurrence of the Finance Department.

During Audit of POF Export Division, Wah Cantt for the 2018-20, it was observed that Mr. Usman Ali Bhatti CEO/MD M/s Wah Industries Private Ltd (WIL) was appointed as Director, POF Export Division on additional charge w.e.f. 19.6.2019. The post of Director Export is of BS-20. Appointment on regular or additional charge of BS-20 officer needs the approval of Prime Minister and Ministry of Defence which was not obtained. Further the period of additional charge has been extended for almost two years up till 30.6.2021 against permissible limit of maximum six months.

Audit is of the view that any regular acting B-20 officer can be taken from any other department of POF as Director Export but this was not done by the management, hence appointment of Mr. Usman Ali Bhatti, CEO/MD WIL (a private company) on additional charge over and above approved limit is held irregular.

In the DAC meeting held on 31.01.2022, the management clarified that there is no loss to the state as the officer is not drawing any salary from POF Export Division in lieu of additional charge to his own duty as CEO & MD WIL. DAC directed the management to share relevant record with Audit authorities.

Audit recommends compliance of the directives of the DAC.

Para-6 (POF Export, 2018-20)

4.2.4.7 Loss due to non-imposition of liquidated damages - Rs. 11.323 million

In accordance with Clause-2 of the contract 72-LP-PUR-SAA-48 dated 23.05.2019 the store was required to be delivered up to 30.04.2020 or earlier. Further as per Clause-6 of the special condition of the contract “in event of failure of the firm to complete supplies within delivery schedule of contract, POF reserves the right to impose the liquidated damages (LD) on the firm upto 2% but not less than 1% of the value of unsupplied quantity of items per month or part of the month for the period exceeding the original delivery period subject to minimum 10% of the total contacted value.

During audit of the POF SAA factory for the years 2019-20 & 2020-21, it was observed that a contract No.72-LP-PUR-SAA-48 dated.23.05.2019 for provision of Ammo cups 09 items was placed on M/s Wah Brass Mills (Pvt.) Limited for Rs. 1132.345 million on cost conversion basis with the delivery period up to 30.04.2020. However, the firm could not complete the supply within the delivery period and requested for extension in contract period for a period of 06 months up to 15.04.2020.

The contract was extended up to 30.10.2020 vide amendment No.111 dated 02.05.2020. The firm again failed to complete the delivery of store within the extended period and again requested for a further period of 06 months i.e. upto 30.04.2021 vide letter No. MK/ 13/29/20 dated 28.10.2020. Extension of 06 months was granted to the firms without imposition of the LD charges.

It was further observed that the firm refused to provide the agreed quantity of 9 mm case and bullets cups for the reason that they cannot supply the same on the old contract rates vide letter No.WBM-Pro-SAA-025 dated 02.05.2021.The said contract was short closed on actual receipt vide amendment No. V. dated 14.10.2021.

The firm not only failed to supply the store within the delivery period but also refused to provide the agreed store on the old rates, therefore was liable for the imposition of late delivery charges of Rs. 11.323 million (i.e. Rs. 566.1725 million value of balance quantity x 2%) which was not done.

The matter was reported to management on January 19, 2022. The management in its reply dated 29.01.2022 justified the delay on behalf of WBM that due to covid-19, POF and allied departments remained closed from 24.03.2020 to 21.06.2020 (03 months) and due to non-provision of input material in transit, the WBM could not complete the order in time.

The reply is not convincing as the SAA Factory extended the delivery period for six months against the closing period of 03 months. Whereas 2nd extension of 06 months was granted due to non-provision of raw material, the plea for the 2nd extension was also not hold good as under clause 9 pf the special condition of the contract the provision of raw material was the prime/sole responsibility of WBM, hence not justified.

No DAC meeting was arranged till finalization of this report.

Audit recommends that the matter may be investigated for non-imposition of LD charges, fix responsibility on the person(s) at fault and recover the amount in question from the defaulter firm.

Para-2(POF SAA, 2019-21)

4.2.4.8 Irregular award of contract to the 2nd lowest bidder - Rs. 8.978 million

According to the Rule-38 of PPRA Rules 2004, the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity. Further, according to the Rule-40, there shall be no negotiations with the bidder having submitted the lowest evaluated bid or with any other bidder:

During the audit of POF SAA, Factory Wah Cantt for the year, 2019-20 to 2020-21, it was observed that tender enquiry was uploaded and published in print media on January 17, 2020 for the purchase of 465,000 sheets chipboard lined. In response, 04 firms offered their bids. The financial bids of the technically qualified bidders were opened on February 12, 2020. The rates of Rs. 38.70 per sheet of M/s Masood, Lahore were found lowest and the rates of M/s Alamgir, Rawalpindi of Rs. 43.72 per sheet were found the 2nd lowest. Instead of placing order on the 1st lowest bidder, the management assumed that the firm will not be able to provide the requisite store within delivery period. Due to the above reason the management negotiated with the 2nd lowest bidder M/s Alamgir Rwp for reduction in offered rates. The firm accordingly reduced its rates and 50% store (232,000 No. sheets) worth Rs. 8.978 million was purchased from M/s Alamgir vide contract / Agreement No. 35-LP-Pur-SAA-49 dated April 06, 2020.

Audit is of the view that after opening financial bids, the negotiation with the 2nd lowest bidder was favoritism and clear violation of Rule-38 of PPRA, 2004. Thus, the procurement of Rs. 8.978 million from 2nd lowest bidder through negotiation was held irregular in Audit.

The matter was reported to management on January 19, 2022. The management in its reply dated 29.01.2022 stated that under Para-5 of POF purchase manual dated 18.12.1971, such splitting is allowed.

The reply is not acceptable because under the above referred Para of Purchase Manual in such cases, the Tender Enquiry will contain necessary provision and information to this effect. In this case, T.E did not contain such provision and information to this effect.

No DAC meeting was arranged till finalization of this report.

Audit recommends that the matter may be investigated with a view to fix responsibility on the person(s) at fault.

Para-3 (POF SAA, 2019-21)

4.2.4.9 Loss due to non-recovery of risk purchase cost from the defaulting firm US \$ 42,700 equal to Rs. 6.029 million

As per clause 4.3 of Tender Enquiry, in case of failure of suppliers to supply the store within original or extended delivery period, the un-supplied store will be purchased from elsewhere at the risk and cost of the supplier.

During the Audit of SAA factory, Wah Cantt for the year 2019-20, it was observed that the management awarded contract No. 43-FP-PUR-SAA-47 dated 24.01.2018 to M/s MIL Spec Industries Corp USA, for procurement of Sierra Match Bullet 30 cal.175 HPBT (1,000,000 No.) valuing USD 259,800.00 equivalent to Rs. 27.409 million with delivery period 31.01.2019. The firm could not supply the said store even after final notice dated 24.12.2018 and cancelled the contract on 01.10.2019 with the direction that the store may be purchased from elsewhere at the risk and cost of defaulter firm M/s Mil Spec, USA.

The said store was subsequently purchased from M/s Optics Planets, USA vide contract agreement No. 04-FP-PUR-SAA-49 dated September 14, 2019 at a total US Dollar 302,500 resultantly the POF SAA Factory sustained loss of US\$ 42,700 equal to Pak Rs. 6.029 million.

Though, the management invoked the risk purchase clause against the defaulter firm yet the amount could not be recovered due to non-obtaining of 10% bank guarantee as required under clause-13(a) of the contract agreement.

Audit is of the view that due to non-obtaining of 10% Bank guarantee, the formation will not able to recover the said loss.

The matter was reported to management on January 19, 2022. The management in its reply dated 29.01.2022, stated that recovery of risk purchase of US \$ 42700.00 is in court of law.

The reply is not acceptable as the management failed to obtain 10% Bank Guarantee as required under clause-13 (a) of the Contract Agreement. The stance of management regarding recovery through Court is very weak being foreign firm. The chances of recovery through Court of Law are quite remote.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter and fix responsibility for non-obtaining 10% bank guarantee and make the loss good from the responsible.

Para-4 (POF SAA, 2019-21)

4.2.4.10 Loss to Government ex-chequer due to non-deduction of sales tax on the store sold out to M/s WBM - Rs. 219.300 million

As per section-3(1) of sales Tax Act 1990, subject to the provision of this Act, there shall be charged, Levied and paid on Tax known as Sales Tax at the rate of 17% of the value of – (a) taxable supplies made by a registered person in the course or further of any taxable activities carried on by him (b) goods imported in to Pakistan.

During Audit of the accounts of POF, SAA Factory for the year 2019-20 and 2020-21. It was observed that the POF SAA Factory made certain agreements on cost conversion basis, with M/s Brass Mills (Pvt.) LTD in accordance with the Clause-09. The material so provided by SAA will be treated as client material at their cost as approved by CMA will be deducted from the bills against the supplies. Under the above Clause of contract, the management of POF SAA Factory provided additional material worth Rs. 1.29 billion during 2017 to 2019. As per Section 2(33), the transfer of goods from SAA Fy to M/s WBM and receipt of considerable monetary terms the transaction is, in substance, the sale of raw material from SAA to WBM is subject to Sale Tax.

However, sale tax @ 17% was not charged on the sale worth Rs. 1.29 billion which caused loss of Rs. 219.30 million on this account. The FBR also served a Show cause Notice for recovery of Rs. 142.00 million sale tax along with default surcharge penalty for not charging sale tax on such transactions.

Thus, due to non-charging of sale tax on the material provided to M/s WBM at certain sale price/ cost, the management put the Govt. exchequer into loss of

Rs. 219.300 million (i.e. Rs. 1.29 billion x 17% = Rs. 219.30 million)

The loss to Govt. exchequer was reported to management on January 19, 2022. The management in its reply dated 29.01.2022 stated that in case of additional material / scrape cost of the sale was recovered as per book value including their in all type of taxes.

Reply is not convincing as the factory provided additional material worth Rs. 1349.933 million and the cost of such material was recovered from bill of WBM. However, no documentary evidence regarding deduction and deposit of Sale Tax in support of reply was provided for verification.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons for non-charging of sale tax from M/s WBM.

Para-1 (POF SAA, 2019-21)

4.2.4.11 Loss due to non-finalization of procurement case within the validity period - Rs. 5.522 million

According to the Rule-38 of PPRA Rules 2004, the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity.

During the audit of POF SAA, Factory Wah Cantt for the year, 2019-20 to 2020-21, it was observed that Tender for the purchase of 9,000 Kgs Antimony was floated in press on 29.09.2020. Financial offers of the technically qualified firms were opened on 30.11.2020. The quoted rates of CNY 46.452 equal to Pak Rs. 1,119.49 per Kg of M/s Detect Metals Co. Ltd, China with 90 days validity of price from 16.11.2020 was found the lowest (i.e. up to February 13, 2021).

It was however observed that Contract No. 28-FP-Pur-SAA-50 dated. 11.02.2020 was sent to M/s Detect Metals Co. Ltd, China on 16.02.2021 i.e. after the expiry of validity period of 90 days in February 13, 2021 for acceptance and signature. In response, the firm informed that due to increase in the price of

Antimony in international market, they are unable to supply the same at their quoted rates. The formation has no choice but to cancel the deal on 05.05.2021.

The requirement was retendered on 06.05.2021. Financial bids of the technically qualified firms were opened on 10.07.2021. The rates of CYN 70.48 equal to Pak Rs. 1,733 per Kg of M/s Beijing Precision I/E Co. LTD, China with total cost CYN 634,302 equal to Pak rupees 15.597 million were found the lowest. Accordingly, 9,000 Kgs Antimony was purchased from M/s Beijing Precision Machinery, China at a total cost of CNY 634,302 equal to Pak Rs. 15.597 million.

It is evident from the above narrated facts that the formation sustained loss of Rs. 5.522 million (i.e. Rs. 15.597 million purchase cost (-) Rs. 10.075 million as per previous rates) due to non-finalization of contract within the validity time and subsequent purchased at higher rates.

The matter was reported to management on January 19, 2022. The management in its reply dated 29.01.2022, stated that upon finalization of the contract, Letter of Intent issued to the firm on 10.02.2021 and contract dated 11.2.2021 was sent to the firm on 16.02.2021.

The reply is not acceptable as LOI is not legal document under which the firm was bound to supply the store. The management accepted that the contract was sent on 16.02.2021 i.e. after expiry of the validity period.

No DAC meeting was arranged till finalization of this report.

Audit recommends that the delay in finalization of deal may be investigated with a view to fix the responsibility on the person (s) at fault and make the loss good.

Para-5 (POF SAA, 2019-21)

4.2.4.12 Irregular purchase of ammo cups – Rs. 4,230.39 million

As per Rule-42C (i & ii) PPRA 2004, A procuring agency shall only engage in direct contracting if the following conditions exist, namely:(i)The procurement concerns the acquisition of spare parts or supplementary services from original manufacturer or supplier: Provided that the same are not available from alternative sources; (ii) Only one manufacturer or supplier exists for the required procurement.

As per Rule-4 of PPRA, 2004, procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical

During Audit of the accounts of SAA, Factory for the year 2019-20 & 2020-21 it was observed that SAA Factory purchased Ammo cups valuing Rs. 4,230.39 million through direct contracting by declaring the items as proprietary from M/s Wah Brass Mills Ltd.

The following irregularities were observed:

1. The item, were declared propriety despite of the facts that there were other foreign firm who can supply the said store. Thus, avoiding of competitive bidding is just favoritism at the cost of public funds.
2. GST amount Rs. 98.06 Million against contract No.38/LP-PUR-SAA-49 was fully released without withholding of 1/5 amount.
3. An amount of Rs.569.24 and Rs.1297.022 Million was made to the firm as full advance just to avoid laps of fund. This is again extending of favoritism.
4. The due diligence meeting in the said contracts were only eye washed as the firm knew that they have to reduce the rates to some extent as results of the due diligence meeting, therefore the firm submitted extra ordinary higher rates, on each occasion.
5. The provision of material by Factory on book value instead of present market value to M/s Wah Brass Mill is also a classified example of favoritism.
6. In each and every contract it was mentioned that provision of material is not the responsibility of SAA factory. Yet not in a single case M/s Brass Mill procured the store.

From the above stated facts, it can safely be concluded that basic object of all the above action of the POF management was just extending financial benefits to the firm at the cost of public exchequer.

The matter was reported to management on January 19, 2022. The management in its reply dated 29.01.2022 stated that as per provision of PPRA/POF rule the requisite ammo. cups have been declared as proprietary of

M/s. WBM Wah Cantt by the FORA Procurement from foreign source will cause compatibility issues & expending of precious foreign exchange.

The reply is not acceptable as the item was declared as proprietary by For a without observing rules 42c (i & ii) of the PPRA. The management itself admitted that foreign source of the said items are available.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate reasons for extending undue financial benefits by making purchases on single tender basis.

Para-6 (POF SAA, 2019-21)

4.2.4.13 Loss due to defective prequalification of tender for procurement of Narrow Gauge Diesel Locomotives – Rs. 18.283 million

As per rule 04 of PPRA Procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical. Furthermore, rule 16 of PPRA The procuring agency engaging in pre-qualification shall announce, in the pre-qualification documents, all information required for pre-qualification including instructions for preparation and submission of the pre-qualification documents, evaluation criteria, list of documentary evidence required by suppliers or contractors to demonstrate their respective qualifications and any other information that the procuring agency deems necessary for pre-qualification. Further as per special conditions of tender documents clause 2 (I) the offer of only those firms will be entertained who will confirm the availability export permit from their respective government.

During audit of POFs Explosive Factory for the year 2018-21, it was noticed from the scrutiny of Procurements record (Contracts) that tender enquiry for procurement 02 Nos. of “Narrow Gauge Diesel Locomotive along with related accessories” was floated through press with opening date 10.04.2018. 06 firms participated in technical bidding out of which 02 firms were technically qualified. Commercial offers of both firms were opened on 07.08.2018. M/s Alan Keef, UK were found lowest with financial offer of Rs. 39.028 million and selected. Contract #0022-Exp-FP-48 dated 02.10.2018 was award to M/s Alan Keef UK for

the procurement of 02 Nos. Narrow Gauge Locomotives at a total cost of GBP 0.249 million equivalent to Pak Rs. 39.589 million.

However, after award the contract, the firm backed out from contractual obligations and regretted to supply the requisite locomotives due to denied party list of US Government and accordingly the said contract was cancelled vide letter dated 06.02.2019 without taking any punitive action against the firm. Subsequently it was decided to procure the same through WIL. Accordingly, tender enquiry dated 09.02.2019 for procurement of Narrow Gauge Locomotives along with accessories was advertised. As a result the same firm who earlier refuse to supply the equipment was technically and financially qualified with offer Rs. 50.322 million. Accordingly the contract No. WIL/FP/P&M/02/2019 dated 23.08.2019 was awarded and materialized. An amount of Rs. 7.55 million was paid as commission to WIL.

Audit is of the view that purchase committee ignored the Special condition of tender documents regarding the availability of export permission from their respective government and subsequently purchased of the same item at higher rate from the said firm. This was ill planned procurement on the part of purchase committee and formation sustained loss of Rs. 18.283 million (i.e. Rs. 50.322 million + Rs. 7.55 million commission - Rs. 39.589 million) on this account.

The matter was reported to management on 10.01.2022. The management in its reply dated 08.02.2022, stated that supplier at the time of signing of contract intimated that POF are name on the US Govt. denied party list and the UK Govt. followed the US Govt. limitations. In view of the above the firm was unable to proceed further.

The reply is not acceptable as the availability of export permit should be confirmed before awarding of contract as required under clause-2(1) of the tender documents which was not done and subsequently led to the procurement event.

No DAC meeting was arranged till finalization of this report.

Audit recommends that the matter may be investigated at appropriate level for non-observing prescribed instructions at prequalification stage and fix responsibility on the person(s) at fault.

Para-2 (POF Explosive, 2018-21)

4.2.4.14 Loss on purchase of procurement of rectified spirit at exorbitant rates – Rs. 30.00 million

As per Rule-04 of Public Procurement Rules, 2004, the procuring agencies while engaging in procurement, shall ensure that the procurement are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical. Rules-38 further defines that the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Govt. shall be awarded the procurement contract within the original or extended period of bid validity.

During audit of Explosive Factory, for the year, 2018-21, it was observed that an Indent No. 0004-LP-50-MC-Exp dated. 31.07.2019 and Indent No. 0046-LP-Hvn-50 dated. 24.08.2019 for procurement of rectified spirit of 1,500,000 liters quantity was raised. Tender enquiry was uploaded vide TE No. 0004-Exp-LP-50 dated 24.01.2020 which was 05 months late from the issuance date of indent. However, only single offer was received from M/s Crystalline Chemical Industries who quoted rate of Rs. 140 /Ltr exclusive of all taxes which was 101.44% higher than the last purchase.

The management did not consider the rate and decided to raise another tender enquiry, which was not responded by any firm. Later on the 3rd tender enquiry was raised in which M/s Crystalline quoted the rate of Rs. 188/Ltr i.e. 170.50 % higher than the LPR(i.e. 69.50) and 2nd lowest firm M/s Madina Sugar Mills Chiniot quoted the rate of Rs. 230.40/Ltr i.e. 231.51% higher than the LPR. The contract was required to be awarded to the first lowest bidder which was not done and contract awarded to 2nd lowest firm after negotiation with the firm and 2nd lowest firm reduced the rates from 230 to 180 and then 180 to 160/liter (excluding GST) i.e. 187.2 per Ltr including (GST) and finally contract No. 0017-Exp-LP-50 dated 03.09.2020 was awarded for the purchase of Rectified Spirit of 15,00,000 Liters to M/s. Madina Sugar Mills Ltd valuing Rs. 135.747 million.

Thus, due to imprudent decision of regretting 1st offer despite of knowing upward trend of prices in the market and subsequent purchase at higher rates, the formation sustained loss of Rs. 30.00 million (i.e. Rs.160/per liter Purchase rate - Rs. 140/per liter 1st offered rate x 1,500,000 liter.).

The matter was reported to management on 10.01.2022. The management in its reply dated 08.02.2022, stated that in response to 1st tender enquiry uploaded on 24.01.2020 the rate of Rs.140 per liter was on higher side, that is why the same was not accepted and the store was subsequently re-tendered and purchased at Rs.160 per liter.

The reply is not convincing as it was proved that due to rejection of 1st tender dated 24.01.2020 and subsequent purchased at higher rates of Rs 160 per liter, the formation sustained loss to extent of Rs 30.00 million. Thus the decision of rejection of 1st tender proved imprudent.

No DAC meeting was arranged till finalization of this report.

Audit recommends that reasons due to which purchase was not made from lowest offer may be investigated, fix responsibility thereof; and the violation made regarding negotiation with the bidder be regularized by the PPRA Board.

Para-1 (POF Explosive, 2018-21)

4.2.4.15 Irregular expenditure on procurement of Ammonia Anhydrous - Rs. 429.427 million

Loss due to payment of 15% service charges - Rs. 64.414 million

As per Annex “A” to POF Board letter No.4145/8337/P&S/Coord /477/Secy, dated 08.02.1982 as amended from time to time, instructions contain comprehensive procedure for the purchase of stores and materials, including Plant, Machinery, spares as well as jigs, fixtures, tools etc. by the Supply Chain Management (old Central Purchase Deptt) and independent from within the country and abroad. For the procurement of general common use items, Independent factories will place their demands on Central Material control Section, who after consolidation and keeping the past consumption in view, will raise indent on the Central Purchase Department for the procurement.

During audit of the POFs Explosive Factory for the years 2018-21, it was observed that contrary to the aforementioned POF Board instructions the management procured Ammonia Anhydrous worth Rs. 429.427 million through Wah Industries (Pvt.) Ltd instead of through Central Purchase Department. It was further observed that an amount of Rs. 64.414 million was paid over & above the purchase price as services charges on the above mentioned purchase.

Audit is of the view that payment of services charges could have been avoided if the procurement would have been made either through POF Central purchase Department or through factory purchase section.

Thus, the procurement of Rs. 429.427 million made in violation of POF Board instructions not only resulted into irregular procurement but also incurred loss of Rs. 64.414 million on account of services charges i.e. 15% of total procurement.

The matter was reported to management on 10.01.2022. The management in its reply dated 08.02.2022, stated that POF Explosive factory facing problems in procurement of Ammonia Anhydrous and in order to ensure the availability of this critical raw material, POFs board accorded approval for procurement of said store through WIL. It is further stated that purchase of store through WIL is more beneficial to POF.

The reply is not convincing as non arrangement of the procurement of store is indicative of in-competency/in-efficiency of the POF which have their own procurement department operation under General Manager Procurement. As regard the purchase through WIL is more beneficial this instance of the management is also wrong as POF have to pay extra charges @ 15% over and above the contract price.

No DAC meeting was arranged till finalization of this report.

Audit recommends that the matter may be investigated at appropriate level for adopting new practice i.e. procurement through 3rd party instead of self and fix responsibility on the person(s) at fault.

Para-3 (POF Explosive, 2018-21)

4.2.4.16 Irregular procurement of store without healthy competition - Rs. 40.865 million

According to Rule-42-c (ii), of PPRA a procuring agency shall only engage in direct contracting if only one manufacturer or supplier exists for the required procurement. Provided that the procuring agencies shall specify the appropriate fora which may authorize procurement of proprietary object after due diligence.

Further, as per rule-4 the procuring agencies while engaging in procurement, shall ensure that the procurements are conducted in a fair and

transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of Explosive Factory, for the year, 2018-21, it was observed that a contract No. 0030-LP-MC-Exp dated 25.07.2020 valuing Rs. 40.865 million for procurement of plastic boxes of 11,088 No. was awarded to M/s Hi-Tech Plastics (Pvt.) Ltd, Wah Cantt on single source basis with delivery period upto 31.05.2021. During scrutiny of record under mentioned points were observed:

- i. The requisite store was first time procured and declared as proprietary item by ignoring proper procedure as required under PPRA rules 42(c).
- ii. Further, query was raised by the FA regarding proprietary procurement i.e. rate needs to be rationalized through diligence Committee which was not done in letter & spirit.
- iii. The indented box was developed by M/s Hi-Tech Plastics, Wah Cantt at their own expenditure on the request of Managing Director, Explosive Factory for the packing of export order, which shows that all the other possibilities were already ignored and a special favour was granted to M/s Hi-Tech Plastics, Wah in violation of rules.

Audit is of the view that management was required to follow the PPRA rules for procurement of costly store but the same was not done which resulted into irregular procurement of Rs. 40.865 million.

The matter was reported to management on 10.01.2022. The management in its reply dated 08.02.2022, intimated that FORA declared the same item as proprietary of M/s Hi-Tech plastic as they developed the boxed at their own expenditure.

The reply is not convincing as the store was declared as proprietary without observing the rule 42 c (i & ii) of PPRA i.e. without confirming the non-availability of store from other sources and that too was without due diligence meeting. Subsequently the POF Board also directed that in future the same item should be procured through proper competition.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter regarding irregular procurement and non-adherence of laid down procedure, fix responsibility thereof

and strict compliance of PPRA rules may be followed in future.

Para-4 (POF Explosive, 2018-21)

4.2.4.17 Irregular and un-justified procurement of Light Sniper Rifle on proprietary basis – Rs. 1,234.004 million

As per Para-08 of the POFs purchase procedure issued vide POFs Board letter # 4145/8337/P & S/Co-ord/477/Secy, dated 08.02.1982 read with Rule-42(c) (ii) of Public Procurement Rules, 2004 a procuring agency shall only engage in direct contracting if only one manufacturer or supplier exists for the required procurement provided that the procuring agencies shall specify the appropriate FORA, which may authorize procurement of proprietary object after due diligence.

During the audit of POFs Weapons Factory for the year 2018-20, it was observed that the management imported 50 Kits of Light Sniper Rifle (LSR) components from M/s Surgeon & Co. USA. After successful user trial, Pak Army demanded thousand LSRs from POFs. To fulfill the demand of the Pak. Army, Weapons Factory awarded five contracts for purchase of parts on proprietary basis by direct contracting.

Audit is of the view that initially management imported all parts of LSR from M/s Surgeon & Co. USA but later on same parts were procured from three firms on proprietary basis by direct contracting which is irregular and un-justified. As per PPRA rules, the management was required to procure the parts of LSR through open tender but the same was not done. Further it could not be verified from the available record that above three firms were sole manufacturer / supplier existed to quote for the required procurement. In the absence of documentary evidence, the issuance of the proprietary certificate through any FORA was hardly justified and the entire expenditure incurred against the above referred contracts was held irregular. The management also did not concur the Tender Enquiry from the Financial Advisor as per SOP/rules as well.

In the DAC meeting held on 31.01.2022, the management apprised the Committee that the parts were of same supplier and not purchased from any other firm. DAC directed the management to provide justification and get the record verified from audit authorities.

Audit recommends compliance of the directives of the DAC.

4.2.4.18 Blockade of funds due to non-sale / disposal of shelf life completed guns - Rs. 19.318 million

According to rule-5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, “the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage. The principle shall be adhered to, especially with respect to handling of public funds, assets, resources and confidential information by directors, executives and employees and claiming of expenses”. POF has not framed any kind of policy for disposal / sale of firing capacity completed guns.

During the audit of POFs Weapons Factory for the year 2018-20, it was observed that the management has 732 self-life / firing capacity completed G3A3 and MG3 guns valuing Rs. 19.318 million. These guns have completed its capacity/ shelf life after fire of 6000 rounds during endurance test. The management did not make any efforts for their sale/disposal, resultantly a huge quantity is lying in store. Moreover, there is no policy regarding sale /disposal of these guns, hence funds amounting to Rs. 19.318 million have been blocked.

In the DAC meeting held on 31.01.2022, the management clarified that rifles and barrels under subject observation have surpassed their useful service life and contributed in achieving the quality standard. However, value / cost may not be categorized as held inventory liable to sale. DAC directed the management that efforts may be made for the disposal/sale of un-serviceable guns and to share the relevant documents with Audit authorities.

Audit recommends compliance of the directives of the DAC.

4.2.4.19 Irregular / un-justified award of contract to a defaulter firm – Rs. 284.04 million and non-utilization of spare parts - Rs. 8.919 million

As per para-6 of POF Board letter No. POF/59/CH dated January 4, 1971, following general guidelines were required to be born in mind by the competent officers while raising demand and / or submitting/ approving purchase proposals:

- a. That due economy and care is exercised in formulating requirements.

- b. That in demanding / purchasing store same vigilance in respect of expenditure incurred is exercised as a person of ordinary prudence would exercise in respect of the expenditure of his own.

During audit of POF Weapon Factory for the year 2018-19 and 2019-20, it was observed that management procured “Forging Machine Type SHK-10-MA1528” valuing Rs. 60.750 million vide contract dated 13.10.1993. The machine created problems in due course. To remove the problems, the management purchased 178 spare parts of said machine valuing Rs. 8.919 million from M/s GFM Austria vide contract No. 2518-FP-W-34 dated 10.11.2004. For installation of 178 spare parts in the machine and overhauling, the management also awarded another contract No. 2703-FP-W-36 dated 10.2.2007 to same firm M/s GFM Austria valuing Rs. 7.175 million. The firm failed to overhaul the machine uptill February, 2020 and become defaulter. Due to non-overhauling, spare parts could not be utilized till date after lapsed of almost 15 years.

By ignoring the previous contractual obligations, POF Weapon Factory awarded a new overhauling contract No. 4104-13-FP-MPO-49 dated 19.02.2020 valuing Rs. 284.04 million including cost of spare parts to same defaulter firm M/s GFM Austria at 3,859% higher rates without utilization of already purchased spare parts. It was further noticed that the management also provided 20% advance of Rs. 56.808 million to the firm on 19.2.2020 but the machine is not dispatch to firm premises for overhauling even after lapsed of more than one & half year.

In the DAC meeting held on 31.01.2022, the DAC directed the management to submit revised reply with updated status within 10 days.

Audit recommends compliance of the directives of the DAC.

Para-3 (POF Weapons Fy. 2018-20)

4.2.4.20 Irregular / unjustified procurement of Kalashnikov (AK-103) – Rs. 6,868.884 million
Loss of bank service charges without maturing of contract – Rs. 77.547 million

As per Para-08 of the POFs purchase procedure issued vide POFs Board letter # 4145/8337/P & S/Co-ord/477/Secy, dated 08.02.1982 read with Rule-42(c) (ii) of Public Procurement Rules, 2004 a procuring agency shall only engage in

direct contracting if only one manufacturer or supplier exists for the required procurement provided that the procuring agencies shall specify the appropriate FORA, which may authorize procurement of proprietary object after due diligence.

During the audit of POFs Weapons Factory for the year 2018-20, it was observed that the management awarded a contract to M/s Joint Stock Company Russia for procurement of 76,004 Nos. of 7.62 mm Kalashnikov assault rifle AK-103 valuing US\$ 43,702,300.00 @ US\$ 575 per rifle on proprietary basis with delivery period 4 to 9 months after receipt of advance payment. LC was established on 22.01.2018 through National Bank of Pakistan, Main Branch Rawalpindi but could not be operative due to black listing of the supplier at international level.

Negotiations were made at Governments level of Pakistan and Russian authorities and it was decided that beneficiary be changed from M/s Joint Stock Company to M/s Limited Liability Company Russia with 100% payment directly remitted to NBP Nostro account in Russia through NBP Pakistan for which 95% payment will be released on presentation of commercial invoice and equipment pre-shipment acceptance certificate. Whereas remaining 5% was to be retained in NBP Nostro account for the warranty period of subject store with financial effect of

US\$ 43,702,300.00 equivalent to Rs. 6,868,884 million. The POF management remitted payment to NBP Russia through cheques instead of opening L.C. NBP claimed service charges of Rs. 77.547 million from POF for these deposits / transactions. Chairman POF Board approved the payment from RD&R Head of account. The firm did not supply the requisite store till date.

In this regard, following serious irregularities were observed:

1. The contracted Firm M/s Joint Stock Company Russia was already blacklisted even then the management awarded the contract to the said firm.
2. POF is a manufacturing concern, however, instead of own manufacturing a finished product is being purchased to coup up the needs of Army / LEAs, whereas, they can directly purchase these instead.
3. CMA (POF) Wah Cantt made payment from RDR head of account.

4. Instead of advance remittance, CMA (POF) Wah Cantt made full payment through cheques and directly sent to Bank for immediate payment to firm.
5. Instead of opening LC, CMA (POF) Wah Cantt made payment through Cheques.
6. Due to remittance of full payment in advanced a huge precious foreign exchange amount has been blocked.
7. NBP charged Rs. 77.547 million as service charges. Since, the firm was black listed and the chances of supply of store was remote. Therefore, these bank charges without any output are confirmed wastage of public money.
8. An amount of US\$43,702,300.00 is still unrecoverable after the lapse of one and half year.

Keeping the above facts in view, the amount of US\$ 43,702,300.00 blocked in bank and loss of bank service charges amounting to Rs. 77.547 million are irregular and imprudent.

In the DAC meeting held on 31.01.2022, the management informed that POF Board is in liaison with GHQ. MoDP and other sensitive state organizations for joint efforts to get the deal finalized with Russia. DAC directed the management to continue efforts for finalization of deal. Furthermore, DAC directed to re-check the element of service charges paid Rs. 77.547 million and notified by the SBP and get the record verified by the Audit authorities in 15 days.

Audit recommends compliance of the directives of the DAC.

Para-7 (POF Weapons Fy. 2018-20)

4.2.4.21 Loss due to non-recovery of advance and non-encashment of bank guarantee – Rs. 12.558 million

According to rule-5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage. The principle shall be adhered to, especially with respect to handling of public funds, assets, resources and confidential information by directors, executives and employees and claiming of expenses. Further as per accounting practices, Bank Guarantee is cashable on non-fulfillment of contractual obligations and default of contract.

During audit of POF Weapon Factory for the year 2018-20, it was observed that the management awarded a contract (No. 0004-LP-Wpn-SR-I-C-I) dated 29.6.2013 valuing Rs. 22.946 million to M/s PIC Technology (Pvt.) Ltd Islamabad for procurement of different types of steel store with delivery period upto 31.10.2013. The firm supplied the store valuing Rs. 16.012 million uptill June, 2015. For provision of remaining store, the management granted advance payment to the firm valuing Rs. 6.721 million against bank guarantee of Rs. 7.119 million. Later on, the firm could supply store valuing Rs. 1.495 million and went to default. Store valuing Rs. 5.439 million (Rs. 22.946 million – Rs.16.012 million + Rs. 1.495 million) could not be supplied by the supplier uptill 30.06.2021. The management was required to encash the bank guarantee of the firm valuing Rs. 7.119 but the same was not done which is expired now. Thus, due to non-encashment of bank guarantee valuing Rs.7.119 million, advance of Rs.5.439 million still not recovered. Further as per contract clause-7, 100% payment was required to be made on provision & acceptance of store but advance was granted by amending in original contract which was unjustified.

In the DAC meeting held on 31.01.2022, the management informed that punitive action as forfeiture of security deposits and encashment of BG was imitated against defaulter firm, meanwhile firm filed the case in Court of Law. DAC directed the management to pursue the case vigorously in Court of Law and ensure recovery of amount along with interest.

Audit recommends compliance of the directives of the DAC.

Para-4 (POF Weapons Fy. 2018-20)

4.2.4.22 Loss due to less assessment of rent of commercial land – Rs. 5.125 million

Non-deposit of Government and POF share - Rs. 16.753 million

As per MODP letter No. F.2/5/D-12/ML&C/99, Dated 20th November, 2009, “The rent so calculated shall be deposited in to Govt. Treasury by the concerned Army Formation, PN/PAF/ Admn Authorities and TRs forwarded to the respective Controller of Accounts for disposal. Moreover, the rent account of A-1 Land for commercial and welfare purpose (for category A&C activities) will be auditable as per Govt. Policy. Necessary documentation including formal approval of the Services Chief is mandatory.

During audit of POF Director Admn for the years 2017-20, it was observed that the 06 Nos buildings situated within the premises of POFs Guest House measuring 14,232.00 sq.ft being used commercially without execution of lease agreement since its inception. In 2018-19, a committee was constituted to assess the rent for the space/land being used against these commercial activities. The committee calculated rent amount of Rs. 3.046 million per annum @ Rs. 214 per sq.ft.

However, it was observed that the Assessment Committee did not calculate the rent according to the policy guidelines on use of A-I land issued by the Ministry of Defence Production vide letter referred above which states that the rent shall be charged @ 6% per annum of the existing revenue rate of the said land.

Area of A-I land used	Period	Revenue rate during the period Rs. per marla	Rent Per annum @ 6% of revenue rate (Rs.)	Rent calculated by the Assessment committee (Rs.)	Difference/ Loss to govt.(Rs.)
14,232 sq. ft. or 56.928 marlas @ 250 sq. ft. per marla	Jan, 2015 to Jun, 2016	891,730	3,045,862	3,045,862	-
-do-	July, 2016 to Jun, 2017	980,900	3,350,440	3,045,862	304,578
-do-	July, 2017 to Jun, 2018	1,078,990	3,685,485	3,045,862	639,623
-do-	July, 2018 to Jun, 2019	1,186,890	4,054,036	3,045,862	1,008,174
-do-	July, 2019 to Jun, 2020	1,291,570	4,411,590	3,045,862	1,365,728
-do-	July, 2020 to Jun, 2021	1,420,730	4,852,759	3,045,862	1,806,897
					5,125,000

Thus, due to less assessment of rent government exchequer was put to loss of Rs. 5.125 million (Rs. 1.281 million as 25% share of government and Rs. 3.844 million as 75% share of POF).

Furthermore, an amount of Rs. 2.285 million on account of Govt. share and Rs. 14.468 million on account of POF share is also outstanding from POF guest house management, crippling the government interest.

In the DAC meeting held on 31.01.2022, the management apprised that Housing and Land Directorate was approached on 27 Jan, 2022 to constitute a rent assessment committee as soon as possible for calculation of rent on DC rate. Accordingly, the amount of revised rent will be deposited into Government Treasury through TRs. DAC directed the management to ensure depositing of revised rent amount into Government Treasury and verification of relevant record by audit authorities

Audit recommends compliance of the directives of the DAC.

Para-7&8 (Dir. Admn, POFs 2017-20)

4.2.4.23 Loss due to non-recovery of rent from private parties - Rs. 3.443 million

As per Para 455 of MES regulation, recovery of rent shall be made in advance.

As per Para-6 of POF Allotment Rules, all allotment to private concerns will be made under the order of Director Administration at Wah Cantt on the following conditions:-

- i. Market rent and allied charges will be paid in advance by the allottee.
- ii. Market rent will always remain subject to revision at any time without any notice and the allottee will be responsible to pay it with retrospective effect if necessary.
- iii. The two months' rent will be deposited in advance with AM/Finance as security money. This will be refunded to the allottee on clearance of outstanding dues.
- iv. In case of non-payment of rental dues, Estate Officer will be empowered to cancel the allotment and eject the allottee from the allotted house.

During audit of POF Director Admin for the year 2017-18 to 2019-20, it was observed that certain POF residential accommodations were rented out to private bodies other than POF for residential/ other purposes on market rent basis. However, the management failed to recover the amount of Rs. 3.443 million on account of rent from the concerned private bodies as required under the rules and was still outstanding. The rent was required to be recovered in advance; however the management failed to comply the MES regulations as well as POF's own Allotment Rules.

Thus, due to non-recovery of outstanding dues, the management extended undue favor to the allottees in violation of rules and POF sustained loss to the extent of Rs. 3.443 million.

In the DAC meeting held on 31.01.2022, the management apprised that the objected amount is in process of recovery. DAC directed the management to affect recovery as soon as possible and get the record verified from Audit authorities.

Audit recommends compliance of the directives of the DAC.

Para-13 (Dir. Admn, POFs 2017-20)

4.2.4.24 Loss to Government due to non-inclusion of doctors' income in taxable income - Rs. 119.923 million

As per Income Tax Ordinance, 2001, the income of a salaried person received from other sources is required to be included in taxable income of person.

In POF Hospital during audit for the years 2018-19 & 2019-20, it was observed that the Doctors, appointed for POF Hospital are being engaged in Wah Medical College (WMC) and during duty time deliver lecture in college for which they were paid lecture fee ranging between Rs. 20,000 to Rs. 30,000. As per list, provided by the hospital management 23 doctors were engaged with WMC. During the period from July 2018 to June 2020, lecture fee of Rs. 11.386 million (2018-19 Rs. 5.718 million + 2019-20 Rs. 5.668 million) was paid to the said doctors (the calculation was made at an average fee of Rs. 30,000 to Professors, Rs. 25,000 to APs and Rs. 20,000 to SRs) in addition to their pay & allowances.

Further, the POF Hospital Doctors were also getting their share in income of CNE patients @ 45%. During the said period, an amount of Rs. 108.537 million (45% of total income of CNE patients for 2018-19 & 2019-20 is Rs. 241.194 million) was paid to POF Hospital Doctors on account of their share in income from the CNE patients.

The CMA Pay Section was unaware about said income of the government employees. Thus, both the above said incomes were not considered for inclusion in taxable income of the concerned doctors due to which the public exchequer was deprived of the revenue of millions of rupees (the exact calculation was not possible, matter needs to be referred to the FBR for exact working and calculation of tax amount). The position was confirmed from the CMA Pay Section and they informed that the said income was not included in the taxable income of the concerned doctors. Thus, the negligence on the part of management resulted in loss to public exchequer.

In the DAC meeting held on 31.01.2022, the management intimated that the matter of showing income tax in income tax return is the direct responsibility of concerned doctors. DAC directed the management to get the record verified by the audit authorities.

Audit recommends to investigate the causes under which the above said income of doctors was not included in taxable income which caused loss to the

public exchequer, fix responsibility thereof; and matter be referred to the FBR for calculation of exact taxable income and tax for recovery from concerned person(s).

Para-16 (POF Hospital, 2018-20)

4.2.4.25 Irregular procurement of furniture Rs. 9.411 million

Loss due to purchase on higher rate and non-availing the offered discount – Rs. 1.664 million

As per Rule – 4 of the Public Procurement Rules, 2004, the procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of POF Hospital for the years 2018-19 and 2019-20 it was observed that POF management awarded a contract for purchase of furniture to M/s ALM Enterprises at Rs. 9.411 million. The Technical Committee rejected the bids of two firms on the plea that the firms were found incapable to fulfill the specification of items as per TE. The financial bids of remaining two firms i.e. M/s ALM Enterprises and M/s Decent Furniture were opened. The Hospital management did not consider M/s Decent Furniture despite submission of 2% bid money. The financial bid of M/s Decent Furniture showed that in 07 items his rates were lowest by Rs. 1,334,836, even then firm was not considered. However, the management placed the order on M/s ALM Enterprises.

The record further revealed that the management arranged due diligence in which the firm agreed to give discount @ 3.5%, however, the said discount i.e. Rs. 329,371 (3.5% of Rs. 9,410,600 million) was not availed by the management.

The furniture items, purchased by the Hospital were not specified but general items. As a result of tender enquiry the response was limited; however, the technical committee did not consider the two firms on the plea that the firms were not capable to fulfill the specification. The file is silent with regard to the criteria adopted for assessing the capability of firms as required under PPRA Rules.

The record further revealed that in three items the quantity of furniture was enhanced by 40% to 58% i.e.(Student Chairs from 50 to 79, Counter Chairs from 18 to 25 and Counters from 9 to 13) having financial impact of Rs. 847,300. The contract was awarded to the firm on 17.2.2020 with delivery period upto

31.03.2020; however, the supply was completed in March/April, 2021. Further, the firm is not registered with tax authorities, the documents available in the file showed that the supplier submitted tax payer registration certificate in personal capacity.

In view of above stated facts the procurement of furniture at higher rate of Rs. 9.411 million is termed as irregular. Further, due to negligence on the part of management, the formation sustained a loss of Rs. 1.664 million.

In the DAC meeting held on 31.01.2022, the management clarified that the objected firm was rejected on technical grounds and accordingly it was recorded in the technical CST duty signed by the committee. Audit contended that the firm offered lowest rate was not considered, further, the discount offered by the supplier could not be availed. DAC directed the management to conduct a fact finding on the matter and get the same along with other relevant record shared with audit authorities.

Audit recommends compliance of the directives of the DAC.

Para-3 (POF Hospital, 2018-20)

4.2.4.26 Un-verified government share due to non-provision of record - Rs. 51.380 million

As per Para 10 of GFR, every public officer is expected the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of his own money. In accordance with Para 14 (a), (b), (c) and (2) of the Auditor General of Pakistan (Functions, powers and Terms & Conditions of Service) Ordinance, 2001 promulgated by the President of Pakistan, the Auditor general has the authority to inspect any office of accounts, require the record of any office for inspection to such place as he may direct, enquire or make such observations as he may consider necessary and to call for such information as he may require for the purpose of audit. The officer in charge of any office or department shall offer all facilities and provide record for audit and inspection.

The National Assembly Secretariat issued following instructions of the Public Accounts Committee to all the Principal Accounting Officers of Ministries/Divisions/Heads of Departments vide OM No. F-10 (1)/2000/2004-PAC dated 3rd June, 2004.

“Make available all information/record to Audit as and when required by them, otherwise disciplinary action will be initiated against person(s) responsible for the delay under Section 14(2) (3) of the Auditor General’s Ordinance No. XXIII of 2001.”

In addition to POFs patients, the POF Hospital also entertain the CNE patients i.e. civil population of the surrounding areas, employees of certain companies/corporations, NESCOM, NDC, AWC, WIL, WBM, PBC, PTV, OGDCL etc. on payment basis. All the said CNE patients are checked/operated in POF Hospital by utilizing the available government resources i.e. equipment, doctors, land, hospital building etc. budget allocated to the Hospital each year to run its affairs. During last two years budget of more than Rs. 3 billion was allocated to the POF Hospital in various heads of accounts. The record revealed that the Hospital management deposited a specific amount Rs. 51.380 million i.e. (15 to 20% of income generated from CNE patients) in government account. During audit for the years 2018-19 & 2019-20, the record to verify the fact that whether the governments share was calculated rightly and 100% deposited into government account or otherwise, however, the hospital management did not provide relevant record to audit. In the absence of relevant record the accuracy of the shared of Rs. 51.380 million stated to have been deposited into Govt. treasury is open to doubt/question.

In the DAC meeting held on 31.01.2022, the management informed that The management intimated that the case regarding audit of Hospital about CNE account was referred to Surgeon General vide letter dated 26th May, 1997 GHQ, In response, AG Branch (Medical Dte.), GHQ vide letter dated 28 June, 1997 and dated 26th July, 2018 clarified that audit of CNE account does not fall under the purview of audit authorities. Audit contended that the audit authority rest with the Auditor General of Pakistan and not with Surgeon General. Audit further informed the Committee that the management did not provide relevant record to audit to verify the share of government. DAC directed the management that all the record of CNE patients may be produced to audit for verification.

Audit recommends compliance of the directives of the DAC.

Para-20 (POF Hospital, 2018-20)

**4.2.4.27 Loss due to delay in finalization of contract for an abnormal period
– Rs. 19.726 million**

As per Rule-4 of the Public Procurement Rules, 2004, the procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical. Rule-36 (b) further provides that the procuring agency shall evaluate the technical proposal in a manner prescribed in advance, without reference to the price and reject any proposal which does not conform to the specified requirements. The financial proposal of bids found technically non-responsive shall be returned unopened to the respective bidders.

During audit of POF Hospital for the years 2018-19 and 2019-20 it was observed that the hospital management moved a case in September 2017 for purchase of a Neuro Navigation System. The Chairman POFs Board approved the case on 27.10.2017. The approval of Modernization Committee for technical specification of the equipment was sought vide circulation in January 2018.

The technical offers were opened on 24.02.2018. Only one offer of M/s Medi Urge (Pvt.) Ltd. Lahore was received. The end user proposed re-tendering being single offer. On re-tendering, the bids were opened on 26.04.2018. This time two firms i.e. M/s Ontech Corporation, Karachi and M/s Medi Urge, Lahore submitted their offers, file was marked to the concerned end user for technical scrutiny in April, 2018, who returned the file in August, 2018 (after a gap of more than 4 months).

The technical CST was submitted to the Mod. Committee in August, 2018 who approved it in December, 2018 (after a gap of 4 months). Thus, the commercial offer was opened on 29.01.2019 and contract was awarded to M/s Medi Urge, Lahore (principal supplier M/s Brain lab Sales, Germany) at US \$ 409,000 on C & F Islamabad Air Port basis (equal to Rs. 47.853 million @ US \$ = Rs. 117.00) on May 22, 2019 (after a gap of 4 months).

Audit is of the view that the technical offer was opened on 26.04.2018 while the commercial offer was opened on 29.01.2019 after a gap of 9 months and the contract was awarded in May, 2019 with further delay of more than 4 months. At the time of opening of technical offer, the dollar rate was Rs. 117.00 and the

cost of contract, concurred by the FA and approved by the Chairman POF Board, was Rs. 47.853 million. However due to abnormal delay in finalization of contract, the actual payment of Rs. 67.579 million (at the time of payment the dollar rate was Rs. 165.23) was made. The management was required to keep in mind the currency fluctuation element. Due to delay in finalization of contract, loss of Rs. 19.726 million was borne by the POF.

In the DAC meeting held on 31.01.2022, the management informed that in spite of Covid-19 situation the placement of contract and other formalities were in line with existing procedure & rules and no loss was occurred to Govt./POF exchequer. Audit contended that the procurement was before the epidemic of Covid-19 and abnormal delay was not due to Covid-19 which resulted in loss. DAC directed the management to revise the reply stating the facts due to which the agreement was finalized delayed and produce the relevant record to Audit for re-verification of facts.

Audit recommends compliance of the directives of the DAC.

Para-7 (POF Hospital, 2018-20)

4.2.4.28 Un-authorized / irregular appointment of employees beyond sanctioned strength and casual staff and payment of pay & allowances – Rs. 354.551 million

As per POF Hospital record the competent authority has approved sanctioned/authorized strength of POF Hospital as 582 ranging category of BS-1 to BS-20.

During audit of POF Hospital for the years 2018-19 & 2019-20 it was observed that in POF Hospital 128 employees of BS-01 to 20 were appointed/posted over & above the sanctioned/authorized strength i.e. 582 employees. The appointment/posting of employees over & above the sanctioned/authorized strength is termed as irregular/un-authorized. The pay & allowances paid to the said over posted employees Rs. 204.863 million from July 2018 to June, 2021 is termed as irregular/un-authorized.

Further, the management of POF Hospital appointed 231 casual staff and paid Rs. 149.688 million to them during the period from July 2018 to June 2021. These employees were engaged on daily wage basis without any open competition and having any sanctioned post. The engagement/recruitments of these casual staff

was made without adopting proper procedure and having which is violation of the Supreme Court instructions and policy guidelines of federal government, hence, considered irregular by Audit.

It is pertinent to mention here that as a matter of principle, the budget under the head of pay & allowances is allocated in view of the sanctioned posts of that department. In this specific case the payment of salaries to the employees posted over & above the authorized limit showed that the budget is being allocated without considering the authorized sanctioned strength. This is a serious omission on the part of budgeting authority and showed that the budgetary allocation is not in place. In case, the Hospital management required further strength, matter needs to be placed before competent forum for approval as it involves budgetary requirements.

In view of above facts the posting/appointment over & above the sanctioned strength is held un-authorized/irregular and payment on account of pay & allowances Rs. 354.551 million (Rs. 204.863 million to over posted staff and Rs. 149.688 to staff irregularly appointed) is also held irregular.

In the DAC meeting held on 31.01.2022, the management apprised that the process of posting/transfer of officers/staff is centrally under control of HRM department against the authorized vacancies. DAC directed the management to share justifications regarding posting/transfers of officers/staff with audit authorities. The procedure adopted for appointment of casual staff may also be shared with Audit.

Audit recommends compliance of the directives of the DAC.

Para-4 &5 (POF Hospital, 2018-20)

4.2.4.29 Loss to public exchequer due to non-deduction of stamp duty from the contractors/suppliers – Rs. 2.240 million

As per the Stamp Act, any instrument of the nature of memorandum of agreement made or entered into by a contractor with Government, Corporation, Local Body, Local Authority, Agency or Organization set up or controlled by the Federal or the Provincial Government, to execute any work to procure stores and materials, stamp duty @ 0.25% will be recovered and deposited into Govt. Treasury. Further, according to the Government of Pakistan, Ministry of Defence letter No. MoD's U.O No. 5-1/2019(PAC-iii) dated 31 July, 2019, stamp duty is

applicable and its recovery from contractor is applicable even when the contract is signed between contractor and Federal entity and the work has been performed in Cantonment Area.

During audit of POF Hospital for the years 2018-19 & 2019-2020, it was observed that the management entered into different contracts for purchase of medicines and other equipment valuing Rs. 896.16 million during last two years. However, stamp duty @ 0.25% amounting to Rs. 2.240 million was not recovered from the concerned contractor.

Non-recovery of stamp duty and its deposit into Government treasury tantamount to embezzlement of public funds.

In the DAC meeting held on 31.01.2022, the management informed that Management apprised the Committee that recovery of stamp duty is the responsibility of Chief Inspector of Stamp Duty Govt. of Punjab. Audit contended that to watch the interest of the government is the responsibility of government departments. The recovery of stamp duty can be ensured by entering into agreement with the party on E-Stamp only. DAC directed the management that the matter opting of E-stamp be discussed with Audit authorities for future purpose.

Audit recommends to investigate the causes due to which the stamp duty could not be recovered while making payment to the contractors, fix responsibility thereof; and amount of stamp duty may be recovered from the person(s) held responsible.

Para-2 (POF Hospital, 2018-20)

4.2.4.30 Irregular procurement of medicine and disposable surgical items in violation of PPRA Rules - Rs. 194.73 million

As per Rule-09 of the Public Procurement Rules, 2004, a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned. The annual requirements thus determined, would be advertised in advance on the Authority's website. Further, as per delegation of financial powers to POF Officers, the Commandant POF Hospital is empowered to cash purchase up to Rs. 75,000 (other than TPT and MIS) for 07 surgical disposables and 12 lifesaving medicines notified under POF Board letter dated 29.04.2014.

During audit of the accounts of POF Hospital for the years 2018-19 & 2019-20 it was observed that the routine medicines are being procured through open tendering. The record revealed that some portion of routine medicines is being procured on cash payment basis. The record showed that in number of cases, the hospital management issued three or more than three cash purchase orders in a day. The cash purchase orders are being issued in thousands beyond the delegated powers of the Commandant POF Hospital.

During the years under audit, cash purchase orders worth Rs. 194.73 million (2018-19 – Rs. 67.852 million + 2019-20 – Rs. 126.874 million) were issued. Said cash purchase orders were issued for routine medicines and not for 07 surgical disposable and 12 lifesaving medicines for which the powers were delegated to the Commandant. The record further revealed that all the orders were issued to five to six firms only.

Audit is of the view that the practice for procurement of routine medicines through open tendering and medicines worth Rs. 640.44 were procured by adopting proper procedure during the years 2018-19 & 2019-20. The routine medicines, purchased on cash by splitting the order and issuing thousands of purchase orders to some selected firms is not covered under the rules, hence, held irregular. The value of orders was also not covered in financial powers, delegated to the Commandant POF Hospital.

In the DAC meeting held on 31.01.2022, the management clarified that the purchasing value of objected items is covered under financial power delegated to Commandant POF Hospital. Audit informed the committee that purchase was beyond delegated powers and routine medicines were purchased in disregard to the procurement rules. DAC directed the management that all the relevant record may be produced to audit for verification.

Audit recommends compliance of the directives of the DAC.

Para-13 (POF Hospital, 2018-20)

4.2.4.31 Irregular appointment without advertisement - Rs. 12.014 million

As per Supreme Court of Pakistan orders dated December 26, 1992, the practice adopted by the Federal Government, Provincial Governments, Statutory Bodies and the Public Authorities for making initial recruitments, both adhoc and regular to posts and offices without publicity and properly advertising the

vacancies and at times by converting adhoc appointments into regular appointments is prima facie violation of Fundamental Rights (Article-18 of the Constitution) guaranteeing to every citizen freedom of profession. The Supreme Court of Pakistan ordered that the violation of Fundamental/ Human Rights should be discontinued forthwith.

Establishment Division vide its OM. No. 6/2/2000-R.3 dated May 06, 2000 issued policy guidelines for contract appointments for the posts in autonomous/ semi-autonomous bodies, corporations, public sector companies etc. According to the Para-(iii) Vacancy should be advertised in the leading national and regional newspapers and selection should be made through regularly constituted selection Committees /Boards.

During audit of POFs Human Resource Management (HRM) Department for the years 2016-17 to 2019-20, it was observed that management appointed their four retired civilian officers for a period of one year and further extendible for another year. Payment of Rs. 12.014 million was made to the retired officers.

Audit is of the view that management extended undue favour to the retired officers in their appointment without advertisement and in violation of Supreme Court orders as well as Establishment division instructions and failed to provide equal opportunity to the public. Thus, the appointment as well as their pay & allowances of Rs 12.014 million were held irregular.

In DAC meeting held on 31.01.2022, the management apprised that these officers were hired on contract basis in the light of the provisions contained at Clause 7(b) of the POF Board Ordinance - 1961 exclusively for special projects/assignment. Audit contended that the procedure framed by the Establishment Division for appointment was not followed in letter & spirit.

DAC directed the management to get the documents verified from audit authorities within 15 days.

Audit recommends compliance of the directives of the DAC.

Para-3 (POF HRM, 2016-20)

4.2.4.32 Un-authorized appointment of officers over and above the age limit given in advertisement - Rs. 5.901 million

According to the appointment criteria duly published in advertisement dated 07.06.2020 the age limit for the post of Manager Fire-fighting and Assistant Managers was 35 years and 30 years respectively.

During audit of POFs HRM for the years 2016-17 to 2019-20, it was observed that an advertisement was floated by the management for hiring the services of personal ranging from BPS-17 to BPS-18 of different cadres on 07.06.2020 by mentioning the age limit 30 and 35 years respectively up to 21.06.2020. However, management appointed 12 officers on regular contract basis in contravention of the prescribed age limit and payment of Rs. 5.901 million was made to these officers.

Audit is of the view that management extended undue favour to the incumbents by non-observing prescribed age limit in the advertisement. Thus, the appointment of officers and payment made to them on account of pay & allowances amounting to Rs. 5.901 million was held irregular.

In the DAC meeting held on 31.01.2022, the management informed that the age relaxation was within the period allowed by the Cabinet Division. DAC directed the management to get the record regarding age relaxation was within the allowed period, verified from Audit authorities within 15 days.

Audit recommends compliance of the directives of the DAC.

Para-8 (POF HRM, 2016-20)

4.2.4.33 Non-production of appointment record - Rs. 2,317.106 million

Under Section 14 (1) (b) of the Auditor General (Function Power and Terms and Condition of service) Ordinance 2001, the Auditor General shall, in connection with performance of his duties, shall have authority to require any accounts, books paper and other documents which deal with or form the basis or otherwise relevant to transactions to which his duties in respect of audit extend shall so sent to such place as he may direct for his inspection

As per of Ministry of Defence Production letter No. MODP 10/11/DP-712014 dated April 2020, the recruitment will be undertaken in accordance with the POFs Recruitment Rules, 2019 subject to completion of all codal formalities as

specified in policy and mechanism for recruitment issued by Establishment Division from time to time. Furthermore, the recruitment process is to be finalized within 90 days from the date of issuance of advertisement.

During audit of POFs Human Resource Management (HRM) Department for the years 2016-17 to 2019-20, it was observed that posts of different categories were advertised in press on 07.04.2020 and 07.06.2020 for appointment against vacant posts. As a result of said advertisement, 4,250 employees (BPS-1 to BPS 18) were appointed on regular basis in 2020-21 and an amount of Rs. 2,317.106 million was paid to newly appointees on account of pay & allowances.

Audit demanded requisite record followed by final reminders for scrutiny but the same was not provided till close of audit. In the absence of relevant record, the following facts could not be verified:

- The business plan of the organization and its approval by the competent authority for new recruitment.
- Shortage/excess reports and inter-factory adjustment of existing manpower.
- Advertisement was done with the approval of competent authority as per rules.
- The record related to the candidates applied for jobs against advertisement.
- The short listing criteria and its approval
- Short listing committee and its approval.
- Short listing process/documents. Whether short listing was done according to criteria or not?
- The selection criteria and the approval of the selection committee.
- Interview committee and its approval
- Minutes of Interview Committee and Assessment Sheets.
- Approval of Minutes of interview committee.
- Authorization process was in line or not.
- All the process of recruitment was completed according to criteria.
- Quota distribution.

Furthermore the process of recruitment was started in April 2020 but the management did not provide complete record at the time of Audit.

In the DAC meeting held on 31.01.2022, the management informed that the advertisements were published in April and June 2020, however, the recruitment process started after 30.06.2020 and the said para does not fall under the period of audit so the same may please be dropped. Audit contended that the requisite record was not provided to audit.

DAC directed the management to get the relevant record verified from Audit authorities within 15 days.

Audit recommends compliance of the directives of the DAC.

Para-5 (POF HRM, 2016-20)

4.2.4.34 Irrational appointment and un-verified / irregular payment of overtime - Rs. 66.126 million

As per Statistical Return for the month of November, 2021, total sanctioned No. of employees of Station Engineer are 376. Further According to item (12) (I) (c) of Public Sector Companies (Corporate Governance) Rules, 2013, Securities and Exchange Commission of Pakistan vide Notification No. S.R.0.180 (I)/2013, Islamabad, dated March 08, 2013, human resources committee is allowed to deal with all employee related matters including recruitment, training, remuneration, performance evaluation, succession planning, and measures for effective utilization of the employees of the Public Sector Company.

During audit of POFs Station Engineer for the year 2018-20, following points were observed:

- a. POF Station Engineer has a total sanction strength of 376 employees out of which 343 are RTEs (labors upto scale-12) and 33 staff and officers. At present, against the sanction strength of staff and officers, 29 employees are working over and above whereas 18 RTEs are short in different capacities. The management was required to appoint RTEs to overcome the shortage but enhanced strength of staff and officer cadre which is irrational and does not cover under the rules. An amount of Rs. 30.664 million (approximate) paid to said excess employees on account of pay and allowances w.e.f01.07.2018 to 30.06.2021.

Director Admin Department of POF Wah Cantt allows Casual Overtime for Staff/RTEs of different categories i.e., Civil, Electrical and Mechanical to

perform normal and emergency work. Record revealed that during the year 2018-19 and 2019-20, an amount of Rs. 35.462 million was paid on account of overtime but no proper rationalization / bifurcation of work performed on overtime is maintained by the management at different Complaint Posts and the Station Engineer office as well. The volume of work performed as per work schedule also reveals that due to non-maintenance of proper time schedule for performing a particular assignment, the work performed as overtime cannot be justified. It was also noticed that the management left many complaints un-attended, despite healthy work force was available in normal working hours, shift hours and overtime hours. Management has also not worked out the shift wise schedule to restrict/rationalize the overtime budget, which also shows a serious lack of internal controls. Record revealed that the Complaint Posts nominated labours earlier to execution of overtime which shows that the payment of overtime is on routine instead of emergent need basis. Further the management distributing overtime hours on work force basis instead of work load basis. Complete detail of overtime paid alongwith justification was demanded from the management vide Reminder dated 30.6.2021 but no record was provided by the management till close of audit and thus, the payment amounting Rs. 35.462 million is un-verified and irregular.

In the DAC meeting held on 31.01.2022, the management apprised that Station Engineer provides the essential services including operating motor pumps/resolving the emergency complaints round the clock (24/07). There is requirement to detail standby worker to deal with such complaints. DAC directed the management to review staff arrangement and verification of relevant documents by the Audit authorities.

Audit recommends compliance of the directives of the DAC.

Para-2 (POF SE Deptt. 2018-20)

4.3 Pakistan Ordnance Clothing Factory

4.3.1 Introduction

Pakistan Ordnance Clothing Factory was established under the POFs Board Ordinance 1961 to meet the clothing requirements of Pakistan Armed Forces.

Receipts and expenditure (variance analysis) for 2020-21

(Rs. in million)			
Head	Allocation	Expenditure	Excess/(Saving)
Pay & Allowances	305.661	305.661	-
Tpt. & Misc.			
TA/DA	0.790	0.790	-
Reimb. of Medicine	4.145	4.145	-
Hired TPT	-	-	-
Misc.	0.900	0.900	-
Total Tpt. & Misc.	5.835	5.835	-
Assistance Package			
Assistance Package	653.318	653.318	-
Civil Works			
Sui Gas	1.919	1.919	-
Maintenance of Buildings	1.490	1.490	-
Total Civil Works	3.409	3.409	-
Indigenous Purchases			
Indigenous Purchases	41.906	41.906	-
RD&R (Procurement)	199.784	154.177	(45.607)
RD&R (up gradation of Machinery)	229.433	-	(229.433)
RD&R Overtime	15.000	3.476	(11.524)
RD&R Misc.	0.123	0.102	(0.021)
RD&R Bonus (For NTS)	3.775	3.775	-
RD&R Salary (For NTS)	173.510	49.628	(123.882)
Total	1,631.754	1,221.287	(410.467)

4.3.2 Comments on Audited Accounts

4.3.2.1 Comments on audited accounts are included in the Commercial

Appendix to Appropriation accounts of the Defence Services for the year 2020-21.

4.3.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Outstanding Paras	% of compliance
2007-08	07	06	01	2.2.6	86
2011-12	02	0	02	5.3.2.1, 5.3.3	0
2012-13 (POCF CADS)	09	07	02	2.2.2, 2.2.5	78
2013-14	06	01	05	5.3.1, 5.3.2 & 5.3.2.1, 5.3.3,5.3.4.1,5.3.4.2	17
2017-18	05	01	04	7.3.1, 7.3.2, 7.3.3, 7.3.4.2	20
Total	29	15	14		52

The overall compliance of PAC directives was not satisfactory and needs improvement.

4.3.4 Audit Paras

4.3.4.1 Discontinuation of regular targets against the mandate of Clothing Factory worth millions of rupees

According to vision missing statement that “to become a world leading apparel & garment manufacturing Company with the mission to meet the garment requirements of defense forces & to utilize the surplus capacity for Commercial and Export Orders with high quality products for customer satisfaction”. Further, Pakistan Ordnance Factory is a premier, state-owned organization which has made critical contribution towards self-reliance in the field of defense production.

During audit of POCF for the year 2020-21 it was observed that factory management could not get the orders from Pak-Army ‘DOS’ or for Exports since long. In 2016-17 DOS target were Rs. 426.35 million and Exports were lastly made in 2015-16 with value of target Rs. 1,532.26 million. Further probe in to the matter revealed that production was mainly hit due to discontinuation of these regular orders in the light of GHQ letter No. 165157/Tgt/P1/OS-7 dated 23.02.2008 wherein, competent authority discontinue provision of stitched

uniform to the soldier through Army, with immediate effect. In addition to this following action were also decided.

- a. No further procurement of uniform cloth (CCD/Khaki) and allied material by the POF and cancellation of already concluded contracts, forthwith.
- b. POF clothing Factory to immediately cease all uniform stitching related activities forthwith.

Subsequently, orders were received through GM PC via M/s WIL 2015-16 to 2017-18 amounting to Rs. 930.49 million wherein, service fee around 10% to 15% was charged by M/s WIL as commission.

Similarly, Export orders since 2016-17 were not obtained by the GM Production Coordination, is mainly either a result of poor production quality or unlike other units of POFs, Clothing Factory could not register even a single item as sole proprietary rights of its production line, resultantly have to compete in market with different garment manufacturers even for Export, Army and LEAs products.

Audit holds that Clothing factory mainly depends on orders from DGP Army but the same were discontinued as per above referred letter due to non-improving production time. This is mainly due to delay in procurement process, inspection of material (if procured), and then made-up store almost takes 45–50 days. Material & garniture items inspection take 45–60 days or due to non-completion of backlogs /orders from the factory this facility was withdrawn by the Army.

The matter was reported to the management on 10.12.2021. The management in its reply dated 24.12.2021 stated that Clothing Factory was established to fulfill the uniform requirements of Pakistan Armed Forces. However, after 2008 Pakistan Army discontinued orders for uniform to Clothing Factory without giving any reason. “It was not due to non-improvement in production.” Furthermore, Pak Army has shifted to monetization and officers / soldiers get their stitched uniforms from CSD on payment.

The reply is not tenable as the management and further requires point was reply of action recommended by audit, in addition to this the management was

required to take up the matter with higher form for getting orders as per mandate of POCFs for the purpose it was established.

No DAC meeting was arranged till finalization of this report.

Audit recommends that the complete background of discontinuation of orders for DOS be justified, attention be given on time analysis of job completion to ensure safety and security of the Armed Uniform for future orders by DOS, inquire the matter of underutilization of installed capacity and idle labour hours of factory and intimate measures taken for dealing with clients Export/ Local/Private Manufacturer.

Para-3 (POF Clothing, 2020-21)

4.3.4.2 Non-completion of orders - Rs. 55.879 million

According to Para-10 of General Financial Rules, every officer incurring or authorizing expenditure from public funds should be guided by high standards of financial propriety and exercise same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money. As per FAR-53 “Immediately on completion of the work the Cost Card will be closed and profit or loss worked out and intimated to the Superintendent. In cases of loss, it should be treated as loss of public money and sanctioned by the competent financial authority”.

During audit of POCF for the year 2020-21 revealed that management received orders from DGP Army through WIL & KP Police Misc. items through GM-PC for its completion and issuance to the concerned department valuing Rs. 55.879 million. Audit further observed that these orders could not be completed despite urgency of the orders since long.

Audit holds that, due to non-completion of aforesaid order in given time will cause to stopping of further orders of Rs. 55.879 million (PLCE Items for DGP Rs. 14.811 million + KP Police Misc. items through GM-PC Rs. 41.067 million) by the Armed Forces and LEAs. Moreover, non-completion of orders may lead to financial penalty but also loss of revenue profit because of fluctuation of labour rates/hours as well as overheads.

The matter was reported to the management on 10.12.2021. The management in its reply dated 24.12.2021 stated that currently raw material for

PLCE order is available and passed by inspection authorities. Production of the same has also been started and 51% production of Entrenching Tool Cover has been completed. Whereas, remaining KPK Police order valuing Rs. 37.944 million is under production & expected to be completed during current Financial Year.

The reply is no tenable as the time line of March 2022 is almost reached the order could not be completed. Similarly KP Police orders from 30.06.2018 to 29.06.2019 are pending due to non-completion i.e. Rs. 37.944 million. Thus, due to non-completion of orders may lead to financial penalty.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons for non-completion of DGP Army orders timely, fix responsibility thereof and concrete efforts be made to complete the objected order without further delay.

Para-4 (POF Clothing, 2020-21)

4.3.4.3 Irregular award of contract through M/s WIL – Rs. 22.519 million

As per Annex “A” to POF Board letter No.4145/8337/P&S/Coord /477/Secy, dated 08.02.1982 as amended from time to time, instructions contain comprehensive procedure for the purchase of stores and materials, including Plant, Machinery, spares as well as jigs, fixtures, tools etc. by the Supply Chain Management (old Central Purchase Deptt) and independent from within the country and abroad. For the procurement of general common use items, Independent factories will place their demands on Central Material control Section, who after consolidation and keeping the past consumption in view, will raise indent on the Central Purchase Department for the procurement.

During audit of POCF for the year 2020-21 it was observed that management extended the undue favour of procurement of automatic fabric spreading machine through M/s WIL despite availability of its own procurement department consisting of number of employees. Further scrutiny of record revealed that procurement process was initiated on the basis of manufacturing huge targets of PLCE articles, ordered by WIL; (details not available in file).

The machinery delivered by the supplier but could not be operational due to some defects more than 1 year has been elapsed but operation from the

machine could not be performed. This resulted in to irregular award of contract of Rs. 22.519 million (Rs. 19.960 million for plant & machinery, commission of WIL Rs. 2.559 million).

The matter was reported to the management on 10.12.2021. The management in its reply dated 24.12.2021 stated that to upgrade the old vintage machines/equipment and to replace the machines/ equipment which had outlived their useful life, the management of Clothing Fy decided to procure the spreader machine. The procurement action was taken through WIL with the approval of Chairman POF Board.

The reply is not convincing as the details machines which had outlived their useful life was not shared. Moreover, engaging M/s WIL for the procurement of machine is not acceptable. Clothing factory has its full fledged procurement department that deals with procurements.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the causes under which the procurement process was initiated through M/s WIL, justify the incapability of in-house procurement department, workout total pay and allowances of the procurement section and provide the details of old machines for which replacement of new spreader machine was procured.

Para-5 (POF Clothing, 2020-21)

4.3.4.4 Unjustified payment against idle hours – Rs. 3.803 million

As per Rule-10 of General Financial Rules, every officer incurring or authorizing expenditure from public funds should be guided by high standards of financial propriety and exercise same vigilance in r/o expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money.

During audit of POCF for the year 2020-21, revealed that management of Clothing Factory had booked 21,755.19 labour hours for completion of orders received from clients. However, it was further observed that nothing was done / achieved on the booking of labour hours but payment of an amount of Rs. 3,803,201 was made as idle hours to employees without obtaining /

completion of orders which tantamount the slackness of the management of financial matters due to which department sustained a loss of Rs. 3.803 million.

Audit is of the view that had the management got completed the in hand orders of clients or either in clearance of back log through above said booking of labour hours than a loss of Rs. 3.803 million could have been avoided.

The matter was reported to the management on 10.12.2021. The management in its reply dated 24.12.2021 stated that Clothing Factory management is trying to reduce the idle man hrs of Clothing Factory. The number of idle manpower Hrs of F/Y 2020-21 is 21755.19 which is eleven times less as compared to FY 2019-20 that were 240690.7

The reply is not acceptable as the total of idle hours in years 2020-21 was 21755.19 hours which cost is Rs. 3.803 million, thus non-utilization of idle house leads to idle payment.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons for non-completion of order for which above said labour hours became idle; fix responsibility thereof; workout total idle capacity and get the payment of idle hours regularized from competent Financial Authority under intimation to Audit.

Para-6 (POF Clothing, 2020-21)

4.4 Wah Industries Limited

4.4.1 Introduction

Wah Industries Limited (the Company) was incorporated in 1958 in Pakistan as a public limited company under Companies Act, 1913 (now the Companies Act, 2017). The Company is fully owned by Pakistan Ordnance Factories (POFs). The registered office of the Company is situated at Quaid Avenue, The Mall, Wah Cantt.

Nature of Business:

The company is engaged in manufacture and sale of 12-Bore Ammunition and sale of Civil Products purchased from POF. The Company also acts as commission agent for POF to facilitate its sale of obsolete/surplus stores and scraps generated in POF.

Structure of the entity

The Company is under the administrative control of the Pakistan Ordnance Factories as the major shareholder is the Government of Pakistan. The Company is being governed through its independent Board of Directors, who is reportable to its Chairman. The Board has delegated powers to the CEO/Managing Director. All the major operations of the company are being governed through CEO/MD. Key planning decisions are taken by the WIL Board of Directors and Chairman POF Board.

Sectoral analysis (Targets fixed of sales vs. actual achievements) for 2020-21

(Rs. in million)

Items	Target	Sales	Surplus/(Shortfall)
Civil Products	200	344	144
Project	700	433	(267)
Chemicals	2,895	622	(2,273)
Arms & Ammo	2,957	2,756	(201)
Ammo Containers	1,513	865	(648)
12 bore Cartridges	1,050	1,269	219
Disposal	400	705	305
Security Services	105	73	(32)
Exports	-	8,682	
Total	9,820	15,749	

4.4.2 Comments on Audited Accounts

3.3.2.1 Comments on audited accounts are included in the Commercial Appendix to Appropriation accounts of the Defence Services for the year 2020-21.

4.4.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Outstanding Paras	% of Compliance
1992-93	04	03	01	87	75
1994-95	07	06	01	105	86
1999-00	24	23	01	104	96
2001-02	06	05	01	49	83
2010-11	04	0	04	4.3.2, 4.3.3, 4.3.4.1, 4.3.4.2	0
2011-12	07	0	07	5.4.2.1, 5.4.3, 5.4.4.1, 5.4.4.2, 5.4.4.3, 5.4.4.4, 5.4.4.5	0
2012-13	06	0	06	5.3.2.1, 5.3.3, 5.3.4.1, 5.3.4.2, 5.3.4.3, 5.3.4.4	0
2012-13	06	03	03	5.3.3, 5.3.4.1, 5.3.4.3	50
2017-18 (Commercial Appendix)	09	04	05	3.1.5, 3.1.6, 3.1.7, 3.1.8, 3.1.9	44
Total	73	44	29		60

The overall compliance of the PAC directives was not satisfactory which needs to be improve.

4.4.4 Audit Paras

4.4.4.1 Loss due to shortage of material - Rs. 45.369 million

As per GFR-151, “the head of an office or any other officer entrusted with stores of any kind should take special care for arranging of their safe custody, for keeping them in good and efficient condition and for protecting them from damages or deterioration. Suitable accommodation should be provided more particularly for valuable and combustible stores. He should maintain suitable accounts and inventories and prepare correct returns in respect of the stores in his charge with a view to preventing losses through theft, accident, fraud or otherwise and to making it possible at any time to check the actual balances with the book balances and the payment to suppliers, etc.

During the audit of Wah Industries Limited, Wah Cantt for the year 2020-21, it was observed that shortages of store to the extent of Rs. 45.369 million was detected during Internal Audit of Package Factory, a subsidiary of WIL, vide letter No. M.D. WIL 2017-18 dated June 27, 2018. The Auditor recommended the shortage for further investigation.

However, it was observed that the report remained un-attended till 17.05.2021 for the reason best known to the management. The shortages at such a large scale showed loose internal control in the organization.

The matter was reported to the management on 19.01.2022. The management in its reply dated 31.01.2022 stated that inquiry team is being constituted for further investigation.

The reply is not acceptable as investigation should have been carried out soon after the detection of shortage for fixing of responsibility and recovery of the cost of short items which was not done.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate at appropriate level as to why follow up was not done on the said investigation report and as to why the report was dumped for three years besides fixing responsibility thereof.

Para-1 (WIL, 2020-21)

4.4.4.2 Un-authorized payment of bonus to CEO / Managing Director – Rs. 12.20 million

In accordance with Para-IV of the Bonus Policy of the Government of Pakistan Finance Division circulated vide Finance Division (Regulation Wing) OM No. F.3 (5) R.12/80-CR.14/2002-154 Islamabad dated March 18, 2002 “Managing Director and members of Board of Directors will not be entitled to receive Bonuses.

During audit of the accounts of Wah Industries Limited (WIL) for the year 2020-21, it was observed that amounts of Rs. 5.190 million and Rs. 7.00 million were paid as bonus to Managing Director during 2019-20 and 2020-21 respectively despite clear instructions of the Federation not to pay bonus to Managing Director.

Audit is of the view that as the Managing Director was not entitled/ authorized to receive bonus under the above referred policy of the Federation therefore, the company incurred un-authorized expenditure of Rs. 12.20 million on account of payment of bonus to the Managing Director.

The matter was reported to the management on 19.01.2022. The management in its reply dated 31.01.2022 stated that the bonuses are being paid in accordance with the powers conferred upon the Board of Directors vide Section 183- 2(h) of the Companies Act.

Reply was not acceptable as bonus to MD was paid in violation of the bonus policy of Finance Division, Government of Pakistan.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter of unauthorized payment at appropriate level with a view to fix reasonability thereof. Besides, the amount may be recovered under intimation to Audit.

Para-2 (WIL, 2020-21)

4.4.4.3 Overpayment of honorarium beyond the permissible limit- Rs. 10.634 million

In accordance with instruction circulated vide Prime Minister of Pakistan office U.O. No.1510/M/SPM/2020 dated April 16, 2020, the Prime Minister has been pleased to direct that till such time a policy in matter is approved by the Federal Cabinet, Finance Division shall not approve the grant of honorarium to the employees of Federal Govt. beyond a single basic pay during one fiscal year.

During audit of the accounts of Wah Industries Limited (WIL) for the year, 2020-21 it was observed that contrary to the above referred orders of the Federal government, WIL management approved and paid 2 to 5 honorarium to the 77 employees of POFs during 2020-21. An amount of Rs. 10.634 million was paid on this account beyond the permissible limit.

The payment of honorarium Rs. 10.634 million beyond the permissible limit to POF employees (Federal Govt. Servants) in violation of the above quoted instruction of the Prime Minister was tantamount to over payment on this Account.

The matter was reported to the management on 19.01.2022. The management in its reply dated 31.01.2022 stated that WIL is dependent on production units of POF and to boost the morale of the employees who are contributing the sale of WIL are paid honorarium.

Reply was not acceptable because 2 to 5 honorarium were paid to POF employees in disregard to the instructions of the Prime Minister.

No DAC meeting was arranged till finalization of this report.

Audit recommends that the payment of honorarium in disregard to instructions of Prime Minister may be investigated and recovery be made.

Para-3 (WIL, 2020-21)

4.4.4.4 In-admissible payment of honorarium to Board Members and others – Rs. 7.200 million

In accordance with Article -56 of the Article of Memorandum of Association of WIL “Each Director shall receive a fee of Rs. 500/- per every meeting allowed if any Director being willing shall be called upon to perform extra services or to made any special exertion for any of the purposes of the company or to give any special attention to the business of the company, the company may remunerate the Directors so doing either by a fixed sum or by a percentage of profit or otherwise as may be determined by the company acting in its General meeting (1) this will not apply to Govt. servants.

During audit of the Wah Industries (Pvt.) Limited for the year 2020-21, it was revealed that an amount of Rs. 7.200 million was paid as honorarium to WIL Board of Directors and other officers of POFs employees vide bank payment voucher No. 34 dated November 05, 2020 despite the fact that all the Board members are Govt. servant and not entitled for any financial benefits under the Article 56 of the Memorandum of Association of the WIL.

Thus the WIL management made an inadmissible payment of Rs. 7.200 million to Board Members and others on account of honorarium.

The matter was reported to the management on 19.01.2022. The management in its reply dated 31.01.2022 stated that the payment of honorarium

to Board Members was made under Section 170 of the Companies Act, 2017 & Code of Corporate Governance Rules, 2013.

Reply was not acceptable because under Article 56 of the Article of Association of WIL, such payments are not allowed to BoD members who are Government servants.

No DAC meeting was arranged till finalization of this report.

Audit recommends that the inadmissible payment of Rs. 7.200 million may be investigated with a view to fix responsibility on the person (s) at fault and irregular paid amount may be recovered either from the beneficiaries or persons held responsible.

Para-4 (WIL, 2020-21)

4.4.4.5 Irregular expenditure on account of foreign visits – Rs. 26.923 million

The Government of Pakistan Cabinet Division, Islamabad vide O.M. No. F-9-148/2002-Min dated February 19, 2003 prescribe the following procedure for visit abroad for official/officers working in autonomous bodies:

- i. In case of officer of BPS-20, and above the approval of the Minister In charge will be necessary with prior clearance by the Ministry of Finance.
- ii. At the conclusion of a foreign visit, the delegation/official shall submit post visit report to the Ministry of Foreign Affairs and Economic Affairs Division within 15 days of the completion of visit.
- iii. All cases of visits abroad will require clearance from the Ministry of Foreign Affairs.

During Audit of the accounts of Wah Industries (Pvt.) Limited for the year 2020-21, for the year, 2020-21, it was observed that certain foreign visits were performed by the Managing Director WIL and other officers of POFs during the period under review. An amount of Rs. 26.923 million was spent on this account.

It was however observed that neither the approval of the Competent Authority as mentioned above nor post visit reports on the return from visit, were submitted. Thus, the expenditure of Rs. 26.923 million incurred on the foreign

visits without observing the Government procedure was held irregular in Audit. It was further observed that there is no norm in the company for obtaining approval for such foreign visits from the relevant competent authorities like the controlling Ministry or Ministry of Foreign Affairs and Finance Division.

It was further observed that all the payments were made to officers in advance without submitting the bills against the tour which was also questionable.

The matter was reported to the management on 19.01.2022. The management in its reply dated 31.01.2022 stated that foreign visits were made with the approval of Board of Directors who is competent to take such decisions.

Reply was not acceptable because Board is competent to accord such approval subject to observance of codal formalities either prescribed by Government or WIL Rules. Foreign visits were performed without approval of Finance Division.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons of performance of foreign visits in violation of the government prescribed procedure with a view to fix responsibility thereof.

Para-5 (WIL, 2020-21)

4.4.4.6 Irregular purchase of machinery without press advertisement - Rs. 19.960 million

According to the provisions of Rule-12 (2) of PPRA-2004 “All procurement opportunities over two million Pakistani rupees should be advertised on the Authority’s website as well as in other print media or newspapers having wide circulation.

During audit of the Wah Industries (Pvt.) Limited (WIL) for the year 2020-21, it was observed from purchase record that the purchase of 4 Nos of machines for Clothing Factory through W.I.L was approved from chairman POF on 21.10.2019. The DICR on 24.02.2020 directed the W.I.L to proceed further with floating tender. In first instance Tender Enquiry (TE) was issued to 08 likely firms and also uploaded on PPRA and W.I.L website on 26.02.2020. The

management also requested Press Information Department for floating of tender in press before 29.02.2020. It was however observed that neither the management pursued the case for press advertisement nor the advertisement was floated in press.

In the result of above mentioned process, single bid of M/s Al-Murtaza Machineries (Pvt.) Ltd Lahore was received. Accordingly order for the purchase of said machinery at Rs. 19.960 million vide contract agreement No.01/LP/M-Clo/WIL dated 27.10.2020 was placed on M/S AMC Corporation Lahore without obtaining rate reasonability from the market as required under Rule 38B (d) of PPRA 2004.

It was evident from the above that machinery worth Rs. 19.960 million was purchased without calling rates through press. Hence violation of PPRA rules deprived the company from the benefit of competitive bidding.

Thus due to non- observance of Rule 12 (2) of PPRA, the expenditure of Rs. 19.960 million incurred on this account was held irregular in Audit.

The matter was reported to the management on 19.01.2022. The management in its reply dated 31.01.2022 stated that this office vide letter dated 26.02.2020 sent a written request to M/s Synergy Advertisement, Islamabad for advertisement of the requirement in National Dailies with obvious intentions to invite maximum competition and to fetch competitive prices.

Reply was not acceptable because the management failed to provide copy of advertisement appeared in the newspapers. Merely sending of request to Press Information Department or M/s Synergy Advertisement, Islamabad for publication of advertisement was not enough.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons of purchase of machinery in violation of PPRA Rules with a view to fix responsibility on the person (s) who failed to pursue the press advertisement in newspapers.

Para-6 (WIL, 2020-21)

4.4.4.7 Loss due to non-imposition of late delivery charges – Rs. 3.724 million

As per clause-6 (ii) of the contract agreement No. 2/LP/2019-20/WP-155/WIL dated 10.10.2019 signed between M/s POFs, WIL and M/s Tree Star Enterprises Karachi in case of delay in supply, supplier shall pay liquidated damages for the period of delay in supply at the rate of 2% of the value but not less than 1% of the value of un-supplied store per month subject to the provision that the total liquidated damages thus livable will not exceed 10% of the total value of late delivered store.

During audit of the Purchase Department of Wah Industries Limited (WIL) for the year, 2020-21, it was observed that a contract No 02/LP/2019-20/W-155/WIL dated 10.10.2019 for the supply of four types of material was awarded to M/s Three Star Enterprises. Later on the contract was amended by skipping three items and requirement was reduced as under:

S.#	Particular of item	Quantity No.
1	Wooden Plate along with Strips '8' How	6,799

According to clause -3 of the delivery schedule, the firm was required to complete the supply up to December 2020 @ 500 plate per month. However, the firm could supply a quantity of 3500 Nos of plates only during the contract period, resulted less supply of 3299 plates worth Rs. 37.242 million. No extension was granted to the firm despite lapse of 10 months since the completion of the delivery period.

Under clause-6 (ii) of the contract agreement, the firm was required to be penalized by Rs. 3.724 million @ 10% of the value of Rs. 37.242 million of the un-supplied store. However no such action has been initiated by the management as yet.

Thus due to non-imposition of L.D charges the formation sustained loss to the extent of Rs. 3.724 million.

The matter was reported to the management on 19.01.2022. The management in its reply dated 31.01.2022 stated that the delivery period was 18.04.2021 instead of December, 2020 and LD charges will be imposed on firm after completion of supplies and from their final payment.

The reply was not correct because as per clause-3 of the contract, the delivery period was December 2020 and no amendment thereafter was made in the clause-3 of the Contract Agreement.

No DAC meeting was arranged till finalization of this report.

Audit recommends that the matter needs to be investigated with a view to fix responsibility for non-imposition of penalty Rs. 3.742 million.

Para-7 (WIL, 2020-21)

4.4.4.8 Irregular procurement of material – Rs. 286.200 million

As per Rule 04 of PPRA “Procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical”.

During Audit of the Wah Industries (Pvt.) Ltd for the year, 2020-21 it was observed that tender for the purchase of 900 M. ton Lead Ingots for SGA Factory was floated in News Paper on March 20, 2020. In response, 04 offers were received which were qualified after technical evaluation.

After evaluation of the technical proposals, the management decided not to open the financial bids of the two foreign firms owing to the reasons that tender was placed on local purchase basis. It is worth mentioning here that both the reasons for not opening financial bids of foreign bidders was not mentioned in the advertisement. Neither the FOR basis nor the need for local supplier was mentioned in the advertisement. If the foreign firms were not eligible then their technical offers should not have been evaluated.

The contract for the purchase of 900 M. ton Lead Ingots worth Rs. 286.200 million was placed on M/s Metpak Industries (Pvt.) Ltd Karachi vide contract agreement No. SGAF/81/PS/03 dated 19.09.2020.

Keeping in view the above facts, purchase of store worth Rs. 286.200 million was held irregular.

The matter was reported to the management on 19.01.2022. The management in its reply dated 31.01.2022 stated that tender was issued on FOR

basis and the foreign firm did not furnish advance samples with the offer as required in Tender Enquiry hence technically disqualified.

Reply was not acceptable because as per remarks recorded on the Technical CST, the foreign firms were rejected due to issuance of tender on local purchase basis. However as per advertisement appeared in newspapers, no such condition was mentioned in the advertisement that only local firms are allowed to participate in the tender.

No DAC meeting was arranged till finalization of this report.

Audit recommends that the matter may be investigated in the light of narrated facts and the rules under which the offers were rejected may be provided.

Para-9 (WIL, 2020-21)

4.4.4.9 Irregular payment to suppliers - Rs. 26.270 million

In terms of Para-3 (iii) of the Government of Pakistan Revenue Division FBR OM No. 1(42) STM/2009/99638-R dated 24.07.2013, in case of Public works it may be ensured that the contractor engaged for works makes purchases only from sales tax registered persons, since contractors carrying out government works against public tenders are required to have a bill of quantity (BOQ). The contracting department/ organization must require such contractors to present sale tax invoice of all material mentioned in the BOQ as evidence of its legal purchase before payment is released to them. At the time of audit, it may be ensured that the above mentioned legal requirements have been fulfilled.

During Audit of the accounts of Wah Industries (Pvt.) Limited for the year, 2020-21, it was observed that a contract was awarded in favour of M/s All About Innovation Islamabad for interior renovation of WIL building vide contract No. 04/LP/2019-20/interior renovation/WIL dated 20.11.2019 for Rs. 26.270 million. However, examination of Payment record of the contractor revealed that an amount of Rs. 26.270 million was released to the contractors without obtaining the requisite documentary evidence that purchase of different material included in the Bill of Quantity was made only from the sales tax registered firms/ persons. Neither the contractors provided nor the department demanded the same at the time of release of payments against bills of contractors.

Hence an amount of Rs. 26.270 million released to the contractor without observing the above quoted instructions of FBR resulted in to irregular expenditure to that extent.

The matter was reported to the management on 19.01.2022. The management in its reply dated 31.01.2022 stated that contract was awarded to Sales and Income tax registered firm and income tax and sales tax were deducted from the value of bill duly deposited in government treasury / FBR.

Reply was irrelevant because the management did not offer comments on submission of documentary evidence in support of purchase of BOQ items only from the sale tax registered suppliers before release of payment.

No DAC meeting was arranged till finalization of this report.

Audit recommends that the non-observance of government instructions needs to be investigated with a view to fix responsibility on person(s) at fault.

Para-10 (WIL, 2020-21)

4.4.4.10 Loss due to purchase of M.S sheet 18” at high rates - Rs. 14.099 million

As per Rule 4 of PPRA “Procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical”.

During Audit of the accounts of Wah Industries (Pvt.) Ltd for the year, 2020-21, it was observed that the demand of 80 M. ton M.S. Sheet 18 BG was advertised in Press on 15.01.2021 and after tender proceedings, the rate of Rs. 147,000 per M.Ton of M/s International Steels Ltd Karachi was found the lowest. Accordingly order for the purchase of 80 M.Ton M.S. Steel 18” BG was placed on the lowest bidder M/s International Steel Ltd Karachi vide contract agreement No. 1879/M.S. Sheet/pur/PF/2021 dated May 07, 2021 instead of including the quantity of 378 M. ton for which previously no bid was offered up to February 10, 2021.

The management re-tendered the said quantity of 378 M.Ton on June 04, 2021. Two firms participated in the tender process. The rates of Rs. 184,300 of

the M/s Aisha Steel Mill Karachi were found lowest. Accordingly the required quantity of 378 M. ton M.S. Steel 18" B.G. was purchased from the said firm at the rate of Rs. 184,300 P.M Ton vide contract agreement No. 1885 (R) MS Sheet 18 BG/Pur/PF/202 dated 05.08.2021.

Audit is of the view that instead for retendering the same, the requirement should have been included in the contract agreement dated May 07, 2021 for which financial offer was opened on February 17, 2021 knowing the uptrend in prices.

Thus due to imprudent decision of retendering, the formation sustained loss of Rs. 14.099 million (i.e. Rs. 184,300 – Rs. 147,000 = Rs. 37,300 x 378 ton = Rs. 14,099,400).

The matter was reported to the management on 19.01.2022. The management in its reply dated 31.01.2022 stated that the Packages Factory did not include 378 M. Ton 18 BG in contract dated 05.02.2021 as this would have come under direct contracting.

The reply was not convincing as proper procedure was adopted for the purchase of 80 M. Ton vide contract dated 04.05.2021, therefore, the said quantity can be increased or decreased before finalization of the contract and the quantity of 378 M. Ton was required to be included in the contract keeping in view the increasing trend in the steel prices.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter of purchase of material at higher rates with a view to fix responsibility on the person (s) at fault.

Para-11 (WIL, 2020-21)

4.4.4.11 Loss due to imprudent decision of fabrication of locking assembly- Rs. 10.232 million

As per Rule 4 of PPRA "Procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and

transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical”.

During Audit of the accounts of Wah Industries (Pvt.) Limited for the year, 2020-21, it was observed that the requirement of Locking Assembly 72-A was uploaded on PPRA Website and also published in press on 25-11-2020. In this procurement opportunity, material worth Rs. 30.838 million was required to be provided by the WIL and the bidder had to fabricate Locking Assembly only.

In the result of tendering process, the offer of M/s Allied Business System Rawalpindi as Rs. 460/- per set Fabrication with 22100 Nos of locking assembly from the material provided by WIL was found the lowest.

It was however observed from the examination of other contracts related to supply of complete sets of the said item that the rate per set without of WIL provided material is much cheaper. Some instances are given below:

Description	Date of contract	Rate per set (Rs.)	Contract quantity	Contractor
Locking Assembly	June 28, 2019	1,040	6,981	M/s Allied Business System Rawalpindi
-do-	August 12, 2020	1,395	1,552	-do-
-do-	April 20, 2021	1,320	4,000	-do-

From the above narrated facts it can be seen that the WIL management suffered irrecoverable loss of Rs. 10.232 million due to provision of own material for fabrication of locking assembly as follows:

Rate per set by providing own material Rs. Per set	Rate per complete set provided by supplier Rs. Per set	Difference in Rs. Per set	Qty supplied units	Loss (Rs.)
1,783	1,320	463	22,100	10,232,300

It is worth mention here that the material for the fabrication was purchased, Fabrication was carried & supply of complete set was purchased from the same firm M/s Allied Business, Rawalpindi therefore provision of contract by providing raw material is not under stood.

The matter was reported to the management on 19.01.2022. The management in its reply dated 31.01.2022 stated that in order to reduce the overall cost of ammunition container, the management planned to install a CNC Milling Machine to fabricate the locking assembly in factory premises. However,

due to some reason(s) the same could not be installed, therefore, the same was fabricated from the private firm by providing material.

The management reply was not acceptable because previously the management purchased complete set of locking assembly at lesser rates than carrying fabrication from other firm by providing own material which resulted into loss to the company.

No DAC meeting was arranged till finalization of this report.

Audit recommends that an enquiry in the matter be conducted with a view to fixing of responsibility on the person (s) held responsible for the loss.

Para-12 (WIL, 2020-21)

4.4.4.12 Irregular procurement of store without press advertisement - Rs. 35.080 million

According to the Para-12 (1) of PPRA-2004 “procurement over Five hundred Pakistani rupees and up to the limit of three million Pakistani rupees shall be advertised on the Authority’s website as well as in the manner and format specified by regulation. The procurement opportunities may also be advertised in print media if deemed necessary by the procuring agency”.

During Audit of the accounts of Wah Industries (Pvt.) Ltd for the year, 2020-21, it was observed that two procurements of material worth Rs. 23.115 million and Rs. 12.965 million from the lowest bidder i.e. M/s Allied Business Rawalpindi through uploading advertisement for first procurement opportunity on W.I.L website and W.I.L Twitter and second on W.I.L website only after receiving no response in the result of initial press advertisement dated 29.03.2020 and 26.03.2020 respectively.

Following irregularities were observed in these procurements:

- 1 It was mentioned vide Para-06 of the note part that the requirement were published in Daily Express Islamabad and Daily Nation Karachi on 26.02.2020. However record shows that the advertisement was published in Daily Sahafat on March 13, 2020. Thus a misstatement was made and the requirements were not published in the above referred dailies. Moreover the requirement was stated to have been uploaded on W.I.L

website on June 22, 2020 but no documentary evidence was found.

- 2 The requirement was required to be re-tendered in press which was not done and the purchase was made through advertisements on W.I.L website.

In view of the above, procurement of Rs. 35.080 (Rs. 23.115 million + 12.965 million) cannot be considered as transparent and economical, thus held irregular.

The matter was reported to the management on 19.01.2022. The management in its reply dated 31.01.2022 stated that in view of lock down in entire country due to Covid-19, no advertisement was done/possible in National Newspapers.

The management admitted in reply that advertisement in newspapers was not given. The justification for non-advertisement of the procurement opportunity in press was not acceptable because there was no ban on the printing of newspapers during period of COVID-19.

No DAC meeting was arranged till finalization of this report.

Audit recommends that the whole procurement procedure needs to be investigated with a view to fix responsibility on the person(s) at fault.

Para-13 (WIL, 2020-21)

4.4.4.13 Loss due to non-finalization of bids within the validity time and subsequent purchase at higher rate – Rs. 9.394 million

According to Rule-38 of PPRA 2004, the bidder with the most advantageous bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract within the original or extended period of bid validity.

During Audit of the accounts of Wah Industries (Pvt.) Limited for the year, 2020-21, it was observed that tender was advertised in press on 01.01.2021 for the purchase of 378 ton M.S Sheet 18 B.G. In the result of tender proceedings, the rates of Rs. 165,550 of M/s Aisha Steel Mills Limited were found the lowest with 30 days validity time up to 27.05.2021.

The management of Packages Factory did not finalize the case within the validity period and order was placed on the firm on June 07, 2021 after expiry of the validity period. The firm did not honour the order after expiry of the validity time.

The requirement was again advertised in paper on 25.06.2021. The same two firms offered there rates. The rate of Rs. 184,300 of M/s Aisha Steel Mill Karachi was found the lowest. A quantity of 501 M Ton MS Sheet at a total cost of Rs. 92.334 million was purchased vide contract agreement 1885(R) MS Sheet 18 BG/Pur/PF/2020-21 Dated 05.08.2021.

It is evident from the above that due to non-finalization of order within the stipulated time in violation of PPRA rules and its subsequent purchase at higher rates, the formation sustained loss of Rs. 9.394 million as detailed below:

Rate within validity period Rs. Per M.T	Rate after retendering Rs. Per M.T	Difference Rs. Per M.T	Qty Purchased in M.T	Loss in Rs.
165,550	184,300	18,750	501	9,383,750

The matter was reported to the management on 19.01.2022. The management in its reply dated 31.01.2022 stated that the firms submitted bids with price validity period of 30 days against the 90 days as mentioned in clause-7 of tender enquiry.

Reply was not acceptable because due to rapid changes in steel prices, both the firms submitted 30 days price validity and the Packages Factory accepted the same and processed the case for approval of the competent authority which was not finalized within the validity period.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons of non-finalization of the case within the validity period in violation of PPRA rules resulted into purchase at higher rates for fixing responsibility thereof.

Para-14 (WIL, 2020-21)

4.4.4.14 Wasteful expenditure on Wah Clothing (Pvt.) Ltd – Rs. 21.435 million

In accordance with Para (5) and 5 (a) of the Public Sector Companies Corporate Governance Rules, 2013 "the Board shall establish a system of sound internal control, which shall be effectively implemented in all levels within the Public Sector Company, to ensure compliance with fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders.

During Audit of the accounts of Wah Industries Limited (WIL) for the year, 2020-21, it was observed that the WIL management established Wah Clothing (Private) Company under the Companies Ordinance 1984. The Company was established for stitching and sale of clothing items.

It was however, observed that the company could not start its operation since its inception despite incurring Rs. 21.435 million.

Non-operation of business since 2015 to date is indicative of the facts that the company invested its fund in non-viable unit of POFs without having proper feasibility and operational plan, with reference to profit factor which resulted into wasteful expenditure of Rs. 21.435 million.

Despite of the fact that the company has wound up its business, a General Manager was appointed to look after the affair of closed unit.

The matter was reported to the management on 19.01.2022. The management in its reply dated 31.01.2022 stated that Wah Clothing (Pvt.) Limited company was registered on the directives of IPDF keeping in view the decision taken in a meeting at JS HQ for Public Private Partnership in POF Clothing Factory. No response received despite publishing advertisement in newspapers twice and arranging a road show with the collaboration of IPDF at Lahore.

Reply was not acceptable because management statement itself reflects that expenditure on registration of the company was made without any planning.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons of investment in non-viable project resulted into loss to the stated extent with a view to fix responsibility thereof.

4.4.4.15 Irregular appointment of retired army officers - Rs. 6.925 million

As per Defence Division, Ministry of Defence U.O No.F-2/ 24/ 0-24 CC-93 dated 20.12.1995 Ministries/ Divisions/ Provincial Governments are required that before appointing any retired Armed Forces officer in civil , views/clearance of the Ministry of Defence (Defence Division) should invariably be obtained. As per U.O No. F.3/ 50/ D-24/ 99 dated 21.11.2000 Ministries/ Divisions/ Provincial Governments are required to report the vacancy showing desired qualification/ experience etc. to the Ministry of Defence who are to suggest/recommend a panel of officers in consultation with the concerned services Head quarter to the Ministry/Division concerned for making selection.

During Audit of the accounts of Wah Industries (Pvt.) Limited for the year, 2020-21, it was observed that the two Retired Army officers were appointed on contract basis initially for a period of one year. On the completion of initial period, their respective contracts were extended for further period of one year. An amount of Rs. 6.925 million was paid to the officers up to November 30, 2021.

It was however, observed that management engaged the above retired army officers on contract basis without obtaining approval/NOC from Defence Division as required under the aforementioned quoted rules.

It was further observed that one of these officers was not recommended by the Selection Committee for the post of GM, HR in view of lack of his corporate knowledge. The HR did not recommend the extension in the contract period of the said officer owing to the reason (s) that the officer has served 10 years after retirement from Pak. Army and completed the duration of re-employment prescribed under the GHQ instructions, yet he was given extension in contract.

Thus, the appointment of retired army officers without NOC from GHQ and Defence Division and payment on account of their pay Rs. 6.925 million was held irregular in audit.

The matter was reported to the management on 19.01.2022. The management in its reply dated 31.01.2022 stated that the appointments were made with the approval of WIL Board.

Reply was not acceptable because Board can make appointments after following the laid down procedures.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate reasons for appointment of officers after retirement and there pay fixation without considering rules for fixing responsibility thereof.

Para-19 (WIL, 2020-21)

4.5 Wah Brass Mills (Private) Limited

4.5.1 Introduction

Wah Brass Mills (Private) Limited the Company) is wholly owned subsidiary of Wah Industries Limited which was incorporated on January 26, 2012 as a private limited company under the Companies Ordinance, 1984. The registered office of the Company is situated at Quaid Avenue, Wah Cantt.

Corporate Information

The principal activity of the Company is to manufacture and sale of Brass products. The Company is currently under final stage of upgrading its existing plant and machinery and after achieving the same they will have an installed capacity 24,000 MT per annum and actual capacity 19,200 MT per annum. The Company has started its operations from August 01, 2016.

4.5.2 Comments on Audited Accounts

4.5.2.1 The working results of the Company for the year 2020-21 as compared to the previous years are tabulated as under:

	2020-21	%age Inc./ (Dec)	2019-20	%age Inc./ (Dec)	2018-19
Sales/Revenue	3,559.462	112.59	1,674.323	(38.04)	2,702.048
Cost of sales	1,540.591	18.62	1,298.788	(42.47)	2,257.443
Gross profit	2,018.872	437.60	375.535	(15.54)	444.605
Admn. expenses	110.208	112.58	51.842	(19.31)	64.251
Finance Cost	64.656	(92.50)	821.989	27.85	642.923
Other operating cost	138.295	-	-	--	-
Other income	131.641	560.85	19.920	(27.35)	27.421

(Loss)/Profit before tax	1,837.352	-	(478.377)	103.44	(235.149)
Provision for tax	493.996	-	-	-	-
Profit/(Loss) after tax	1,343.357	-	(478.377)	103.44	(235.149)
Other comprehensive (loss)/income for the year	(0.422)	(55.34)	(0.945)	-	0.605
Total (Loss)/Profit for the year	1,342.935	-	(479.322)	104.36	(234.544)

(Source: Annual Audited Accounts)

The revenue of the Company was increased by 112.59% to Rs. 3,559.462 million in 2020-21 (Rs. 1,674.323 million – 2019-20), while, the cost of sales was increased by 18.62% to Rs. 1,540.591 million in 2020-21 (Rs. 1,298.788 million – 2019-20). The increase in revenue was mainly due to increase in export sales i.e. from Rs. 215.414 million in 2019-20 to Rs. 1,716.656 million in 2020-21. On the other hand during the year 2020-21 the local sales was decreased by 56.90% to Rs. 377.049 million (Rs. 875.986 million - 2019-20). The audit appreciated abnormal increased in export sales, however, the abnormal decreased in local sales needs clarification.

4.5.2.2 Administrative expenses were increased by 112.58% to Rs. 110.208 million in 2020-21 (Rs. 51.842 million – 2019-20). The abnormal increased under the head was mainly due to 6,226% increase in legal & professional fee i.e. Rs. 0.249 million in 2019-20 to Rs. 15.753 million in 2020-21. The expenditure under the head Promotional & Selling increased by 618% to Rs. 7.641 million in 2020-21 (2019-20 – Rs. 1.064 million). Abnormal increase of expenditure under both the heads needs to be justified.

4.5.2.3 Other income was increased by 560.85% to Rs. 131.640 million in 2020-21 (Rs. 19.920 million – 2019-20). The figure included write back of liabilities of Rs. 5.670 million during the year. Position needs clarification with detail of liabilities and reasons of their written back.

4.5.2.4 Property, plant & equipment decreased by 8% to Rs. 5,836.495 million as on June 30, 2021 (Rs. 6,142.178 million – 2019-20). The figure included computers & equipment of Rs. 1.628 million as on June 30, 2021 (Rs. 1.927 million – 2019-20). Factory management entered into an agreement with a

firm for purchase of ERP system in 2017-18. An amount of Rs. 80.00 million has so far paid to the firm which included Rs. 14 million of hardware items. The said amount is not appearing under the head Computer & Equipment and Intangible Assets (WIP). Position needs clarification.

4.5.2.5 Although stock in trade decreased by 20.47% to Rs. 1,180.321 million as on June 30, 2021 (Rs. 1,484.136 million – 2019-20). The figure included Stock in Trade (Raw Material) which was increased by 93.63% to Rs. 392.747 million as on June 30, 2021 (Rs. 202.834 million – 2019-20) and Stock in Trade (Work in Process) Rs. 490.720 million as on June 30, 2021. Early clearance of stock in trade (raw material) and completion of WIP is stressed upon the management. The aging analysis of Stock in Trade (Raw Material) may also be provided to audit.

4.5.2.6 Although, the Advances, deposits, prepayments and other receivables decreased by 22.86% to Rs. 105.994 million as on June 30, 2021 (Rs. 137.403 million – 2019-20), however, there was alarming increase of 113.23% in Advances – non-interest bearing i.e. from Rs. 12.313 million in 2019-20 to Rs. 26.256 million as on June 30, 2021. Early recovery/adjustment of said advances along with aging analysis is stressed upon the management.

4.5.2.7 Trade debts increased by 25.22 % to Rs. 186.294 million as on June 30, 2021 (Rs. 148.776 million – 2019-20). Abnormal increase in trade debts needs clarification. Aging analysis of trade debts and early recovery is stressed upon the management to avoid their conversion into bad debts.

4.5.2.8 Cash & bank balances increased by 23.31% to Rs. 758.496 million as on June 30, 2021 (Rs. 614.921 million – 2019-20). More than 99% of the bank balances was lying in saving account. The management of WBM has no so far determined its working balance limit. The management may determine its working balance limit and surplus fund may consider for investment some interest bearing schemes. Further, in balance sheet the figure of cash & bank balances was appearing Rs. 45.396 million in 2019-20 whereas, the note to the account showed cash & bank balances of Rs. 614.921 million, position needs correction.

4.5.2.9 Trade and other payables (Current Liabilities) increased by 40.31% to

Rs. 2,642.301 million as on June 30, 2021 (Rs. 1,883.242 million – 2019-20). The figure included liability against sales tax Rs. 275.510 million as on June 30, 2021 (Rs. 135.709 million – 2019-20) and withholding tax Rs. 37.659 million as on June 30, 2021 (Rs. 4.056 million – 2019-20). Non-clearance of government liability on account of sales tax and withholding tax needs clarification, early clearance of liability under both the heads is stressed upon the management.

4.5.3 Compliance of PAC Directives

No PAC has so far been conducted; hence, no pending compliance is outstanding.

4.5.4 Audit Paras

4.5.4.1 Un-authorized expenditure on account of pay & allowances by retaining the POFs employees beyond agreement period – Rs. 128.191 million

As per Rule -5 of Public Sector Companies (Corporate Governance) Rules, 2013 (as amended up to April 21, 2017) it is the responsibility of Board to establish a system of sound internal control, which shall be effectively implemented at all levels within the public sector company, to ensure compliance with the fundamental principles of probity and propriety, objectivity, integrity and honesty and relationship with the stakeholders in manners that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage i.e. handling in public funds, assets, resources and claiming of expenses.

During audit of WBM for the years 2018-19 and 2019-20 it was observed that the Wah Brass Mills entered into a deputation agreement with Pakistan Ordnance Factories (POF) to engage such persons of POFB as are necessary for the operation of the WBM. The decision was made in line with the Market Assessment and Feasibility Study of Wah Brass Mills on the basis of which the WBM was established as a Company. According to said report the provision of key management will be the responsibility of POF. The agreement was signed on 29.07.2013 and was affective for five years; accordingly, the services of the 296 employees of POFs were transferred to the WBM under this agreement from the date of agreement. The record revealed that on expiry of agreement period i.e. five years up to July 2018, the POFs employees were not repatriated to their parent department and are still working on the pay roll of WBM.

Audit is of the view that the comparison of pay structure of POFs employees, temporarily hired under an agreement and pay structure of WBM showed that the pay of POFs employees is 45% higher than the employees of WBM. The WBM Board in its 9th meeting held on 24.08.2018 in which the board also admitted that the POF workforce is too expensive for WBM, it was decided that to repatriate the POF workforce quickly. It is further pertinent to mention here that for costing purpose the WBM used labour rate of WBM employee. Due

to non-repatriation of employees of POFs after agreed period of five years, extra expenditure of Rs. 128.191 million was borne by WBM.

Thus, the negligence on the part of management resulted in un-authorized expenditure of Rs. 128.191 million on account of pay & allowances of POFs employees. The said extra financial burden can be avoided if the POFs manpower would have been repatriated in time i.e. five years as agreed under the agreement.

In the DAC meeting held on 31.01.2022, the management apprised that at present 204 x WBM, 62 x POF employees are working on deputation. DAC directed the management to review the employees' strength and submit revised reply stating reasons for retaining the POF employees beyond agreed period within 15 days. Committee further directed that the relevant record may also be provided to audit.

Audit recommends compliance of the directives of the DAC.

Para-2 (WBM, 2018-20)

4.5.4.2 Un-authorized payment on account of service charges and N.J. surcharge to POFS on electricity bills – Rs. 24.603 million

As per Rule-5 of Public Sector Companies (Corporate Governance) Rules, 2013 (as amended up to 21.04.2017) it is the responsibility of Board to establish a system of sound internal control, which shall be effectively implemented at all levels within the public sector company, to ensure compliance with the fundamental principles of probity and propriety, objectivity, integrity and honesty and relationship with the stakeholders in manners that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage i.e. handling in public funds, assets, resources and claiming of expenses.

During audit of WBM for the years 2018-19 and 2019-20 it was observed that the electricity requirement of WBM was arranged from POF. At the end of each month the POF Service Department raised an electric bill to WBM. During detailed scrutiny it was observed that in addition to cost of electricity and other allowed taxed the POF also claimed service charges @ 3% of billing amount (including taxes and other charges) and NJ Surcharge @ 0.10%/Kwh. The WBM management made the payment of Rs. 20.374 million on account of service

charges from August 2016 to January 2020 and Rs. 4.230 million on account of N.J. Surcharge from August 2016 to August, 2020.

Audit is of the view that the payment of electricity charges, along with fixed charges, financial cost surcharge, GST, income tax, monthly price adjustment surcharge is justified. However, in addition to above said charges the claim of service charges and N.J. Surcharge and payment on this account is not justified as to maintain smooth provision of electricity is the responsibility of Services Department. While, N.J. Surcharge was levied by the government to raise fund for the Neelum – Jhelum Hydel Project and recovery of said surcharge at POF level was/is not justified. On realization, the POF stopped the recovery of service charges from Feb. 2020 and N.J. Surcharge from September 2020. In view of said facts the recovery of Rs. 24.603 million from WBM on account of Service Charges and N.J. Surcharge was not justified, hence, held un-authorized.

In the DAC meeting held on 31.01.2022, the management clarified that POF is responsible for ensuring un-interrupted power supply to WBM and bills are accordingly issued as per actual electricity consumption. DAC directed the management to submit revised reply within 15 days and get the relevant record verify from audit.

Audit recommends compliance of the directives of the DAC.

Para-13 (WBM, 2018-20)

4.5.4.3 Loss due to sale of un-used oil below purchase/book value – Rs. 5.145 million

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

During audit of WBM for the years 2018-19 and 2019-20 it was observed that the management of WBM purchased three types of oil to be used in the

factory. However, the oil could not be used and on realization that there is no more usage of said oil, the same were put to auction in February, 2020. The bid amount of said oil was received below the purchase price, the management considered the said price and sold the oil. Due to sale of oil below purchase/book value the WBM sustained loss of Rs. 5.145 million.

The management informed that the oil was not purchased by the WBM rather it was received from POF with other store. In case the store was received from POF even then it was purchase as the WBM made payment of stores transferred to WBM. The acceptance of store (oil) along with other store items is tantamount to purchase of store.

Audit is of the view that the store was purchased/accepted without assessing its necessity and requirement due to which the Company sustained loss of Rs. 5.145 million on its auction at below the purchase price.

In the DAC meeting held on 31.01.2022, the management apprised the DAC that the POF purchased oil for old plant and after up gradation of the plant there was no need to keep it at workplace. Keeping in view the fire hazard to the workplace, thus, the oils were put to sale. Audit informed the Committee that the oil was sold below book value and the loss amount could not be considered for regularization under the order of competent authority. DAC directed the management to initiate regularization action by placing the full facts before competent authority.

Audit recommends compliance of the directives of the DAC.

Para-27 (WBM, 2018-20)

4.5.4.4 Loss due to non-obtaining 100% advance and subsequent failure of lifting of auctioned store by the party – Rs. 17.878 million

As per clause – 6 (ii) of the tender documents “the contractor will be bound to deposit the 100% advance payment of the stores to be lifted, before collection/lifting”. Clause – 6 (iii) further clarified that contractor will be bound to collect the entire quantity of scrap within 30 days. The contractor failing to lift the scrap within stipulated time period of contract will be liable to pay the delay penalty @ 0.5% per day on the value of un-lifted stores.

Penalty period is 07 calendar days, after that if the stores remained un-lifted, the contract may be cancelled and 5% bid money and 10% earnest money shall be forfeited. Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of WBM for the years 2018-19 and 2019-20 it was observed that the management of WBM issued tender inquiry dated 26.02.2020 for auction of 207,000 kgs Brass Slabs and 322,000 kgs Brass Dross on as is where is basis. In response M/s Jamaluddin Trading L.L.C. UAE quoted rate of US\$ 1.192 per kg for Brass Slags and US \$ 1.60 per kg for Brass Dross. Accordingly, contract dated 19.03.2020 was awarded to M/s Jamaluddin Trading LLC UAE at total value of US \$ 761,944. As per agreement the firm was bound to lift the store up to 19.05.2020 on “as is where is basis”. The firm submitted security amount of US \$ 114,925. The record revealed that the firm could lifted 113,280 kgs of brass slag against contracted quantity of 206,000 kgs with a shortfall of 93,740 kgs. The firm requested for short closed of contract on the plea that the balance quantity is not as per their requirement. The management considered his request and short closed the contract.

Audit is of the view that as mentioned in the tender documents and contract agreement, the store was put to auction on “as is where is basis” the contractor has inspected the store prior to submit his bid price. Further, it was clearly mentioned in the agreement that the contractor was bound to submit 100% advance of the store to be lifted. The record revealed that neither the store was lifted by the contractor within allowed period nor made advance payment of lifted store nor the contract was short closed on the sweet will of the contractor on lifting the store of his choice. The non-lifting of full quantity of store was failure on the part of contractors the contract was for sale of store on “as is where is

basis”. On default in lifting of store his security amount US \$ 114,925 was liable to be forfeited but the management adjusted the said amount against the price of store he lifted. The undue favor to the contractor at the cost of company’s fund resulted in loss of US\$ 111,738 equal to Pak. Rs. 17.878 million (US \$ = Pak Rs. 160).

In the DAC meeting held on 31.01.2022, the management clarified that delay in lifting of contracted store was due to pandemic Covid-19 lockdown. However, due to said delay additional revenue of more than 5.00 million to WBM was generated due to currency fluctuation. DAC directed for on ground inspection by Audit authorities and verification of relevant record within 15 days.

Audit recommends compliance of the directives of the DAC.

Para-16 (WBM, 2018-20)

4.5.4.5 Irregular procurement of store and loss due to delay in finalization of contract - Rs. 2.910 million

As per Rules-4 of the Public Procurement Rules, 2004, the procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical. Rule-12 (2) further clarifies that all procurement opportunities over two three 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 WBM for the years 2018-19 and 2019-20 it was observed that a requisition was received in SCM for purchase of 6 electrical items. They were issued to 15 likely suppliers in June 2018. In response M/s PTSW, Czech Republic quoted the lowest rate i.e. Euro 58,220. The case was moved for approval of Chairman in January 2019, which was approved by the Chairman WBM Board, on January 9, 2019.

However, the order could not be placed up to November, 2019. In November 2019 it was proposed that the case may be uploaded in print media and PPRA website. The rates received as a result of advertisement were not

considered by the management on the plea that the same were high. However, the management considered the rate offered by M/s PTSW and placed order vide contract dated 20.06.2020 and the store was accordingly received in WBM.

Audit is of the view that on receipt of demand from the user department in June, 2018 instead of opting for limited tendering the management was required to press tender the requirement. However, as a result of a limited tendering, M/s PTSW quoted the lowest rate i.e. EURO 58,220, the Chairman POF & WBM Board approved the case for placement of order on the firm in January, 2019.

However, the management failed to place order up to November, 2019. Thereafter, the requirement was press tendered by adopting PPRA Rules. M/s Profex Metal Ltd. Czech. Republic quoted EURO 53,849 for CFR Karachi for five items. The rate of sixth item for which the firm did not quote was valued EURO 3,266. Further, a local firm M/s Electrotraders, Faisalabad quoted Rs. 17.372 million including GST. However, the management did not consider the said rate and placed the order on M/s PTSW at his quoted rate i.e. EURO 58,220. Due to delay in placement of order for about two years, resulted in loss of Rs. 2.910 million due to currency fluctuation as in January, 2019 when the case was submitted for approval of Chairman the rate of EURO to Pak. Rs. was Rs. 160.00 while, after two years when the order was placed on the firm and LC was opened the rate of EURO was Rs. 194.12.

In view of above said facts the procurement in disregard to the PPRA Rules, the whole procurement valuing Rs. 17.968 (including taxes and duties) is termed as irregular. The delay in placement of order further, put the organization in loss of Rs. 2.910 million.

In the DAC meeting held on 31.01.2022, the management apprised that the firm supplied the store, 100% payment was made through LC after receipt of store and functional trial. Audit contended that the loss was due to abnormal delay in finalization of procurement case and the reply is silent in this regard. DAC directed the management to submit revised reply and get the relevant record verified by the Audit authorities within 10 days

Audit recommends compliance of the directives of the DAC.

Para-17 (WBM, 2018-20)

4.5.4.6 Irregular procurement of oil/lubricants in violation of PPRA rules and prior to award of contract - Rs. 9.600 million

As per Rule-12 (2) of PPRA-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”. AS per Corporate Governance Rules, 2013 the Board shall ensure compliance with the policy directions received from government from time to time.

During audit of Wah Brass Mills for the year 2018-19 and 2019-20 it was observed that the Manager Production WBM raised a requisition on 17.09.2018 for the purchase of 16 types of oils to be used in shops. The purchase department proposed issue of tender enquiry to the 20 likely suppliers of said oils. The tenders were opened on 19.10.2018 and firms participated in the tenders i.e. M/s Total Parco, M/s F.S. Corporation, Lahore and M/s Al-Zain Traders, Islamabad. Offers were sent to user section for technical Evaluation & acceptance. Offers were technically scrutinized by user sections (Manager-Production-WBM & Manager-Maint-WBM) and Manager-Maint-WBM recommended for re-tendering the case in favour of M/s Shell Pakistan Limited, Islamabad and Pakistan for soluble Oil (Solcut Oil), being sole producer of required oils & Lubricants. Accordingly, the contract dated 17.04.2019 was awarded to M/s Shell Pakistan for supply of 8 types of oils at a cost of Rs. 9.600 million on single source basis. The Dy. FA objected the said procurement and stated that the POF/SCM Deptt. Procured said items through open competition.

Audit is of the view that previously the TE was issued to 20 suppliers, in response 03 parties submitted their bids, however, the said process was scraped and procurement was made on single source basis. The management was required to procure the said oil by adopting proper procedure. Further, the Chairman POF Board approved the said case on 08.04.2019 and contract was placed on 17.04.2019, whereas, the receipt vouchers showed that the firm supplied the store on 22.11.2018, 08.12.2018 and 07.01.2019 i.e. prior to approval of the authority and placement of order. The procurement of store prior to approval of the competent authority and placement of order showed that the management decided

to procure the store from M/s Shell Pakistan before approval. As the procedure adopted by the management was not covered under the rules, thus placement of order valuing Rs. 9.600 million is held irregular.

In the DAC meeting held on 31.01.2022, the management apprised that lubricants were procured from M/s Shell Pakistan on proprietary basis. Audit contended that the procurement was made prior to process the case and approval of the competent authority. DAC directed to obtain ex-post facto approval for procurement on proprietary basis by stating all the facts and submit revised reply accordingly.

Audit recommends compliance of the directives of the DAC.

Para-13 (WBM, 2018-20)

4.5.4.7 Irregular placement of insurance business to a private insurance firm – Rs. 38.333 million

As per Section-10 of National Insurance Corporation Act, 1976 and Section – 166 of the Insurance Ordinance 2000 “all insurance business relating to any public property or to any risk or liability appertaining to any public property shall be placed with the Corporation and with no other insurer”. The M/o Defence vide letter dated 03.04.2019 circulated a letter of NICL to its formations for compliance, in said letter it was clarified that the public property needs to be insured from NICL only and no other insurer. The SECP Insurance Division also issued a letter dated 17.01.2020 according to which the insurance coverage of property was required to be obtained only from NICL and not any other insurer.

During audit of WBM for the years 2018-19 and 2019-20 it was observed that the management of WBM approached the five private Insurance Companies in May 2013 to get insurance coverage of assets of WBM. Accordingly, the insurance business was granted to Askari General Insurance, Company in June 2013. An amount of Rs. 38.333 million was paid to the private insurance company on account of premium of fire and allied perils insurance coverage. The Ministry of Defence (Defence Division) vide its letter dated 03.04.2019 circulated a letter of NICL according to which the public property was required to be insured through NICL only. Even then the management did not consider the NICL for insurance of assets. It is pertinent to mention here that the insurance

coverage was the requirement of debt arranging banks, for obtaining loan against government guarantee. As in said debt arrangement the federal government was guarantor thus, its treatment was like federal consolidated fund.

Audit is of the view that the management was required to get its assets insured from NICL as was clarified in its Act/Ordinance, however, the WBM, insured its assets from a private insurer on the basis of hand collected quotations and negotiations. The controlling ministry as well as SECP also circulated policy decision regarding insurance of property from NICL only; even then no action was taken by the management of WBM. The act of the management was in violation to the policy of the Government on the issue, thus, payment of Rs. 38.333 million made to the private insurer is held irregular.

In the DAC meeting held on 31.01.2022, the management clarified that insurance business was awarded after due diligence and at bare minimum premium. The NIC was contacted but no response was received. Audit contended that under Section – 10 of NIC Act, 1976 and Section–166 of the Insurance Ordinance, 2000 the Insurance business was required to be placed with NIC. Even the M/o Defense also directed to place the insurance business NIC. DAC directed the management to submit revised reply stating the reasons for placing the business with Askari Insurance, the record comprising procedure adopted for award of insurance business and response of NIC may also be shared with audit within in 15 days.

Audit recommends compliance of the directives of the DAC.

Para-4 (WBM, 2018-20)

4.5.4.8 Irregular payment on account of electricity charges – Rs. 4.896 million

As per Rule -5 of Public Sector Companies (Corporate Governance) Rules, 2013 (as amended up to April 21, 2017) it is the responsibility of Board to establish a system of sound internal control, which shall be effectively implemented at all levels within the public sector company, to ensure compliance with the fundamental principles of probity and propriety, objectivity, integrity and honesty and relationship with the stakeholders in manners that company's assets and resources are not used for private advantage and due economy is

exercised so as to reduce wastage i.e. handling in public funds, assets, resources and claiming of expenses.

During audit of WBM for the years 2018-19 and 2019-20 it was observed that the Wah Brass Mills entered into an agreement with Pakistan Ordnance Factories Board (POFB) to engage such persons of POFB as are necessary for the operation of the WBM. The decision was made in line with the Market Assessment and Feasibility Study of Wah Brass Mills on the basis of which the WBM was established as a Company. According to said report the provision of key management will be the responsibility of POF. The agreement was signed on 29-07-2013 and was affective for five years; accordingly, the services of the 296 employees of POFB were transferred to the WBM under this agreement from the date of agreement, however, the employee are still working in WBM. A few employees were allotted government accommodation while, they were employed in Wah Brass Mills. It was clarified in the agreement that POFB may allow retention of already allotted accommodation to deputationists. Accordingly, the concerned employees are residing in government allotted accommodation.

The record revealed that the WBM deducted electricity charges from the pay of the allottees at POF rate, however, it reimbursed the electricity charges to POF at market rate, by doing so the WBM is bearing, extra cost on account of electricity for which no provision exists in service rules. The record showed that the management of WBM bears an extra burden of Rs. 4.896 million on this account from December, 2015 to April, 2021 which is being increased each month.

Audit is of the point that as is evident from the Market Assessment & Feasibility Study the provision of key management will be the responsibility of POF, thus, the services of workforce, specifically appointed for WBM and employed in the mills at the time of its conversion into Company, were transferred to the Company. The deduction of electricity charges at POF rate and its reimbursement to POF at market rate is not justified at all. The WBM was at up gradation stage and arranged its working capital and other funds from banks at heavy mark up and the company is running in loss since its establishment. Further, indirectly the POF is the parent organization of the company. In

circumstances, the extra payment of electricity charges Rs. 4.896 million on market rate is not justified and held irregular.

In the DAC meeting held on 31.01.2022, the management informed apprised that an agreement was made and signed between POF Board and Wah Brass Mills (Pvt) Ltd. Audit was of the view that the payment of electricity bill by the company on behalf of the employee was an extra financial benefit which is not covered under the rules. DAC directed the management to review the position and submit revised reply to Audit within 10 days.

Audit recommends compliance of the directives of the DAC.

Para-25 (WBM, 2018-20)

4.5.4.9 Irregular procedure for appointments – Rs. 19.265 million

The WBM framed its HR Policy duly approved the Board. The aim of the policy is to adopt firm and consistent methods of recruitment and selection in WBM. As per appointment procedure of said policy, the applications will be collected through job portals, newspapers ads. Corporate website and appointments will be made on merit.

During Audit of the Wah Brass Mills (a subsidiary of W.I.L.) for the year 2018-19 & 2019-20, it was revealed that the management of the Mills appointed 16 Nos of employees in various categories on fix pay ranging from Rs. 21000 to 55000 per month. An expenditure of Rs. 19.265 million was incurred on their pay and allowances since their appointment to April 2021.

It was however observed from the examination of HR record that the aforementioned appointments were made without observing the above quoted procedure of the Company. The management neither collected applications through job portal nor advertised the post in newspaper. The appointments were made under pick & Choose Policy. As appointment were made in violation of appointment policy, therefore the expenditure of Rs. 19.265 million incurred on their pay and allowances is held irregular in Audit.

In the DAC meeting held on 31.01.2022, the management intimated that due to non-availability of skilled & experienced manpower from open market, WBM Board during 10th AGM & 16th Board meeting unanimously approved employment contract of existing Ex-POF employees working in WBM beyond

65 years of age depending on their fitness level and performance on yearly basis. Audit contended that the procedure adopted for appointment was not covered in appointment policy of WBM. DAC directed the management to review HR Policy and regularization process may be initiated accordingly.

Audit recommends compliance of the directives of the DAC.

Para-5 (WBM, 2018-20)

4.5.4.10 Loss due to imposition and deduction of LD charges by the client on late delivery of store – Rs. 5.391 million

As per terms and conditions of contract No. 6102/SJL/LP/45 dated 30.04.2016 signed with POF Sanjwal F for supply of GMCS Sheet F-11 and F-18, the store was required to be supplied as early as possible as but not later than 30.06.2016. There was no clause in the agreement regarding LD Charges on late delivery of store.

During audit of Wah Brass Mills for the years 2018-19 and 2019-20 it was observed that the Wah Brass Mills entered into a contract dated 30.04.2016 with POF Sanjwal Fy for supply of GMCS Sheet F-11 82,000 kgs and F-18, 7,000 kgs. Prior to signing the contract in response to a tender enquiry, the management of WBM quoted rate of Rs. 754,210/M. Ton for GMCS sheet F-11 and Rs. 705,341/M. ton for F-18. The said rates were very competitive; however, the management of POF called a due diligence meeting in office of DICR on 16.03.2016 and the rates quoted by WBM were reduced to Rs. 750,000/M. Ton and Rs. 700,000/M. Ton respectively.

It is pertinent to mention here that the members of due diligence committee were/are members of POF Board and WBM Board. Thus, the element of conflict of interest arises as POF is client of WBM. Accordingly, the contract was signed at rates fixed in due diligence committee meeting. As per agreement the WBM was bound to supply the store as early as possible, but not later than 30.06.2016, however, there exists no clause in the agreement regarding imposition of LD Charges on delayed supply. The delivery period was extended by the client at the request of WBM up to 30.04.2017. The Sanjwal factory made 50% advance payment of Rs. 33.200 million to the WBM in March 2017. Upto extended delivery period i.e. April, 2017 the management could supply only

15,190 kgs of F-11 sheets whereas, the remaining quantity was pending. The delivery was completed in July 2018. Due to delayed supply the client deducted an amount of Rs. 5.00 million from the bills of the WBM on account of LD Charges.

Audit is of the view that the management of WBM failed to deliver the store within committed period due to which the client imposed LD Charges despite the fact that no LD clause was available in the contract. Thus, the deduction of LD charges Rs. 5.00 million was a loss to the Company due to negligence on the part of management. Further, the reduction in quoted rate as a result of due diligence committee meeting further put the Company in to loss of Rs. 390,807.

In the DAC meeting held on 31.01.2022, the management clarified that bill has been forwarded to Sanjwal Fy. for payment on 20.12.2021. DAC directed the management to recover the amount and get the recovery verified by the Audit authorities within 10 days.

Audit recommends compliance of the directives of the DAC.

Para-23 (WBM, 2018-20)

4.5.4.11 Loss due to non-receipt of sale proceeds - Rs. 22.260 million

As per Clause – 7 of the sale agreement, signed by WBM with its clients “payment through crossed cheque on our prescribed bill forms supported by proof of payment of professional tax by the supplier during the financial year will be made by AO SAA on receipt of acceptance of store at POF Wah Cantt”. As per Rule -5 of Public Sector Companies (Corporate Governance) Rules, 2013 (as amended up to April 21, 2017) it is the responsibility of Board to establish a system of sound internal control, which shall be effectively implemented at all levels within the public sector company, to ensure compliance with the fundamental principles of probity and propriety, objectivity, integrity and honesty and relationship with the stakeholders in manners that company’s assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage i.e. handling in public funds, assets, resources and claiming of expenses.

During audit of WBM for the years 2018-19 and 2019-20 it was observed from the accounts record that the management of WBM entered into agreement with POFs and other private parties during 2015-16 to 2017-18. However, the record revealed that despite delivery of store by the WBM, the clients did not clear their outstanding dues and an amount of Rs. 25.346 million (Rs. 22.108 against POFs and Rs. 3.238 million against other private parties) was still outstanding against POFs and other parties.

The scrutiny of contract agreement revealed that in one case on delivery, store worth Rs. 727,262 was found short, against which the client withhold an amount of Rs. 7.358 million from the bills of the WBM. The management did not elaborate the reasons of outstanding amount against private parties. The non-recovery of outstanding amount from the clients since long shows liberal attitude of the management toward financial matters.

In the DAC meeting held on 31.01.2022, the management informed that 99% recovery has been made. DAC directed to ensure 100% recovery and get the relevant record verified by the audit authorities.

Audit recommends compliance of the directives of the DAC.

Para-14 (WBM, 2018-20)

4.5.4.12 Un-justified payment on account of overtime – Rs. 25.706 million

As per Rule-5 of Public Sector Companies (Corporate Governance) Rules, 2013 (as amended up to April 21, 2017) it is the responsibility of Board to establish a system of sound internal control, which shall be effectively implemented at all levels within the public sector company, to ensure compliance with the fundamental principles of probity and propriety, objectivity, integrity and honesty and relationship with the stakeholders in manners that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage i.e. handling in public funds, assets, resources and claiming of expenses.

During audit of WBM for the years 2018-19 and 2019-20 it was observed from the payment vouchers that the management of WBM paid Rs. 25.706 million on account of overtime from 2018-2020. The overtime policy of the company was not shared with the audit. However, it is pertinent to mention that

the overtime is paid on labor hours booked after utilization of normal available labor hours. In this specific case the record is silent with regards to the total available hours and total hours utilized in production. The normal production capacity of the Wah Brass Mills is 11,266 metric ton per annum against which during the years 2019-20 and 2018-19 the production of the mills was 3,144 metric ton and 5,524 metric ton respectively. Thus, the capacity utilization during said period remained 27.9% and 49% only.

Audit is of the view that the payment of overtime at such a large scale in circumstances when the management could not utilize even half of the capacity of the mills is not justified. The record showed that the overtime was paid as a customary right in each month without assessing the labor hours available and required for production.

In the DAC meeting held on 31.01.2022, the management clarified that for essential operational need manpower was deployed on overtime after normal duty hours/during holidays. Audit informed the Committee that the company has not framed any overtime policy and the overtime was paid without assessing its requirement as the record was silent in this regard. DAC directed the management to share all the relevant documents of overtime may be provided to audit for necessary verification.

Audit recommends compliance of the directives of the DAC.

Para-26 (WBM, 2018-20)

4.5.4.13 Overpayment on account of electricity charges Rs. 13.480 million and fixed charges – Rs. 21.280 million

As per Rule -5 of Public Sector Companies (Corporate Governance) Rules, 2013 (as amended up to April 21, 2017) it is the responsibility of Board to establish a system of sound internal control, which shall be effectively implemented at all levels within the public sector company, to ensure compliance with the fundamental principles of probity and propriety, objectivity, integrity and honesty and relationship with the stakeholders in manners that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage i.e. handling in public funds, assets, resources and claiming of expenses.

During audit of WBM for the years 2018-19 and 2019-20 it was observed that the electricity requirement of WBM was arranged through POF and at the end of each month the POF Service Department raised an electric bill to WBM. The unit price of electricity was based on the price of WAPDA (IESCO). During detailed scrutiny it was observed that the per unit cost of electricity fixed by the IESCO was Rs. 13.83 against which the POF Service Department claimed per unit cost Rs. 14.30. The management of WBM was unaware about the said facts and made the payment at rate claimed by the POF. During the period from August 2016 to January, 2019 the WBM consumed total electricity units 28,680,517 and claiming the cost of electricity at excessive rate the WBM sustained loss of Rs. 13.480 million (Rate Rs. 13.83/unit – Billing rate Rs. 14.30/unit = Rs. 0.47/unit x 28,680,517).

Further, the IESCO also levied fixed charges @ Rs. 380 for supply of 11.33 KV up to & including 5000 KW. The maximum load of WBM in a month was around 3000 KW to 4000 KW however, the POF charged fixed charges @ 6000. On realization that the fixed charges are being claimed at higher rate the POF reduced the charges to 4000 from December 2018. Thus, due to excessive claim of fixed charges during the period from August 2016 to November 2018 the POF claimed and WBM paid excess fixed charges of Rs. 21.280 million ($6000 - 2000 = 2000 \times 28 \text{ months} = 56,000 \times \text{Rs. } 380$).

The position showed weak internal control in the Company on financial matters which caused loss to the Company to that extent.

In the DAC meeting held on 31.01.2022, the management informed that WBM paid electricity charges (Tariff & Fixed Charges) according to WAPDA (IESCO) implemented tariff. DAC directed the management to get verify the relevant record/bills from audit.

Audit recommends compliance of the directives of the DAC.

Para-11 (WBM, 2018-20)

4.6 POF Welfare Trust

4.6.1 Introduction

POF Welfare Trust is an organization functioning under the guidance and patronage of Chairman POF Board. It has been registered under the Societies Registration Act, 1860 on 13th September, 1997. Trust's main aim is to undertake Socio-Economic, Health and Education services for POF Community.

Corporate Information

Trust is being managed by the Welfare Trust Directorate (Head Office) for the welfare of POF serving / retired employees and their wards. The mission of the trust is "to manage POF Welfare Trust projects efficiently and generate funds for the welfare of POF community". The Trust is engaged in embarkation of educational activities for various subjects including Medical, Engineering, Management Sciences, Computer and others. It is also running a Teaching Hospital which is part of medical education. In this regard, POF Welfare Trust is running different projects which include Wah Engineering College, Wah Medical College, University of Wah, Welfare Industrial Home, Izzat Ali Shah Hospital, Izzat Ali Shah Pharmacy, Welfare Filling Station, CNG Station, Welfare Transport Services and Welfare Club II (Marriage Halls) etc.

4.6.2 Comments on audited accounts

4.6.2.1 The working results of the Company for the year 2020-21 as compared to the previous years are tabulated as under:

Rs. in million									
Particulars	2020-21	% Inc / (Dec)	2019-20	% Inc / (Dec)	2018-19	% Inc / (Dec)	2017-18	% Inc / (Dec)	2016-17
Revenue	1,471.636	5	1,396.277	9	1,279.582	9	1,171.293	23	950.573
Direct Expenditure	(1,414.614)	2	(1,391.209)	12	(1,238.849)	8	(1,152.180)	29	(894.972)
Gross Margin	57.022	1025	5.068	(88)	40.733	113	19.113	(66)	55.601
Administrative & Management Expenditure	(156.615)	4	(150.519)	16	(130.057)	12	(116.362)	9	(106.762)
Finance Cost	(1.429)	72	(0.832)	15	(0.726)	(71)	(2.523)	9	(2.312)
Other Income	160.465	5	152.801	12	136.762	35	100.968	78	56.801
Surplus for the year	59.443	812	6.518	(86)	46.712	3806	1.196	(64)	3.328

4.6.2.2 As per Balance Sheet analysis, the “Trade Debts” (Accounts Receivables) of POF Welfare Trust are Rs. 137.705 million in the year 2020-21, whereas it was Rs. 90.626 million and Rs. 73.729 million in the years 2019-20 and 2018-19 respectively. Analysis shows that Trade Debts have been increased by 23% in the year 2019-20 and 53% in the year 2020-21. The unusual increase may be justified and aging of the same may also be provided to audit.

4.6.2.3 “Other Receivables” are presented under the head of “Short Term Loan and Advances” in the 5 x years Financials. W.r.t Note-10 of Financial Statement for the year 2020-21, “Other Receivables” have amounted to Rs. 53 million, which is outstanding against different projects of POF Welfare Trust over several years, it needs justification. It also includes Rs. 10 million outstanding from POF Welfare Directorate (refer to Note-10.2 of Financial Statement for the year 2020-21), which may be clarified specifically.

4.6.2.4 Project wise details of Property Plant and Equipment is not provided in the Financial Statements over the period of 5 x years.

4.6.2.5 The head of “Long Term Investment” of Balance Sheet for the year 2020-21, includes the investment made by Welfare Trust with Wah Associates, in which the firm had purchased a plot in Wah Cantt for providing recreational facilities for POF employees and the community as a whole. It is evident that this investment was made several years ago, and no constructive work has been initiated until now. Furthermore, the value of this investment is increasing each year. The status of this investment may be justified/ clarified.

4.6.2.6 “POFs Grant-in-Aid Building” is a head of Balance Sheet-Funds under which a constant amount of Rs. 35 million has been presented over the last 5 x years. Nature and terms of consumption this Aid may be provided to audit.

4.6.2.7 The analysis of the Balance Sheet shows that the “University of Wah Endowment Fund” is not presented in the Financial Statements for the years 2016-17 to 2018-19. However, in the Financial Statement for the year 2019-20, the head has been created and a significant amount from “General Fund” is being transferred to this head retrospectively i.e. the amount is also depicted to be present in the previous years of 2017-18 and 2018-19 also. The management may

provide proper documents regarding establishment and retrospective presentation of the UW Endowment Fund.

4.6.2.8 W.r.t Note-14 of the Financial Statement for the year 2020-21, the Long Term Borrowings has a head namely “POF Welfare Trust-Against Salaries” amounting to Rs. 14.766 million in the year 2020-21 and Rs. 15.000 million in the year 2019-20. This type of loan against salaries needs to be justified in terms of Nature, Source and Extent of the long term borrowings.

4.6.2.9 The Financial Statements for the years 2016-17 to 2018-19 shows that there was a “Loan from POF” under the “Long Term Borrowing Head” amounting to Rs. 20 million and Rs. 10 million respectively. Audit may be updated about the usage of this loan and its terms of payment in the subsequent years.

4.6.2.10 Income Tax related heads in the Financial Statements are not complying with IFRS. Income Tax deducted at source as shown under the head of Payables and Receivables respectively, are increasing each year, whereas there is no head related to Income Tax expense for the year or income tax paid for the year. Income Tax deduction may be justified and audit may be provided evidence related to depositing of the same in the Government Treasury. Furthermore, the Financial Statements for the years 2016-17 to 2018-19 shows that a “Provision for Taxation” of Rs. 3 million was kept aside by the management. However, this provision cannot be seen in the financials of the year 2019-20 and 2020-21. Audit may also be updated about the treatment/utilization of this Provision of Taxation of Rs. 3 million.

4.6.2.11 The analysis of Balance Sheet shows that a significant amount of Rs. 164 million and Rs. 179 million has been presented under the head of “Other Payables” (w.r.t Note-18 of Financial Statements of 2020-21 and Note-16 of 2019-20). As compared to this, the amount of “Creditors” is much low i.e. Rs. 2 million. Therefore, audit may be provided clarification of the huge amount accounted for in the head of “Other payables”.

4.6.2.12 A drastic change in the amounts of “Accrued Income” and “Other Advances” can be seen in the financial analysis of the Current Assets (under the head of Short Term Loans and Advances) of the year 2019-20 and 2020-21. The

percentage increase during the 2 x years, noted under these heads is 119% and 67% respectively. Audit may be apprised the cause of significant increase under these heads alongwith supporting documentary evidence.

4.6.2.13 The analysis of the last 5 years' Consolidated Income and Expenditure Account of POF Welfare Trust reveals that the head "Revenue" is not reflecting the income earned from each project. For example, the Note-21 to the Head "Revenue" in the Financial Statements of 2020-21 is generic; it is not explaining the income generated by each project. Therefore, Audit is of the opinion that Project wise Revenue earned may be shown in the Notes to the Financial Statements so as to assess the effectiveness of the projects of the Welfare Trust.

4.6.2.14 The analysis of the account "Direct Expense" in the Consolidated Income and Expenditure Account for the 5 years' shows that 'Miscellaneous Expenses' under 3 different heads had been charged over and again to this account. W.r.t Note-22 of Financial Statement of year 2020-21, a sum of Rs. 40.766 million (21.523+3.345+15.898) in 2020-21 and Rs. 41.502 million(21.913+5.398+14.191) in 2019-20 respectively has been charged to Direct Expenses under these 3 different heads of Miscellaneous Expenses. Proper presentation of the accounts is prime responsibility of the management, therefore the appearance of one type of expense under different heads/names is not appropriate as per accounting rules and policies and the management may provide justification for this act.

4.6.2.15 POF Hospital Havelian is not a project of POF Welfare Trust, whereas they are claiming the expenses of this hospital as "Direct Expense" in their Financial Statements over the period of last 5 years. Audit may be apprised about the nature of this expense and justify its presentation in the trust's financials.

4.6.2.16 The "Direct Expenditure" head of the Income and Expenditure Account for the year 2020-21 (Note-22) shows that an expense of Rs. 50 million has been incurred on the account of "Affiliation Fee-POF". This expenditure has been included in the financial statements from the last 2 years, in aggregate Rs. 100 million of expenditure has been incurred in this regard. This expenditure is auditable on the account that Welfare Trust is working under the chairmanship of POF Board, therefore; such type of contributions should be distributed from

profit/surplus earned during the year, and it should not be treated as direct expenditure.

4.6.2.17 Analysis of the Notes related to Depreciation and Amortization reflects that the calculation of the same is not made according to the specified method and rates. Furthermore, amounts calculated in the notes and the one included in the “Direct and Administrative Expenditures” are different. Audit is of the opinion that the calculation of depreciation and amortization may be made properly by following the accounting rules in true spirit.

4.6.2.18 W.r.t the Financial analysis of the accounts of POF Welfare Trust, the expenditure under the account head of “Finance Cost” has increased by 72% in the Financial Year 2020-21 (Rs. 1.4 million in the year 2020-21 and Rs. 0.8 million in year 2019-20). The unusual increase may be justified.

4.6.2.19 It is also noted that segregation of Direct and Indirect expenses are inappropriate, as they are not according to International Financial Reporting Standards (IFRS). For example, the heads of “Printing & Stationery”, “Utilities”, “Entertainment”, “Traveling & Conveyance” and “Audit Fee” etc. are Indirect Expenses. Whereas, these heads are included in the “Direct Expenditure” of the Consolidated Financial Statements of POF Welfare Trust.

4.6.2.20 The true and fair presentation of Financial Statements requires that the accounting policies and rules may be followed according to the IFRS, according to which the unrealized gains for the year must be included in the “Other Comprehensive Income”. The analysis of Financial Statements reveals that no head has been presented in the other comprehensive income. Whereas, account heads namely “Price Fluctuation Variances” and “Price Exchange Gain on Fuel” shown under Direct Expenditure and Other Income (Note-22 and Note-25 of year 2020-21), are the unrealized gains that are required to be included in the other comprehensive.

4.6.2.21 Transportation and pharmacies are part of the core projects of POF welfare trust, and the income generated from these sources are shown in the head of “Other Income” over the years. Audit is of the opinion that such presentation is not appropriate and the same may be rectified.

4.6.2.22 Analysis of the Income and Expenditure Statement for the year 2020-21 shows that a significant amount of Rs. 61.006 million is shown as Miscellaneous Income under the head of “Other Income” (Note-25). Furthermore, this miscellaneous income of the POF welfare trust is far greater than the income from its core projects i.e. pharmacies and transportation. The sources of miscellaneous income alongwith documentary evidence may be provided to audit for verification.

4.6.2.23 Grave clarification is needed on the Asset/Liabilities and Revenue/Expenses of the Projects of the Welfare Trust including University of Wah, Engineering College, Mashal Degree College, Welfare Charity Fund, and GASCO CNG Station.

Chapter-5

Finance Division

Overview

The Finance Division deals with the subjects pertaining to finance of the Federal Government and financial matters affecting the country as a whole, preparation of annual budget statements and supplementary / excess budget statements for the consideration of the parliament accounts and audit of the Federal Government Organization etc. as assigned under the Rules of Business, 1973.

Moreover, Finance Division maintains financial discipline through financial advisors in organizations attached to each Ministry / Division etc.

Aims & Objectives

To pursue sound and equitable economic policies that put Pakistan on the path of sustained economic development and macroeconomic stability with a view to continuously and significantly improving the quality of life of all citizens through prudent and transparent public financial management carried out by dedicated professionals.

Governing Laws and Policies

- Rule of Business 1973
- General Financial Rules

Sectoral Analysis

Zarai Taraqati Bank Limited (ZTBL) was incorporated as a public limited company under the Companies Ordinance 1984 (now Companies Act 2017) on October 23, 2002 in pursuance of Section-3 of Agricultural Development Bank of Pakistan (ADBP) (Re-organization and Conversion) Ordinance 2002, ZTBL. All assets, contracts, liabilities, proceedings and undertakings of ADBP were transferred to and vested in ZTBL on December 14, 2002 worth Rs. 8.70 billion. Out of total issued shares of 1,252.24 million, 1,251.19 million are held by Federal Government, remaining shares are held by

four Provincial Governments. The Bank's principal office is situated at 1-Faisal Avenue, Zero Point Islamabad.

The main purpose of the Bank is to provide sustainable rural finance and services particularly to small farmers and low-income households to strengthen the rural and agricultural sector, mitigate poverty, capital market, investment activities and other banking business. The Bank was disbursing loans of two categories i.e. production loans for short term and development loans for long-term purposes. The Bank is being operated through 32 Zones with a total number of 488 branches and is serving around half a million clients annually and over one million accumulated account holders with the average loan size of around Rs.162,331 serving 68%, 29% & 3 % of subsistence, economic and large growers respectively. The major issues of Bank are non-finalization of annual financial statements for the financial years 2017 to date, mismanagement of financial resources, frequent irregularities and frauds/misappropriations at different levels.

Audit Profile of Finance Division

(Rs. in million)					
S. No.	Description	Total	Audited	Expenditure audited FY 2020-21	Revenue /Receipts audited FY 2020-21
1	Formations	8	5	162,827.900	1,002,187.736
2	Assignment Accounts (excluding FAP)	-			-
3	Authorities /Autonomous Bodies etc. under the PAO	8	5	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations amounting to Rs. 10,484,189.237* million were raised as a result of this audit. This amount also includes recoverable of Rs. 2,022.996 million as pointed out by the audit. Summary of the audit observation classified by nature is as under:

Overview of the Audit Observations

Sr. No.	Classification	Amount (Rs. in million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	146.527
3	Irregularities:	0
A	HR/Employees related irregularities	1,682.361
B	Procurement related irregularities	4,209.968
C	Management of accounts with Commercial Banks	1,039,942.245
4	Value for money and services delivery issues	42,530.978
5	Others	9,395,677.158

* Expenditure pertaining to previous years are included

5.1 House Building Finance Company Limited

5.1.1 Introduction

House Building Finance Company Limited (HBFCL) is the only housing finance institution in Pakistan, established in 1952 by the Government of Pakistan.

It was corporatized in 2007 and is now an unlisted public limited company. State Bank of Pakistan (SBP) and Government of Pakistan (GoP) jointly hold the capital of HBFC with 90.31% and 9.69% shareholding, respectively.

House Building Finance Company Limited (HBFCL) provides financing facilities for construction and purchase of houses through its deep-rooted and national footprint of 51 Branches, 7 Area Offices, 3 Regional Offices and the Head Office based in Karachi.

5.1.2 Financial Analysis / Comments on Audited Accounts

5.1.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this, the management failed to provide audited accounts of the organization for the years 2020-21 despite a number of reminders.

5.1.2.2 Audit requires that the annual audited accounts of the years 2020-21 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

5.1.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
1994-95	14	9	5	37, 38, 39, 41, 42	64
1998-99	2	1	1	89	50
1999-00	5	3	2	132, 135	60
2000-01	5	2	3	101, 102, 103	40
2001-02	5	4	1	95	80
2002-03	3	2	1	56.1	67
2003-04	14	8	6	41.4, 41.5, 41.6, 42, 43, 48	57
2004-05	3	-	3	31	0

2005-06	14	11	3	57, 58	79
2006-07	5	4	1	38	80
2007-08	8	3	5	43,44(a), 44(b), 44(c), 44(d)	38
2010-11	10	6	4	7.1.2.1, 7.1.2.3, 7.1.4.1, 7.1.4.4	60
2013-14	12	1	11	6.1.2, 6.1.3.1, 6.1.3.2, 6.1.3.3, 6.1.3.4, 6.1.3.5, 6.1.3.6, 6.1.3.7, 6.1.3.8, 6.1.3.9, 6.1.3.10	8
2015-16	7	1	6	6.2.4.2, 6.1, 6.2.2, 6.2.3, 6.2.4.1, 6.2.4.3	14
2016-17	12	2	10	6.1.4.3, 6.1.4.6, 6.1.4.1, 6.1.2.1, 6.1.2.2, 6.1.3, 6.1.4.2, 6.1.4.4, 6.1.4.5, 6.1.4.7	17
Total	119	28	62	-	23

The overall compliance of PAC directives was not satisfactory which needs improvement.

5.1.4 Audit Paras

5.1.4.1 Non-recovery from various customers – Rs. 1,766.087 million

Section 18 of Prudential Regulation of State Bank of Pakistan for House Financing states that Banks/DFIs should ensure that adequate procedures, systems and manpower are in place to efficiently handle the recovery process of default amount and successful execution and accomplishment of the auction proceedings wherever necessary, in accordance with the procedures and articles laid down in the Financial Institutions (Recovery of Finances) Ordinance, 2001 (FIRO-2001) and other provisions/clauses, amendments in FIRO-2001 or any law/regulations in force and SBP instructions issued from time to time.

During audit of House Building Finance Company Limited (HBFCL), Karachi for the year 2020, it was observed that the management disbursed loans to 1,627 customers who were defaulted amounting to Rs. 1,766.087 million. The details are as under:

(Amount in Rupees)

S. #	Housing Finance Scheme	OAEM- Over Due by 90 days or more	Sub-Standard - Over Due by 180 days or more	Doubtful- Over Due by one year or more	Loss - Over Due by Five year or more	Total
1	Fateh Homes	-	-	595,058	1,238,350	1,833,408
2	Ghar Aasan Flexi -Old	14,038,268	31,728,023	200,644,270	1,484,849,069	1,731,259,629
3	Ghar Pakistan Plus Scheme	-	-	481,100	-	481,100
4	Ghar Pakistan Plus Scheme	2,198,980	354,236	533,795	-	3087011
5	Ghar Pakistan Plus Scheme	85,551	-	-	-	85,551
6	Ghar Pakistan Plus Scheme	1,549,315	3,199,857	3,292,957	-	8,042,129
7	New Small Builder	-	-	6,439,247	14,577,164	21,016,411
8	Saima Bisma	172,012	110,434	-	-	282,446
	Total					1,766,087,685

Audit is of the view that management failed to pursue the recovery effectively which resulted in a huge default of Rs. 1,766.087 million.

The matter was reported to the management in September 2021. The irregularity was discussed in DAC meeting held on January 27, 2022. The management informed that some amount has been recovered so far. DAC directed the management to verify the recovered amount with Audit and recover the remaining amount expeditely.

Audit recommends implementation of the DAC directives.

(DP No. 428, 233, 231, 230, 250, 249, 248, 247, 246, 245, 540, 544, 542, 541, 300, 298, 296, 295, 255, 293, 292 & 291)

5.1.4.2 Excess of Expenditure over Revenue - Rs. 71.347 million

Section 4(3) of Public Sector Companies (Corporate Governance), 2013 Rules states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds

and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of House Building Finance Company Ltd (HBFCL) for the year 2020, it was observed that the following branches were unable to meet their annual disbursement targets which resulted in excess expenditure amounting to Rs. 71.347 million against the achievement of Rs. 7.920 million. The detail is given below:

(Rs. in million)						
S. #	Branches	Targets	Achievements (Corporate & Retail)		Expenses	Excess Expenditure
		A	B	C	D	E=(D-C)
1	Tando Adam	9.00	1.13	1.13	12.88	11.75
2	Thatta	4.00	-	-	6.80	6.80
3	Gwadar	4.00	-	-	3.047	3.047
4	Sukkur	23.00	5.19	5.19	23.39	18.20
5	Khairpur	6.00	-	-	6.90	6.90
6	Jacobabad	5.00	-	-	5.60	5.60
7	Dadu	5.00	0.15	0.15	10.32	10.17
8	Sialkot	18.00	1.45	1.45	10.33	8.88
9	Mirpur Khas	14.00	6.82	-	-	-
10	Nawab Shah	22.00	6.48	-	-	-
11	Larkana	18.00	2.15	-	-	-
Total		130.00	23.37	7.92	79.267	71.347

The prevailing situation depicts a question mark on the performance of the entity as they were unable to achieve the allocated disbursement targets neither in retail segment nor in its corporate segment.

Audit is of the view that the management failed to devise adequate mechanism for its branches to achieve its annual sales target efficiently.

The matter was reported to the management in September 2021. The irregularity was discussed in DAC meeting held on January 27, 2022. The management informed that staff will hired for generating new business. The DAC directed to the management that branches should be viable to earn revenues and company should increase efficiency. A quarterly assessment report should be prepared to monitor progress.

Audit recommends implementation of the DAC directives.

5.1.4.3 Sanctioning of loans on fake inspection reports – Rs. 70.400 million

Section 4.1(a) of Code of conduct of HBFCL states that the employees shall not commit or assist any activity that involves making false statement, fraud, forgery, misappropriation, theft, embezzlement, bribery, misrepresentation, violation of HBFC rules, regulations, policies and procedures and/or any similar activity that harms or may harm the interest and reputation of HBFC.

As per normal practice in HBFC loan is disbursed in tranches after production of inspection report of home/flat under construction by the HBFC nominated person.

During audit of House Building Finance Company Limited (HBFCL), Karachi for the year 2020, it was observed that the management sanctioned and disbursed loans in Peshawar, D.I Khan and Gilgit for construction of houses / flats amounting to Rs. 70.400 million (Peshawar Rs. 34.68 million, D.I Khan Rs. 8.58 million and Gilgit Rs.27.14 million) on fake inspection reports / pictures. Annex-28.

Audit is of the view that the management failed to implement effective internal controls in sanctioning of loans which resulted in fake loans.

The matter was reported to the management in September 2021. The irregularity was discussed in DAC meeting held on January 27, 2022. The management informed that the loans were given on all ready constructed properties and disciplinary actions were taken. DAC directed to share the inquiry report with Audit.

Audit recommends implementation of the DAC directives.

5.1.4.4 Irregular deployment of officer - Rs. 27.133 million

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

During audit of House Building Finance Company Limited (HBFCL), Karachi for the year 2020, it was observed that the management hired the services of Mr. Tariq Rehman as Head Human Resource Department on deputation basis from State Bank of Pakistan (SBP). He was hired directly on requisition basis without approval of administrative ministry i.e. M/o Finance. Furthermore, he was allowed monetized pay of SBP alongwith 20% deputation allowance amounting to Rs. 614,618 per month.

Audit is of the view that hiring personnel without the approval of respective ministry and payment of salary equivalent to SBP salary amounting to Rs. 27.133 million stands irregular and unjustified.

The matter was reported to the management in September 2021. The irregularity was discussed in DAC meeting held on January 27, 2022. The management informed that the incumbent had been deputed from State Bank on requisition. The DAC directed the management to verify the factual position with Audit.

Audit recommends implementation of the DAC directives.

5.1.4.5 Disbursement of loan on fake documents - Rs. 25.000 million

Section 4.1(a) of Code of conduct of HBFCL states that the employees shall not commit or assist any activity that involves making false statement, fraud, forgery, misappropriation, theft, embezzlement, bribery, misrepresentation, violation of HBFC rules, regulations, policies and procedures and/or any similar activity that harms or may harm the interest and reputation of HBFC.

During audit of House Building Finance Company Limited (HBFCL), Karachi for the year 2020, it was observed that the management sanctioned a loan amounting to Rs. 25.00 million to Mr. Ikram Gul for purchasing a property in October 2020. The borrower went into default right after availing the loan. Thereafter, the management initiated an inquiry which concludes that all the documents provided by the client were bogus / fake.

Audit is of the view that the management failed to perform its objectives with due diligence which resulted in fraud of Rs. 25.000 million.

The matter was reported to the management in September 2021. The irregularity was discussed in DAC meeting held on January 27, 2022. The management informed that the loan was given on fake property documents. DAC directed to the management to take action and share the recovery status with Audit.

Audit recommends implementation of DAC directives.

5.1.4.6 Non-utilization of vacant spaces – Rs. 21.959 million

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

During audit of House Building Finance Company Limited (HBFC), Karachi for the year 2020, it was observed that the management failed to utilize the vacant spaces as per detailed below:

S. #	Address	Available Space	Effective un-occupied Space	Current rental per sq. ft **	No. of months vacant and your year of acquisition	Loss (Rs. in million)
1	HBFC Office Building Chauburji, Lahore.	29,608	14,804	70	36	2.834
2	Civic Centre Complex, Hyderabad	9,863	8,000	30	120	19.125
Total						21.959

Audit is of the view that the management was unable to utilize the spaces efficiently which resulted in revenue loss of Rs. 21.959 million.

The matter was reported to the management in September 2021. The irregularity was discussed in DAC meeting held on January 27, 2022. The management informed that the proposals for renting out 4th and 5th floor of Civic Centre to management and proposal for renting Civic Centre is approved by GSD

for Expression of Interest (EOI). DAC directed to constitute an inquiry committee and intimate to audit.

Audit recommends implementation of DAC directives.

5.1.4.7 Irregular disbursement of loans on fictitious properties - Rs. 17.761 million

Section 4.1(a) of Code of conduct of HBFCL states that the employees shall not commit or assist any activity that involves making false statement, fraud, forgery, misappropriation, theft, embezzlement, bribery, misrepresentation, violation of HBFC rules, regulations, policies and procedures and/or any similar activity that harms or may harm the interest and reputation of HBFC. As per normal practice in HBFC loan is disbursed in tranches after production of inspection report of home/flat under construction by the HBFC nominated person.

During audit of House Building Finance Company Limited (HBFCL), Karachi for the year 2020, it was observed that the management disbursed loans to borrowers on fictitious property documents. All the mortgaged properties were situated on unplanned area and subject to encroachment. Latter, this entire area was included in Katchi Abadi Scheme and notified as Katchi Abadi. Before this notification was made public, land grabbers managed to prepare title documents from KDA and claimed their ownership. The culprits submitted the loan documents along with title documents issued by KDA whereas the properties were registered and were under control of Gothabad Scheme/Kacchi Abadi (CDGK), Sindh Karachi. It is pertinent to mention that all these loans were processed and sanctioned after issuance of the Notification. Annex-29.

Audit is of the view that the management has remained unvigilant in its practices which reflects negligence and inefficiency which led to a default of Rs. 17.761 million.

The matter was reported to the management in September 2021. The irregularity was discussed in DAC meeting held on January 27, 2022. The management informed that inquiry was carried and official were found guilty. However, no disciplinary action was taken against person(s) found at fault. DAC directed to conclude the cases to probe the facts.

Audit recommends implementation of DAC directives.

5.1.4.8 Irregular and un-authorized sanctioning of loan – Rs. 11.700 million

As per Rule 2.7 of HBFCL loan sanctioning criteria, the applicant must produce original title documents for mortgage of the property prior to sanctioning of housing loan.

During audit of House Building Finance Company Limited, (HBFCL) Quetta, for the year 2020, it was observed that the management approved housing loans to the following individuals without securing adequate collateral against them and without verifying relevant documents before loan sanctions:

S#	Account No.	Name of applicant	Date of Sanction	Amount (Rs. in million)
1	611000001-0	Aimal Khan	11.07.2008	5.250
2	911000066-9	Sajida /Muhammad Rasool	05.07.2019	3.200
3	811000128-9	Malik Muhammad Yousuf	01.04.2007	0.750
4	811000257-6	Haji Sheikh Muhammad	25.04.2009	2.500
Total				11.700

Audit was of the view that the management failed to neither secure its interest by not getting original title documents of the property from the clients which reflects inefficiency poor internal controls.

The matter was reported to the management in March, 2021. The irregularity was discussed in DAC meeting held on January 27, 2022. The management informed that the following 04 cases were sanctioned and disbursed through centralized process. The DAC showed displeasure and directed to conduct an Internal Inquiry by the management and share with Audit through Ministry.

Audit recommends implementation of DAC directives.

5.1.4.9 Irregular/unjustified sanctioning of house construction loan - Rs. 4.800 million

Section (3)(4) of 'Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds

and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of House Building Finance Corporation Ltd (HBFC), Rawalpindi for the year 2020, it was observed that the management disbursed loan of Rs. 4.800 million in favour of Mr. Naseer Ahmed on 02.02.2017. Following irregularities were observed:

1. HBFC that said property No.B-1166, Satellite town have no revenue record.
2. Property document is not in owner name, rent out property is mostly residential and in the two names, house is being financed on basement and rates applied for Rs. 3,000 instead of Rs 1,400 per sq.ft jointly.
3. Format A shows cutting and fluided and not authenticated
4. In undertaking by applicants witnesses have not been taken
5. Documents of purchase and sale of Musharika agreement, Islamic housing finance agreement, monthly payments and memorandum of deposit of title deeds were not available in file.
6. No inspection report inspected by RIO have been drawn and placed in file before release of 4th cheque
7. 4th cheque delivery receipt not filled in properly
8. No application have been submitted by customer for site inspection
9. The schedule of repayments not signed by CRO/Bank Manager.
10. Original documents forwarding report L-6 room not placed in the file
11. Annex-R is not on proper format
12. Certificate regarding property is mortgagable identifiable and enforceable not placed in the file.

Audit is of the view that management irregularly disbursed loan of Rs.4.800 million and without due diligence which shows inefficiency and weak internal control.

The matter was reported to the management in May, 2021. The irregularity was discussed in DAC meeting held on January 27, 2022. The management informed that all documents are available. DAC directed to get verify the factual position with Audit.

Audit recommends implementation of DAC directives.

5.1.4.10 Irregular disbursement of loan to employee on gift deed - Rs 4.067 million

Rule 16 of HRM Manual of HBFCL states that, purchasing a house or apartment in his/her name or purchasing or taking on a lease a plot of land in his/her name for building a house thereon. Furthermore, sale deed in respect of purchase of plot of land/house/apartment, acceptable to the company and any other documents in evidence of the title of land or proof of purchase of house/apartment or for securing the amount of advance to the employee.

During audit of House Building Finance Company Limited (HBFCL), Karachi for the year 2020, it was observed that the management disbursed a loan amounting to Rs.4.067 million to Mr. Kamran Shabbir (employees of HBFCL) for purchase of house/ apartment. However, he neither purchased a house nor any amount was spent in acquiring the subject house. The property belongs to his wife and she gifted to Mr. Kamran Shabbir without consideration. This implied that there was no cash exchange between the two parties. Furthermore, he is residing in the same and no registered mortgage deed was found.

Audit is of the view that the management extended undue favour to the incumbent by disbursing loan in violation of rules which shows favoritism and weak internal controls.

The matter was reported to the management in September 2021. The irregularity was discussed in DAC meeting held on January 27, 2022. The management informed that the recoveries and mortgaged property is secure. DAC directed the management to verify the factual position with Audit.

Audit recommends implementation of DAC directives.

5.1.4.11 Wasteful expenditure on time barred cases - Rs. 4.056 million

The Limitation Act No.09 of 1908, an Act to consolidate and amend the law for the Limitation of Suits, and for other purposes. --- Whereas it is expedient to consolidate and amend the law relating to the limitation of suits, appeals and certain applications to Courts; and whereas it is also expedient to provide rules for acquiring by possession the ownership of easements and other properties LIMITATION OF SUITS, APPEALS AND APPLICATIONS 3. Dismissal of suit, etc. instituted, etc. after period of limitation.---Subject to the provisions

contained in sections 4 to 25 (inclusive), every suit instituted, appeal preferred, and application made after the period of limitation prescribed therefor by the First Schedule shall be dismissed although limitation has not been set up as a defense.

During audit of House Building Finance Company Limited (HBFCL), Karachi for the year 2020, it was observed that the management filed 12 cases with the Banking Court and High Court in order to pursue recovery of loans cases which were time barred. Furthermore, the management incurred an expenditure of

Rs. 4.056 million on account of legal and other expenses as detailed below:

S. No.	Detail of Expenses	Rs. in million
1	Suit Amount	3.741
2	Lawyer fee payable	0.179
3	Court fee	0.111
4	Miscellaneous expense	0.019
5	Publication Fee	0.006
Total		4.056

Audit is of the view that the management failed to lodge cases in time which reflects negligence and slackness resulting in wasteful expenditure.

The matter was reported to the management in September, 2021. The irregularity was discussed in DAC meeting held on January 27, 2022. The management informed that these cases were old and dismissed from the courts on this ground. DAC directed to hold inquiry and according to E&D Rules fix responsibility on legal heirs if the accused staff had departed.

Audit recommends implementation of DAC directives.

5.1.4.12 Unauthorized deduction of salary by SBP - Rs. 3.899 million

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

During audit of House Building Finance Company Limited (HBFCL), Karachi for the year 2020, it was observed that the management hired Syed Basit Aly as Managing Director/C.E.O of HBFC on deputation basis, for a period of three years w.e.f 20.10.2017 to 29.10.2020. He relinquished the charge on 29.10.2020. However, management paid him salary amounting to Rs. 3.899 million after his relinquishment of charge as detailed below:

S.#	Details	Rs. in million
1	01 Day Salary & Allowances for 31.10.2020	0.0071
2	Salary for the month of November	2.216
3	Salary from 01.12.2020 to 03.12.2020	0.228
4	Additional amount on account of payment of Annual Merit Increase (AMI)	1.383
Total		3.899

Audit is of the view that the management paid the salary amount to Rs. 3.889 million despite relinquishment of charge from HBFC which is irregular and unjustified.

The matter was reported to the management in September 2021. The irregularity was discussed in DAC meeting held on January 27, 2022. The management informed that SBP had erroneously debited this amount and reminders were sent for re-imbursement. DAC directed to further pursue the matter for re-imbursement.

Audit recommends implementation of DAC directives.

5.1.4.13 Undue favor extended to accused employee

Section 4.1(a) of Code of conduct of HBFCL states that the employees shall not commit or assist any activity that involves making false statement, fraud, forgery, misappropriation, theft, embezzlement, bribery, misrepresentation, violation of HBFC rules, regulations, policies and procedures and/or any similar activity that harms or may harm the interest and reputation of HBFC.

During audit of House Building Finance Company Limited (HBFCL), Karachi for the year 2020, it was observed that Mr. Shahid Ali who was working as Manager. During his service tenure, he remained posted in different cities as Branch Manager. During his services he committed various frauds, irregularities and misappropriations etc. The management issued a charge sheet in November

2019 and imposed major penalty i.e. demotion to lower post of Assistant Manager for one year. However, the then Managing Director (MD) passed an order that the punishment from “demotion to lower post” is modified to “withholding of increment for a period of one year which is a highly favored decision for an employee who is dishonest, involved in corruption and frauds.

Audit is of the view that the management extended multiple undue favor to an accused employee which reflects favoritism and biasness.

The matter was reported to the management in September 2021. The irregularity was discussed in DAC meeting held on January 27, 2022. The management in its reply dated 21.09.2021 stated that charge sheet was issued, enquiry committee was set and show cause notice served after allegations were established. After an appeal his punishment was converted from demotion to A.M to withholding of one increment. DAC directed the management to decide the course of action against the accused.

Audit recommends implementation of DAC directives.

5.2 Pakistan Security Printing Corporation (Pvt.) Limited

5.2.1 Introduction

Pakistan Security Printing Corporation (Private) Limited was incorporated in Pakistan under the Companies Act, 1913 (now the Companies Act, 2017) and is wholly owned by the State Bank of Pakistan (SBP). The registered office and the factory of the Corporation are located at Jinnah Avenue, Malir Halt, Karachi. The Corporation is principally engaged in the printing of currency notes and prize bonds on behalf of State Bank of Pakistan.

5.2.2 Comments on Audited Accounts

5.2.2.1 The working results of the Corporation for the year ended June 30, 2021 as compared with the preceding years are given below:

(Rs. in million)					
	2020-21	% Inc / (Dec)	2019-20	% Inc / (Dec)	2018-19
Sales	19,678.11	19.1%	16,522.88	18.47	13,947.17
Cost of Sales	(15,762.12)	18.3%	(13,325.21)	17.40	(11,349.93)
Gross Profit	3,915.98	22.5%	3,197.67	23.12	2,597.23
Administrative Expenses	(743.85)	(3.00)	(767.21)	(1.72)	(780.62)
Other expenses	(34.23)	(81.7)	(186.59)	(67.99)	(582.97)
Other Income	681.50	98.9	342.67	(34.39)	522.268
Financial charges	(1.85)	(37.9)	(2.98)	(26.60)	(4.06)
Share of profit from associates excluding dividend	1,338.85	67.80	797.87	32.52	602.06
Profit before taxation	5,156.39	52.5	3,381.43	43.61	2,354.58
Profit after taxation	3,841.67	47.7	2,600.15	38.49	1,877.52

(Source: Annual audited Accounts)

5.2.2.2 Sales increased by 19.1% to Rs. 19,687.110 million in the year 2020-21 from Rs. 16,522.880 million in 2019-20.

5.2.2.3 Gross profit increased by 22.5% to Rs. 3,915.980 million in the year 2020-21 from Rs. 3,197.670 million in 2019-20.

5.2.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	% age of compliance
2002-03	4	3	1	67.2	75
2007-08	5	2	3	49.2, 50	40
2010-11	13	-	13	7.3.1, 7.3.2, 7.3.2.1, 7.3.2.2, 7.3.2.3, 7.3.2.4, 7.3.3, 7.3.4.1, 7.3.4.2, 7.3.4.3, 7.3.4.4, 7.3.4.5, 7.3.4.6	-
2013-14	7	4	3	6.2.2.1, 6.2.2.3, 6.2.2.5, 6.3.3	57
2015-16	8	1	7	6.3.4.4, 6.3.2.2, 6.3.2.3, 6.3.3, 6.3.4.1, 6.3.4.2, 6.3.4.3, 6.3.4.5	13
2016-17	6	1	5	6.2.2.1, 6.2.3, 6.2.4.1, 6.2.4.2, 6.2.4.3	17
Total	43	6	32	-	13

The overall compliance of PAC directives needs to be improved.

5.2.4 Audit Paras

5.2.4.1 Irregular award of contract on negotiation basis – Rs. 1,779.590 million (Euro.9.940 million)

Rule 40 of PPRA, 2004 provides that there shall be no negotiations with the bidder having submitted the lowest bid or that any other bid.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that the management awarded the contract to M/s K & B Bank Note Solution for procurement of bank note inspection, marking, numbering and varnishing machine amounting to Rs. 1,779.59 million (Euro.9.54 million). However, the management negotiated the price with the bidder in violation of rules.

Audit is of the view that the management extended undue favour by negotiating with the bidder.

The matter was reported to the management in October 2021, but no reply was received.

Audit recommends investigation of the matter with a view to fix responsibility on person(s) at fault.

5.2.4.2 Systematic issues in civil works – Rs. 1,506.520 million

Section 4(3) Corporate Governance Rules, 2013 states that chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that the management executed various civil & electrical works involving Rs. 1,506.52 million without any qualified and experienced Civil / Electrical Engineer. Presently Mr. Rana Muhammad Akram Rajput who was appointed through 3rd party contract is looking after all the matters relating to Civil Engineering projects without having professional qualification and experience.

Audit is of the view that execution of contracts without having qualified and professional engineer raises serious doubts over transparency of work. This reflects slackness and weak monitoring mechanism within the organization.

The matter was reported to the management in November 2021, but no reply was received.

Audit recommends corrective measures.

5.2.4.3 Systematic discretionary recruitment of officers - Rs. 366.330 million

As per Cabinet Secretariat (Establishment Division) letter No. 06/02/2000, the appointments on contract basis in Autonomous/Semi-Autonomous bodies, Corporation, Public Sector Companies etc can be through open advertisement in the leading and regional Newspapers indicating prescribed Academic and professional qualification, experience, age provincial/regional quotas etc.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that the management has adopted an outsourced recruitment policy with the approval of its Managing Director under this policy, the applications for employment are received without open advertisement of

vacancies, pay package and kept on record in a data base. As and when a vacant position is to be filled in the selected applicants from the data base by enforcing above method of recruitment, the management recruited 939 employees during the year 2020 to 2021 on different position at a salary range of Rs. 40,000 to 250,000 involving annual impact of Rs. 366.332 million. All the appointment of 939 employees on outsourced through contractor was without any advertisement.

Audit is of the view that policy leads to a discretionary procedure for benefit of only those persons who are aware of the system of submitting their application without having notification of vacancy but only by means of personal contacts with official of the corporation. The policy even does not provide a system of periodical advertisement of seeking applications from the candidates in advance for undeclared vacancies to provide an equal opportunity to all deserving persons. The system of recruitment of discretionary appointments by the management negated the manifesto of equal opportunity.

The matter was reported to the management in November 2021, but no reply was received.

Audit recommends for fixing responsibility on the person(s) at fault and adopting remedial measures in the defective recruitment system.

5.2.4.4 Non-payment of stamp duty - Rs. 248.570 million

Section 15 of the Sindh Revenue Board (Amendment) Act, 2020 states that any instrument in the nature of memorandum of agreement made or entered into by contractor with Government, a Corporation, local body, local authority, commercial or industrial concern, whether singly owned or run through partnership, body registered under the Company Law, a cooperative society or any other organization to execute any work or to supply or to undertake cartage of stores and materials and to provide engineering consultancy services or any other services covered under above documents including a purchase order, work order, cargo bill, a railway ticket of ACC, a running rate contract and other levies and taxes pertaining to local bodies shall pay twenty paisa for every hundred rupees or part thereof of the amount of the contract.

During audit of Pakistan Security Printing Corporation Ltd. (PSPC) for the year 2020-21, it was observed that an amount of Rs. 200.460 million was

payable to Sind Board of Revenue on account of Stamp Duty as on 30.06.2021. However, the management did not deposit stamp duty in Government Treasury in violation of above rule. Furthermore, an amount of Rs. 48.110 million (Rs. 200.460 x 2% x 12 months) to be paid as penalty/surcharge on account of non-payment of stamp duty.

Audit is of the view that management failed to deposit duty and taxes to Government Treasury which reflects negligence and violation of Sindh Revenue Board Act.

The matter was reported to the management in November 2021, but no reply was received.

Audit recommends corectives measures.

(DP No. 559 & 548)

5.2.4.5 Award of civil contracts without approval – Rs. 178.928 million

Para 14 at Sr. No.4 of Guidelines for project management unit for power of sanctioning project. The existing sanctioning powers of various authorities are indicated below:

Authority	Sanctioning power
Autonomous Body (Commercial / Non-Commercial)	The autonomous organization whether commercial or non-commercial having board to sanction their development schemes with 100% self financing with no Government Guarantee and involving less than 25% foreign exchange/foreign assistance, subject to the following: i. A Development Working Party should be constitute by each organization and notified to consider and approve their self financial projects. ii. The Development Working Party should be headed by the Chairman / Head of the organization and among others, should include representatives of the Planning & Development Division, the Finance Division and the Ministry/Division concerned, each not below the rank of Joint Secretary. iii. The quorum of the Development Working Party should be incomplete without presence of either representative of the Finance Division and the Planning & Development Division. In case either of this Division does not agree to the project proposal or any aspect thereof the case would be referred to the Development Working Party for consideration. iv. The decision of the Development Working Party will be subject to the endorsement of the Board of the organization.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that management awarded 22 contracts for various civil works to M/s Aneel and M/s Continental valuing Rs.178.928 million without approval of the competent authority and without constitution of Development Working Party in violation of rule.

Audit is of the view that prior approval of competent authority was required to be obtained before the award of contracts which indicates negligence on the part of the management.

The matter was reported to the management in November 2021, but no reply was received.

Audit recommends investigating the matter and fix responsibility on the person (s) at fault.

5.2.4.6 Irregular procurements on cash - Rs. 109.843 million

Rule 12(2&3) of PPRA, 2004 states that that the 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. In cases where the procuring agency has its own website it may also post all advertisements concerning procurement on that website as well. Further, Rule 9 of PPRA, 2004 states that a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned. The annual requirements thus determined would be advertised in advance on the Authority's website as well as on the website of the procuring agency in case the procuring agency has its own website.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that management procured goods and services amounting to Rs. 109.843 million either directly from the suppliers or through the quotations in violation of above rules.

Audit is of the view that procurements without calling tenders stands irregular and unjustified.

The matter was reported to the management in October 2021, but no reply was received.

Audit recommends investigating the matter with a view to fix responsibility on the person(s) at fault.

5.2.4.7 Irregular payment of bonus to officers – Rs. 83.182 million

Rule 10 C of the Sindh Terms and Employment Act 2015, states that every workman (either permanent, probationers, badlis, temporary, contract worker) who have a continuous service of 90-days, will be eligible for payment of bonus.

According to the bonus policy laid down by the Government of Pakistan, Finance Division (Regulation Wing) through OM dated November 30, 2001; the payment of bonus by autonomous bodies / semi-autonomous bodies / Corporations required approval by administrative ministry and concurrence of the Finance Division.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that the management paid bonus to the officers amounting to Rs. 83.182 million in violation of rule and without concurrence of M/o Finance.

Audit is of the view that undue favour was extended to the officers in payment of bonus against rules and Government instructions which stands irregular and unjustified.

The matter was reported to the management in November 2021, but no reply was received.

Audit recommends prompt recovery besides fixing of responsibility on the person(s) at fault.

5.2.4.8 Deployment of staff beyond sanctioned strength – Rs. 82.246 million

As a general establishment rule, available strength / holding should not exceed the sanctioned strength/rationalization.

According to approval of hiring on permanent basis in different departments dated 02.08.2017. In 1st Phase recruitment against 64 positions will be processed and in 2nd phase recruitment against 40 positions will be carried out.

Department	Designation	No. of Position
Engineer	Trainee Mechanical Engineer	04
	Trainee Electronics Engineer	03
	Trainee Electrical Engineer	02
	Trainee Computer Engineer	02
	Trainee Civil Engineer	01
Total		12

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that management appointed 25 trainee engineers against approved strength of 12 trainee engineers resulting into excess of 13 employees. The excess employees caused extra burden on Corporation which caused a loss of Rs. 57.076 million to the corporation ($91,469 \times 13 = 1,189,097 \times 48 = 57,076,656$).

Furthermore, it was also observed that management appointed Mr. Attaullah Memon as General Manager Audit on deputation basis in July 2017 without sanctioned post. Thus, the payment of Rs. 25.170 million is held irregular and unjustified (salary Rs. 17.028 million and allied benefits Rs. 8.142 million).

Audit is of the view that the management appointed excessive staff in violation of approved strength which resulted in excess expenditure amounting to Rs. 82.246 million annually.

The matter was reported to the management in November 2021 but no reply was received.

Audit recommends investigating the matter and fixing of responsibility on the person(s) at fault for excess recruitments.

(DP No. 581 & 576)

5.2.4.9 Irregular appointment of Director Finance & Company Secretary - Rs. 73.620 million

As per Advertisement dated March 08, 2009, relating to PSPC states that we are looking for a self-driven and dynamic individual to join our team of

professionals in the position of General Manager Finance & Company Secretary, last date of application's submission was March 18, 2009.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that the management appointed Mr. Naveed Ehtesham as Director Finance & Company Secretary in August, 2009. Following irregularities were observed:

- He was appointed as Director Finance & Company Secretary against the advertised post of General Manager Finance & Company Secretary.
- His name was not available in the list of shortlisted candidates for interview.
- He was preferred over suitable and shortlisted candidates.

Audit is of the view that the appointment of incumbent against advertised post and without fulfilling proper selection procedure is irregular. Thus, an amount of Rs. 73.620 million paid on account of salary is irregular and unjustified.

The matter was reported to the management in November 2021, but no reply was received.

Audit recommends investigating the matter with a view to fix responsibility on the person(s) at fault.

5.2.4.10 Sub-standard work on account of roof water proofing – Rs. 69.658 million

Clause 29 (iv) of bidding documents states that offered material should confirm strictly with the specifications given in the bid document.

Rule 19(b) of Public Procurement Rules, 2004 states that blacklisted and henceforth cross debarred for participation in respective category of public procurement or disposal proceedings for a period of not more than three years, if the bidder fails to perform his contractual obligations during the execution of contract or breaches the contract due to his capacity and capability to perform or otherwise. However, procuring agency shall initiate such blacklisting or debarment proceedings after exhausting the forum of arbitration, provided that such provision exists in the conditions of contract, and if such failure or breach is covered in the respective dispute settlement clauses of the contract.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that the management awarded a contract of roof water proofing at banknote factory to M/s Continental Enterprises on June 04, 2020 amounting to Rs. 69.658 million. However, as per report of DSC Committee, the rain water was found trickling / leaked from the roof / walls of several departments of banknotes factory.

Audit is of the view that the management failed to monitor the construction work resulted in defective work of Rs. 69.658 million. Furthermore, no action was taken against the contractor.

The matter was reported to the management in November 2021, but no reply was received.

Audit recommends investigation of the matter with a view to fix responsibility on person(s) at fault.

5.2.4.11 Irregular appointment of staff – Rs. 53.640 million

As per Establishment Division OM dated April 17, 2003 (referring to a decision of Supreme Court of Pakistan) (i) all initial appointments should be made through open advertisement (ii) all selections for appointment should be through duly constituted Selection/ Promotion Committee/Board (iii) there should be pre-determined criteria for each post (iv) no provision for relaxation of rules should be given in favor of any individual.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that management appointed 59 officers through outsource agency without advertisement and observing codal formalities in violation of above rules. Annex-30.

Furthermore, management appointed Mr. Amir Altaf in Officer Grade through third party at a salary of Rs. 100,000 per month in August 2020. Later on, his degree was found fake and management dismissed him from service in August 2021. However, management neither lodge F.I.R nor conduct any inquiry and also did not recover paid amount Rs. 1.500 million.

Audit is of the view that, appointments were made in violation of above rules. Thus, the payment of salary amounting to Rs. 53.640 million was irregular and unjustified.

The matter was reported to the management in November 2021, but no reply was received.

Audit recommends investigation of the matter with a view to fix responsibility on person(s) at fault.

(DP No. 553 & 555)

5.2.4.12 Loss due to installation of defective IP based CCTV Cameras – Rs. 38.639 million

Section 4(3) Corporate Governance Rules, 2013 states that chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that management awarded contract for supply, installation commissioning and testing of CCTV system valuing Rs. 38.639 million to M/s International Office Supplier, (IOS) on June 09, 2020. However, vendor failed to provide the items as per BoQ. Later on, the management asked the contractor for replacement of item as per BoQ within 15 days without further delay. In response, the vendor regretted to replace the required cameras and allied equipment and enhanced the warranty period for 02 years in place of offered one year which was duly agreed by the management.

Audit is of the view that the management extended undue favour to the vendor by accepting defective item and enhancing the warrantee period which reflects favouritism. Thus, payment of Rs. 38.639 million was held irregular.

The matter was reported to the management in November 2021, but no reply was received.

Audit recommends investigation of the matter with a view to fix responsibility on person(s) at fault.

5.2.4.13 Irregular procurement of Paper Band Rolls – Rs. 31.420 million (Euro. 159,460)

Rule 4 of PPRA, 2004 states that Procuring agencies, while engaging in procurement, shall ensure that the procurements were conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process was efficient and economical. Further, Rule 12(2) of PPRA, 2004 states 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 Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that the management procured 100 & 1,000 packet paper band roll amounting to Rs. 31.420 million (Euro. 159,460) from M/s GTS GMBH Germany on proprietary basis. However, the same material was also procured by the management earlier from M/s UNO SEISAKUSHO Company Limited in October 2020 which clearly transpired that the item was not of proprietary nature. Thus, procurement of item through direct contracting was held irregular and unjustified.

Audit is of the view that procurement of item on direct contracting is a serious violation of rules which reflects favouritism.

The matter was reported to the management in November 2021, but no reply was received.

Audit recommends investigation of the matter with a view to fix responsibility on person(s) at fault.

5.2.4.14 Irregular posting on deputation of the officers - Rs. 25.778 million

According to Rule-20A of Civil Servants (Appointment, Promotion and Transfer) Rules, 1973 state that appointment on deputation.- (1) A person in the service of a Provincial Government or an autonomous, semi-autonomous body or corporation or any other organization set-up, established owned, managed or controlled by the Federal Government who possesses the minimum educational qualifications, experience or comparable length of service prescribed for a post shall be eligible for appointment to the said post on deputation for a period not exceeding three years which may be extended for another period of two years on such terms and conditions as may be sanctioned by Federal Government in consultation with the lending Organization.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that 03 officers of State Bank of Pakistan were posted in Pakistan Security Printing Corporation (PSPC) on deputation basis w.e.f. June & July 2017 to till date. As per above said Rule, the officers were required to re-join State Bank of Pakistan w.e.f. July 2021 but instead, the

management granted an extension in deputation period from July 2021 to till date. The posting of officer on deputation in a PSPC was not approved by Government of Pakistan through administrative ministry. The said officers were not eligible for over stay which resulted in irregular posting on deputation and payment of salary and other allied benefits to officers of Rs. 25.778 million is held irregular.

S. #	Name of Officers	Designation	Period	Salary & allied benefits (Rs.)
1	Mr. Haroon Rasheed Malik	Managing Director	June 2017	15,287,448
2	Mr. Sikandar Hayat Malik	Director Human Resource	July 2017	6,993,632
3	Mr. Attaullah Memon	General Manager Audit	July 2017	3,497,764
Total				25,778,844

Audit is of the view that the management should not have extended the deputation period in contravention of its Government policy. Furthermore, the record was called through requisition and several verbal requests which were not provided to Government Audit.

The matter was reported to the management in November 2021 but no reply was received.

Audit recommends immediately repatriate of officers to their parent office and recovered the additional amount of salary and allied benefits under intimation to audit.

5.2.4.15 Non-completion of work by the contractor – Rs. 23.180 million

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

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that the management awarded two contracts

amounting to Rs. 23.180 million to M/s Electronic Engineering for construction of workers changing room at PSPC on February 25, 2020 and April 09, 2021. As per Bill of Quantity (BoQ), Master / Shabir tiles (24x24) were to be fixed whereas the contractor executed only cement & sand blocks.

Audit is of the view that non-completion of work by the contractor as per BoQ despite the payment reflects inefficiency and weak financial management.

The matter was reported to the management in November 2021, but no reply was received.

Audit recommends investigation of matter with a view to fix responsibility on the person(s) at fault.

5.2.4.16 Irregular payment of Bonus to MD - Rs. 21.438 million

According to Finance Division (Regulation Wing), O.M.No.F.3 (5) R.12/80(R-14)2002-154 dated March 18, 2002 Managing Directors and Members of the Board of Directors of autonomous / semi-autonomous bodies / public Corporation / organizations are not entitled to receive bonuses.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that the management paid bonuses amounting to Rs. 21.438 million (Rs. 11.625 million & Rs. 9.813 million) to Mr. Muhammad Haroon Rasheed, Managing Director in violation of rules.

Audit is of the view that the management paid bonus amounting to Rs. 21.438 million in violation of Finance Divisions directives is held irregular and unjustified.

The matter was reported to the management in November 2021, but no reply was received.

Audit recommends prompt recovery under intimation to Audit.

5.2.4.17 Irregular execution of works without technical sanction – Rs. 17.000 million

Para 53 read with Para of central Public works department code provides that there are four main stages in the project for a central work, namely administrative, approval, expedite, technical sanction and the appropriation or re-

appropriation of funds. For each individual work proposed to be carried out a properly detailed estimate must be prepared for the sanction of competent authority, this sanction is known as the technical sanction to the estimate and must be obtained before the construction of the work is commenced.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that the management executed two projects for road construction connecting residential estate and repair of existing road network having projects cost of Rs. 17.00 million without preparing and getting approval of technical sanctioned estimate.

Audit is of the view that non-adherence to (PWD) code and award of work to the contractor without approval of technical sanction estimation stand irregular and unjustified.

The matter was reported to the management in November 2021, but no reply was received.

Audit recommends investigation of matter with a view to fix responsibility on the person(s) at fault.

5.2.4.18 Irregular award of contract of boundary wall – Rs. 14.343 million

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

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that the management awarded the contract of construction of boundary wall to M/s Mill-wala Dreging amounting to Rs. 14.343 million on November 16, 2020. As per Bill of Quantity (BoQ), the contractor was required to use a fully coated Pvc barbed wire in 10 gauge in size. However, the contractor used a substandard barbed wire of 12 gauge on the pretext that 10 guage was not available in the market.

Audit is of the view that the management extended undue favour to the contractor by accepting a substandard item which reflects favourtism and

negligence and chances of corruption can not be ruled out. Thus, the award of contract amounting to Rs. 14.343 million was held irregular and unjustified.

The matter was reported to the management in November 2021, but no reply was received.

Audit recommends investigation of matter with a view to fix responsibility on the person(s) at fault.

5.2.4.19 Irregular /Unjustified reimbursement of salary - Rs. 12.698 million

Section 4(3) of Corporate Governance Rules, 2013 states that chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Security Printing Press (PSPC) for the year 2010-21, it was observed that the management reimbursed an amount of Rs. 12.698 million to SBP in July 2020 on account of salary and allowances of Mr. Ali Hussain Brohi (Ex-Executive Director PSPC) w.e.f. June 2017 to March 2019 for 22 months for his services rendered in Security Papers Ltd. (SPL), a private entity despite of the fact that he was initially posted at PSPC.

Audit is of the view that the reimbursement of salary to SBP on behalf of an officer who worked in SPL is irregular and unjustified.

The matter was reported to the management in November 2021, but no reply was received.

Audit recommends recovery besides fixing responsibility on the person(s) at fault.

5.2.4.20 Irregular appointment of Senior Manager (HR Operations) - Rs. 7.533 million

As per General Practice, joining time of initial appointment should be 15 to 30 days.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that the management appointed Ms. Sadia Ejaz as

Senior Manager, HR Operations w.e.f. September 30, 2019, against advertisement dated August 2017. However, she joined after lapse of more than 24 months. Furthermore, her personal / recruitment file was called for which were not provided by the management. In absence of record, Audit was unable to ascertain genuineness in her appointment.

Audit is of the view that the management extended undue favor to the incumbent by extension in joining time upto 24 months and non provision of record is held irregular and unjustified. Hence, payment of salary amounting to Rs. 7.534 million (Rs. 216,384 per month x 24 = Rs. 5.193 million plus bonus of Rs. 1.081 million x 2 = Rs. 2.163 million and plus Rs. 177,840 allied benefits total) is also held irregular.

The matter was reported to the management in November 2021, but no reply was received.

Audit recommends investigation of the matter with a view to fix responsibility on the persons(s) at fault.

5.2.4.21 Loss due to procurement of inferior quality printing blankets – Rs. 6.230 million (Euro. 32,390)

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

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that the management ordered 6,000 pieces of security printing blankets amounting to Rs. 38.937 million (Euro. 202,440 @ Rs. 192.343) to M/s Birkan GMBH Germany on March 03, 2021. Keeping in view of user urgency, supplier was asked to provide 1,000 blankets on urgent basis. In response, supplier dispatched 960 pieces of printing blanket on April 08, 2021. However, the said blankets were rejected by the user department due to inferior

quality. The matter was discussed with the supplier on which supplier stated that it will visit PSPC in order to resolve the matter. However, the management did not agree with the supplier and the contract was cancelled for remaining balance of blankets. Resultantly, the management sustained a loss of Rs. 6.230 million (960 blankets x Euro. 33.73 per blanket x Rs. 192.343 per Euro) on receiving defective blankets.

Audit is of the view that the management sustained loss of Rs. 6.230 million on accepting inferior quality blankets which reflects inefficiency and weak internal controls.

The matter was reported to the management in November 2021, but no reply was received.

Audit recommends investigation of matter with a view to fix responsibility on the person(s) at fault.

5.2.4.22 Non-recovery of rent and utility charges – Rs. 6.056 million

As per Human Resources Policy Manual of PSPC:

- i. Corporation provides on-site accommodation to permanent employees and Deputationists whose presence during off-duty hours is an operational necessity. Other vacant premises are offered to eligible employees on request.
- ii. Residents pay rent for the premises as follows:
 - Employees of PSPC including those deputations, 35% of notional/basic salary subject to a notified amount as maximum, fixed every 3 years.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that the management allotted accommodation to below mentioned officers but not deducted the rent and utility charges amounting to

Rs. 6.056 million as per detailed given below:

Name of Officer	Period	Rent per month (Rs.)	Utility Bills per month (Avg.) Rs.	Total charges	Total Months	Total (Rs. in million)
Sikandar Hayat Malik, DHR (PSPC)	Jul 2017 to Nov 2021	37,575	23,000	60,575	52	3.149
Muhammad Ashraf	Nov 2017 to	37,575	23,000	60,575	48	2.907

Butt, CEO (SPL)	Nov 2021					
Total						6.056

Audit is of the view that non recovery of dues reflects favouritism and violation of rules.

The matter was reported to the management in November 2021, but no reply was received.

Audit recommends prompt recovery besides fixing of responsibility on the person(s) at fault.

5.2.4.23 Loss due to unsatisfactory work - Rs. 4.093 million

As per Sr. No.8, conditions of purchases of local work order dated March 24, 2021 the goods supplied must correspond in all respects with this order and must confirmed in every respect to sample – specification. In the absence of sample specification, goods supply must be the based in first class workmanship, failure to comply with this clause will rendered the goods liable to rejection.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that the management awarded a contract for construction of concrete pavement at PSPC worker car parking to M/s ZA Khan Brothers on March 24, 2021 at the total contract price of Rs. 4.093 million. User department identified numerous discrepancies in the workdone that include faulty joints, slop, expansion joints, visible cracks and faulty finishing.

Audit is of the view the work was not done properly by the contractor and same was rejected by user department. The management neither just held performance guarantee Rs. 0.409 million nor rejection of concrete pavement against the subject work order. The objective of the project could not be achieved even after lapse of so many times. Thus, the management sustained a loss of Rs. 4.093 million.

The matter was reported to the management in November 2021, but no reply was received.

Audit recommends investigation of matter with a view to fix responsibility on the person(s) at fault.

5.2.4.24 Non-recovery of assets - Rs. 3.074 million

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

During audit of Pakistan Security Printing Press (PSPC) for the year 2010-21, it was observed that the management failed to collect below mentioned assets which were handed over to Board Members for official meetings as detailed below:

Description	Cost (Rs. in million)
Tablet computers 10 Nos.	1.925
Keyboards and pen	1.031
Insurance	0.117
Total	3.074
Cost per tablet:	0.307

Audit is of the view that the assets were not taken back which reflects negligence and weak internal controls.

The matter was reported to the management in November 2021, but no reply was received.

Audit recommends prompt recovery of assets besides fixing responsibility on the person(s) at fault.

5.2.4.25 Irregular purchase of birds – Rs. 1.272 million

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

economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that the management procured various types of birds valuing Rs. 1.230 million through different doubtful cash memos by splitting. Furthermore, purchases were made without considering the financial limit and not inclusion in annual purchase plan as detailed below:

Particulars	Quantity	Rate	Amount (Rs)
White fenks hen	04	24,000	96,000
Black fenks hen	04	22,000	88,000
German num Pigeon	08 (4 pairs)	14,000	56,000
Saxon fairy swallow pigeon	19	8,000	152,000
Green Pigeon	38(19 pairs)	7,500	142,500
Birds cargo charges (Mu to KHI)	-	-	3,000
Shield cropper pigeon	07	5000	35,000
Black Partridge	08	20000	160,000
Green Pigeon	-	-	80,000
Peacock	04	20000	80,000
Saxon fairy swallow pigeon	02	25000	50,000
Sheild Pigeon	08	5000	40000
Green Pigeon	10	15000	150,000
German Pigeon	10	14000	140,000
Total			1,272,500

Audit is of the view that purchase of birds without due diligence and transparent in manner is held irregular and unjustified.

The matter was reported to the management in October 2021, but no reply was received

Audit recommends investigation of matter with a view to fix responsibility on the person(s) at fault.

5.2.4.26 Non-production of record

Section 14 of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 states:

The officer in-charge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information

in as complete form as possible and with all reasonable expedition (sub section-2).

- ii. Any person or authority hindering the Auditorial functions of the Auditor General regarding inspection of accounts shall be subject to disciplinary action under relevant E & D Rules (Sub Section-3).

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2020-21, it was observed that the management could not produce the requisite record(s) despite frequent reminders. Thus, audit was unable to ascertain transparency of various transactions / expenditure and due to the non-production / concealment of record, chances of doubtful transactions could not be ruled out. Annex-31.

Audit is of the view that non-production of record tantamount to concealment of facts and serious negligence on the part of management.

The matter was reported to the management in November 2021, but no reply was received.

Audit recommends investigating the matter with a view to fix responsibility on person(s) at fault.

5.3 State Bank of Pakistan

5.3.1 Introduction

State Bank of Pakistan is the Central Bank of Pakistan and is incorporated under the State Bank of Pakistan Act, 1956. Under the provisions of the SBP Act, 1956, the general superintendence and direction of the affairs and business of the Bank rests with the Central Board of Directors. Through an amendment in SBP Act in 1994, the Central Board of Directors was enlarged and now consists of the Governor, Secretary Finance Government of Pakistan and seven directors nominated by the Federal Government. From these seven directors, one Director from each province is nominated while ensuring representation to agriculture, banking and industrial sectors.

Strategic objectives are:

- i. Broadening access of Financial Services.
- ii. Ensuring viability of the Financial Sector.
- iii. Maintaining Price Stability with Economic Growth.
- iv. Exchange and Reserve Management.
- v. Strengthening the Payment System.
- vi. Human Resources Development.
- vii. Information Technology Development.

5.3.2 Comments on Audited Accounts

5.3.2.1 The working results of company for the year ended June 30, 2021 as compared to previous years are given below:

	(Rs. in million)				
	2020-21	% Inc/Dec	2019-20	% Inc/Dec	2018-19
Discount, interest / markup and / or return earned	755,587.59	(37.48)	1,208,621.30	87.1	646,009.38
Net Income	715,683.09	(37.51)	1,145,333.67	109.7	546,189.82
Other operating income / (expense)-net	3,671.85	(57.32)	8,603.99	97.9	4,346.93
Other income – net	395.52	(72.24)	1,424.80	347.5	318.41
Total operating income-net	816,449.37	(33.26)	1,223,259.55	2348.8	49,952.81
Cost of printing bank notes and	15,762.13	18.29	13,325.21	16.7	11,419.14

Prize Bonds					
Profit / (loss) after tax	760,858.8 0	(34.60)	1,163,432. 59	(111,614. 7)	(1,043.30)
Gold reserves held by the Bank	577,356.2 4	(6.50)	617,495.0 4	31.8	468,625.0 0
Earmarked foreign currency balances	20,707.90	(66.61)	62,010.32	(14.7)	72,702.67
Investments – local	6,857,412. 22	(7.49)	7,412,323. 13	(6.2)	7,906,282. 01
Current accounts of Government (Payable Balances)	1,295,486. 43	73.01	748,790.1 0	(32.0)	1,101,513. 93

5.3.2.2 Discount, interest / markup and / or return earned of the Bank has significantly decreased by 37.5% from Rs. 1,208,621.300 million in FY-2020 to Rs. 755,587.590 million in FY-2021, which subsequently resulted in decline in Net Interest Income of the Bank by 37.5% during the year, which needs justification.

5.3.2.3 Other Operating income of the Bank has decreased to Rs. 3,671.850 million during the FY 2021 from Rs. 8,603.990 million in FY 2020 by 57.3%, which requires explanation.

5.3.2.4 Other income of the Bank has decreased to Rs. 395.520 million during the year 2020-21 from Rs. 1,424.800 million in year 2019-20 by 72.2%, which requires justification.

5.3.2.5 Cost of printing bank notes and Prize Bonds has increased by 18.3% during year under review to Rs. 15,762.130 million from Rs. 13,325.210 million in previous year which requires justification.

5.3.2.6 Profit after tax has significantly declined from Rs. 1,163,432.590 million in year 2020 to Rs. 760,858.800 million in FY 2021 by 34.6%, which requires explanation.

5.3.2.7 Gold reserves held by the Bank have decreased to Rs. 577,356.240 million during the year 2020-21 by 6.5% from Rs. 617,495.040 million in year 2019-20 which requires explanation.

5.3.2.8 Earmarked foreign currency balances to meet foreign currency commitments have drastically decreased to Rs. 20,707.900 million in year 2021 by 66.6% from Rs. 62,010.320 million in FY 2020 which requires explanation.

5.3.2.9 Investments - local by the Bank has decreased to Rs. 6,857,412.220 million during the year 2020-21 by 7.5% from Rs. 7,412,323.130 million in the year 2019-20 which requires justification.

5.3.2.10 Payable to Islamic banking Institutions (IBIs) against Bai Muajjal transactions has been decreased in 2019-20 from Rs. 124,140.000 million to Rs. 19,513.000 million which is almost 84% decline from the previous year whereas related expenses under Sukuks purchased under Bai Muajjal agreement has been increased from Rs. 4,636.000 million to Rs. 6,728.000 million.

5.3.3 Compliance of PAC Directives

Audit Year	No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
2005-06	13	11	2	73, 76	85
2006-07	9	3	6	43.2, 43.3, 44, 45, 46, 47, 48	33
2007-08	5	2	3	51.2, 52, 53	40
2008-09	5	4	1	63	80
2009-10	6	4	2	68, 69	67
2010-11	12	0	12	7.4.1, 7.4.2, 7.4.2.1, 7.4.2.2, 7.4.2.3, 7.4.2.4, 7.4.2.5, 7.4.3, 7.4.4.1, 7.4.4.2, 7.4.4.3, 7.4.4.4,	
2013-14	24	1	23	6.3.2.1, 6.3.2.2, 6.3.2.3, 6.3.2.4, 6.3.2.5, 6.3.2.6, 6.3.2.7, 6.3.2.8, 6.3.2.9, 6.3.2.10, 6.3.3, 6.3.4.1, 6.3.4.2, 6.3.4.3, 6.3.4.4, 6.3.4.5, 6.3.4.6, 6.3.4.7, 6.3.4.8, 6.3.4.9, 6.3.4.10, 6.3.4.11, 6.3.4.12	4
2015-16	15	1	14	6.4.4.3, 6.4.4.8, 6.4.2.1, 6.4.2.2, 6.4.2.3, 6.4.2.4, 6.4.3, 6.4.4.1, 6.4.4.2, 6.4.4.4, 6.4.4.5, 6.4.4.6, 6.4.4.7, 6.4.4.9	7
2016-17	12	5	7	6.3.4.1, 6.3.2.1, 6.3.3, 6.3.4.2, 6.3.4.3, 6.3.4.5, 6.3.4.8,	42
Total	101	31	70	-	31

The overall compliance of PAC directives needs improvement.

5.3.4 Audit Paras

5.3.4.1 Non-reconciliation of outstanding balances - Rs. 9,386,037.000 million

As per note (5.3) of Financial statements on financial assets and financial liabilities Financial instruments carried on the consolidated balance sheet include cash and bank balances held by subsidiaries, local currency - coins, foreign currency accounts and investments, earmarked foreign currency balances, investments - local, loans, advances and bills of exchange, assets held with Reserve Bank of India (other than gold held by Reserve Bank of India), balances due from the governments of India and Bangladesh, certain other assets, banknotes in circulation, bills payable, deposits of banks and financial institutions, balances and securities under repurchase and reverse repurchase transactions, payable to Islamic banking Institutions against Bai Muajjal transactions, current accounts of governments, balances with the International Monetary Fund (IMF), amount payable under bilateral currency swap agreement, other deposits and accounts and certain other liabilities. The particular recognition and measurement methods adopted are disclosed in the individual policy statements associated with each financial instrument.

During audit of State Bank of Pakistan (H.O) & BSC, Karachi for the year 2019-20, it was observed that as per Balance Sheet for the year 2019-20 an amount of Rs. 874.322 million was lying outstanding and as per Trial Balance Rs. 9,386,037.000 million was outstanding which shows non-reconciliation of outstanding balances. Annex-32.

Audit is of the view that non-reconciliation of balances shows unfair picture of the Financial Statements.

The matter was reported to the management in April, 2021. The management in its reply stated that SBP provides loan and advances to banks, FIs and under different schemes and balances of Rs. 804.750 million is outstanding against these schemes. Moreover, other balances are related various parties, which are duly being reflected in financial statements. The reply of the management is not tenable because no adjustment position and supporting

documents were provided by management. DAC was held on January 28, 2022, but para was not discussed.

Audit requires justification of differences in receivable/outstanding balances of TB and Financial Statements.

5.3.4.2 Undiversified credit exposure in Money Market & Bond/Treasury Bills – Rs. 538,115.760 (USD 3,203.07 million)

One of the objectives of Risk Management Division is to assess, quantify, monitor and highlight potential risk factors (market, credit, liquidity, operational, strategic, etc.) that may adversely affect SBP business activities and escalate them to the higher management and relevant stakeholders.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2019-20, it was observed that the management invested in concentrated credit exposure especially under Money Market and Bonds/T-Bills placements. Furthermore, it was also observed that Credit Exposure in Money Market and Bonds/T-Bills throughout the year was concentrated in Switzerland and China respectively. Detail of credit exposure at year end was as follows:

Country of Incorporation	Credit Exposure (in USD million)			
	Money Market		Bonds/T-Bills	
	Amount	%	Amount	%
Australia	-	-	-	-
Canada	-	-	-	-
China	-	-	1,873.08	98.4%
Germany	-	-	-	-
Hong Kong	-	-	-	-
Italy	-	-	-	-
Japan	-	-	-	-
Pakistan	-	-	-	-
Switzerland	1,300.03	100%	-	-
UAE	-	-	-	-
UK	-	-	-	-
US	-	-	29.96	1.6%
Total	1,300.03	100%	1,903.04	100%

Audit is of the view that management failed to diversify the risk which reflects imprudent decision making.

The matter was reported to the management in March, 2021. The irregularity was discussed in DAC meeting held on January 28, 2022. The management in its reply stated that during the Covid-19 pandemic, markets had witnessed increasing credit and liquidity risks. Hence, money market funds were invested with the safest counterparties i.e. BIS, Switzerland. As for as Bonds/T-Bills were concerned, both were sovereign exposures & guaranteed by the respective governments. DAC directed the management to submit revised reply.

Audit recommends implementation of DAC directives.

5.3.4.3 Imprudent placement in China Development Bank resulting in currency exposure risk – Rs. 357,120.00 million (RMB 15.0 billion)

One of the goals of International Markets and Investment Division (IMID) is to ensure prompt currency conversions for debt provisioning currency diversification, portfolio rebalancing at optimal levels.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2019-20, it was observed that RMB 15.0 billion had been placed with China Development Bank (CDB). Notwithstanding to the contrary, it was bewildering to note that the funds placed in CDB could not be converted into any other currency. Resultantly, SBP faced huge currency exposure risk (FX exposure) of 20% on deposits of RMB 15.0 billion (Equivalent to Rs. 357.12 billion as 1 CNY=Rs. 23.808 on 30-06-2020). Moreover, deposits with CDB were generating a mere return of 0.4%. Furthermore, it was observed that had the deposits been disbursed in USD rather than RMB, there would been an additional earning equivalent to USD 120 million.

Audit is of the view that depositing huge amount of RMB 15.0 billion in China Development Bank (CDB) exposed the Bank to a higher currency exposure & mere return of 0.4% on these deposits renders the investment as imprudent and an opportunity loss of USD 120 million. Therefore, audit considers the placement of RMB 15.0 billion in CDB as unjustified & imprudent.

The matter was reported to the management in March, 2021. The irregularity was discussed in DAC meeting held on January 28, 2022. The management informed that the allocation of limit to China Development Bank

(CDB) was approved by the SBP Board and Federal Government. DAC directed the management to submit revised reply while incorporating the approval from Federal Government.

Audit recommends implementation of DAC directives.

5.3.4.4 Irregular investments in violation of SBP Act – Rs. 144,614.050 million

Section 20 (2) of SBP Act, 1956 relating to businesses which the Bank may not transact, The Bank shall not, except as authorized under this Act, purchase its own shares or the share of any other bank or of any company, or grant advances or loans upon the security of any such shares.

During audit of State Bank of Pakistan (SBP) and SBP-Banking Services Corporation (BSC) for the year 2019-20, it was observed that the management has a shareholding in banks and Development Finance Institutions (DFIs) in violation of SBP Act. The details are as under:

(Rs. in million)		
Name of Institution	Investment/Share holding	% of share holding
NBP	15,998.547	75.2
ZTBL	94,617.528	76.23
HBFCCL	17,489.375	90.31
DPC	500	100
Pak Libya-Holding company Limited	3,070.89	50
Pak-Kuwait Investment Company Limited	5,000	50
Saudi Pak. Industrial and Agricultural Investment Company Limited	3,300	50
Less than 50% share holding	4,637.706	-
Total	144,614.05	

Audit is of the view that investing in shareholding of above banks and DFIs reflects conflict of interest & self-review risk for SBP.

The matter was reported to the management in May, 2021. The management in its reply stated that SBP invested in mentioned entities on the directives of Ministry of Finance. The management's reply is not tenable as it created conflict of interest for Bank along with the autonomy of the Bank being challenged. DAC was held on January 28, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

5.3.4.5 Unrealized loss due to imprudent decision by holding shares of unlisted companies - Rs. 3,582.000 million

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

During audit of State Bank of Pakistan (SBP) and SBP-Banking Services Corporation (BSC) for the year 2019-20, it was observed that the management held 76.23% shares of Zarai Taraqiati Bank Limited & 100% shares of Deposit Protection Corporation but during the year 2019-20 management incurred unrealized loss of Rs. 3,582.000 million due to diminution in shares as detailed below:

S. #	Name of Subsidiary	Amount (Rs. in million)
1.	ZaraiTaraqiati Bank Limited	3,082.000
2.	Deposit Protection Corporation	500.000
Total		3,582.000

Audit is view that the management failed to safeguard the interest of the Bank by holding the shares of unlisted companies which shows imprudent decision and poor financial management.

The matter was reported to the management in April, 2021. The management in its reply stated that said diminution was in accordance with the requirements of IFRS. However, management did not provide documents in support of its reply. DAC was held on January 28, 2022, but para was not dicussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

5.3.4.6 Non-advertisement of unclaimed deposits of foreign currency accounts – Rs. 1,084.350 million

As per Banking Company Ordinance, 1962, State Bank shall publish in the Gazette of Pakistan and not less than two newspapers once each quarter for a period of one year a list of the amounts and articles received by the State Bank under sub-section (1) and not claimed by any person.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2019-20, it was observed that commercial banks had surrendered following unclaimed deposits of foreign currency accounts (FCY) in SBP's account. However, the lists of said unclaimed deposits were not published by SBP in any newspaper as mentioned above. The details are as under:

S.#	Account No.	Foreign Currency	Unclaimed deposits	Exchange rate (as on 30.06.2020)	Amount (in Rs.)
1.	116501	USD	4,716,823	168.0506	792.664
2.	116504	Pound	990,395	206.5005	204.517
3.	116507	Euro	313,382	188.6116	59.107
4.	116508	JPY	70,453	1.5607	0.109
5.	116509	AED	10,000	45.7511	0.457
6.	116596	Euro	145,768	188.6116	27.493
Total					1,084.350

Audit is of the view that non-advertisement of lists of unclaimed deposits which shows serious non-compliance.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 28, 2022. The management informed that Compliance of Banking Company Ordinance, 1962 was difficult due to huge volume of unclaimed deposits. Hence, the process of amendment in Ordinance is underway. However, SBP published entire bank wise unclaimed deposit record at its website. DAC directed the management to submit revised reply and expedite the amendment process and verify management's contention by submitting documentary evidences to audit.

Audit recommends compliance of DAC's directives.

5.3.4.7 Non achievement of performance objective by fund managers – Rs. 754.320 million (USD 4.489 million)

Agreement between Fund Managers and SBP stipulates the performance objectives to outperform the Benchmark by 0.50% per annum (after management fees) over rolling three year periods.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2019-20, it was observed that none of the Fund Manager has achieved the performance objective agreed as per agreement between SBP & Fund Managers. Moreover, neither the management had emphasized the fund managers to achieve the same nor any penalty was imposed for non-achievement of performance objectives. Details are as under:

(Amount in USD)									
Name of Fund Manager	Total Investment amount (A)	Return on investment (B)	Achieved Rate of return C = (B/A) * 100	Benchmark rate of return = D	Fees (E)	Return after Fees F=(B-E)	Achieved Performance objective G = (F/A)* 100	Required Performance objective H=(D+.05)	Required Performance objective (in USD) I=(A*H)
JPM	350,166,948	11,616,150	3.32%	3.25%	392,085	11,224,065	3.21%	3.75%	13,131,261
PIMCO	338,723,674	11,838,962	3.50%	3.25%	494,260	11,344,702	3.35%	3.75%	12,702,138
UBS	344,446,353	12,144,005	3.53%	3.25%	452,264	11,691,741	3.39%	3.75%	12,916,738
Total	1,033,336,975					34,260,508			38,750,137
Non-achievement of Performance Objective						38,750,137 - 34,260,508 = 4,489,629			

Audit is of the view that non-reinforcement for achievement of performance objectives is unjustified.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 28, 2022. The management informed that fund managers were not bound to achieve performance objectives. The rationale for keeping Performance Objective in the agreement was to extract more value out of Fund Manager's Performance. As managers had added value and outperformed benchmark substantially, so it was a fair assessment that their performance remained adequate given the market dynamics. DAC directed the management to verify its factual position from Audit.

Audit recommends implementation of DAC directives.

5.3.4.8 Loss due to wrong implementation of Board's policies resulting in substantially high pension costs per employee - Rs. 231.530 million per employee

Section 4.9-d (vi) of Code of conduct of SBP states that employees shall not intervene or influence SBP policies and decisions through unfair means, undue influences and recommendations. Further Section 4.1 (b) of Code of Conduct of SBP stipulates that all concerned shall be honest in conveying professional conclusions, opinions, research and findings for whatever purpose and shall not manipulate the system for personal gains.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2019-20, it was observed that the management allowed similar salary increment to employees under Old Monetized Scheme (OMS-employees with pension benefits) and New Contributory & Benefit Scheme (NC&BS-employees without pension benefits) unjustifiably since 2009, resulting in an additional HR cost (including pension liability) by 7 to 9 times.

Furthermore, in 2007 SBP introduced a new salary structure i.e. NC&BS, based on market based compensation and end-of-service benefits linked to defined contributions only. Existing employees under pension and gratuity schemes were given an option to convert to NC&BS or stay in OMS. Terms of NC&BS envisaged that new salary scales would be reviewed every two years according to market salary survey data to remain market competitive. Thereafter, salary surveys were conducted in 2009, 2011, 2013, 2015 & 2017, but similar salary increments were given to both categories of employees. Unjustifiably, OMS employees got the benefit of each market salary survey adjustment even though the survey was only mandated for NC&BS employees. The Board and Human Resource Committee (HRC) was never apprised of the difference in the substantial financial impact of allowing identical percentage increases to OMS till 2018. According to actuarial study for every 1% increase in salaries, the present value of defined benefit obligations of OMS employees was 7.3%, whereas for NC&BS employees, this impact was only 0.83%. Furthermore, even if an NC&BS employee at the age of 60 years had 50% more salary (i.e. Rs. 3.077 million) as compared to an OMS employee at same age (i.e. Rs. 2.063 million), the end of service benefits of an NC&BS employee (Rs. 3.752 million) is only

around 2% as compared to an OMS employee (Rs. 235.282 million), which resulted an additional pension cost of Rs.231.53 million per employee.

Audit is of the view that wrong implementation of Board policies had resulted in unjust enrichment for OMS employees, legitimate expectation of NC&BS employees and additional financial impact on account of substantial high pension costs.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 28, 2022. The management informed that the said matter is under discussion in BOD's meeting. DAC directed the management to expediate the process and submit the outcome of decision of BoD with Audit.

Audit recommends implementation of DAC directives.

5.3.4.9 Irregular hiring of external fund managers – Rs. 224.784 million

Rule 20 of PPRA, 2004 states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of the State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2019-20, it was observed that the external fund managers were hired for investment of foreign reserves of Pakistan without competitive bidding. The contracts of the same were being extended on yearly basis till date. Hence, fees paid to Fund Managers amounting to Rs. 224.784 million (USD 1.338 million @ Rs. 168) stands irregular.

Audit is of the view that hiring of services of Fund Managers in violation of rules stands irregular.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 28, 2022. The management informed that the services of all external fund managers were procured in 2004 with approval of Board. Hence, PPRA rules could not be applied. DAC directed the management to seek the waiver or clarification from PPRA authority for applicability of PPRA rules in said matter.

Audit recommends implementation of DAC directives.

5.3.4.10 Irregular placement of senior executives as Managing Director/ Chief Executive Officer - Rs. 180.538 million

Public Sector Companies (Appointment of Chief Executive) Guidelines, 2015 clearly states that every public sector company shall appoint its Chief Executive in accordance with the procedure specified in Schedule-I to the Guidelines i.e. development of Job profile/description, advertisement for the position, shortlisting process, evaluation of candidates, interviewing process, recommendation of minimum three candidates from the Board to competent authority/concerned line ministry and finally the appointment of the CEO upon concurrence of the competent authority.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2019-20, it was observed that management had been in continuous practice of deputing its Senior Management as Managing Directors / CEOs in all its subsidiaries and other related entities. The due process for appointing Managing Directors / CEOs as per Corporate Governance Rules, 2013 was never followed by the subsidiaries. Securities and Exchange Commission of Pakistan (SECP) had issued separate guidelines for appointment of CEO of a Public Sector Entities (PSEs). Currently, following employees of SBP are deputed as MDs / CEOs in following entities:

S. #	Name of employee on deputation as MD/CEO	Organization	Monthly Salary (Rs)
1	Muhammad Ashraf Khan	SBP-BSC	2,521,654
2	Riaz Nazarali Chunara	NIBAF	2,476,305
3	Muhammad Haroon Rasheed	PSPC	2,153,606
4	Syed Irfan Ali	DPC	1,985,514
5	Syed Basit Aly	HBFCCL	2,174,415
6	Ms. Lubna Farooq	FMU	2,549,955
8	Muhammad Saleem	PCGC	1,183,392
Total monthly salary			15,044,841
Total annual amount			180,538,092

Audit is of the view that the posting of Senior Management in entities reflects favouritism and violation of fundamental principles of Corporate Governance Rules.

The matter was reported to the management in May 2021. The management in its reply stated that positions of MD in subsidiaries (SBP-BSC,

NIBAF, PSPC& DPC) were filled after approval from the Governor as per their Articles of Association. For MDs in HBFC & FMU, Finance Division appointed the candidates. For PCGC, Governor of SBP assigned charge of CEO to the incumbent. The management's reply was not justified as no supporting document was provided. Moreover, articles of associations of subsidiaries only authorized Governor to appoint MDs/CEOs, whereas the procedure to be followed for appointment of MDs is clearly mentioned in Corporate Governance rules, which was not followed for appointment in all above mentioned entities. DAC was held on January 28, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

5.3.4.11 Unjustified payment of fees to external fund managers on higher rates – Rs. 159.063 million

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

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2019-20, it was observed that outsourced portfolio of USD 1.033 billion on 30.06.2020 was managed by following 3 external fund managers by charging higher fees. Moreover, during 2018-19, M/s Black Rock, offering economical fees as compared to 3 existing fund managers, was also approved as external fund manager by Investment Committee of Board; however, no portfolio had been allocated to M/s. Black Rock till date. The detail of fees of external fund managers are as follows:

S.#	Name of External Fund Manager	Fees (Average Bps)	Outsourced portfolio (USD in Million)	Fees Paid (in USD)
1.	JP Morgan	11.50	350.062	392,085
2.	UBS	13.50	344.464	452,264
3.	PIMCO	15.0	338.784	494,260
4.	Black Rock	12.50	0	0

Audit is of the view that non-allocation of external portfolio to M/s. Black Rock despite offering lower fees, is unjustified. Therefore, audit considers the payment of fees to fund managers at higher rates than M/s. Black Rock, amounting to USD 946,524 (Eq. to Rs. 159.063 million @ 1USD = Rs. 168.05) as unjustified on account of charging higher fees.

The matter was reported to the management in May 2021. The irregularity was discussed in DAC meeting held on January 28, 2022. The management stated that M/s. Black Rock was not assigned any portfolio due to decline in foreign reserves. Moreover, Black Rock was charging fixed minimum fees besides above mentioned fees of 12.50 bps. DAC directed the management to submit revised reply and verify its contention from Audit.

Audit recommends implementation of DAC directives.

5.3.4.12 Poorly planned acquisition and non-utilization of land - Rs. 150.000 million

As per sub section (3) of Section 4 of Corporate Governance Rules for PSE, 2013 the chief executive (Governor, in case of SBP) is responsible for the management of the Public Sector Company and for its procedures in financial and other matters. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2019-20, it was observed that the management acquired land measuring 6.0 acres in Gawadar at Rs. 100,000 per acre on a lease for a period of 30 years for a construction of SBP-BSC building in Gawadar in 2002. However, it was observed that no building has been constructed yet despite lapse of 19 years. Furthermore, it was also observed that the allotted land is

almost 20 miles away from the main city, which in turn depicted the ill-planning of management at the time of acquisition of land. Acquiring land outside city resultantly illustrated that main the considerations for acquisition of land for construction of SBP BSC office i.e. easy accessibility of general public, security of area and easy accessible location for commercial banks, were duly ignored. Current market value of land is Rs. 150.0 million.

Audit is of the view that the management failed to utilize the land which reflects inefficiency and imprudent decision making.

The matter was reported to the management in May, 2021. The management in its reply stated that the bank had earlier declined an offer of free of cost allocation of 1.75 acres of land by the Gwader Development Authority only due to security concerns. Moreover, construction on the plot could not be initiated as the scale of development of the city and initiation of business activities has been slow. The management's reply was not satisfactory as the construction of SBP's building would have encouraged other commercial banks for its presence in the vicinity which ultimately had rolling stone impact on development of area. Moreover, non-construction since 20 years reflected the ill-planning by the management. Furthermore, declining of free of cost plot was itself a loss of an opportunity. DAC was held on January 28, 2022, but para was not discussed.

Audit recommends corrective measures along with fixing responsibility on person for ill-planned acquisition of land and non-utilization thereof.

5.3.4.13 Irregular deputations of employees beyond maximum period – Rs. 148.903 million

Section 5.3 (f) of Deputation policy of SBP stipulates that deputations shall be for a maximum period of 3 years except for subsidiaries where there is dependence on staff deputed from SBP.

During audit of State Bank of Pakistan (SBP) and SBP-Banking Services Corporation (BSC) for the year 2019-20, it was observed that following employees were deputed in Financial Monitoring Unit (FMU) and National Accountability Bureau (NAB) irregularly despite expiry of admissible maximum period of deputation.

Full Name	Grade	Organization	Deputation Start Date	Salary per month (Rs)	Total salary paid during deputation (Rs. in million)
Jahan Zeb Fareed	OG-4	NAB	09.05.2015	384,446	27.295
Muneer Ahmed	OG-5	FMU	22.02.2008	595,066	92.830
Sohail Ahmad	OG-4	NAB	09.05.2015	405,308	28.776
Total					148.902

Audit is of the view that undue favoritism was granted to employees in their deputations for longer terms. Therefore, payment of salary along with deputation allowance is held irregular.

The matter was reported to the management in April, 2021. The management in its reply stated that deputation periods of Mr. Munir Ahmed were being upon extended upon request of DG-FMU. Other two mentioned employees were deputed in NAB and their deputations were extended upon NAB's request. The management's reply was not tenable as Mr. Munir Ahmed had been deputed since last 13 years and there is no provision in SBP rules for such long duration for deputation. Extension in deputation of other two employees in NAB without Governor's and BOD's approval was irregular. DAC was held on January 28, 2022, but para was not discussed.

Audit recommends that above mentioned employees must be called back from deputation immediately and responsibility be fixed on person(s) responsible for approving deputations beyond maximum period.

5.3.4.14 Imprudent decision of non-investment of excess liquidity – Rs. 92.435 million

One of the core functions of Financial Inclusion Division of Development Finance Support Department (DFSD) is investment of Funds of Credit Guarantee Schemes (CGS) and Microfinance Credit Guarantee Facility (MCGF) in Market Treasury Bills (MTBs).

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2019-20, it was observed that the management had no mechanism for investment of excess liquidity under non-remunerative accounts for Credit Guarantee Schemes (CGS). Further, it was also observed that excess liquidity, ranging from Rs.4.800 million to Rs.34.800 million and

accumulating to Rs.92.435 million remained idle and was not invested in short term securities i.e. Market Treasury Bills (MTBs). Detail of excess liquidity is mentioned as below:

CGS-TA-SME A/c 20239999910294		
Date	Available funds (Rs)	Delay (days)
08-04-2019 till 09-05-2019	34,853,915	31
15-05-2019 till 23-05-2019	9,692,217	14
05-07-2019 till 17-07-2019	9,443,865	12
17-07-2019 till 01-08-2019	9,403,265	15
28-08-2019 till 16-09-2019	6,106,371	19
16-09-2019 till 14-10-2019	5,956,691	28
09-01-2020 till 20-01-2020	12,126,307	11
CGS-DFID A/c 20239999910234		
17-09-2019 till 27-09-2019	4,853,110	10
Total	92,435,881	

Audit is of the view that non-investment of excess liquidity reflected non-monitoring of fund and imprudent decision.

The matter was reported to the management in May, 2021. The irregularity was discussed in DAC meeting held on January 28, 2022. The management informed that Rs. 50.000 million were initially retained for payment of expenses incurred by SBP BSC Offices for SME capacity building and awareness programs under above mentioned account number, which was later reduced to Rs. 15.000 million by foreign donor DFID and DFSD Committee. DAC directed the management to verify factual position from Audit.

Audit recommends implementation of DAC directives.

5.3.4.15 Irregular award of contract through negotiated tendering – Rs. 66.047 million

Rule 20 of PPRA, 2004 states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of State Bank of Pakistan (SBP) and SBP-Banking Services Corporation (BSC) for the year 2019-20, it was observed that the management awarded contract of Procurement of maintenance, support services and satellite bandwidth for SBP's corporate i-Direct VSAT Network" to M/s. Wateen

Telecom Ltd for Rs.66.047 million without calling tenders. The management engaged in negotiated tendering with the firm under rule 42(d) (iii) of PPRA, 2004 which states that “for technical or artistic reasons, or for reasons connected with protection of exclusive rights or intellectual property, the supplies may be manufactured or delivered only by a particular supplier”. However, there were various suppliers available who were providing the same services.

Audit is of the view that management had favored the supplier by awarding contract through negotiated tendering without advertisement.

The matter was reported to the management in March, 2021. The irregularity was discussed in DAC meeting held on January 28, 2022. The management informed that considering negotiated tendering, Invitation for Bids (IFB) or tender notice was published on PPRA and SBP’s website to invite authorized partners of i-direct (OEM). DAC directed the management to submit revised reply and get clarification from PPRA for said matter.

Audit recommends implementation of DAC directives.

5.3.4.16 Irregular debiting of House Building Finance Company Ltd account without approved terms and conditions – Rs. 64.827 million

Section 188(2) of Companies Act 2017 states that the terms and conditions of appointment of a chief executive nominated under section 186 or 187 shall be determined by the Government, in such manner as may be specified.

Section 7.1 of Deputation policy requires that SBP may place the services of its employees on secondment to external organizations where SBP plays a supportive role within or outside Pakistan. These include organizations having functional linkages with SBP, public sector institutions in Pakistan, research institutes, International lending/donor agencies, central banks, Academia (to pursue research with reputed institution), on-the-job research/training (relevant to the Bank functions) at foreign institutions, except those organizations which are regulated by SBP and where a conflict of interest exists.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2019-20, it was observed that the management deputed Syed Basit Aly, Director (OG-7), SBP as Managing Director/CEO of House Building Finance Company Ltd (HBFCL) on deputation basis for a period

of three years from Oct 20, 2017 on arrangement that HBFCL would reimburse to SBP on monthly basis the amount of his salary and other perquisites as well as other expenses borne by SBP on associated benefits like medical, rest & recreation allowance, deputation allowance @ 20% and other compulsory service benefits such as Provident Fund and Gratuity. Above all, audit was staggered to spot that the terms and conditions of appointment of CEO/MD were not even approved by the Cabinet Division, Government of Pakistan, whereas his deputation period was ended in Oct 2020. On the other hand, SBP debited Rs. 64.827 million on account of his salary till Apr 2020 from HBFCL's account maintained with SBP without approved terms and conditions by the Cabinet. Moreover, the presence/deputation of an employee of a regulator (SBP) at such a vital position of CEO in HBFCL created conflict of interest and self-review risk for the SBP, besides, raising doubts over the role of SBP as regulator as same was duly evident from non-conducting of inspection of HBFCL for any violation of SBP's Prudential Regulations and other prevailing rules/circulars of SBP since 2017.

Audit is of the view that firstly, the deputation of incumbent as MD/CEO in HBFCL by SBP created conflict of interest for SBP and secondly, debiting the account of HBFCL for reimbursement of his salary without approved terms and conditions from the Cabinet stands irregular.

The matter was reported to the management in April, 2021. The management in its reply stated that Syed Basit Aly was appointed Managing Director - HBFCL by Finance Division, Government of Pakistan in 2017 for a period of three years. Regarding terms and conditions, Finance Division vide letter dated March 7, 2018 informed HBFCL that summary of terms and conditions of appointment of Managing Director, HBFCL was under submission for approval of the Cabinet Division. Management's reply was not justified as deputation of SBP's employees at such high level of MD/CEO in an organization regulated and subsequently inspected by SBP created colossal conflict of interest, which was evident from non-conducting of HBFC's inspection during his term as MD. Moreover, the terms and conditions of the incumbent had not been approved by the Cabinet till date. DAC was held on January 28, 2022, but para was not discussed.

Audit recommends that the matter must be regularized by getting post facto approval of agreed terms and conditions from the Cabinet under intimation to audit along with immediate recall of the incumbent from HBFCL and strict inspection of HBFCL for any violation of SBP's Prudential Regulations should be carried retrospectively and perpetually.

5.3.4.17 Loss due to payment of conversion charges – Rs. 62.548 million

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

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2019-20, it was observed that the management paid Rs. 62.548 million as conversion charges to Cantonment Board Gujranwala (CBG) in respect of a Commercial plot. To the contrary, it was observed that the land was already declared as commercial as the registered sale deed showed the property as Commercial. The status of the land as Commercial was also confirmed by CBG on October 20, 2015.

Audit is of the view that payment of conversion charges of Rs.62.548 million in respect of plot/land which was already commercial, as irregular and unjustified.

The matter was reported to the management in May 2021. The management in its reply stated that during 2019 CBG had not only cancelled their earlier letter confirming status of the plot as commercial but also revoked their earlier approval of the building plans. Besides, the concerned revenue official of Punjab Land Record Authority, who had earlier provided copy of the Fard had later stated that he had mistakenly declared this land as commercial. Moreover, later on, Legal opinion pointed that nothing was on record to establish commercial status of the plot. The management's reply was not tenable as due to cancelation of its earlier letter by CBG, the position of SBP was strong legally.

Moreover, if the legal opinion of management would be accepted then the initial purchase of the plot, without bearing Commercial status, by SBP's management would be in question. DAC was held on January 28, 2022, but para was not discussed.

Audit recommends investigation of the matter and fixation of responsibility on the person(s) at fault.

5.3.4.18 Irregular appointment and awarding of scholarship – Rs. 58.202 million

Section 6.1 of Recruitment policy of SBP states that all positions shall be advertised in the national dailies and international journals (if required) highlighting eligibility criteria in terms of qualifications, skills and competencies etc.

During audit of State Bank of Pakistan (SBP) and SBP-Banking Services Corporation (BSC) for the year 2019-20, it was observed that management appointed Dr. Saeed Ahmed as OG-6 without advertisement in 2007. He accepted an offer under SBP's scholarship scheme as Joint Director (OG-V) in 2002 without any NOC from FBR. He after successful completion of a PhD program, neither served SBP as JD (OG-V) nor repaid the expenses incurred on scholarship as per terms. Later on, he joined SBP on deputation to serve the required period on May 23, 2005 and then was appointed as Senior Joint Director (OG-6) on September 07, 2007 without any advertisement.

Audit is of the view that the management granted undue favor to the incumbent in awarding scholarship without NoC from parent organization and appointment without advertisement, which is held irregular. Thus, payment of salary amounting to Rs. 58.202 million and expenses incurred on his scholarship period is also held irregular.

The matter was reported to the management in May 2021. The irregularity was discussed in DAC meeting held on January 28, 2022. The management in its reply stated that Dr. Saeed provided a NOC to apply for Ph.D study from FBR. Subsequent to completion of his Ph.D, he joined CBR/FBR as the said organization insisted him to rejoin the CBR and later on he was deputed in SBP. Appointment of Dr. Saeed was made in 2007, wherein advertisement was not

required as per applicable rules at that time for the recruitment. DAC directed the management to submit revised reply along with all supporting documents.

Audit recommends implementation of DAC directives.

5.3.4.19 Non-recovery from ex-employees - Rs. 47.800 million

As per Circular No. HRD (COE)/ 06 / 2016 February 01, 2016, all employees separating from Bank's service are required to adjust outstanding liabilities within sixty (60) days from the date of separation. In case the liabilities are not adjusted within the stated period, concerned ex-employee will be liable to pay mark-up on outstanding liabilities @ KIBOR+5% till the date he/she settles liabilities.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2019-20, it was observed that the management could not recover outstanding loans from ex-employees despite lapse of significant time of their separation. Details of outstanding loans are as under:

S. #	Name	PIN	Date of Resignation	Outstanding Loan (Rs. in million)	Markup KIBOR + 5%	Period	Total Outstanding (Rs. in million)
1	Syed Ather Ali Shah	50134	17-Aug-15	17.911	13.24%	5 years & 6 months	35.619
2	Mr. Baber Shehbaz	8837	17-Apr-19	9.469	13.24%	2 years	12.179
Total							47.799

Audit is of the view that non-recovery of outstanding loans tantamount to slackness and weak internal controls.

The matter was reported to the management in May, 2021. The irregularity was discussed in DAC meeting held on January 28, 2022. The management informed that efforts for recovery of outstanding liabilities from both incumbents were being pursued by the management. Moreover, management is in process of filing of recovery suit against 2nd incumbent. DAC directed the management to file recovery suit in court within two months under intimation to Audit and expedite efforts for recovery of outstanding amount.

Audit recommends implementation of DAC directives.

(DP No. 88 & 176)

5.3.4.20 Loss on sale of flats at lesser rates – Rs. 37.120 million

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

Section 20 (3A) of SBP Act, 1956 states that the Bank shall not, except as authorized under this Act, become the owner of any immovable property except where ownership is necessary for the use of such property by the Bank, or for the purposes of use for Shariah compliant instruments, for the residence, recreation or welfare of its officers or servants.

During audit of State Bank of Pakistan (SBP) and SBP-Banking Services Corporation (BSC) for the year 2019-20, it was observed that the management sold 256 residential flats to M/s. House Building Finance Company Ltd (HBFC) at Rs. 129.820 million in 1998-99. Each flat was sold at Rs. 505,000 against the market value of Rs. 650,000 thereby resulting in a financial loss of Rs. 37.120 million (Rs. 505,000 – Rs. 650,000 = Rs. 145,000 per flat).

Audit is of the view that sale of flats on lesser rates resulted in a loss of Rs. 37.120 million which reflects inefficiency and poor financial management.

The matter was reported to the management in May 2021. The management in its reply stated that the cost per flat was Rs. 486,580. HBFC had got the site surveyed by M/s. NESPAK who had evaluated a price per flat of Rs. 535,000. SBP negotiated the selling price close to the price determined by M/s NESPAK in order to cover the cost incurred. Management's reply was not tenable as management negotiated the property unjustifiably on the basis of valuation conducted by HBFC, not by SBP. However, market value of each flat was Rs. 650,000 which was sold imprudently to HBFC for Rs. 505,000, resulting in a loss of Rs. 145,000 per flat. DAC was held on January 28, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

5.3.4.21 Unjustified appointment due to non-utilization of services of Executive Search Firms – Rs. 26.052 million

As per section 6.1 of recruitment policy of SBP, all positions shall be advertised in the national dailies and international journals (if required) highlighting eligibility criteria in terms of qualifications, skills and competencies etc. Further, Section 6.2 states that in case the desired response is not received through advertisement, services of approved Executive Search Firms may be utilized.

During audit of State Bank of Pakistan (SBP) and SBP-Banking Services Corporation (BSC) for the year 2019-20, it was observed that management recruited two OG-II, three OG-II officers and nineteen contractual officers for IT department directly by conducting panel interviews. It was further observed that the initial written assessment test was not conducted despite the ED-HR's approving remarks in favor of written test except for posts of OG-III. Through scrutiny of record further highlighted that HR department's basis for waiver of written test for mentioned posts was smaller number of shortlisted candidates as tabulated below:

S. #	Position	No. of vacancies	Number of shortlisted candidate	Payment of salary (in Rs.)
1	Data Centre & UPS Infrastructure management (OG-II)	1	3	82,000
2	Configuration change management & Compliance (OG-II)	1	5	100,000
3	Data Centre Supervision (Hyd)	1	7	82,000
4	Software Engineer (OG-III)	1	14	202,000
5	Quality Control Engineer (OG-III)	1	8	188,000
6	IT Operation Officer (Contractual)	16	28	960,000 (16*60,000)
7	Drupal Developer (Contractual)	1	6	195,000
8	ECM Specialist (Contractual)	1	3	200,000
9	BPM Specialist (Contractual)	1	6	162,000
	Total monthly salary			2,171,000
	Total annual salary			26,052,000

It is pertinent to mention here that in case the desired response is not received through advertisement (as in the mentioned case i.e. smaller number of shortlisted candidates after advertisement), SBP's recruitment policy mandated the HR department to utilize the services of approved Executive Search Firms. However, no search firm was consulted for this recruitment to create a larger pool of candidates for strong competition, instead appointment was made through interviews from very small number of shortlisted candidates, which in turn reflected the lesser competition among candidates and management's undue favor to candidates could not be ruled out.

Audit is of view that appointment of above mentioned positions without efforts from HR department for creating possible strong competition through involving services of approved Executive Search Firms as per recruitment policy, is irregular. Hence, audit considers the above appointments without larger competition as unjustified.

The matter was reported to the management in April, 2021. The management in its reply stated that test was not required for lateral hiring because as per practice where the number of candidates is less, application of additional steps is not necessary. Moreover, service of executive search firm was not utilized due to earlier audit para on it previously. The management's response was not tenable as non-utilization of services of executive search firm due to an earlier audit para did not justify the non-compliance of its recruitment policy. DAC was held on January 28, 2022, but para was not discussed.

Audit recommends that the matter may be investigated and responsibility be fixed on person at fault.

5.3.4.22 Irregular award of contract of janitorial services - Rs. 19.352 million

Rule 39 of PPRA, 2004 states that where needed and clearly expressed in the bidding documents, the procuring agency shall require the successful bidder to furnish a performance guarantee which shall not exceed ten per cent of the contract amount.

As per bidding documents, Bank Statements of three months produced between date of publication of tender notice and bid submission date be

submitted as evidence showing minimum available liquid assets at Rs.1 million at any one instant in statement of last 03 months.

During audit of State Bank of Pakistan (SBP), Banking Services Corporation, Quetta for the year 2019-20, it was observed that the management awarded the contract to M/s Khan & Sons for hiring of Janitorial Services at Quetta amounting to Rs. 19.352 million being the lowest bidder. However, M/s Khan & Sons failed to provide 10% performance guarantee amounting to Rs. 1.930 million and bank statements showing the minimum available liquid assets of Rs. 1.00 million.

Audit is of the view that the contract was awarded in violation of rules and without observing codal formalities of the bidding documents. Thus, contract amounting to Rs. 19.352 million held irregular and unjustified.

The matter was reported to the management in March, 2021, but no reply was received. DAC was held on January 28, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

5.3.4.23 Irregular procurement of medicines – Rs. 14.659 million

Rule 12(1) & (2) of PPRA, 2004 states procurements over one hundred thousands rupees and up to the limit of two million shall be advertised over authority websites. These procurements opportunities must be advertised in print media open competitive bidding shall be prescribed financial limit for request of quotations.

During audit of State Bank of Pakistan, Banking Services Corporation (SBP, BSC) Peshawar and Quetta for the year up to 2019-20, it was observed that the management procured medicines amounting to Rs. 14.659 million through direct agreement with medical drug company without obtaining competitive rates from open market.

Audit is of the view that the management procured the medicines without competitive bidding in violation of rules which held irregular and unjustified.

The matter was reported to the management in April 2021, but no reply was received. DAC was held on January 28, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

(DP No. 166 & 177)

5.3.4.24 Loss due to gifting of plot without consideration – Rs. 14.400 million

Responsibilities/objectives of Management Committee on Properties & Equipment (MCPE) of SBP include assisting the Governor in exercising oversight responsibilities relating to planning, execution and monitoring of activities and functions related to all procurements, renovation and replacement of properties and Equipment, excluding equipment relating to IT.

During audit of State Bank of Pakistan (SBP) and SBP-Banking Services Corporation (BSC) for the year 2019-20, it was observed that the management surrendered / gifted 8 Kanals of land situated at Ichhra, Lahore to Lahore Development Authority (LDA) & Water and Sanitation Agency (WASA) for construction of side roads, sewerage lines and water disposal station valuing Rs. 14.400 million (Rs. 1.80 million per kanal x 8 kanal) without taking any consideration.

Audit is of the view that surrendering of plot without consideration to authorities resulted in a loss of Rs. 14.400 million which reflects inefficiency and poor financial management.

The matter was reported to the management in May 2021, but no reply was received. DAC was held on January 28, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

5.3.4.25 Imprudent decision of sale of land at lower rate – Rs. 12.278 million

As per section 20 (3A) of SBP Act, 1956 relating to businesses which the Bank may not transact, The Bank shall not, except as authorized under this Act, become the owner of any immovable property except where ownership is necessary for the use of such property by the Bank, or for the purposes of use for Shariah compliant instruments, for the residence, recreation or welfare of its officers or servants.

During audit of State Bank of Pakistan (SBP) and SBP-Banking Services Corporation (BSC) for the year 2019-20, it was observed that management sold an area of land measuring 31 kanals, 11 marlas & 95 Sqft at Lahore to Mr. Haji Muhammad Sultan & Mr. Muhammad Tariq at Rs.42.622 million as against the market value as detailed below:

Rs. in million			
Market Value	Rates of 1 st time quotation	Rates of 2 nd time quotation	Loss
54.900	51.00	42.622	12.278

Audit is of the view that the sale of land at lesser rates shows poor financial management and inefficiency. Thus, the management sustained a loss of Rs.12.278 million.

The matter was reported to the management in May 2021. The management in its reply stated that the estimated value of the plot of Rs. 54.9 million was indeed determined through a well renowned evaluator M/s Iqbal A. Nanjee & Company. Board approved its sale for Rs. 42.6222 million due to the fact that quotations, if called for the third time, might not result in realizing the estimated value of the plot and that retaining the plot any longer would only render it to encroachment. The management's reply was not justifiable as valuator in its report clearly mentioned that "the area of land was large and rates taken by us are on a lower side. However, land is divided into small pieces, the value of land would appreciate substantially." Hence, it is evident that even the market value estimated by valuator was on a lower side. DAC was held on January 28, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

5.3.4.26 Irregular hiring of space for parking vehicles - Rs. 5.347 million

Rule 5 (1) of Public Sector Companies (Corporate Governance) 2013, states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interests of the company.

During audit of State Bank of Pakistan, Banking Services Corporation (SBP.BSC), Peshawar for the year 2019-20, it was observed that the management

hired a space for parking of employee's private vehicles and paid Rent of Rs.5.347 million as detailed below:

S. #	Year	Rs.in million
1	2020	1.243
2	2019	1.254
3	2018	1.254
4	2017	1.254
5	2016	0.342
	Total	5.347

Audit is of the view that arranging of parking facilities to private vehicles of employees at the cost of company is not justified.

The matter was reported to the management in April 2021, but no reply was received. DAC was held on January 28, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

5.3.4.27 Irregular hiring of services of currency transportation contractor - Rs. 8.109 million

Rules 12(2) of PPRA, 2004 states 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 and in case where the procuring agency had its own website it may also post all advertisements concerning procurement on that website as well.

During audit of State Bank of Pakistan, Banking Services Corporation (SBP, BSC) Peshawar for the year 2019-20, it was observed that the management hired services of a contractor Mr. Bahadar Zaib for supplying transport service including labour caring the remittance of fresh notes without calling open tender. The aforesaid contractor was engaged since long on extension basis time to time on trust basis. He was allowed extension for one year w.e.f. January to December, 2020 and further January to March, 2021 for three months on the same terms and conditions.

Audit is of the view that hiring of services of contractor without tender stands irregular and unjustified. Thus, payment of Rs. 8.109 million stands irregular and unjustified.

The matter was reported to the management in April 2021, but no reply was received. DAC was held on January 28, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

5.3.4.28 Irregular appointment of officers – Rs. 7.180 million

According to Section-5 of recruitment policy of SBP, Human Resources Department shall prepare a Bank-wide Annual Manpower Plan through rationalization and consolidation of individual departmental manpower requirements with the approval of the Governor.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2019-20, it was observed that management hired four OG-II and one OG-III officers in the Office of Chief Information Security Officer (OCISO) without advertisement and in contradiction to approved Annual Manpower Plan. The detail of recruited employees are as under:

S.#	Name of employee	Grade	Salary (Rs)
1	Faizan Farooqi	OG-III	125,000
2	Ayaz Hussain Abro	OG-II	130,912
3	Syed Abeer Kazmi	OG-II	82,912
4	Sufiyan Ali Shaikh	OG-II	145,412
5	Waqas Ahmed Khan	OG-II	114,109
	Total monthly salary		598,345
	Total annual salary		7,180,140

While reviewing the file at length, following observations were noted:

- Initially recruitment drive was aimed to hire two OG-II and three OG-III officers in OCISO without mentioning the exact number of positions in the advertisement. Later on, keeping same number of positions, test was conducted on August 18, 2019 by NTS. Subsequently, management decided to hire four additional OG-II candidates from the same recruitment drive, reflecting the ill-planning by HR department.

- Two unfilled positions of OG-III were downgraded to OG-II in manpower plan of FY 2019-20, pointing towards the needless creation of posts of OG-III in manpower plan of FY 2018-19 without prudent planning.
- Already overdrawn quota of Sindh (U) & Merit was again overdrawn by filling mentioned positions against these quotas.

Audit is of the view that hiring of mentioned OG-II & OG-III officers is unjustified due to irregular planning by HR department as posts were not advertised and equal opportunity was not provided to the other potential candidates. Therefore, audit considers the said appointments as irregular and payment of Rs. 7.180 million on account of salaries and other perks as unjustified.

The matter was reported to the management in April 2021. The management in its reply stated that the number of positions was not required to be advertised and approval was granted by the Governor for additional hiring considering the critical nature of the functions performed by OCISO. Whereas for the other position of OG-III no candidate qualified, therefore owing to the acute shortage of staff the position was filled with a candidate qualified against OG-II position. Moreover, due to smaller available pool of candidates and shortage of staff in OCISO, Sindh (U) quota was overdrawn. Management's response was not justified as HR failed initially to forecast the total number of candidates required in OCISO. Moreover, posts were required to be advertised and due process should have been completed to explore more potential candidates. DAC was held on January 28, 2022, but para was not discussed.

Audit recommends that matter may be further investigated and responsibility be fixed on person at fault for human resource ill planning.

5.3.4.29 Non-recovery of non-performing loans – Rs. 6.762 million

Section 24.2.3 of HR Manual of SBP states that the personal loan granted to an employee is recovered in a maximum of 24 monthly installments or up to the date of retirement or termination of service whichever is earlier. The recovery of installment is started from the next month of availing loan, if loan is disbursed after 10th of preceding month.

As per Circular No. HRD (COE)/ 06 / 2016 February 01, 2016 all employees separating from Bank's service are required to adjust outstanding

liabilities within sixty (60) days from the date of separation. In case the liabilities are not adjusted within the stated period, concerned ex-employee will be liable to pay mark-up on outstanding liabilities @ KIBOR+5% till the date s/he settles liabilities.

During audit of State Bank of Pakistan (SBP) and SBP-Banking Services Corporation (BSC) for the year 2019-20, it was observed that the management failed to recover the non-performing loans amounting to Rs. 6.762 million.

Audit is of the view that the management showed slackness to recover non-performing loans of Rs. 6.762 million.

The matter was reported to the management in May 2021. The management in its reply stated that the unconsolidated financial statement of SBP did not reflect such non-performing loans, so it did not pertain to SBP. Management's reply was not justified as consolidated Financial Statements of SBP reflected amount of Rs. 6.762 million as Non-Performing Loans (NPLs) from employees. DAC was held on January 28, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

5.3.4.30 Non-recovery of outstanding dues – Rs. 5.719 million

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

During audit of State Bank of Pakistan (SBP-BSC) Peshawar for the year up to 2019-20, it was observed that an amount of Rs.5.721 million was lying outstanding against different parties for more than one year. The detail is as under:

(Rs in million)		
S.#	Description	Outstanding
1	Receivable from Pakistan Banking Mohtasib	0.035

2	Other Receivables	4.985
3	Receivable from litigation parties	0.200
4	Receivable from FMU	0.499
	Total	5.719

Audit is of the view that non-recovery of dues reflects inefficiency and weak recovery mechanism.

The matter was reported to the management in April 2021, but no reply was received. DAC was held on January 28, 2022, but para was not discussed.

Audit recommends prompt recovery of outstanding amount.

5.3.4.31 Irregular appointment of Junior Software Engineer without application – Rs. 1.452 million

As a general rule, in order for appointment against a specific post, candidate has to apply for that post initially.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2019-20, it was observed that the management appointed Mr. Faisal Saleem Ahmed, for the post of Junior Software Engineer (OG-II) in IT department in December 2019 without his application for the post of OG-II. However, the incumbent had applied and was successfully interviewed for the post of OG-III.

Audit is of the view that management extended undue favour to the incumbent in his appointment for the post of Junior Software Engineer (OG-II) without his application which stands irregular. Thus, the payment of salary amounting to Rs. 1.452 million also held irregular and unjustified.

The matter was reported to the management in April 2021. The management in its reply stated that interview panel decided to offer Mr. Faisal OG-2 position as no other candidate could qualify for the position of Junior Software Engineer (OG-2). Moreover, only 10% rise was offered to the candidate. Management's reply was not satisfactory as the incumbent could not be offered a position for which he had not applied. Moreover, management's reply was in contradiction with actual results of interview, hence appointing a candidate for a lower position on the grounds that no candidate qualified for that

lower post, would create legal risk for the Bank.DAC was held on January 28, 2022, but para was not dicussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

5.3.4.32 Irregular secondments in organizations regulated by SBP

As per section 7.1 of Deputation & Secondment Policy of SBP, SBP may place the services of its employees on secondment to external organizations where SBP plays a supportive role within or outside Pakistan. These include organizations having functional linkages with SBP, public sector institutions in Pakistan, research institutes, International lending/donor agencies, central banks, Academia (to pursue research with reputed institution), on-the-job research/training (relevant to the Bank functions) at foreign institutions, except those organizations which are regulated by SBP and where a conflict of interest exists.

During audit of State Bank of Pakistan (SBP) and SBP-Banking Services Corporation (BSC) for the year 2019-20, it was observed that the management placed the services of following employees on secondment basis in the organizations which are being regulated by SBP. The details are as under:

PIN	Full Name	Grade	Organization	Deputation Start Date
8901	Adnan Sarkar	OG-4	EXIM Bank	24-Aug-2016
9138	Muhammad Yasir Hayat Khan	OG-3	EXIM Bank	28-Oct-2016
8061	Tariq Rahman	OG-5	HBFCL	26-Feb-2018
8680	Usman Shaukat	OG-4	EXIM Bank	19-Oct-2016

Audit is of the view that management deputed the employees on secondment basis in violation of policy.

The matter was discussed in DAC meeting dated 28-01-2021. Management stated that EXIM Bank is not being regulated by SBP. Moreover, incumbent deputed in HBFCL was deputed upon requisition of MD, HBFC. However, upon audit's objection, incumbent had been called back. DAC was held on January 28, 2022, but para was not discussed.

Audit recommends compliance of DAC's directives.

5.3.4.33 Unjustified appointment of employees in violation of regional quota over years

Section 10 of State Bank of Pakistan Staff Regulations (2005) stipulates that appointment of employees by direct recruitment shall be made in accordance with the Regional or Provincial quota as prescribed by the Federal Government.

During audit of State Bank of Pakistan (SBP) and SBP-Banking Services Corporation (BSC) for the year 2019-20, it was observed that the direct recruitment was not made in accordance with Regional quota in SBP. Furthermore, quota of Sindh Urban was overdrawn against recruitments in all grades on the expense of under drawn quota in other regions/provinces. It was flabbergasted to note that the management was in practice of violating regional quota in all appointments over the years despite an audit observation earlier. Detail of current appointments depicting violation of regional quota is as under:

Grade	Opening Balance	Total posts filled in	Merit 7.5%		Punjab 50%		Sindh U 7.6%		Sindh R 11.4%		KP 11.5%		Baluchistan 6%		FATA / GB 4%		AJK 2%	
			Filled	Balance	Filled	Balance	Filled	Balance	Filled	Balance	Filled	Balance	Filled	Balance	Filled	Balance	Filled	Balance
OG-2	445	33	3	(0.525)	8	254.0	8	(16.49)	8	66.75	0.0	54.71	2.0	25.14	4	8.12	3	0.03
OG-3	84.00	2	1	(3.525)	-	65.0	1	(42.35)	-	13.74	-	20.27	-	12.75	-	9.92	-	5.960
OG-4	17.00	1	1	(0.075)	-	13.0	-	(20.55)	-	7.17	-	5.27	-	5.30	-	3.92	-	1.960
OG-5	43.00	0	-	0.675	-	16.0	-	(8.33)	-	8.51	-	9.71	-	6.11	-	6.16	-	3.080
OG-6	10.00	1	0	(1.00)	1	9.50	-	(5.30)	-	(0.04)	-	3.02	-	0.72	-	1.40	-	0.700
OG-7	4.00	1	1	(1.075)	-	10.0	-	(12.17)	-	2.73	-	1.76	-	1.31	-	0.96	-	0.480

Audit is of the view that management deliberately violated the regional quotas and unjustifiably overdrawn the quota of Sindh Urban in appointment in all grades.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 28, 2022. The management stated that the matter will be placed before BOD of SBP for further action. DAC directed the management to verify factual position and submit BOD's approval to Audit.

Audit recommends implementation of DAC directives.

5.3.4.34 Non-implementation of Islamic accounting and auditing standards due to non-appointment of Executive Director (ED) - Islamic Banking

Section 17(H) of SBP Act, 1956 relating to regulatory powers states that the Bank (SBP) shall have power to issue such directives, instructions and regulations in whatsoever form as may be necessary for carrying out the functions of the banks under this Act or any other law and shall be binding and enforceable.

The main objectives/goals of Islamic Banking Department is to strengthen legal, regulatory, and Shariah compliance framework to facilitate and catalyze development of Islamic banking industry in the country and to collaborate with local and international standard setting bodies/institutions dealing with Islamic finance, like Islamic Financial Services Board (IFSB), Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and International Islamic Financial Market (IIFM) etc. for the development of prudential standards/guiding principles for the Islamic banking industry.

During audit of State Bank of Pakistan (SBP) and SBP-Banking Services Corporation (BSC) for the year 2019-20, it was observed that management did not appoint Executive Director (ED) - Islamic Banking despite its approval from Board of Directors in 2017-18. It is pertinent to mention here that Islamic banking had grown substantially same is evident from recent substantial growth in Islamic banking. Moreover, Financing to Deposit Ratio (FDR), Return of Equity (ROE) & Return of Assets (ROA) of Islamic banking were comparatively higher than the overall banking industry of Pakistan. Furthermore, it was also observed that SBP had adopted only fifteen Shariah Standards of Accounting & Auditing for Islamic Financial Institutions (AAOIFI) out of 26 accounting standards, 5 auditing standards, 2 codes of ethics and 7 governance standards for Islamic banking. Current year's growth of Islamic banking is reflected as under:

Description	Islamic banking progress (Rs in billion)		Growth (%)	
	2019	2020	2019	2020
Assets	2,992	3,633	20.6	21.4
Deposits	2,415	2,946	18.8	22
Total Branches	2,913	3,274	8.5	12.4

Considering the recent growth in Islamic banking industry, Audit is of the view that non-appointment of ED-Islamic banking despite its approval from Board of Director since long, has resulted in non-implementation of Islamic financial standards in Islamic banking industry of Pakistan. Hence, risk of money laundering and terror financing through Islamic banking can not be ruled out.

The matter was reported to the management in May 2021. The management in its reply stated that observation did not fall under the scope of audit as it did not have any financial impact. Management's reply was not tenable as Audit pointed out the consequences of non-appointment of ED-Islamic

Banking as regulator non has resulted in non-implementation of Islamic accounting and auditing standards and prevailing risk of money laundering and terror financing in Islamic banking industry, which was not replied by management. DAC was held on January 28, 2022, but para was not discussed.

Audit recommends that management should take rigorous efforts to fill the post promptly and responsibility be fixed on person at fault for non-appointment of the post.

5.3.4.35 Non-production of record

Section 14 of the Auditor General of Pakistan's Functions, Powers, Terms and conditions of Service Ordinance 2001 provides as under:

(i) The officer in-charge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete form as possible and with all reasons bale expedition (Sub Section 2)

(ii) Any person or authority hindering the Auditorial functions of the Auditor General regarding inspection of accounts shall be subject to disciplinary actions under relevant E&D Rules (Sub-Section 3)

During audit of State Bank of Pakistan (SBP) and SBP-Banking Services Corporation (BSC) for the year 2019-20, various requisitions and subsequent reminders were issued for provision of record. However, the management failed to provide the auditable record despite the lapse of considerable time. Annex-33.

Audit is of the view that due to non-production of record Audit could not verify the authenticity & validity of items and expenditures.

The matter was reported to the management in May 2021, but no reply was received. DAC was held on January 28, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

5.4 Joint Ventures

5.4.1 Hindrance in Audit Function

Article 170 (2) of the Constitution of Pakistan, 1973 states that the Audit of the accounts of Federal and of the Provincial Governments and the accounts of any authority or body established by, or under the control of, the Federal or a Provincial Government shall be conducted by the Auditor – General, who shall determine the extent and nature of such Audit.

Section 14 (3) of the Auditor General's Ordinance, 2001, states that any person or authority hindering auditorial functions of the Auditor General regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Disciplinary Rule, applicable to such person .

During the year 2021-22, it was observed that 50% shares prescribed to the Government of Pakistan of the following joint ventures and comes under the Audit Purview of Auditor General of Pakistan (AGP). The Audit required the audited accounts and details of accounts to conduct the audit of following joint ventures, under above rule and provisions. On the directives of the worthy Auditor General of Pakistan (AGP), the letters were issued to the management of following Audit entities to conduct the Audit. However, entities refused to entertain the Audit. Due to the refusal of the management, the Office of the AGP could not fulfill its constitutional mandate.

S. #	Name of refusing entity	Remarks
1.	Pak Kuwait Investment Company Limited	The management refused to Audit on the ground that clarification from Law & Justice Division dated May 22, 2018 states that, "Joint Investment Companies which have foreign element do not fall within the ambit of Article 170 (2) of the Constitution of Republic of Pakistan."
2.	Pak Oman Investment Company Limited	
3.	Pak Iran Investment Company Limited	
4.	Pak Brunei Investment Company Limited	
5.	Pak Libya Holding Company Limited	
6.	Pak Bahrain Investment Company Limited	
7.	Pak Qatar Investment Company Limited	

Audit is of the view that refusal of management is tantamount to hinder the auditorial functions of the AGP.

Audit recommends that relevant record may be produced to Audit on priority and disciplinary action may be taken under E&D rules against those hindering the Auditorial functions of the AGP.

5.5 SME Bank Limited

5.5.1 Introduction

SME Bank Limited was formed and incorporated on October 30, 2001, as a public limited company under the Companies Ordinance, 1984 (now Companies Act 2017). The prime objective of the Bank was supporting and developing SME sector of the country. Total paid-up capital of the Bank was Rs. 2,390 million, out of which Rs. 2,244 million (93.89%) is owned by the Government of Pakistan. Other shareholders are NBP (2.56%), UBL (1.66%), HBL (0.830%), MCB (0.62%), ABL (0.32%) and IDBP (0.12%). The Bank was operating through a network of 13 commercial banking branches.

The Bank obtained its business commencement certificate on April 16, 2005, which became effective from the date of its issue. The main objectives of Bank were:

- To support, develop and promote SMEs by providing them with the necessary technical and financial assistance.
- To concentrate on value addition and export oriented SMEs.
- To enable SMEs to play a vital role in stimulating GDP growth, create job opportunities and reduce poverty.
- The Bank was on the list of Privatization Commission of Pakistan.

5.5.2 Comments on Audited Accounts

5.5.2.1 The financial performance of the bank for the year ended December 31, 2020 as compared with previous years is as follows:

	(Rs. in million)				
	2020	% Inc./ (Dec)	2019	% Inc./ (Dec)	2018
Mark Up/return / interest earned	738.948	(4.81)	776.306	4.70	741.444
Mark Up/return / interest expensed	1,008.663	(12.26)	1,149.619	58.86	723.660
Non-markup / interest income	(269.715)	(27.75)	(373.313)	-	17.784
Fee and Commission income	10.914	9.87	9.933	5.21	9.441
Dividend Income	1.619	(27.94)	2.247	392.76	0.456
Gain on Securities	0.815	11,543	0.007	(99.30)	1.001
Other Income	1.576	60.82	0.980	(19.61)	1.219
Total Non-markup/interest income	14.934	13.42	13.167	8.67	12.117
Total (loss)/Income	(254.781)	(29.26)	(360.146)	-	29.901
Non-Mark-up/interest expenses					
Operating expenses	837.299	(4.54)	877.195	4.54	839.127
Other Charges	69.559	0.19	69.426	2,980.12	2.254
Total non-mark-up/ Interest expenses	906.858	(4.20)	946.621	12.51	841.381
Loss before provision	(1,161.639)	(11.11)	(1,306.767)	-	811.480
Provisions & Write offs – Net	(14.521)	(24.99)	(19.358)	-	64.796
Loss before taxation	(1,147.118)	(10.89)	(1,287.409)	46.92	(876.276)
Taxation	(169.954)	(21.00)	(215.100)	327.31	(50.338)
Loss after taxation	(977.164)	(8.87)	(1,072.309)	29.83	(825.938)
Basic/diluted (Loss) per share (Rs.)	(4.08)	(8.93)	(4.48)	29.86	(3.45)

Ratio Analysis

	2020	2019	2018
Current Ratio	0.76 time	0.80 time	-
Return on Asset	-9.73%	-10.84%	-8.01%
Capital Adequacy Ratio (required 10%)	-107.95%	-71.83%	-52.19
Earning / (Loss) per share	(4.08)	(4.48)	(3.45)

5.5.2.2 The markup / return / interest earned by Bank decreased from Rs. 776.306 million in 2019 to Rs. 738.948 million in 2020 registering a decrease of 4.82%. Apart from it, interest expensed is greater than interest earned, resulting to interest loss of Rs. 269.715 million. Due to decrease in interest income by 4.82% and huge amount of interest loss, net loss for the year is Rs. 977.164 million and accumulated loss increased to Rs. 5,761.702 million (2019: Rs. 4,811.162

million) as on December 31, 2020. Further, SME bank is functioning with 13 branch offices in all over the country; the survival of bank with such a least number of branches is not possible. The management may focus on operational activities to improve the financial health of the bank; otherwise the sustainability of the Bank would be at stake.

5.5.2.3 Despite handsome increase of 13% in Deposits, and other accounts i.e. from Rs. 7500.708 million in 2019 to Rs. 7,602.613 million in 2020, markup was decreased by only 4.81% instead of increase. Despite increase in deposit base, the banks failed to improve its operations.

5.5.2.4 The current liabilities for the year ended December 31, 2020 stood at Rs. 13.101 million as against current assets of Rs. 9.941 million which was 0.76: 1 against the required ratio of 2:1. This shows the liquidity position of the company is not in satisfactory range, hence matter needs to be reviewed.

5.5.2.5 The non-performing loans were transferred to NBP for recovery from July 1, 2010 on certain terms and conditions. Out of total outstanding amount of Rs. 4,881.305 million as on December 31, 2018 not a single penny could have recovered by the NBP / SME Bank management till December 31, 2020. Efforts made for the recovery of said loans need to be explained.

5.5.2.6 Cash and bank balance with treasury banks includes balances with SBP which has decreased by 10.36% from Rs. 468.277 million as on December 31, 2019 to Rs. 419.782 million as on December 31, 2020. Detail of such balance along-with statutory requirements issued by the SBP needs to be highlighted. Further Balance with NBP bank has increased by 25.39% from Rs. 58.486 million as on December 31, 2019 to Rs. 73.334 million as on December 31, 2020. The management may elaborate the terms & conditions of deposits with said banks along with detail of markup earned on deposits.

5.5.2.7 Chartered Accountant issued Qualified Opinion on the financial statements of the bank. The basis of qualified opinion is that the bank has an investment in SME Leasing Ltd. (SMEL) Rs. 80.748 million (net of provision of Rs. 134.709 million) and has outstanding running finance exposure of Rs. 144.747 million. SMEL continues to operate on a net loss basis and therefore the recoverability of investment and running finance exposure is doubtful. Position

needs early attention.

5.5.2.8 Operating expenses includes directors fee, allowances and other expenses were incurred amounting to Rs. 2.659 million (2019-Rs. Nil) in the year 2020. The figure is silent by means of notes. It is pertinent to mention here that the expenditure in the same was Nil in the previous years. Audit recommends to justify the reason for incurring the abnormal expenditure and to provide the detailed break up.

5.5.2.9 Return on Asset ratio of the Bank for the year 2020 was negative 9.73% whereas Return on Asset (ROA) of over positive 5% is generally considered good. The term return on assets (ROA) refers to a financial ratio that indicates how profitable a company is in relation to its total assets. A higher ROA means a company is more efficient and productive at managing its balance sheet to generate profits while a lower ROA indicates there is room for improvement. Negative return on assets ratio needs justification.

5.5.2.10 Capital Adequacy Ratio (CAR) of the company was negative 107.95%, whereas Bank was required to maintain CAR ratio at positive 10%. The capital adequacy ratio (CAR) is a measure of how much capital a bank has available, reported as a percentage of a bank's risk-weighted credit exposures. The purpose is to establish that banks have enough capital on reserve to handle a certain amount of losses, before being at risk for becoming insolvent. Audit recommends to justify the reason for negative CAR i.e. (107.95%).

5.5.2.11 Earning/(Loss) per share of the SME bank for the year 2020 is negative i.e. (4.08) which is consecutively negative since last 6 years A higher EPS indicates greater value because investors will pay more for a company's shares if they think the company has higher profits relative to its share price. Negative earning per share/ loss per share needs justification.

5.5.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
1990-91	04	02	02	221, 225	50
1991-92	03	02	01	210	67
1992-93	06	05	01	73	83
1993-94	12	09	03	53, 54, 57	75
1994-95	10	03	07	68, 74, 76, 77, 79, 81, 125	30
1995-96	04	02	02	88, 96	50
1996-97	11	09	02	66, 71	82
1997-98	13	12	01	79	92
1998-99	10	07	03	84, 85, 86	70
1999-00	21	13	08	110, 121, 122, 124, 125, 126, 127, 129	62
2000-01	23	0	23	86, 88, 89, 91, 92, 94, 95, 97, 98, 99, 100, 101, 102, 104, 106, 107, 108, 109, 110, 111, 112, 114, 115	-
2001-02	07	02	05	144, 145, 146, 147, 148	29
2002-03	15	11	04	72 & 72.1, 73, 74, 77	73
2003-04	15	06	09	67, 68, 69, 70, 71, 73, (74,75, 76-CIRC)	40
2004-05	05	04	01	47-CIRC	80
2005-06	08	03	05	88.4, 89, 90, 91, 92	37
2006-07	13	05	08	53, 54, 55, 56, 57, 58, 59, 60	38
2007-08	06	04	02	55, 56	71
2008-09	07	0	07	64, 65, 66, 67, 68, 69, 70	-
2009-10	07	04	03	70.3, 70.4, 71	63
2013-14	13	01	12	6.5.1, 6.5.2.1, 6.5.2.2, 6.5.2.3, 6.5.4.4, 6.5.4.1, 6.5.4.2, 6.5.4.5, 6.5.4.3, 6.5.2.4, 6.5.2.5, 6.5.3	8
2016-17	15	08	07	6.4.2.2, 6.4.2.3, 6.4.2.4, 6.4.2.5, 6.4.2.6, 6.4.3, 6.4.4.2	53
Total	228	112	116		49

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

5.6 Zarai Taraqiati Bank Limited

5.6.1 Introduction

In pursuance of Section-3 of Agricultural Development Bank of Pakistan (ADBP) (Re-organization and Conversion) Ordinance 2002, ZTBL was incorporated as a public limited company under the Companies Ordinance 1984 (now Companies Act 2017) on October 23, 2002. All assets, contract, liabilities, proceedings and undertakings of ADBP were transferred to and vested in ZTBL on December 14, 2002 at a total worth of Rs. 870 million. Out of total issued shares of 1,252.24 million, 1,251.19 million are held by Federal Government, remaining shares are held by four Provincial Governments. The Bank's principal office is situated at 1-Faisal Avenue, Zero Point, Islamabad.

Main purpose of the Bank is to provide sustainable rural finance and services particularly to small farmers and low-income households to strengthen the rural and agricultural sector, mitigate poverty, capital market, and investment activities and other banking business. The Bank was disbursing loans of two categories i.e. production loans for short term and development loans for long-term purposes. The Bank was being operated through 32 Zones with a total number of 460 branches. On December 31, 2016, the net advances amounted to Rs. 141.27 billion (2015: Rs. 134.69 billion).

5.6.2 Comments on Audited Accounts

5.6.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts of the organization for the year 2017 to 2020 till December 31, 2021.

Audit recommends that the annual audited accounts for the years 2017-18 to 2020-21 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

5.6.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
1989-90	19	14	05	226, 230, 233, 234, 235	74
1990-91	14	10	04	174, 175, 176, 178	71
1991-92	13	06	07	154, 155, 148, 150, 152, 151, 153	46
1992-93	18	12	06	8, 16, 17, 18, 19, 21	67
1993-94	17	10	07	9, 11, 12, 13, 15, 16, 22	59
1994-95	19	13	06	7, 12, 15, 20, 14, 22	68
1995-96	24	15	09	8, 13, 14, 16, 17, 18, 19, 23, 28	63
1996-97	06	04	02	7, 11	67
1997-98	18	11	07	46, 49, 53, 56, 58, 59, 62	61
1998-99	10	05	05	68, 70, 73-S, 74-S, 75-S	50
1999-00	11	01	10	1.2, 1.3, 1.4, 2.1, 2.2, 3.1, 3.2, 4.1,4.2,5 (SAR-141)	9
2000-01	14	06	08	68, 72, 73, 74, 76, 79, 75, 80	43
2001-02	10	05	05	133, 134, 135, 138, 139	50
2002-03	02	01	01	69	50
2003-04	10	05	05	62.6, 62.2, 62.4, 64, 65	50
2004-05	03	01	02	45, 46	33
2005-06	13	06	07	80.5, 80.6, 81, 82, 84, 85, 86	46
2006-07	13	06	07	62.6, 63, 64, 65, 66, 67, 68	46
2007-08	11	07	04	59, 60, 61, 62	64
2008-09	13	05	08	71.3, 72, 73, 74, 75, 76, 77, 78	38
2009-10	07	03	04	74, 75, 77, 79	43
2013-14	14	0	14	6.6.1, 6.6.2.1, 6.6.2.2, 6.6.2.3, 6.6.2.4, 6.6.2.5, 6.6.2.6, 6.6.2.7, 6.6.2.8, 6.6.3, 6.6.4.1, 6.6.4.2, 6.6.4.3, 6.6.4.4,	0
2016-17	21	12	09	6.5.2.2, 6.5.2.3, 6.5.2.4, 6.5.3, 6.5.4.1, 6.5.4.3, 6.5.4.5, 6.5.4.6, 6.5.4.8	57
2017-18	24	02	22	9.6.1, 9.6.2.1, 9.6.2.2, 9.6.2.3, 9.6.2.4, 9.6.2.5, 9.6.2.6, 9.6.2.7, 9.6.2.8, 9.6.2.9, 9.6.2.10, 9.6.2.11, 9.6.2.12, 9.6.3, 9.6.4.1, 9.6.4.3, 9.6.4.4, 9.6.4.5, 9.6.4.7, 9.6.4.8, 9.6.4.9 & 9.6.4.10	8
2019-20	11	0	11	6.7.2.1, 6.7.2.2, 6.7.3, 6.7.4.1, 6.7.4.2, 6.7.4.3, 6.7.4.4, 6.7.4.5, 6.7.4.6, 6.7.4.7, 6.7.4.8	0
Total	335	160	175		48

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

5.6.4 Audit Paras

5.6.4.1 Poor achievement of loan recovery targets – Rs. 14,309.989 million Less achievement of deposit target – Rs. 24,588.59 million

According to Clause 15.21(i) of credit manual of ZTBL, recovery Department will issue targets against recoverable amounts separately against past year dues and recovery installments being fallen due during the year as per bank books whereas SAM Department will issue targets as against SAM Portfolio to each Zone as assigned by the management. The Zonal Chief will be responsible to issue such targets to each branch / MCO circle as per guidelines issued by Head Office.

During audit of ZTBL (HO) Islamabad for the year ended December 2020, it was observed that the Special Assets Management (SAM) department fixed targets against the SAM portfolio to the field offices of different zones for recovery of the outstanding loans but the concerned offices failed to achieve the desired targets as tabulated below:

(Rs. in million)						
No. of Zone	No. of Branches	Loan type	Target fixed	Target achieved	Less achieved	%age
38	38	General	10,633.31	3,078.41	7,554.90	29
31	-	SAM	8,999.972	2,244.883	6,755.089	25
	Total		19,633.282	5,323.293	14,309.989	

Further in 18 Zones, 287 branches were given the deposit targets of Rs. 30,944.32 million out of which only Rs. 6,355.73 million was achieved leaving a balance of 24,588.59 million which was only 21% of the fixed target.

Audit is of the view that overall performance of the ZTBL for recovery of outstanding loans and deposit targets, was very poor which affects the overall sustainability of the bank in future.

In the DAC meeting held on 01.02.2022, the management informed that Deposit Weightages given to the field functionaries in their annual appraisals and they were appraised according to their deposit achievements. In addition LMD is closely monitoring their performance and quarterly performance report is sent to HR for their furtherance against non-performers on regular basis.

The DAC directed the management of ZTBL to rationalize the recovery targets and verify the reflection of poor performances in PERs, probe into the causes of poor performance, of the bank and take appropriate measures for improvement of performance of 38 branches of ZTBL reported by Audit and get the relevant record verified till satisfaction of Audit.

Audit recommends compliance of the directives of the DAC.

Para-1, 2 & 3 (ZTBL HO), 2020

5.6.4.2 Non-recovery of loans decided / decreed by courts in favor of bank - Rs. 69.449 million

As per para-19 (3) of Financial Ordinance No XLVI of 2001, in case of mortgage, pledged or hypothecated property, the financial institution may sell or cause the same to be sold with or without the intervention of the Banking Court either by public auction or by inviting sealed tenders and appropriate the proceeds towards total or partial satisfaction of the decree. The decree passed by the Banking Court shall constitute and confer sufficient power and authority for the financial institution to sell or cause the sale of the mortgaged, pledged or hypothecated property together with transfer of marketable title and no further order of the Banking Court shall be required for this purpose.

During the audit of ZTBL (HO) Islamabad for the year ended December, 2020, it was observed that 110 loan cases were decree/decided in favor of ZTBL by the courts during the years 2019 but the outstanding dues amounting to Rs. 69,448,525 was not recovered by auction of such land / other properties.

Despite lapse of considerable period, the management failed to take effective measures/steps to recover the amount from the defaulter loanees decided/decreed in favor of Bank through personal means or Law Enforcement Agencies. This shows the administrative and financial mis-management of the bank. Thus due to non-recovery of the said amount from the defaulters, the Bank sustained loss of Rs. 69,448,525.

In the DAC meeting held on 01.02.2022, the management informed that the bank adopts the best recovery measures in number of cases Bank has acquired the properties and auctioned them in satisfaction of its decree.

The DAC directed the management to pursue the court cases and outstanding recovery vigorously, and get the relevant record/ documents verified by Audit till its satisfaction.

Audit recommends compliance of the directives of the DAC.

Para-7 (ZTBL HO), 2020

5.6.4.3 Loss due to misplacing of loan files – Rs. 15.131 million

As per Clause-10.11 (i) of ZTBL Credit Manual Vol-1 loan case files containing all legal documents to ensure the security of the loan advanced by the Bank should be kept in the joint personal custody of the Manager/ Sub Manager and the credit officer (Desk) and Accounts Officer under lock and key. Further, as per ZTBL (Head Office) Circular No. CAD/I/2011 dated 26th April, 2011, all the Zonal Chiefs/Zonal Managers/ Area Chiefs/ Chief Managers/ Branch Managers are responsible for re-construction of loan files damaged/misplaced.

During the audit of ZTBL (HO) Islamabad for the year 2020, it was observed that 29 loan case files disbursed/ sanctioned were misplaced and not traceable due to which the bank sustained a loss of Rs. 15.131 million.

Major penalty of dismissal from service alongwith 50% amount of outstanding loans with up to date markup was imposed on Mr. Sikandar Ali Khoso PP No.069612 and retiring benefits of Mr. Niaz Ali Manggrio Ex-AVP/OICA were also retained by the bank. Furthermore, the cases were just illustrative and not exhaustive; therefore, the management may review all such other cases in all over the country.

In the DAC meeting held on 01.02.2022, the management informed that inquiry proceedings against both the accused were completed wherein allegations regarding missing files of 82 SAM loans and 30 files of general loan cases were proved.

The DAC directed the management of ZTBL to get the relevant records/ files and amount recovered verified by Audit. The DAC further directed the management of ZTBL to expedite efforts for tracing of missing files/ records and furnish progress report during next meeting of the DAC.

Audit recommends compliance of the directives of the DAC.

5.6.4.4 Loss due to fraud & forgery - Rs. 14.850 million

According to ZTBL Fraud Prevention Policy 2015, every employee of ZTBL including adhoc, temporary, contract, representative of vendors, suppliers, contractors, consultants, service provider or any other agency doing any type of business with ZTBL is expected and shall be responsible to ensure that there is no fraudulent act being committed in their areas of responsibility/control. As soon as it is learnt that a fraud or suspected fraud has taken or is likely to take place they should immediately apprise the same to concerned quarter as per procedure.

During audit of ZTBL Islamabad for the year ended 31.12.2020, it was observed that following managers/assistant managers embezzled Rs. 14.550 million in various loan cases by obtaining signature/thumb impression of borrowers on blank papers including cheques in advance but payments were not made to the actual borrowers. Allegations against the accused proved after proper inquiry and on the recommendations of inquiry Committee, the management imposed major penalty of dismissal from service and recovery of Rs. 14.550 million with up to date markup vide office memorandums dated 30.04.2021.

Name of Manager/AM	PP No.	No. of loan cases	Amount embezzled
Mr. Naveed Ashraf late Manager	-	01	300,000
Mr. Zia ud Din Cashier	104786	17	682,392
Mr. Shankar Lal AM Operations	072834	32	2,885,692
Mr. Muhammad Junaid MCO	130344	22	3,249,561
Abdul Samad Manager	038652	42	7,732,539
Total:-			14,850,184

Audit is of the view that despite existence of different departments in ZTBL like audit department, Anti-corruption cell and disciplinary department, such type of frauds show lack of financial mismanagement resulting loss to the bank.

Matter was reported to the management on 15.09.2021. Management replied that on rejection of departmental appeals, the management registered FIR against the accused ex-employees.

Reply was not acceptable as no further progress in the matter was shown to the audit till finalization of the report.

In the DAC meeting held on 01.02.2022, the management informed that FIR has been lodged against him in Police Station Kandhari on 11.09.2021. Further, all cases are now subject to centralized approval of head office.

DAC showed its concern on the issue and pended the para till recovery of outstanding dues. Further, directed to refer the cases to FIA through Ministry and also take appropriate remedial measures to avoid such recurrence in future.

Audit recommends compliance of the directives of the DAC.

Para-32, 33, 34, 40 & 41 (ZTBL HO), 2020

5.6.4.5 Irregular appointment as AVP on fake degree – Rs. 8.908 million

According to the Clause – 1 (vi) (f) of the Offer of Appointment No: HROD/ (R&A)/ 1(13)/ 2009/ 6074 dated: July 11, 2009 issued Agha Hassan Khurshid, in case any information/ documents provided at the time of seeking appointment in the Bank or after joining proved to be incorrect/ fake, necessary departmental proceedings would be initiated against you, which may result in termination of your services from the Bank. The above action shall not preclude the criminal proceedings that the Bank may initiate against you for recovery of its dues/ assets which may, owe to the Bank at the time of termination.

During the audit of ZTBL for the year ended December, 2020, it was observed that management appointed Agha Hassan Khurshid as Assistant Vice President in the bank w.e.f July 11, 2009 under Staff Regulations-2005. The officer was having Master in Business Administration (marketing). Upon verification, his master degree was found bogus by the HEC. The officer was charge sheeted and directed to immediately relinquish the charge of the office and hand over the vehicle and other Bank assets.

Audit is of the view that management extended undue favor by not confirming the degree/certificates of employees within 30 days' time hence, tantamount to negligence. The degrees were verified after approximately 06 years later. Thus, the appointment and payment of Rs. 8.908 million made on account of pay & allowances was held irregular.

In the DAC meeting held on 01.02.2022, the management informed that Honorable Supreme Court of Pakistan vide its judgment in Civil Review Petition No. 1165 of 2021 dated 03.01.2021 has accepted the Bank's appeal and directed

the Bank to continue the inquiry and pass order within 15-days after complying with all codal formalities.

DAC directed to get the amount recovered from the concerned and share inquiry report in the case with the Ministry & Audit, verify the same from audit within 15 days failing which his case will be referred to FIA.

Audit recommends compliance of the directives of the DAC.

Para-42 (ZTBL HO), 2020

5.6.4.6 Irregular appointment and payment of salary to the employees already employed in WAPDA - Rs. 2.070 million

According to clause – I vi (f) of the Offer for Appointment No: HROD/R&A/ 1(13)/ 2016/ 5980 dated: 07.12.2016, “In case any information/ documents provided by you at the time of seeking appointment in the or after joining proved to be incorrect / fake, necessary departmental proceedings would be initiated against the you, which may result in termination of your services from the Bank. The above action shall not preclude the criminal proceedings that the Bank may initiate against you for recovery of its dues / assets which you owe to the Bank at the time of termination.”

During audit of ZTBL Head Office Islamabad for the year 2020 it was observed that the management appointed Ms. Ushna Sohail PP No: 131658 as Officer grade-II as tennis player who joined ZTBL on 03.02.2017. Later on WAPDA Sports Board intimated vide letter dated: 13.10.2020 that she was employed in WAPDA since 20.12.2008. Ms. Ushna Sohail deliberately concealed the facts of her employment in WAPDA Sports Board and managed second appointment by fake / false statement. She was appointed as officer grade II officer @ 45000 per months on dated December 07, 2016 and her service were terminated vide November 03, 2020 and was paid an approximate amount of Rs. 2.070 million (45000 x 46 months).

Audit is of the view that as the candidate concealed her past job and fraudulently got appointment in ZTBL hence matter may be taken up at appropriate level for recovery of salary and other benefits from her.

In the DAC meeting held on 01.02.2022, the management informed that on account of fraud & forgery committed by her through concealment of her

employment with WAPDA, she was discharged from Bank's service along with recovery of all amount paid to her on account of salary and / or any other benefits. The president of bank in DAC further directed his management to counter sue.

DAC pended the para till recovery of the amount paid by bank.

Audit recommends investigating the matter and recovery of the amount involved from the officer concerned.

Para-49 (ZTBL HO), 2020

5.6.4.7 Loss to the bank due to certain irregularities committed in ZTBL branch - Rs. 34.050 million

As per clause 19.5 of Credit Manual of ZTBL Security in loan cases transferred to SAM can be redeemed only after full repayment/settlement of loan as per standing instructions in vogue.

Further, as per para 4.22.11 (ii) of credit manual loans against the security of un-cultivable land should not be sanctioned, both under Pass Book and Outside Pass Book System.

During the audit of ZTBL (HO) for the year ended December, 2020, it was observed that local management of ZTBL Adda Zakhira Branch Multan Zone committed serious irregularities in the following cases which resulted into loss of Rs. 34.050 million to the bank:

- i. Local management of ZTBL has redeemed 04 alive loan cases for which an amount of Rs. 1.515 million was still outstanding.
- ii. Field audit team reported a loan case # 011758 worth Rs. 0.267 million in SAM loan portfolio, was sanctioned by the branch management without mortgage of security.
- iii. Risky loaning of Rs. 0.575 million against small holding of 12 kanal land only.
- iv. Loan case # 64378 of Rs. 0.150 million was sanctioned against uncultivated land area.
- v. Expected loss of Rs. 26.315 million due to sanctioning of 34 loans beyond repaying capacity of loanees.
- vi. 08 No. cases of loaning of Rs. 2.194 million against GL head 9371 "Soghat e Shireen" (Gur Making) to the potato cultivator.

- vii. Expected loss due to fake adjustment of loan case # 56393 by sanctioning new Loan case # 65085 & LC# 65122 of Rs. 0.903 million
- viii. Expected loss of Rs. 1.633 million due to sale of 12K-10M of land mortgaged in favor of bank. This also create doubt about remaining land mortgaged in favor of ZTBL (LC# 013286).
- ix. Chances of embezzlement due to missing of safe file of loan case # 34920 worth Rs. 0.498 million

In the DAC meeting held on 01.02.2022, the management informed that the main accused ex-Manager, Adda Zakhira Branch was charge sheeted along with 05 other co-accused and after completion of inquiry, show cause notices were served to all the accused. The case was under trial with NIRC and decided in the favour of bank.

The DAC directed the management to refer the cases to FIA and submit completion report in the case to the Ministry and Audit within six months.

Audit recommends compliance of the directives of the DAC.

Para-35 (ZTBL HO), 2020

5.6.4.8 Non-recovery of surety bond and one month salary from the employees resigned before the prescribed period – Rs. 3.580 million

Para (a) (vi) of the appointment orders dated 27.12.2019 read with Para – 4 and 5 of the Surety Bond made with each appointee states that “the employee and surety abide themselves jointly and severally to refund/return an amount of Rs. 300,000 if the employee resigns or in any case leaves the Bank before the prescribed period of three years from the date of joining in Bank’s service. Any kind of internal / external pressure or Safarish to waive off the amount of Rs. 300,000 may leads to disciplinary action against the concerned employees”

During audit of ZTBL Head office Islamabad for the year ended December, 2020, it was observed that 11 employees either resigned or left the bank service prior to completion of their surety bond period. But neither the surety nor the employees concerned deposited the surety bond amount of Rs. 300,000 and one month’s salary of Rs. 28,000 to the bank. Management made no effort to recover the amount from the employees and thus bank sustained a loss of Rs. 3.580 million.

In the DAC meeting held on 01.02.2022, the management informed that the competent authority in some deserving cases waived off the condition of submitting surety bond amount as well as the amount of one-month salary keeping in view their financial inadequacy to refund the same.

The DAC directed the management to review the policy besides verification of recovered amount till satisfaction of audit.

Audit recommends compliance of the directives of the DAC.

Para-26 (ZTBL HO), 2020

5.6.4.9 Loss due to non-closure / shifting of loss making branches - Rs. 5,161.62 million

According to clause 7.2 (a) of chapter 7 of Branch Licensing Policy 2016 of State Bank of Pakistan, the commercial banks / MFBs will be free to close any of their existing places of business operating in banked areas, without obtaining prior permission of SBP. For closure of UBCBs, commercial banks will be required to obtain prior approval of SBP.

During the audit of Zarai Taraqiati Bank Limited (ZTBL) for the year ended December 2020 it was observed there are 31 zones of the ZTBL and 502 branches in all over the Pakistan. Audit observed that in 15 zones, out of total 236 branches, 191 branches were continuously making loss of Rs. 5,161.62 million in the year 2020. While reviewing the three year's progress of the zones, net loss of the branches was increased from Rs. 2,111.77 million in 2018 to Rs. 5,161.62 million in 2020.

Management of the ZTBL neither increased the profitability of these branches nor closed the loss making branches or shifting to the nearest areas to make them profitable in the light of SBP policy.

In the DAC meeting held on 01.02.2022, the management explained that 52.37% branches have overcome the losses with the recovery of Rs 2,703.25 million out of objection amount of Rs 5,161.62 million.

DAC directed to justify measures taken for improvement of their business and pended the para for rationalization of branches making continuous losses in consecutively last three years.

Audit recommends compliance of the directives of the DAC.

Para-10 (ZTBL HO), 2020

**5.6.4.10 Irregular appointment without prescribed qualification -
Rs. 14.760 million**

Non-recovery of embezzled amount - Rs. 5.084 million

As per clause 12 (B) (xiv) of HR manual, all appointments be made exclusively on merit/competitive basis and locally available talent, if otherwise on merit, be preferred. Further, as per job advertisement for appointment of SVP, the minimum required qualification for the post of SVP was 'Master degree in public administration or any other social sciences' with maximum age limit of 50 years.

During the audit of ZTBL for the year ended December, 2020, it was observed that management of the bank hired the services of Cap. ® Rehan-ul-Ghani as SVP in June 2014. As per advertisement the required qualification was MPA or MSc (Social Sciences) with 15 year of experience. However it was observed that the appointee was a graduate (BSc in naval sciences) and completed one year MSc (war Studies). Despite of having irrelevant qualification, the said officer was appointed against the post of SVP. Later on the officer committed a fraud due to which he was dismissed from services with the direction of recovery of involved amount of Rs. 5.084 million which could not be recovered till finalization of the report.

Audit is of the view that payment of Pay & allowances amounting to Rs. 14,760,000 million (180,000 x 82) to the SVP without prescribed qualification and committing fraud was held irregular.

In the DAC meeting held on 01.02.2022, the management informed that Mr. Rehan Ghani possessed the required qualification i.e. Msc. War Studies as mentioned in advertisement and he has vast experience of 22 years against the required experience of 15 years.

DAC directed to write a letter to Navy for action /recovery of outstanding dues. The progress report in the case should be presented by the ZTBL during next meeting of the DAC.

Audit recommends compliance of the directives of the DAC.

Para-38 (ZTBL HO), 2020

5.6.4.11 Irregular appointment of VP in violation of rules and expenditure incurred on their pay & allowances - Rs. 6.177 million

In accordance with ZTBL Recruitment/Selection clause-1.3 (i) (ii) “Human Resource Operation Department will ensure that candidates having dual nationality may not be considered for fresh appointment in the Bank in future. Further in accordance to Para-1.2(B) viii of HR Manual 2017 read with Para-I of the Human Resource Division Policy & Regulations Department circular letter No. hrd/06/2013 dated 23.04.2013, dual nationality holders are not eligible to be appointed in Bank Service and those who acquire dual nationality during bank service become ineligible to hold position.

Further in accordance to clause – 2 (i) of the State Bank of Pakistan circular No.17 dated 11 June, 2003 “The revised procedure of verification of antecedents of these persons should, inter alia, include obtaining of satisfactory confidential reports in writing on the integrity, suitability etc. of the applicant from all their former employer (s) (Financial institutions only).

During audit of ZTBL, Islamabad for the year ended December, 2020, it was observed that Syed Muneef Ahmed Bukhari was appointed as Vice President vide offer of appointment letter dated 25.10.2017 and joined his duty w.e.f. 02.11.2017. Despite confirmation of the dual nationality of USA by the officer on 14.03.2108, management confirmed his services as Vice President w.e.f. 02.05.2018.

Audit therefore holds that appointment, confirmation and payment of Rs. 6,176,592 w.e.f. 02.11.2017 to 14.19.2020 on account of pay & allowances to the dual national was held irregular.

In the DAC meeting held on 01.02.2022, the management informed that Management informed that Draft advertisement was prepared and same was approved by the Competent Authority wherein there was no clause regarding ineligibility of dual national holders. Audit contented that, as per HR Manual 2017 that Dual Nationality holders are not eligible to be appointed in Bank

Service and those who acquire dual nationality during bank service become ineligible to hold position.

DAC directed to regularize the case from competent authority and initiate disciplinary proceeds against responsible.

Audit recommends compliance of the directives of the DAC.

Para-43 (ZTBL HO), 2020

5.6.4.12 Non-recovery of embezzled amount from officer - Rs. 9.365 million

According to ZTBL Fraud Prevention Policy 2015, every employee of ZTBL including adhoc, temporary, contract, representative of vendors, suppliers, contractors, consultants, service provider or any other agency(ies) doing any type of business with ZTBL is expected and shall be responsible to ensure that there is no fraudulent act being committed in their areas of responsibility/control. As soon as it is learnt that a fraud or suspected fraud has taken or is likely to take place they should immediately apprise the same to concerned quarter as per procedure.

During audit of ZTBL Islamabad for the year ended December, 2020, it was observed that Mr. Zahid Hussain Pathan PP No. 069684 was posted as MCO ZTBL in Shikarpur Branch. During his posting, the officer was involved in suspicious activities and committed certain irregularities. The officer was charge sheeted and authority imposed on him major penalty of dismissal from service with recovery of embezzled amount Rs. 9.365 million vide office memorandum No. DPD/IU-III/LRKN (70, 72)/2021/1913 dated 11.08.2021. However, the management of the ZTBL failed to recover the embezzled amount from the concerned employee till finalization of the report.

In the DAC meeting held on 01.02.2022, the management informed that all cases are now subject to centralized approval of head office.

DAC pended the para till recovery of total amount embezzled with the direction to refer the case to FIA besides initiating disciplinary action.

Audit recommends compliance of the directives of the DAC.

Para-51 (ZTBL HO), 2020

5.6.4.13 Unjustified provision of CP Fund in addition to Gratuity - Rs. 168.339 million

According to Para 02 of the F.D. (Regulations Wing II) No. F.15 (3) R-14/84 dated 16.10.1984 read with Finance Division letter No. F.10 (1)R-7/2009-412 dated 21.01.2015, “the ministries /divisions may like to direct all such autonomous / semi-autonomous bodies and corporation etc. under their administrative control, where the pension scheme does not exist the payment of gratuity in addition to contributory provident fund should not be allowed to their employees on their quitting the services.”

During audit of ZTBL for the year ended December, 2020, it was observed that management paid CP Fund Rs. 83.834 million to 105 employees and Rs. 84.505 million to 111 employees during the year 2019 and 2020 respectively.

Audit is of the view that payment of CP Fund amounting to Rs. 168.339 million in addition to the gratuity scheme was violation of the above Government rules, therefore held irregular.

In the DAC meeting held on 01.02.2022, the management informed that Contributory Provident Fund Scheme is applicable to employees governed under Non-statutory Service Regulations-2005 duly approved by the ZTBL Board of Directors in terms of Section (11) Banks’ (Nationalization) Act, 1974 (as amended). In addition to this ZTBL is dealing with two types of employees i.e. for SR-1961 i.e. ‘Statutory’ and SR-2005 ‘non statutory’. The matter was discussed at length.

DAC on the recommendation of audit directed the management to verify the provision for non-violation of Govt. rules/policies in the Act. Further approval of the Board subject to fact that such powers were there in the ambit of the Board.

Audit recommends compliance of the directives of the DAC.

Para-57 (ZTBL HO), 2020

5.6.4.14 Loss due to irregular entertainment of loan cases by the MCO for himself and his family - Rs. 5.179 million

In accordance with Para-8.10.1 of the credit Manual of ZTBL, “Loan facility to the bank employees or their family members shall be recommended by the Zonal Credit Committee. Such loan shall be secured besides the securities prescribed for other borrowers by personal repayment guarantee of the employee on the proforma.

During audit of ZTBL Head Office Islamabad for the year ended December, 2020, it was observed that Mr. Zulfiqar Ali OG-II/MCO Alipur Branch, Muzaffargarh Zone entertained loan cases for an amount of Rs. 1.380 million for himself and Rs. 3.799 million for his family/spouse, total Rs. 5.179 million in violations of above mentioned instruction of the Bank.

Various inquiries were conducted in the subject case and allegations were also proved against the accused employee. However, no action was taken against the accused and the amount is still in default. This shows the weak financial control and lack of interest of management, which needs to be reviewed at appropriate level.

In the DAC meeting held on 01.02.2022, the management informed that after completion of inquiry proceedings, they have been issued show cause notices on 23.02.2021. Further, it was also decided that if Mr. Zulfiqar Ali failed to repay his loan till 31.12.2021, his salary will be linked with recovery of loan

The DAC directed the management to pursue the recoveries vigorously by applying all available legal procedures and get the relevant record verified by Audit.

Audit recommends compliance of the directives of the DAC.

Para-21 (ZTBL HO), 2020

5.6.4.15 Loss due to misplacing of loan case files – Rs. 25.009 million

As per Clause-10.11.1 (i) of ZTBL Credit Manual Vol-1, loan case files containing all legal documents to ensure the security of the loan advanced by the Bank should be kept in the joint personal custody of the Manager/ Sub Manager and the credit officer (Desk) and Accounts Officer under lock and key. Further, as per ZTBL (Head Office) Circular No. CAD/I/2011 dated 26th April, 2011, all the Zonal Chiefs/Zonal Managers/ Area Chiefs/ Chief Managers/ Branch

Managers are responsible for re-construction of loan files damaged/misplaced. In Case of failure to reconstruct the damaged/burnt/misplaced loan files, the files custodian/ delinquents will be responsible to recover entire loan involved therein within stipulated period.

During the audit of ZTBL (HO) Islamabad, it was observed that huge amount of Rs. 25.009 million was disbursed to several loanees of ZTBL Fazilpur branch DG Khan Zone. But no recovery has been made by the Bank management due to missing of loan case files. 27 general alive loan case files involving Rs. 11.152 million and 82 SAM alive loan case files involving Rs. 13.857 were outstanding against Mr. Ali Raza PP No 131310 OG-III/AM Operation Fazilpur branch DG Khan Zone.

Inquiry was initiated against the said officer and show cause notice was issued but with no results. Thus due to missing loan case files, the recovery for an amount of Rs. 25.009 million could not be affected.

In the DAC meeting held on 01.02.2022, the management informed that inquiry proceedings against both the accused were completed wherein allegations regarding missing files of 82 SAM loans and 30 files of general loan cases were proved.

The DAC directed the management of ZTBL to get the relevant records/ files and amount recovered verified by Audit. Further directed the management of ZTBL to expedite efforts for tracing of missing files/ records and furnish progress report during next meeting of the DAC.

Audit recommends compliance of the directives of the DAC.

Para-25 (ZTBL HO), 2020

Chapter-6

Ministry of Energy (Power Division)

Overview

The Ministry of Energy, Power Division is a Government's Federal level ministry created on August 4, 2017, after the merger of the Ministry of Petroleum and Natural Resources with the Power Division of the Ministry of Water and Power (now renamed Ministry of Water Resources), respectively. The ministry has two divisions - Petroleum and Power. The Petroleum Division is headed by the Petroleum Secretary and the Power Division is headed by the Power Secretary.

Aims & Objectives

To ensure availability and security of sustainable supply of power for economic development and strategic requirements of Pakistan, and to coordinate the development of natural resources.

Governing Laws and Policies

- Power Policy 2002
- National Policy for Power Co-Generation by Sugar Industry
- Guidelines for setting up private power projects
- Guidelines for determination of tariff for independent power producers.
- NEPRA Mechanism for Determination of Tariff for Hydro Power Projects
- National Power Policy 1994
- National Power Policy 1995
- National Power Policy 1998
- RE Policy for Development of Power Generation 2006

Sectoral Analysis

National Engineering Services Pakistan (Pvt.) Ltd (NESPAK) was incorporated in 1973. It is engaged in providing engineering consultancy services in Pakistan and abroad having offices at Masqat, Oman, Riyadh, Qatar and Kabul. There was decreasing trend in income of consultancy services outside Pakistan by 16.65% which showed that management failed to secure more

business in its overseas operations. After-tax profit of the company also decreased by 74.35%. Share of profit from associates of the company declined from Rs. 6.125 million in 2015-16 to loss of Rs. 2.514 million during 2017-18. It was observed that there were instances of irregularity and malpractices in appointments, financial management, procurement, contract management and overstaffing. There were issues of non-compliance of Public Sector Companies (Corporate Governance rules) for which a full pledge Thematic Audit was carried out and a Separate Thematic Audit Report was generated which is part of this report. Management also failed to submit annual audited accounts for the years 2018-19 to 2020-21 till Dec 31, 2021.

Audit Profile of Ministry of Energy (Power Division)

(Rs. in million)				
Description	Total	Audited	Expenditure audited FY 2020-21	Revenue /Receipts audited FY 2020-21
Formations	1	1	7,201	
Assignment Accounts (excluding FAP)	-			
Authorities /Autonomous Bodies etc. under the PAO	1	1		
Foreign Aided Projects (FAP)	-			

Classified Summary of Audit Observations

Audit observations amounting to Rs. 4,116.194 million were raised because of this audit. This amount also includes recoverable of Rs. 1,314.792 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

Overview of the Audit Observations

Sr. No.	Classification	Amount (Rs. in million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities:	
A	HR/Employees related irregularities	2,721.392
B	Procurement related irregularities	5.907
C	Management of accounts with Commercial Banks	0
4	Value for money and services delivery issues	0
5	Others	1,388.895

6.1 National Engineering Services Pakistan (Pvt.) Ltd.

6.1.1 Introduction

The Company was incorporated in 1973 under the Companies Act 1913 (now Companies Ord. 1984). The Government of Pakistan owns it and is engaged in providing engineering consultancy services through its Divisional Offices at Lahore, Islamabad, Karachi, Peshawar and Quetta in Pakistan and Masqat, Oman, Riyadh, Qatar and Kabul abroad.

6.1.2 Comments on Audited Accounts

6.1.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts of the organization for the year 2018-19 to 2020-21 till December 31, 2021.

Audit recommends that the annual audited accounts for the years 2018-19 to 2020-21 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

6.1.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
1991-92	05	04	1	754	80
1995-96	06	04	2	252,254	67
1998-99	01	0	01	295	-
2007-08	03	00	03	178, 178.1, 178.2	0
2009-10	06	03	03	239, 240, 241	50
2010-11	21	15	06	25.1.2.1, 25.1.2.4, 25.1.4.1, 25.1.4.2, 25.1.4.3, 25.1.4.5	71
2011-12	15	0	15	25.1.1, 25.1.2.1, 25.1.2.2, 25.1.2.3, 25.1.2.4, 25.1.2.5, 25.1.2.6, 25.1.2.7, 25.1.3, 25.1.4.1, 25.1.4.2, 25.1.4.3, 25.1.4.4, 25.1.4.5, 25.1.4.6,	0
2013-14	22	07	15	18.1.2.2, 18.1.2.3, 18.1.2.4, 18.1.2.5, 18.1.4.1, 18.1.4.2, 18.1.4.4, 18.1.4.5, 18.1.4.6, 18.1.4.7, 18.1.4.8, 18.1.4.9, 18.1.4.10, 18.1.4.12, 18.1.4.14	32
2016-17	21	07	14	18.1.2.1, 18.1.2.2, 18.1.2.3, 18.1.3,	33

				18.1.4.1, 18.1.4.2, 18.1.4.4, 18.1.4.5, 18.1.4.6, 18.1.4.7, 18.1.4.8, 18.1.4.9, 18.1.4.11, 18.1.4.12	
2017-18	26	01	25	8.13.2.1, 8.13.2.3, 8.13.2.4, 8.13.2.5, 8.13.2.6, 8.13.3, 8.13.4.1, 8.13.4.2, 8.13.4.3, 8.13.4.4, 8.13.4.5, 8.13.4.6, 8.13.4.7, 8.13.4.8, 8.13.4.9, 8.13.4.10, 8.13.4.11, 8.13.4.12, 8.13.4.13, 8.13.4.14, 8.13.4.15, 8.13.4.16, 8.13.4.17, 8.13.4.18, 8.13.4.19	04
2018-19	32	05	27	7.1.2.1, 7.1.2.2, 7.1.3, 7.1.4.1, 7.1.4.2, 7.1.4.3, 7.1.4.4, 7.1.4.5, 7.1.4.6, 7.1.4.7, 7.1.4.9, 7.1.4.12, 7.1.4.13, 7.1.4.15, 7.1.4.16, 7.1.4.17, 7.1.4.18, 7.1.4.19, 7.1.4.20, 7.1.4.21, 7.1.4.22, 7.1.4.23, 7.1.4.24, 7.1.4.25, 7.1.4.26, 7.1.4.27, 7.1.4.28	16
Total	158	46	112		29

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

6.1.4 Audit Paras

6.1.4.1 Irregular and unjustified appointments of inexperienced engineers on posts meant for professional engineers – Rs. 2,146 million

According to clause 1 (a) of eligibility criteria for induction and promotion of NESPAK Rules 1993 and clause 2 (a) of eligibility criteria for induction and promotion of NESPAK Rules 2010, ‘Professional’ means a person who is qualified and registered as such by Pakistan Engineering Council (PEC) and Pakistan Council of Architects and Town Planners (PCATP).

As per PEC Act, 1976, “professional engineer” means a person who holds an accredited engineering qualification and after obtaining a professional experience of five years, whether working privately or in the employment of an engineering public organization, has passed the prescribed engineering practice examination (EPE) and is registered as such by the Council.

During the audit of NESPAK for the year 2020-21, it was observed that management has been in practice of appointing registered engineers on the posts

meant for professional engineers since long. As per data provided by the Company, 888 engineers were employed in NESPAK out of which 420 engineers were not eligible to work in NESPAK i.e. they had not attained the status of Professional Engineers till finalization of the report. Recruitment of such novice engineers not having requisite experience have damaged the business and efficiency of engineering consultancy services of the Company dearly. Such malpractice of hiring engineers who haven't passed EPE exam mandatory to attain the status of a Professional engineer, is a deception with the NESPAK in particular and Nation of Pakistan in general.

Due to continuous violation of rules of NESPAK and PEC, all the expenditure spent on these employees on account of salaries and allowances is held irregular.

In the DAC meeting held on 10.02.2022, the management informed that all Engineers, Architects & Town Planner registered with PEC 7 PCATP having Professional status in NESPAK and there is no restriction for them to pass Engineering Practice Examination (EPE) before being designated as Professional. DAC pended the para and directed the management to verify eligibility criteria of professional engineers and procedure of appointment to audit.

Audit recommends compliance of the directives of the DAC.

Para-1 (NESPAK), 2020-21

6.1.4.2 Irregular/unjustified payment of Ad Hoc Relief Allowance to NESPAK employees - Rs. 333.41 million

Finance Division vide its letter No. F.4 (3) R-4/2011 dated 28.7.2016, No. F.4 (3) R-4/2011-Revision dated 04.08.2017 and No. F.4 (3) R-4/2011-Revision dated 07.08.2018 clarified that above orders will however not be applicable to those Public Sector Corporation and Autonomous/Semi-Autonomous Bodies which have adopted different pay scales/allowances. In case of such organization, the grant of Ad hoc relief Allowance subject to existing conditions will be allowed with the concurrence of Standing Committee of Finance Division on the recommendations of the respective board of Directors/Governors of these organizations. The grant of Ad hoc relief Allowance will invariably be tagged with the financial position of the organization.

During the audit of NESPAK for the year 2020-21 it was observed that NESPAK employees are being paid the Ad hoc Relief allowances 2016, 2017 and 2018 and an amount of Rs. 333.41 million was paid during 2020-21 on account of these two allowances. Further record revealed that these allowances are being paid to NESPAK employees on same analogy as admissible to the Govt. employees in Federal Government.

Federal Govt. announced the Ad hoc relief Allowance 2016, 2017 and 2018 to compensate its employees from inflationary effect, whereas the NESPAK adopted the different Pay Scales from Federal Govt. employees. Thus, being a Federal Govt. entity having different pay Scales, the NESPAK management was required to obtain concurrence/ approval from standing committee of Finance Division before allowing any change in pay & perquisites of its employees as per policy of the Federal Government. the pay & Perquisites of NESPAK are already on higher side and NESPAK management had already allowed the Cost-of-living allowance, staff maintenance allowances, utility allowance and reimbursement of entertainment cost and utility cost, reimbursement of POL etc. in addition to these Adhoc Relief 2016 and Adhoc Relief 2017 to compensate its employees from inflationary effect. These allowance and reimbursement of utility cost and entertainment costs are not admissible to Govt. employees.

Audit is of the view that payment of above stated allowance without approval from standing committee of Finance Division in violation of Federal Govt. Policy was irregular.

In the DAC meeting held on 10.02.2022, the management informed that it was discussed in the 140th Board of Directors meeting of NESPAK held on 26.11.2015, the Board was of the opinion that the case of salary revision does not need to be sent to the Finance Division.

DAC directed the management to obtain concurrence of Finance Division regarding adoption of adhoc relief.

Audit recommends compliance of the directives of the DAC.

Para-2 (NESPAK), 2020-21

6.1.4.3 Non-reporting of contracts over rupees fifty million to National Accountability Bureau – Rs. 63.773 million

As per NAB office letter No. 19 (14) A&P/NAB/2008 dated February, 2012, all Ministries, Divisions and attached departments of Federal Government all department of provincial Government local Government statutory corporations or authorities established by the Federal Government or provincial Governments and holders of Public offices were advised to furnish a copy of any contract to NAB entered into by such bodies as mentioned above or on behalf as the case may be of the minimum monetary value of fifty million rupees or more within such time as is reasonable practicable (one month from the date of signing such contracts) along with certain documents i.e. Copy of advertisement, summary of prequalification process/bid evaluation report, technical and financial evaluation criteria, copy of integrity pact/performance guarantee etc.

During the audit of NESPAK for the year 2020-21, it was observed that management made contract with M/s Mecatech Pvt. Limited amounting to Rs. 63.773 million for supply, replacement, installation, testing & commissioning of two new chillers, two cooling towers and accessories with associated works at NESPAK House, Lahore. Relevant file was demanded vide Requisition # 6 dated 09.09.2021 which were not provided. In the absence of which audit is bound to assume that required documents were not sent to NAB in violation of above rules.

Audit is of the view that the management was required to send the copies of above contract to NAB but the management failed to do so which is serious omission on the part of management.

The matter was reported to the management/Ministry on Dec 02, 2021. Management in its reply dated Feb 3, 2022 informed that National Engineering Services Pakistan (Pvt.) Limited (NESPAK) is self-funded and functions through its Board of Directors, who by means of delegation of powers have been entrusted the same to the Managing Director of NESPAK. Therefore, the Managing Director has all the Administrative and Financial powers, duly delegated by the Board of Directors.

Reply was not convincing as NAB's instructions are equally applicable on all Government department, Autonomous bodies, corporation, companies and public offices.

In the DAC meeting held on 10.02.2022, the management expressed their view point.

The DAC directed to ensure the compliance of NAB rules.

Audit recommends to explain the reason for non-submission of copies of above contracts to NAB, fix the responsibility on the person(s) at fault and needful may be done now and in future.

Para-6 (NESPAK), 2020-21

6.1.4.4 Inordinate delay in finalization of inquiry against Project Manager for bribery and non-recovery - Rs. 12.800 million

As per Rule 4(b) of NESPAK Employees (E&D) Rules 1974, the major penalties are:

- i) Reduction to a lower post or time scale or to a lower stage in a time scale.
- ii) Compulsory retirement.
- iii) Removal from service
- iv) Dismissal from service

During audit of the NESPAK for the years 2020-21, it was observed that management made two contracts with M/s Shaheen Construction Company in 2017 and M/s Times Group Pvt. Limited in 2019 for design and supervision consultancy services in Gwadar Commercial Complex-I and Commercial Complex-II & Seaman Center at Gwadar. In both projects Mrs. Samina Butt, General Manager A&P, Karachi appointed as Project Manager. Management of these projects/ companies made allegation on 03.06.2019 and 10.06.2019 respectively that she received an amount of Rs. 6.500 million and Rs. 6.300 million respectively as bribe. Based on these allegations Ms. Samina Butt was issued charge sheet/show cause Notice on July 24, 2019. An inquiry committee was formed on December 12, 2019 to inquire the matter. As per findings of inquiry committee dated 02.03.2020 the allegations against Ms. Samina Butt were proved and recommended for major penalty in accordance with Rule 4(b) of NESPAK Employees E&D Rules, 1974 along with return of bribed amount of

Rs. 12.800 million to the complainants. In the 157th meeting of the Board of Directors' meeting held on December 24, 2020, it was directed to remove her from service from benefits/privileges and nothing was decided for refund of bribed amount to complainant companies. Further record revealed that she got stay order from the High Court of Sindh against her suspension/removal from service on January 21, 2021. Personal file record is silent about the outcome of the decision besides the issue of recovery of bribed amount from her.

Audit is of the view that the management did not take timely action regarding enquiry in the matter as show cause notice was served in July 2019, after delay of 5 months inquiry committee was formed in December 2019. After further delay of 3 months in March 2020, inquiry findings were finalized and again placed before BOD meeting in December 2020 after even more delay of 9 months. This indicated that the management extended undue favour to her and consequently she succeeded in getting stay order from the court.

In the DAC meeting held on 10.02.2022, the management explained that the case is in Sindh High Court and next date of hearing has been fixed for 22.02.2022.

The DAC directed to finalize the inquiries and share the report with audit and pursue the court case.

Audit recommends compliance of the directives of the DAC.

Para-7 (NESPAK), 2020-21

6.1.4.5 Irregular appointment of daily wages staff – Rs. 55.360 million

As per judgment of Supreme Court of Pakistan dated January 19, 1993 in human right case No. 104 of 1992, recruitment, both adhoc and regular, without publicly and properly advertising the vacancies is violation of fundamental rights. As such no post could be filled in without proper advertisement, even on adhoc or contract basis.

As per Section 508(b) of Company's Act 2017, in addition to the powers conferred by any others section, the federal Government may, by notification in the official gazette, make rules for establishment and regulating the activities of any company or class of companies. Further as per clause 5 (11) of Public Sector

Companies (Corporate Governance rules 2013), the Board shall ensure compliance with policy directions received from Government from time to time.

During audit of NESPAK for the years 2020-21, it was observed that the management appointed 77 daily wage staff and paid Rs. 55.360 million (A/c head 3134) to them. Further to this, certain daily wages employees were working with the company for the last five years. There was no approved procedure for hiring of daily wage staff in the company. These employees were being engaged on daily wage basis without any open competition.

When pointed out it was learnt that employees were hired as per terms and conditions of agreement with CBA. CBA agreement specifying respective clause was not provided to audit on demand. Thus, the engagement / recruitment of daily wage staff without advertisement and approved criteria was against the Supreme Court instructions and considered irregular by audit.

Audit was of the view that daily wage appointments were made by violating the criteria defined by the Supreme Court of Pakistan which resulted into irregular/unjustified appointment of staff on daily wages and payment of salary amounting to Rs. 55.360 million therein.

In the DAC meeting held on 10.02.2022, the management explained that these employees were appointed on daily wages basis under clause 25 of the “Charter of demands”.

The DAC directed to investigate the matter for appointment of daily wages through the Inquiry Committee by NESPAK’s Board.

Audit recommends compliance of the directives of the DAC.

Para-8 (NESPAK), 2020-21

6.1.4.6 Unauthorized payment of pay & allowances on fake/forged degrees - Rs. 16.562 million

As per Serial No: 28 of ESTA Code 2007, it is necessary to check thoroughly the genuineness of certificates where the confides persons employed after the 15th August, 1947 are in doubt; and it is essential for the appointing authorities to verify the claims of the candidates as regards age and educational qualifications and the same will be verified before the appointment. Cabinet

Secretariat (Establishment Division) also circulated these instructions to all the Autonomous bodies/Companies, Corporations vide D.O. No. 6(28)2011-DG-II dated March 08, 2011.

During audit of NESPAK for the year 2020-21, it was observed that management appointed four employees in different cadres during the period from 1994 to 2006. At the time of appointment, the management failed to get verified the educational certificates of the respective employees from concerned Board/Universities, after a long time when the management get verified their educational certificates, the same proved to be fake/bogus.

Consequently, the management issued show-cause notices to the employees but the employees did not give any response. The management initiated inquiries against the culprits and finally, the accused were dismissed from service on the basis of bogus degrees/certificates after serving the organization for five to 22 years. The management instead of taking prompt action against the accused delayed the process intentionally (6 and 3 years delay in two cases at Sr. 1 & 3) which caused unauthorized payment of pay & allowances of Rs. 16.562 million.

Audit is of the view that, as the degrees/certificates of the accused were proved to be fake/bogus, thus there was no need for a detailed enquiry, and services of the employees could be terminated immediately. Due to unnecessary and deliberate delay, payment of pay & allowances of Rs. 16.562 million was held unauthorized.

In the DAC meeting held on 10.02.2022, the management explained that they have file recovery suit against Mr. Shahid Hussain Butt in Civil Court. The issue is already pointed out by audit in Audit Para No.18.1.4.6 of AR 2016-17.

The DAC directed to finalize the inquiry against the person and share the report with audit and pursue the court case.

Audit recommends compliance of the directives of the DAC.

Para-12 & 13 (NESPAK), 2020-21

6.1.4.7 Non-recovery of retention money from clients since long - Rs. 199.92 million

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

During the audit of NESPAK for the year 2020-21, it was observed that an amount of Rs. 119.919 million was booked in books of accounts on account of receivables of retention money as opening balance. Audit demanded the details of these receivables vide Requisition # 3 dated 6-9-2021 which was not provided to audit. It indicates that these projects were completed since long and defect liability period of these projects (normally 12 months after completion of the project) was also expired but the management failed to get the retention money released from the clients. This resulted into loss of Rs. 199.919 million on account of non-recovery of said amount.

Audit is of the view that management of NESPAK was not paying attention on early recovery of retention money due to which sufficient amount of Rs. 199.92 million was stuck-up with client which could be utilized to gain maximum benefits for NESPAK.

In the DAC meeting held on 10.02.2022, the management explained that the matter has been taken up with clients in numerous correspondences.

The DAC directed to verify the amount of Retention Money recovered may be verified from Audit and pursues the recovery of remaining amount.

Audit recommends compliance of the directives of the DAC.

Para-14 (NESPAK), 2020-21

6.1.4.8 Irregular purchase of computer software from a sole proprietor in violation of Company's Act – Rs. 5.907 million

As per Section 196 (1) of Company Act 2017, no company whether incorporated in Pakistan or outside Pakistan which is carrying on business in Pakistan shall, without the approval of the commission, appoint any sole purchase, sale or distribution agent. Further as per section 196 (2), whoever contravenes any of the provisions of this section shall be punished with imprisonment for a term which may extend to two years or fine which may

extend to one hundred thousand rupees, or with both, and if the person guilty of the offence is a company or other body corporate, every director, chief executive, or other officer, agent or partner thereof shall, unless he proves that the offence was committed without his knowledge or that he exercised all due diligence to prevent its commission, be deemed to be guilty of the offence.

Further as per clause 12 (2) all procurement opportunities over three million Pakistani rupees should be advertised on the Authority's websites as well as in other print media or newspaper having wide circulation. The advertisement in the newspaper shall principally appear in at least two national dailies, one in English and the other in Urdu.

During the audit of NESPAK for the year 2020-21, it was observed that management of NESPAK (GT&G Div.) procured computer software from Pakistan Resource Development Services Pvt. Ltd (a sole/principal proprietor of an international firm M/s ArcGIS) valuing Rs. 5.907 million without approval of the Security Exchange Commission of Pakistan (SECP) and open tendering system therefore, held irregular and violation of the PPRA-2004 rules.

Audit is of the view that procurement was made only to extend undue favor to a selected firm at the cost of public exchequer.

In the DAC meeting held on 10.02.2022, the management explained that they have purchased computer software from Pakistan Resources Development Services Pvt Ltd (a sole/principal proprietor of an international firm M/s ARCGIS).

The DAC directed NESPAK to specify the appropriate fora, which may authorize procurement of proprietary object after due diligence in the light of para-42 C (ii) of PPRA Rules.

Audit recommends compliance of the directives of the DAC.

Para-15 (NESPAK), 2020-21

6.1.4.9 Non-recovery from PWD, Gilgit Baltistan for additional work – Rs. 25.050 million

According to Rule-5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, the principle of probity and propriety entails that

company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage. The principle shall be adhered to, especially with respect to handling of public funds, assets, resources and confidential information by directors, executives and employees and claiming of expenses.

As per clause 3.03 of contract/agreement dated July 31, 2018, as soon as the practicable and preferably within seven days upon the submission of deliverables, the consultant shall submit his invoice to the client who shall pay the same to the consultant within 28 days after receipt of consultant's invoice.

During audit of NESPAK for the year 2020-21, it was observed that management entered into an agreement with Public Works Department, Gilgit Baltistan (GBPWD), on July 31, 2018, for feasibility study of RCC Bridge over Gilgit River at Chamugarh; RCC Bridge from River Road (Qaziabad) to KIU Road and RCC Bridge Sakarkoi to Basin amounting to Rs. 30.00 million (Job-3998). The completion period of the said project was three months from the date of signing of the agreement i.e. October 30, 2018. Later on, GBPWD, Gilgit assigned consultancy of two additional bridges to NESPAK on February 13, 2020, amounting to Rs.10.00 million.

NESPAK invoiced an amount of Rs. 47.00 million to the client out of which Rs. 24.950 million were received leaving a balance of Rs. 22.050 million. Further record revealed that the management signed an initial agreement with GBPWD amounting to Rs. 30.00 million instead of Rs. 40.00 million, and Rs. 10.00 million was not mentioned anywhere in the contract. Moreover, the agreement of additional work was not available in the file, the same was demanded from the management vide requisition No. 13 dated: 22.09.2021 but not provided. A considerable period has lapsed and the amount of Rs. 15.05 million and Rs. 10.00 million of additional work is yet to be recovered. The concerned Project Managers did not make concrete efforts for early recovery of the NESPAK dues.

Audit is of the view that the management was required to make efforts for early recovery as per agreement but due to the negligence and non-pursuing of the recovery by the concerned Project Managers/heads of the department recovery was not realized.

In the DAC meeting held on 10.02.2022, the management explained that they are pursuing their due payments and it was not left unattached.

The DAC directed to pursue the recovery.

Audit recommends compliance of the directives of the DAC.

Para-16 (NESPAK), 2020-21

6.1.4.10 Irregular expenditure on advertisement – Rs. 3.529 million

According to Press Information Department Advertisement Policy 2021 all classified advertisements from all public sector organizations will be released directly to newspapers / publications by PID on request of ministries /departments/ organizations/ autonomous bodies and others. Classified advertisement includes notification of routine character, consisting of plain text and logo such as situation vacant, Tender Notices and public notices etc.

As per Section 508(b) of Company's Act 2017, in addition to the powers conferred by any others section, the federal Government may, by notification in the official gazette, make rules for establishment and regulating the activities of any company or class of companies. Further as per clause 5 (11) of Public Sector Companies (Corporate Governance rules 2013), the Board shall ensure compliance with policy directions received from Government from time to time.

During audit of NESPAK for the year 2020-21, it was observed that the management incurred an expenditure of Rs. 3.529 million on account of advertisements through private advertising agencies (Midas) in various newspapers instead of Press Information Department.

Audit is of the view that the expenditure of Rs. 1.384 million was not only in violation of Government's instructions but also deprived off public exchequer from a handsome amount.

During discussion it was learnt that advertisement was made with the approval of BoD/competent authority and above referred instructions are not applicable on NESPAK. Contention was not acceptable because "as per clause 5 (11) of Public Sector Companies (Corporate Governance rules 2013, amendment in 2017), the Board shall ensure compliance with policy directions received from Government from time to time". Further as per Section 508 (1) of Company's

Act 2017 federal Government is authorized to make rules for operation of companies.

In the DAC meeting held on 10.02.2022, the management informed that The Management explained that all advertisements were routed through the PID and MIDAS was hired as an advertising agency as per APNS rules.

The DAC directed to verify the record related to PID directives and verify the rate claimed as per bill to check the commercial/government rate approved in the bill.

Audit recommends compliance of the directives of the DAC.

Para-17 (NESPAK), 2020-21

6.1.4.11 Expected loss because of non-collection of consultancy fee due to defective work – Rs. 19.601 million

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

During audit of NESPAK for the year 2020-21, it was observed that management entered into 04 consultancy and supervision contracts with different clients. The fee amounting to Rs. 19.601 million was retained by the clients due to defective work done by NESPAK.

Audit demanded the complete jobs record vide requisition No. 16 dated: 29.09.2021 which was not provided to audit. A considerable period has been lapsed and the chances of the recovery of the said amount are slim.

Audit is of the view that the said loss was purely caused due to negligence of the concerned project manager who make defective work and failed to safe guard NESPAK interest and under takes such projects which resulted into loss to the organization.

In the DAC meeting held on 10.02.2022, the management explained that the amount remains outstanding despite of several correspondences and verbal/ telephonic requests.

The DAC directed to pursue the recovery vigorously.

Audit recommends compliance of the directives of the DAC.

Para-18 (NESPAK), 2020-21

6.1.4.12 Loss due to non-recovery of disputed receivables - Rs. 1,077.022 million

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

During audit of NESPAK for the year 2020-21, it was observed that management entered into consultancy and supervision contracts with different clients. It was, however, observed that consultancy charges were retained by the clients due to some disputes with NESPAK. A considerable period has been lapsed and the chances of the recovery of the said amount are remote. The concerned Project managers neither make efforts to remove the objections regarding defective order nor follow their clients for early recovery of the NESPAK dues and resultantly the same become complete bad debts.

Audit is of the view that the organization sustained a loss of Rs. 1,077.022 million due to negligence and non-pursuing of the recovery by the concerned Project Managers as well as the heads of the department.

In the DAC meeting held on 10.02.2022, the management explained that they are pursuing early recovery of receivable.

The DAC directed the management to pursue the recovery vigorously.

Audit recommends compliance of the directives of the DAC.

Para-20 (NESPAK), 2020-21

6.1.4.13 Irregular appointments against the approved criteria and on the unregistered / fake degrees – Rs. 157.260 million

As per clause 8 (a) of induction policy of NESPAK for Induction and Promotion, all inductions shall be made on the basis of applications received in response to the requirements as given in advertisement” and as per clause 8 (c) candidates short listed strictly in accordance with the requirements of the advertisement would be interviewed. As per advertisement published by NESPAK for the post of Junior/Senior Engineer, B.Sc. Civil Engineer were required having 1-4 years of experience.

According to clause 1 (a) of eligibility criteria for induction and promotion of NESPAK Rules 1993 and clause 2 (a) of eligibility criteria for induction and promotion of NESPAK Rules 2010, ‘Professional’ means a person who is qualified and registered as such by Pakistan Engineering Council (PEC) and Pakistan Council of Architects and Town Planners (PCATP). As per PEC Act, 1975, “professional engineer” means a person who holds an accredited engineering qualification and after obtaining a professional experience of five years, whether working privately or in the employment of an engineering public organization, has passed the prescribed Engineering Practice Examination (EPE) and is registered as such by the Council. As per provisions of sub para 2 (e) of these rules, Multi divisional Interview Committee will comprise of at least 4 members from different divisions of NESPAK.

As per NESPAK Eligibility Criteria for Induction and Promotion, employees having only M.Sc. Engineering will be given benefit of marks in interview and benefit of M.Sc. Allowance.

During the audit of NESPAK for the year 2020-21, it was observed that the management appointed 12 officers/engineers in various categories in different departments without having the required qualification, experience (Annex-34). Further in some cases the engineers were appointed on fake degrees or unrecognized / accreditation certificate from the HEC/PEC.

Audit is of the view that appointments of these officers / engineers were made due to lack of internal and financial control of the management and undue favour was given to the ineligible appointees at the cost of the public exchequer

and deprived the eligible candidates from their due right. Thus, expenditure of Rs. 157.260 million on account of pay and allowances of the officers/engineers was also irregular.

In the DAC meeting held on 10.02.2022, the management explained that these employees were appointed on daily wages basis under clause 25 of the “Charter of demands”. The policies and procedures of recruitment were duly followed as per criteria from publishing the advertisement till the appointment.

The DAC directed to investigate the matter for appointment of daily wages through the Inquiry Committee by NESPAK’s Board and verify the criteria for appointment as per approved recruitment rules.

Audit recommends to conduct high level inquiry to investigate the matter and fix responsibility on the person(s) at fault besides termination of the services of the concerned officers / engineers.

Para-22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33 (NESPAK), 2020-21

Chapter-7

Ministry of Federal Education and Professional Training

Overview

Ministry of Federal Education and Professional Training was established in July 2011 in the wake of the 18th Amendment. Some of the Departments / Organizations previously under MOLM and MOE were placed under this Ministry. Supreme Court of Pakistan in its Judgment dated November 25, 2011, directed that because of insertion of Article 25-A in the Constitution, the Federal Government cannot absolve itself from the responsibility of providing education to its citizens.

In the light of Supreme Court Judgment, a Summary was moved to Prime Minister of Pakistan who was pleased to approve the renaming of Ministry as “Ministry of Education and Training” which was duly notified by the Cabinet Division on July 24, 2012. Subsequently, the Council of Common Interest (CCI) in its meeting held on November 8, 2012, endorsed the renaming of Ministry and approved its functioning with the subjects already assigned to it.

On the reorganization of Federal Secretariat, the Ministry renamed as Ministry of Education, Trainings & Standards in Higher Education vide Cabinet Division’s notification No. 4-8/2013-Min-I dated 07th June, 2013.

On June 19, 2014, Ministry has now renamed as Ministry of Federal Education and Professional Training vide Cabinet Division’s notification No. 4-10/2011-Min-I dated 19th June, 2014.

Aims & Objectives

- National cohesion on education policies and reforms, and focusing national attention on education issues
- Lead Educational Standard setting
- Leading programs of national importance to ensure equity and cohesion
- Leading international cooperation and coordination on education matters
- Integration of Religious Educational Institutions

- Collect, analyze and disseminate information on key education indicators including student learning assessments and education financing
- Manage, supervise and implement formal education in schools and colleges under ICT through the Federal Directorate of Education
- Registration & regulation of Private Educational Institutions in ICT and enforcement of relevant rules & regulations on the private education sector
- Lead coordination of academic evaluation across Pakistan, especially for quality in large scale student exams through the Inter Board Committee of Chairmen (IBCC).

Governing Laws and Policies

- Rule of Business 1973

Audit Profile of Ministry of Federal Education and Professional Training

(Rs. in million)					
S. No.	Description	Total	Audited	Expenditure audited FY 2020-21	Revenue /Receipts audited FY 2020-21
1	Formations	5	2	943.924	1444.424
2	Assignment Accounts (excluding FAP)	-			
3	Authorities /Autonomous Bodies etc. under the PAO	5	3		
4	Foreign Aided Projects (FAP)	-			

Audit observations amounting to Rs. 11,404.372* million were raised because of this audit. This amount also includes recoverable of Rs. 21.929 million as pointed out by the audit. Summary of the audit observation classified by nature is as under:

Overview of the Audit Observations

S. No.	Classification	Amount (Rs. in million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities:	
A	HR/Employees related irregularities	76.070
B	Procurement related irregularities	30.006
C	Management of accounts with Commercial Banks	5,283.144

4	Value for money and services delivery issues	-
5	Others	6,015.152

* Expenditure pertaining to previous years are included

7.1 National Textile University Faisalabad

7.1.1 Introduction

The National Textile University (NTU), Faisalabad campus was established on 15 November 2002 under the National Textile University Ordinance, 2002, whereas Karachi Campus was established on 1st July 2017. The university is an autonomous body to perform its academic and administrative functions. The main purpose of university is the promotion and dissemination of knowledge and technology in textile, determination of courses of study in textile education and to provide instruction, training, research, demonstration and service. The Faisalabad Campus of the university is situated at Main Sheikhpura Road Manawala, Faisalabad and the Karachi Campus is situated at Street 2/1, Sector 30, Korangi Industrial Area Karachi.

7.1.2 Comments on Audited Accounts

7.1.2.1 The working results of the University for the year 2020-21 as compared to previous years are as under:

	(Rs. in million)				
	2020-21	% Inc./ (Dec)	2019-20	% Inc./ (Dec)	2018-19
Income from Grants:					
The grant from the Higher Education Commission (HEC) for recurring	274.79	25.41	219.12	(7)	234.93
Grant from HEC for Tenure Track Faculty	23.79	3.80	22.92	3	22.3
Textile Cess for recurring	6.96	61.48	4.31	(26)	5.79
Total Grants	305.54	24.03	246.35	(6)	263.01
Income from Own Sources:					
Fee from students	352.81	3.96	339.38	15	294.56
Income from sample testing and research projects	16.68	27.04	13.13	6	12.42
Other income	37.72	(10.97)	42.37	52	27.89
Total Income from Own Sources	407.22	3.12	394.89	17	338.05
Grants amortized during the year	253.20	11.89	226.34	37	164.76
Total Income	1,065.57	22.83	867.58	13	765.83
Expenditure:					
Salaries, wages and other benefits	404.55	16.87	346.15	12	308.25
Employees retirement benefits	146.45	(5.72)	155.34	60	96.99
Repair and maintenance	25.18	16.14	21.68	16	18.75

Communication	17.67	45.91	12.11	47	8.21
Utilities	33.76	(2.00)	34.45	(3)	35.67
Travelling and transportation	6.71	(38.94)	10.99	13	9.70
Printing and stationery	4.28	(32.39)	6.33	60	3.95
Remuneration to part-time / visiting teachers	12.33	(21.86)	15.78	(6)	16.83
Merit scholarships and gold medals	12.45	6.41	11.70	(0.3)	11.74
Others	45.46	(6.44)	48.59	19	40.71
Amortization of Assets and Expenses against Grant	253.20	11.89	226.34	37	164.76
Total Expenditure	962.04	8.16	889.46	23	720.76
Surplus / (Deficit) before Depreciation	3.92	(117.92)	(21.88)	-	45.07
Depreciation and amortization	36.71	(3.77)	38.15	5	36.41
Surplus / (Deficit) after Depreciation and Amortization	(32.79)	(45.37)	(60.02)	-	8.66
Other comprehensive income/(loss)	(33.88)	131.58	(14.63)	(92)	(187.35)
Total Surplus/(Deficit) for the year	(66.68)	(10.68)	(74.65)	(58)	(178.70)

(Source: Annual Audited Accounts)

Accumulated deficit increased from Rs. 537.12 million as on June 30, 2020 to Rs. 603.80 million as on June 30, 2021 registering an increase of 12.41%. The management should make strenuous efforts and effective measures to mitigate this deficit.

7.1.2.2 The capital work in progress for up-gradation of Karachi sub campus (PSDP Project) was Rs. 5.79 million on June 30, 2020 which increased to Rs. 38.56 million on June 30, 2021. Early and timely completion of the up-gradation work of building/plant & machinery for Karachi sub campus is required to avoid time over-run and cost escalation.

7.1.2.3 Movement of capital work in progress showed that the university has transferred a sum of Rs. 404.706 million in 2020-21 to operating fixed assets whereas, a sum of Rs. 307.018 million is still transferable as on June 30, 2021. Status of the project with respect to hiring of the contractor for building and infrastructure work alongwith contract cost and tentative completion period for the project needs to be explained.

7.1.2.4 As per schedule of assets from grant in aids, there was an addition of Rs. 929.56 million in property and equipment during the year 2020-21 for both campuses. The reasons for increase in these physical assets need to be justified as the development and up-gradation work is still in progress.

7.1.2.5 National Textile University Karachi campus was established on July 01, 2017 and HEC awarded the recognition to this sub campus on provisional basis subject to fulfillment of necessary requirements. The present recognition status of National Textile University Karachi sub Campus with HEC alongwith all documentary evidences regarding fulfillment of HEC requirements may be provided.

7.1.2.6 Salaries & other benefits in respect of Karachi campus have increased from Rs. 0.057 million in 2019-20 to Rs. 11.332 million in 2020-21. The reasons for this abnormal increase need to be explained.

7.1.2.7 National Textile University Faisalabad was handed over three institutes named Plastic Technology Center (PTC), Synthetic Fiber Development and Application Center (SFDAC) and Pak Korea–German Technology Institute (GTI) for establishment of NTU Karachi campus on July 01, 2017. The management started development and educational activities without transfer of title of land in the name of NTU. In the absence of non-transfer of title of said land, the entire expenditure on establishment of sub campus is held irregular and unjustified.

7.1.2.8 Salaries wages & other benefits increased by 16.87% from Rs. 346.152 million during 2019-20 to Rs. 404.555 million during 2020-21 against the increase @ 10% announced by the government. The reasons for disproportionate increase need to be explained.

7.1.2.9 Expenditure on account of communication increased from Rs. 12.107 million in 2019-20 to Rs. 17.677 million in 2020-21 resulting an increase of 46%. The reasons for increase need to be clarified.

7.1.2.10 Fee and other charges receivables increased from Rs. 1.756 million on June 30, 2020 to Rs. 10.203 on June 30, 2021 registering an increase of 481%. Early recovery of receivable is required.

7.1.2.11 As per note 4.7 of financial statements, actuarial losses due to experience adjustments on account of employee's retirement benefits increased from Rs. 3.90 million on June 30, 2020 to Rs. 36.15 million on June 30, 2021 registering an increase of 827%. The reasons of increase need to be justified.

7.1.2.12 An amount of Rs. 14.310 million during 2020-21 was withheld from the payment to contractors against PSDP civil works. The reasons for withholding the said amount need to be explained.

7.1.2.13 An amount of Rs. 2.619 million during 2020-21 was incurred against the license of firewall for the university's software. The basis for incurring of said expenditure needs to be justified

7.1.2.14 Rs. 151.926 million and Rs. 275.868 million during 2020-21 were lying in current and PLA accounts respectively. The amount in PLS account was placed at normal profit rates. The management needs to work out its working capital requirement. Further, surplus amount may be invested in Term Deposit Receipts to earn profit.

7.1.2.15 An amount of Rs. 6.412 million against Human Resource Development and Rs. 9.087 million against contingencies for Karachi Campus was amortized during 2020-21. The reasons for amortization of such expenditure need to be justified.

7.1.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras #	% of compliance
2007-08	02	01	01	172.2	50
2008-09	08	06	02	221.5, 222	75
2009-10	06	05	01	233.5	83
2010-11	08	06	02	23.1.2.4, 23.1.3	75
2011-12	17	12	05	24.1.2.5, 24.1.2.6, 24.1.3, 24.1.4.1, 24.1.4.2	71
2012-13	04	03	01	24.1.3	75
2013-14	07	03	04	17.1.2.1, 17.1.2.3, 17.1.2.4, 17.1.3	43
2015-16	07	03	04	18.1.2.1, 18.1.2.2, 18.1.2.5, 18.1.3	43
2016-17	12	05	07	17.1.2, 17.1.2.1, 17.1.2.2, 17.1.2.3, 17.1.3, 17.1.4.1, 17.1.4.4	42
2017-18	18	12	06	4.6.3, 4.6.4.2, 4.6.4.3, 4.6.4.5, 4.6.4.6, 4.6.4.8	67
Total	89	56	33		62

The overall compliance of PAC directives needs improvement.

7.2 NFC Institute of Engineering and Technological Training (Pvt.) Limited, Multan

7.2.1 Introduction

The company was incorporated on June 26, 1984 as a Private Limited Company under the name “NFC Technical Training Centre (Pvt.) Limited”. Subsequently the name of the Company was changed to “NFC Institute of Engineering and Technological Training (Pvt.) Limited” on August 30, 1994. Later on, all assets, properties, rights and interests of whatever kind, used, enjoyed possessed, owned or vested in or held in trust by and liabilities legally against the company were transferred to NFC Institute of Engineering and Technology. This transfer was done in accordance with the provisions of NFC Institute of Engineering and Technology Multan Act, 2012 passed by the National Assembly on 8th October 2009 and by the Majlis-e-Shoora (Parliament) in its joint sitting on 5th April 2012 which was published in “The Gazette of Pakistan” on 8th May 2012 and recognized as Degree Awarding Institute. The Institute is engaged in educational and training programs leading to higher degree in the field of Engineering.

7.2.2 Comments on Audited Accounts

7.2.2.1 The working results of the Institute for the year 2020-21 as compared to the previous years are given below:

	(Rs. in million)						
	2020-21	% Inc./ (Dec)	2019-20	% Inc./ (Dec)	2018-19	% Inc./ (Dec)	2017-18
Income							
Tuition & training fee and other income	600.217	11.48	538.39	1.86	528.58	4.09	507.79
Expenditure							
Teaching	418.859	11.56	375.46	12.33	334.24	5.71	316.19
Training	7.901	(28.17)	11.00	(29.62)	15.63	4.13	15.01
Admin & general	112.56	11.30	101.13	18.93	85.03	1.89	83.45
Bank charges	0.26	13.04	0.23	4.55	0.22	(12)	0.25
Total Expenditure:-	539.58	10.61	487.82	12.11	435.12	4.88	414.89
Surplus before taxation	60.637	19.88	50.58	(45.88)	93.46	0.60	92.90
Taxation	-	-	-	-	-	-	-
Surplus after taxation	60.637	19.88	50.58	(45.88)	93.46	0.60	92.90

(Source: Annual Audited Accounts)

Training fee income decreased by 9.71% from Rs. 9.677 million in the year 2019-20 to Rs. 8.737 million in the year 2020-21 and other income also decreased by 9.91% from Rs. 179.313 million in the year 2019-20 to Rs. 161.542 in the year 2020-21. This needs explanation.

7.2.2.2 Teaching expenses increased by 11.560% from Rs. 375.457 million in the year 2019-20 to Rs. 418.859 million in the year 2020-21. Administrative expenses also increased by 11.304% from Rs. 101.128 million in the year 2019-20 to Rs. 112.560 in the year 2020-21. Enormous increase in said expenses needs justification.

7.2.2.3 As per note-12, share capital, under the head Fund Account, shows nil value in the year 2020-21 as compared to the value of Rs. 25.00 million in previous year 2019-20. Reasons for nil value of the share capital in the year 2020-21 need explanation.

7.2.2.4 According to the Auditor's Report to the Syndicate, the accounts for the year 2020-21 are prepared on going concern basis. Revaluation of the free hold land is made during the year 2020-21 which resulted in revaluation surplus of Rs. 4,029.367. Reasons along with calculations of revaluation surplus may be elaborated.

7.2.2.5 As per the balance sheet for the year 2020-21, short term investment increased from Rs. 750.00 million in the year 2019-20 to Rs. 800.00 million in the year 2020-21 but profit on investment decreased from Rs. 93.725 million in the year 2019-20 to Rs. 69.918 in the year 2020-21 which needs explanation.

7.2.2.6 As per notes 19 & 21, salaries and other benefits under the heads Teaching Expenses increased by 10.57% from Rs. 231.872 million in the year 2019-20 to Rs. 256.374 in the year 2020-21 and salaries and other benefits under the head Administrative Expenses increased by 6.41% from Rs. 82.895 million in the year 2019-20 to Rs. 88.207 in the year 2020-21. Further, Directors' remuneration also increased by 33.843% from Rs. 9.949 in the year 2019-20 to Rs. 13.316 in the year 2020-21 as compared to the previous year. This abnormal increase in the salaries & other benefits and Directors' remuneration needs explanation.

7.2.2.7 Deferred Grant included an amount of Rs. 20.972 million for coal research center, out of which only Rs. 2.288 million were utilized in the year 2020-21. The reasons for non-utilization alongwith nature of grant needs to be explained.

7.2.2.8 As per note-9, interest accrued increased to Rs. 36.03 million in the year 2020-21 as compared to Rs. 28.018 million in the year 2019-20 registering an increase of 28.6%. Reasons for non-recovery of interest accrued needs to be explained and also provide party wise aging of interest receivable.

7.2.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No	%of compliance
2011-12	10	01	09	9.5.2.1, 9.5.2.2, 9.5.2.3, 9.5.2.4, 9.5.2.5, 9.5.2.6, 9.5.2.7, 9.5.2.8, 9.5.3	10
2012-13	06	01	05	9.4.2.1, 9.4.2.2, 9.4.2.3, 9.4.3, 9.4.4.1	17
2013-14	05	04	01	8.23.2.3	80
2014-15	09	07	02	9.25.3, 9.25.4.1	78
2015-16	11	10	01	8.24.3	91
2016-17	05	03	02	7.21.3, 7.21.4.2	40
2017-18	06	0	06	10.20.1, 10.20.2.1, 10.20.2.2, 10.20.2.3, 10.20.2.4, 10.20.3	0
2018-19	07	05	02	9.20.2.1, 9.20.2.5	71
Total	59	31	28		53

The compliance of the PAC directives was not satisfactory which needs immediate attention of the PAO.

7.2.4 Audit Paras

7.2.4.1 Irregular purchase of vehicles without prior approval from Austerity Committee – Rs. 19.774 million

As per Finance Division (Expenditure Wing) Office Memorandum No. 7(1) Exp. IV/ 2016-812 & 7(1)Exp. IV/2016-430 dated August, 21, 2019 & dated August 06, 2020, regarding Austerity Measures for Financial year 2019-20 & 2020-21 respectively, there was complete ban on purchase of all types of vehicles (excluding motorcycles) both for current as well as development expenditure and

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

During audit of NFC-Institute of Engineering and Technology (IET), Multan for the year 2019-21, it was observed that management procured following vehicles costing Rs. 19.774 million during the ban period in violation of the above Govt. rules therefore held irregular.

Sr. #	Particulars	BPV No.	Dated	Amount
1	2 Nos. Battery vehicle	505	23.06.2021	4,987,000
2	Battery operated vehicle fare	134	06.04.2021	44,000
3	Toyota-Altis (1598CC) (AEB-532)	159	16.04.2021	3,298,000
4	Suzuki-Cultus VXR (1000CC)	160	19.04.2021	1,795,000
5	Hino Bus	06	02.04.2019	9,650,000
			Total	19,774,000

Matter was reported to the management through A.I.R. Management in its response on January 24th 2022, stated that in Multan, the summer remains very hot therefore the walk between departments and to parking plaza becomes very difficult. That's why the management decided to procure electric vehicles/buses. Further provisioning of pick & drop (transport) facilities to the students of the institute do not fall under the parameters of austerity devised by the Finance Division. Other vehicles were replaced by the old vehicles having huge repair and maintenance cost. Furthermore, NFC Institute of Engineering & Technology, Multan is a self-sustained autonomous institution working on its own resources without receiving any financial aid/grant from any Government Agency. The budget for procurement was properly approved by the Vice-Chancellor in exercise of the powers vested in him under Section 11(4) of the NFC-IET Multan Act, 2012 which were duly recommended by the F&PC and the Syndicate and the same will also be ratified in next meeting of the Senate as per previous practice.

Reply was not convincing as Finance Division's austerity measures were applicable on all public sectors companies.

Despite repeated requests, no DAC meeting was arranged till finalization of this report.

Audit recommends justifying the reason for purchase of vehicles of Rs. 19.774 million in violation of the Finance Division instructions, fixing responsibility on the person at fault, and adopting remedial measures to avoid recurrence of such incidence in future.

Para-2 & 13 (NFC-IET, Mtn), 2019-21

7.2.4.2 Irregular and unjustified award of development projects without hiring of supervision and consultant – Rs. 132.539 million

According to clause 2(aa) of PEC Consulting By-Laws statutory notification S.R.O.809(I)/86 dated August 24, 1986, "consulting engineer" means any person, partnership, corporate body or any other legal entity which independently performs study, prepares reports, makes design, supervises construction or similar advisory activities in the engineering disciplines and is registered or licensed as such by the Council; further, as per clause 3(7), the individual consulting engineer or the sole proprietor of a partnership firm of consulting engineers shall give an undertaking to the Council that he is an independent consulting engineer and has no interest in construction and conflicting commercial, industrial and business activities which are likely to influence his professional independence and neutrality. According to 18(2) (g) of NFC Institute of Engineering and Technology Multan Act 2012, powers and functions of the senate, the senate shall have the power to approve financial resource development plans of the Institute.

During audit of NFC-Institute of Engineering and Technology (IET), Multan for the year 2019-21, it was revealed that the management awarded 09 construction contracts valuing Rs. 132.539 million to different contractors without supervision of engineering consultant/ 3rd party validation (Annex-35).

Similarly, these projects were also not got approved from the competent forum i.e. Senate which was violation of the relevant clause of the Act.

Audit was of the view that payment of Rs. 132.539 million against the construction work without supervision of consultant and without budget approval from the senate (the competent forum) was held irregular and unjustified.

Management in its reply dated January 24th 2022 stated that NFC IET has its own civil engineering department and experienced and technical staff working

under the supervision of Chairman Development Works (Civil Engg.) and also a Civil Engineering Department and Architecture Design Deptt. In case of hiring of resident supervision, they had to pay 4% to 5% approximately more on the construction cost of all the projects. Budgets were approved by the Vice-Chancellor in exercise of the powers vested in him under Section 11(4) of the NFC-IET Multan Act 2012 which were duly recommended by the F&PC and the Syndicate, as the matter was of urgent nature and required immediate action (Payment of Salaries etc.). The same will also be ratified in next meeting of the Senate as per previous practice.

Reply was not tenable as consultancy firm was not appointed for supervision of the work which was violation of the govt. rules.

Despite repeated requests, no DAC meeting was arranged till finalization of this report.

Audit recommends to explain the reason(s) for non-hiring of supervision consultant in violation of the said instructions, justify the reason(s) for execution of works without approval of senate, regularize the budgets as well as the civil works from the Senate besides fixing responsibility on the person(s) at fault,

Para-4 & 7 (NFC-IET, Mtn), 2019-21

7.2.4.3 Irregular appointment of lecturer in violation of statutes of NFC Institute - Rs. 17.590 million
Non-verification of degrees of the contract employees - Rs. 50.946 million

According to 1st statutes of NFC Institute of Engineering and Technology Multan Promulgated by the President of Pakistan under section 39 of NFC Act 2012, Evaluation Criteria for Faculty Section for post of lecture is as under:

Description	Point Assigned
Academic Qualification	40
Additional Academic Qualification	05
Medal(Gold, Silver, Bronze)	05(5,3,2)
Test	10
Evaluation as Teacher	10
Interview	30
Total	100

According to Establishment Division D.O No.6 (28) 2011-DG-II dated March 08, 2011 the Prime Minister directed that measures should be taken to authenticate degrees/ certificates of all federal government employees of the respective ministries/ divisions, their attached departments, subordinate offices and autonomous bodies under their administrative control.

During audit of NFC-Institute of Engineering and Technology (IET), Multan for the year 2019-21, it was observed that management advertised different posts of Lecturers (Architecture, Fashion Design, Electrical Engineering, Petroleum & Gas Engineering). The management changed the evaluation criteria, omitted two components of the said criteria i.e. test and evaluation as teacher. Further, the marks of the interview were increased from 40 instead of 30 and appointed 19 Lecturers on contract basis and paid Rs. 17.590 million (Annex-36).

Similarly, management appointed 51 faculty members (Associate Professor 01, Assistant Professor 10, Lecturers 19, Lab Engineers 4, Programmer IT 1, and Assistant 16 but their degrees were not verified (Annex-37). The management paid Rs. 50.946 million from the date of appointment to 31.07.2021.

Audit is of the view that management violated the approved criteria of NFC statutes and Establishment Division. Thus, the payment of Rs. 68.536 million (17.590 +Rs. 50.946) was held irregular.

Matter was reported to the management through A.I.R. Management in its response dated January 24th 2022 stated that all these appointments were made on contract basis through third party (NFC-IET Welfare Trust) and are on their strength who has made all these appointments on HEC criteria. Moreover, these contract employees are not on the strength of the NFC-IET and they are being paid salary out of the NFC-IET Trust Fund. However, for future appointment the NFC-IET Welfare Trust has been instructed to follow the evaluation criteria as observed by the audit. A cell has been established for verification of the degrees and started its work. A compliance report of degree will be submitted to audit as soon as the task is completed.

Reply was not convincing as Govt. rules and NFC Act was violated in appointments of the staff.

Despite repeated requests, no DAC meeting was arranged till finalization of this report.

Audit recommends that matter may be investigated for changes/ amendment without approval of competent authority, responsibility may be fixed, amount be recovered and degrees may be got verified from concerned Universities / HED.

Para-12 & 15 (NFC-IET, Mtn), 2019-21

7.2.4.4 Unjustified / excess enrollment of students in B.Sc. Engineering Programmes

Loss due to shifting of self-supporting and overseas Pakistanis quota into regular quota – Rs. 42.200 million

According to Pakistan Engineering Council (PEC) letter No. PEC/EAD/93-P/2019 dated October 11, 2019, “Article-2A-annual admission in engineering bachelor’s degree programmes offered by engineering institutions and universities. The maximum number of annual admissions in the engineering programs offered by higher education institutions shall be approved by the council in light of the provisions of PEC Act. Further, all reserved seats/quotas shall be adjusted within the maximum allowable intake for annual session approved by the Council for an engineering program of the engineering institution/ university. The prior permission of PEC shall be required against the government nomination for admission in addition to allowable intake restricted for open merit.

During audit of NFC-Institute of Engineering and Technology (IET), Multan for the year 2019-21, it was observed that management enrolled 122 students instead of 120 in B.Sc. Electrical Engineering, 40 students of B.Sc. Mechanical Engineering against 39 students and 43 students of B.Sc. Civil Engineering against 39 students during the 2019 in violation of PEC policy (Annex-38).

It was further observed that due to shifting of the students from K & S categories (i.e. Category “K-Overseas Pakistanis” “S-Self Supporting) to the regular quota as tabulated below, management sustained a loss of Rs. 50.000 million.

S. #	Intake Year	Programme	No. of Seats	Revenue Per Seat	Total Revenue Loss
1	2019	BSc Electrical Engineering	38	400,000	15,200,000
2	2020	BSc Chemical Engineering	39	300,000	11,700,000
		BSc Electrical Engineering	39	300,000	11,700,000
		BSc Petroleum & Gas Engineering	12	300,000	3,600,000
Total:-		42,200,000			

Matter was reported to the management on 24.01.2022. Department replied that candidates were admitted in discipline of B.Sc. Electrical Engineering, B.Sc. Mechanical Engineering, B.Sc. Civil Engineering as per seats given in Prospectus which were approved by PEC who strictly monitor these things. No extra candidate is admitted over and above the approved seats. Further, the vacant seats of category-S and category-K in the admission 2019 at NFC-IET Multan were shifted to open merit because no applicant was available in Category-S and Category-K. In order to reduce the impact of loss, category-K and category-S seats were converted to open merit on recommendation of admission committee.

Reply was not tenable as evidence in support of the reply was not produced to audit.

Despite repeated requests, no DAC meeting was arranged till finalization of this report.

Audit recommends to justify the position besides fixing responsibility on the individual concerned.

Para-19 (NFC-IET, Mtn), 2019-21

7.3 National Book Foundation

7.3.1 Introduction

National Book Foundation (NBF) is an autonomous body established under an Act of Parliament, 1972. National Book Council of Pakistan (NBCP) was merged with National Book Foundation on July 01, 1994. Accordingly, all the assets and liabilities of former NBCP on that date were incorporated in the books of NBF. National Book Foundation is engaged in the promotion of literacy by developing, printing and trading of books and other activities related thereto.

7.3.2 Comments on Audited Accounts

7.3.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts of the organization for the year 2020-21 till December 31, 2021.

Audit recommends that the annual audited accounts for the year 2020-21 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (**Annex-2**).

7.3.2.2 Working results of the Foundation for the year 2019-20 as compared with those of the previous years are as under:

(Rs. in million)					
Particulars	2019-20	%Inc. / (decrease)	2018-19	%Inc. / (decrease)	2017-18
Sales	246.836	12.72	218.986	(10.70)	245.236
Cost of sales	165.498	(1.29)	167.663	(9.04)	184.322
Gross profit	81.337	58.48	51.322	(15.75)	60.914
Admn. & General Expenses	252.847	6.18	238.130	9.11	231.727
Finance Charges	0.120	(59.32)	0.295	158.77	0.114
Operating Profit/(Loss)	(171.629)	(8.27)	(187.101)	9.46	(170.928)
Government Grants	179.420	4.12	172.320	(8.93)	189.217
Other income	54.020	22.25	44.187	24.79	35.410
Profit/(Loss)/ before tax	61.811	110.21	29.405	(45.24)	53.699
Provision for taxation	11.949	241.59	3.498	(71.16)	12.131
Net Profit/ (Loss) after tax	49.862	92.46	25.907	(38.22)	41.937

(Source: Annual Audited Accounts)

The sales of the Foundation increased by 12.72% to Rs 246.836 million in 2019-20 (2018-19 – Rs. 218.986 million), whereas, the cost of sales was decreased by 1.29% to Rs. 165.498 million in 2019-20 (2018-19 – Rs. 167.663 million). Although, the sales were increased during the year but Foundation sustained operating loss of Rs. 171.629 million during the year under review against operating loss of Rs. 187.101 million in previous year. The foundation is relying on government grants and during the year under review grant of Rs. 179.420 million was received. Efforts need to be made to make the foundation a self-sustaining entity in the years to come.

7.3.2.3 Closing stock of books/paper increased by 5.9% to Rs. 107.849 million as on June 30-2020 (2018-19 – Rs. 101.800 million). A provision of slow moving stock of Rs. 4.281 million was made in 2019-20 (2018-19 – Rs. 0.161 million). Reasons for abnormal increased along with detail of slow moving stock needs to be elaborated. Further, the detail of damaged books included in slow moving stock needs to be separated.

7.3.2.4 Admn. & General Expenses increased by 6.18% to Rs. 252.847 million during the year under review (2018-19 – Rs. 238.130 million). The figure included Admn. Selling & Distribution expenses of Rs. 225.427 million (which was 89% of the total administrative and general expenses). The figure is silent by means of notes, the expenditure needs to be elaborate separately head wise.

7.3.2.5 In Note-22 to the accounts the management disclosed prior period errors & omissions of financial statements. The prior period errors & omission affected the heads of Reserve by Rs. 119.036 million, Equity with negative impact by Rs. 250.553 million, non-current liabilities by Rs. 139.504 million and current liabilities by Rs. 18.097 million. The management may justify its position with regard to said impacts in detail with full facts & figures.

7.3.2.6 The prior period errors & omissions included adjustment of Rs. 34.767 million on account of trade & other payables (1918-19 – Rs. 18.097 million and 2017-18 – Rs. 16.670 million). Party wise detail of said liabilities and reasons of their reversal needs to be made available to Audit.

7.3.2.7 Other income increased by 22.25% to Rs 54.020 million in 2019-20 (2018-19 – Rs. 44.187 million). The figure included an amount of Rs. 5.036

million on account of adjustment of prior period error & omission. Position needs clarification with facts & figures.

7.3.2.8 Although, the property & equipment decreased by 5.49% to Rs. 154.094 million as on June 30, 2020 (2018-19 – Rs. 163.051 million). However, the figure included capital work in progress of Rs. 23.346 million which is pending since last many years. Position needs clarification and early capitalization of work in progress is stressed upon the management.

7.3.2.9 Trade debtors increased by 85.82% to Rs 74.821 million as on June 30, 2020 (2019-20 – Rs. 40.265 million). Alarming increase under the head needs clarification, early recovery of trade debts is stressed upon the management to avoid their conversion into bad debts in the years to come.

7.3.2.10 Although, advances, deposits and prepayments decreased by 13.89% to Rs. 8.228 million as on June 30, 2020 (2018-19 – Rs. 9.556 million), yet it included receivable from employees of Rs. 6.600 million as on June 30, 2020. Detail of employees and aging analysis of said receivables needs to be made available to Audit.

7.3.2.11 Although, Cash & bank balances decreased by 9.82% to Rs. 151.760 million as on June 30, 2020 (2018-19 – Rs. 168.294 million). The figure included current account balance of Rs. 131.232 million and PLS Saving account balance of Rs. 19.651 million. Keeping the huge amount in current or PLS saving account is not a prudent financial management. The management may determine its working balance limit as directed by Finance Division in July 2003 and surplus fund needs to be invested in prudent manners in some profit earning schemes.

7.3.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Para No.	%age of compliance
2003-04	04	0	04	34&34.1,34.2,34.3,34.4	-
2009-10	02	01	01	61	50
2010-11	07	04	03	5.1.2.1, 5.1.2.2, 5.1.4.1	57
2011-12	12	06	06	2.1.2.2, 2.1.2.5, 2.1.2.7, 2.1.2.8, 2.1.4.1, 2.1.4.2	50
2013-14	08	03	05	3.1.2.1, 3.1.2.2, 3.1.2.3, 3.1.2.4, 3.1.2.5	38
2014-15	07	01	06	2.1.2.1, 2.1.2.2, 2.1.2.3, 2.1.2.4, 2.1.2.5, 2.1.2.6	14
2015-16	09	02	07	13.1.2.1, 13.1.2.2, 13.1.2.3, 13.1.2.5, 13.1.2.6, 13.1.2.7, 13.1.3	22
2017-18	08	01	07	11.2.2.1, 11.2.2.2, 11.2.2.3, 11.2.2.4, 11.2.2.5, 11.2.2.6, 11.2.3	13
2018-19	12	10	02	10.3.2.7, 10.3.3	83
Total	69	28	41		40

Overall compliance of PAC directives was poor which needs immediate attention of PAO.

7.3.4 Audit Paras

7.3.4.1 Excess payment of gratuity beyond the qualifying service – Rs. 2.787 million

Irregular payment of encashment for leave refused in addition to normal encashment of LPR – Rs. 2.231 million

As per extracts from the minutes of the meeting of the Board of Governors of NBF held on 14.02.1978, the Board approved the adoption of the scheme of Revised National Pay Scales and Allowances for the employees of NBF.

As per reforms in pension/commutation scheme 2001, “the qualifying service for grant of pension/gratuity was fixed as 30 years”.

As per Revised Leave Rules, 1980 “a Civil Servant may, fifteen months before the date of superannuation or thirty years qualifying service on or after the 1st July, 1983, at his option, be allowed to encash his leave preparatory to retirement, if he undertakes in writing to perform duty in lieu of the whole period

of three hundred and sixty-five (365) days or lesser period which is due and admissible.

During audit of National Book Foundation Islamabad for the years 2017-18 to 2019-20 it was observed that the management did not adhere to 30 years limit of qualifying service while calculating the final dues of seven employees at the time of their retirement. Resultantly, excess payment of Rs. 2.787 million was made to them on account of gratuity by considering the qualifying service beyond 30 years. Thus, the payment of gratuity beyond the limit is held irregular.

Moreover, the management is following the practice of leave encashment on retirement for 365 days in line with Government policy as well as leave encashment on the basis of leave at his credit equal to number of days for which leave was refused or not availed by the employees. A payment of Rs. 2.231 million was made in eight cases on this account in addition to the normal encashment of 365 days.

Audit is of the view that dual facility of leave encashment contrary to the rules is irregular.

The matter was reported to the management on 21.04.2021. The management in its reply stated that the Civil Servants Act, 1973 regulates service of Civil Servants only whereas NBF is an autonomous body and services of NBF employees are governed under NBF Service Rules, 1973. The gratuity paid by NBF is not pension/commutation. Moreover, the relevant provisions of NBF Service Rules allow leave encashment as in vogue and objected by Audit.

The DAC in its meeting held on 07.07.2021 directed the management to refer the matter to Finance Division for seeking opinion.

No compliance of the DAC directives was provided to Audit till finalization of this report.

Audit recommends to stop the irregular practice forthwith and matter be referred to Finance Division for clarification.

Para-2 & 21 (NBF), 2017-20

7.3.4.2 Irregular procurement of papers below specifications – Rs. 19.882 million

As per Clause–1 (B) of the agreements signed with three firms, the suppliers were bound to supply paper as per specification. As per clause-12 of the agreement, NBF shall not release any advance payment to supplier. The payment will be made through crossed cheque after receipt of supplies and fulfillment of codal formalities. As per clause 5(b) of agreement, in case the test report is not in accordance with approved samples then, the whole lot will be rejected.

During audit of National Book Foundation Islamabad for the years 2017-18 to 2019-20 it was observed that as per agreement, M/s Arsam Paper Mills had to provide 100 M.Ton 80 GSM papers at a cost of Rs. 15.990 million to the Foundation. The samples of papers were forwarded to PCSIR laboratories for evaluation of specifications but the management made 75% payment i.e. Rs. 11.992 million to M/s Arsam Paper Mills in June, 2019 before the receipt of test reports. On receipt of results from laboratories, there was difference in specification of paper supplied by the firm. The management did not get replacement of papers and accepted the papers with 1% price reduction i.e. only Rs. 159,900.

Moreover, a contract to supply 550 packets of bleach cards amounting to Rs. 1.322 million was awarded to M/s Trade International, Lahore. As per test evaluation report, firm provided bleach cards of below specification, whereas, 100% payment had already been released to the firm. Thus, no action was taken against the firm for the replacement of bleach cards.

Furthermore, 100 metric ton papers size 23"x36"/70GSM were purchased from M/s Mandiali Paper Mills, Sheikhpura but the same were found below specification. The management informed the supplier on May 19, 2017 about said deficiency; however, the supplier did not replace the papers. Consequently, sub-standard papers were accepted and utilized in printing of books. Thus, payment of Rs. 2.570 million to the firm is held irregular.

Audit is of the view that the management was required to reject the consignments and should have insisted for provision of paper as per specifications given in agreements.

The matter was reported to the management on 21.04.2021. The management in its reply stated that as the academic session had already been

started and supply of text books could be late for one month. The retendering process was not affordable due to shortage of time hence it was decided to purchase the papers with directions to firms to improve the specifications.

The DAC in its meeting held on 07.07.2021 directed the management to constitute a committee including 02 members from the Ministry as representative and comprehensive report may be shared with Ministry for perusal of Secretary for decision.

No compliance of the DAC directives was provided to Audit till finalization of this report.

Audit recommends compliance of DAC directives.

Para-3 (NBF), 2017-20

7.3.4.3 Irregular utilization of budget due to non-constitution of Board – Rs. 4,989.38 million

As per NBF Act, 1972, the management, overall control and supervision of the affairs of the Foundation shall vest in a Board of Governors consisting of 23 members (as elaborated in the Act, 1972).

As per Companies Act, 2017 every company (organization) shall hold its first board meeting within 30 days from the date of incorporation. Regular and meaningful board meetings will be vital in evidencing compliance with that minimum standard.

During audit of National Book Foundation Islamabad for the years 2017-18 to 2019-20 it was observed that last Board meeting of foundation was held in November, 2000 and thereafter no Board meeting was held due to non-functional Board. Even no regular Managing Director of the Foundation has been appointed since December 2019, an amount of Rs. 4,989.38 million was spent on various projects by the management during last twenty years without the approval of Board.

Moreover, budgeting in Foundation is altogether ignored. Foundation's source of revenue includes government grant and sales proceeds. Neither proper heads of account are maintained nor allocation of funds is being done whereas,

expenditure is done on need basis from government grant. This practice is against the canons of financial propriety.

Audit is of the view that the utilization of budget without the approval of competent forum (the Board) was irregular. The expenditure was made with the approval of MD.

The matter was reported to the management on 21.04.2021. The management in its reply stated that BoG was re-constituted and notified on 07.12.2020 as well as MD was appointed by Government and he assumed the charge on 26.03.2021.

The DAC in its meeting held on 07.07.2021 directed the management to constitute an Audit Committee including Ministry's representative and certify all the expenditure from the committee for presenting before BoG for approval.

No compliance of the DAC directives was provided to Audit till finalization of this report.

Audit recommends for compliance of directives of the DAC.

Para-4 (NBF), 2017-20

7.3.4.4 Irregular grant of advance increments to selected employees – Rs. 1.729 million

As per Finance Division vide its OM No. F.1 (5) Imp/2001 dated 30.01.2002, the existing system of advance increments has been discontinued w.e.f. 1.12.2001.

During audit of National Book Foundation (NBF) Islamabad for the years 2017-18 to 2019-20 it was observed that advance increments amounting to Rs. 1.729 million were paid to 45 employees from July, 2017 to February, 2021. The list included 21 employees to whom 02 advance increments were granted while in 24 cases 01 increment was granted.

Audit holds the view that the grant of advance increments to employees against the instructions/policy of Finance Division was irregular.

The matter was reported to the management on 21.04.2021. The management in its reply stated that as per provisions of Service Rules (7.13 &

7.14) of NBF, the Managing Director may at his discretion give reward to individuals or to a team of individuals for any spontaneous and extraordinary acts performed by them beyond the normal call of their duties. Accordingly, MD granted increments to the employees of NBF.

The DAC in its meeting held on 07.07.2021 directed the management to immediately discontinue the increments from the officers/officials and refer the matter to Finance Division for seeking opinion.

No compliance of the DAC directives was provided to Audit till finalization of this report.

Audit recommends for compliance of DAC directives and recover the paid amounts from the concerned employees.

Para-6 (NBF), 2017-20

**7.3.4.5 Loss due to non-recovery of credit sale proceeds – Rs. 9.615 million
Unnecessary retention of heavy cash in accounts of shops/outlets –
Rs. 113.696 million**

The Federal Government has enacted Public Finance Management Act 2019 in order to strengthen management of public finances, improving implementation of fiscal policy for better macro-economic management, to clarify institutional responsibilities and strengthen financial and budgetary management. The Act is applicable to all matters of the Federal Consolidated Fund and Public Account of the Federation and all other matters of the Federal Government connected with or ancillary thereto. Financial controls are the procedures, policies, and means by which an organization monitors and controls the direction, allocation, and usage of its financial resources. As per sales policy of the National Book Foundation 2017, “sales in charge is fully responsible for the credit sales as well as collection of cash within stipulated time period”.

During audit of National Book Foundation Islamabad for the years 2017-18 to 2019-20 it was observed that a number of books were sold out on credit at different outlets of the foundation but management failed to recover the credit sale proceeds amounting to Rs. 9.615 million.

Moreover, Foundation established 24 book shops/outlets across the country without framing policy to supply of books at outlets/shops and remittances of sales proceed to Head Office. During comparison of total sales at outlets, amount expended on purchase of books and amount remitted to Head Office showed that in 15 cases, the book shops/outlets did not remit sale proceeds of Rs. 113.694 million to the Head office during the three years, whereas, in nine cases the outlets remitted excess amount of Rs. 13.423 million to Head office than the actual sale proceeds. The Head Office was un-aware about the books selected by shopkeepers and stock position in outlets.

Audit is of the view that non-recovery of credit sale proceeds and non-implementation of policy, guidelines and SOPs showed weak financial and managerial internal control.

The matter was reported to the management on 21.04.2021. The management in its reply stated that credit sale is common in the book trade and Rs. 1.441 million have been recovered leaving a balance Rs. 8.173 million. Furthermore, sale proceeds from local purchase books were deposited in the revolving fund accounts maintained at respective outlets while sale proceeds of NBF books remitted to Head office. Therefore, sale figure differs from the remittance. Moreover, NBF has framed proper sale policy to regulate the sale and purchase books and other allied matters.

The DAC in its meeting held on 07.07.2021 directed that an inquiry committee may be constituted at Ministry level for fact finding into the matter.

No compliance of the DAC directives was provided to Audit till finalization of this report.

Audit recommends to investigate the causes due to which the sale proceeds could not be recovered since long either from parties or from the concerned person(s). Besides, a comprehensive policy be framed and proper reconciliation may be carried out at each shop/outlet.

Para-9 & 19 (NBF), 2017-20

7.3.4.6 Excess payment on account of monetization allowance - Rs. 2.787 million

Cabinet Secretariat (Establishment Division) vide Notification dated 09.12.2016 notified the appointment of Dr. Inam-ul-Haq Javed as Managing Director, NBF in MP-II Scale, on contract basis, for a period of three years with immediate effect till further orders. As per terms of appointment notified by the controlling Division vide letter dated 13.12.2016, monetization of transport facility of Rs. 77,430 per month in lieu of Chauffeur Driven Car was allowed.

During audit of National Book Foundation Islamabad for the years 2017-18 to 2019-20 it was observed that despite availing benefit of monetization of transport facility amounting to Rs. 77,430 per month, the official vehicle also remained under the use of Managing Director from 09.12.2016 to 12.12.2019.

Audit is of the view that dual facility i.e. monetization allowance and chauffeur driven car was not allowed under the rules, thus, payment of monetization allowance amounting to Rs. 2.787 million (Rs 77,430 x 36 months) was irregular.

The matter was reported to the management on 21.04.2021. The management in its reply stated that all the official vehicles are on pool and no official vehicle was deputed with the MD for personal use.

The DAC in its meeting held on 07.07.2021 directed that recovery may be made from the officer concerned and verified from Audit.

No compliance of the DAC directives was provided to Audit till finalization of this report.

Audit recommends compliance of DAC directives.

Para-11 (NBF), 2017-20

7.3.4.7 Excess contribution on account of Contributory Provident Fund – Rs. 6.676 million

The Finance Division (Regulation Wing) vide its letter dated October 16, 1984 clarified that all such autonomous/semi-autonomous bodies and corporations etc. where the Contributory Provident Fund (CPF) scheme is applicable to their employees, to strictly follow the instruction in regard to the rate of employer's contribution to CPF. The Finance Division summarized the rate of contribution and category of organization. According to said clarification,

the employer's contribution to the CPF is 8¼% of the emoluments in the bodies and organizations where the pay scales are generally in line with those obtaining government and the fringe benefits are not excessive.

During audit of National Book Foundation Islamabad for the years 2017-18 to 2019-20, the record revealed that the rate of contribution by the employer in foundation is 12% of the emoluments which is beyond the notified rate of Finance Division i.e. 8¼%. Thus, an amount of Rs. 6.676 million was paid in excess on account of CPF contribution during 2017-18 to 2019-20. Detail of excess contribution in CPF during last three years is as under:

Years	Contribution of Foundation @ 12%	Contribution @ 8¼%	Excess Contribution (Rs.)
2017-18	7,137,225	4,906,842	2,230,383
2018-19	7,214,297	4,959,829	2,254,468
2019-20	7,012,484	4,821,023	2,191,401
Total:-			6,676,252

Audit holds that foundation has adopted government pay scales since 1978 and rate of CPF was notified as 8¼% by the Finance Division on 16.10.1984, hence NBF should have contributed CPF accordingly, which was not done. Thus, excess contribution in CPF amounting to Rs. 6.676 million was irregular.

The matter was reported to the management on 21.04.2021. The management in its reply stated that as per service rules, 1973 of NBF, all confirmed employees of foundation shall be entitled to CPF @ 12% of their basic pay.

The DAC in its meeting held on 07.07.2021 directed that case may be referred to Finance Division for seeking opinion.

No compliance of the DAC directives was provided to Audit till finalization of this report.

Audit recommends to fix responsibility for excess contribution of CPF and excess payment may be adjusted in coming years. Besides, compliance of DAC directives be made.

Para-14 (NBF), 2017-20

7.3.4.8 Irregular allotment of stall to various parties and non-recovery of rental charges – Rs. 2.780 million

Rule 10 of GFR provides that 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. Moreover, Rule 23 of GFR further provides that, every Government officer should realize fully that he will be held responsible for any loss sustained by the Government through fraud or negligence on his part.

During audit of National Book Foundation, Islamabad for the years 2017-18 to 2019-20 it was observed that a Shahr-e-Kitab was established on a plot allotted by CDA at F/7 Markaz Jinnah Super Market, Islamabad. The management informed that the plot was allotted for the construction of a center for promotional activities for writers and book reading but the same could not be established till 2016. The management divided the plot in portions in 2016 and allotted to 17 private parties for establishing book stalls on rental basis and signed one-page agreements with 13 stall holders in May and June 2018, whereas, no agreement was signed with other four parties. The parties are not paying rent charges regularly and an amount of Rs. 2,779,600 was outstanding against 14 parties. As per agreement, in case of default for three months, the allotment of stall would be cancelled but no action was taken in this regard.

Audit is of the view that foundation failed to utilize the plot for the purpose for which CDA allotted rather private parties were doing business at said place. Non-recovery of rental charges might cause loss to the foundation to that extent.

The matter was reported to the management on 21.04.2021. The management in its reply stated that approval of PC-I and proposal for construction of “Book Tower” was discussed in different meetings but NBF could not succeed in getting funds from Government. As the plot was vacant since 2004 and illegal occupants were creating problems therefore, Foundation had left no option except establishing Shahr-e-Kitab on temporary basis.

The DAC in its meeting held on 07.07.2021 directed the management to put-up a comprehensive brief for Secretary to take appropriate decision.

No compliance of the DAC directives was provided to Audit till finalization of this report.

Audit recommends for compliance of DAC directives. Besides, recovery of outstanding rent be made.

Para-18 (NBF), 2017-20

7.3.4.9 Conflict of interest by members of Publication Committee and non-compliance of guidelines for delayed delivery

As per SECP rules of corporate governance, the Board of Directors of a Company (formation) shall ensure that a formal code of conduct is in place that promotes ethical culture in the company (formation) and prevents conflict of interest in their capacity as member of the board, senior management and other employees. The board shall take appropriate steps to disseminate code of conduct throughout the company along with supporting policies and procedures and these shall be put on the company's website. The core function of NBF is to undertake writing of books and to encourage writers to produce good books – (NBF Act 6 (1)).

Foundation receives numerous original/translated/ compiled/edited manuscripts/books (excluding textbooks) on different categories from time to time for publication. In this regard, "NBF publication committee", was constituted with the mandate to select such manuscripts/ books received. It was observed that some books were approved for publication by the committee, writers of which were members of the same committee and present in the meeting which clearly indicates conflict of interest. In 04 cases, writers who remained the members of committee approved their books for publication.

Further, Publication Committee approved a number of books for publications but the same are yet to be published. In a case, a print order for printing of Biology textbook for grade XI was issued to M/s Crystal Printers on 04.04.2018. The printing order was designated for printing of 8,050 copies for academic session within two weeks. However, order was completed late by two months. The delay in printing of books benefited the parties doing business of pirated books. As per standing policy of foundation, late delivery @ Rs. 1,000 per day was to be charged to the defaulting party. However, in this case the foundation imposed minor penalty of Rs. 5,000 only. This undue delay was noticed and a meeting was held in this regard on 26 October, 2017, whereby it was decided that no payment shall be made to M/s Crystal Printers. Contrary to this, the work order was assigned to the said printer again and the payments were released to them. Moreover, production section was directed to initiate case for

blacklisting of said printer at Govt. level. However, no further action was initiated in this regard.

Audit is of the view that relevant authorities should be held responsible for non-compliance of blacklisting and why clause for penalty in case of late delivery was not made part of print order/ contract. Such practice of publication committee members approving their own books of publication should be abandoned as this may result in misuse of authority. The non-publication of approved books proved that the Committee is mere a formality and the printing is being carried out at the will & wish of the management.

The matter was reported to the management on 21.04.2021. The management in its reply stated that Committee has been constituted consisting of eminent writers, educationists, scholars, senior officials of Ministry of NBF so that best books may be considered for publishing. Due to extreme demand and non-availability of said book in the market, NBF faced embarrassing situation and has initiated action against the printer for blacklisting.

The DAC in its meeting held on 07.07.2021 directed that an inquiry committee may be constituted at Ministry level for fact finding into the matter.

No compliance of the DAC directives was provided to Audit till finalization of this report.

Audit recommends compliance of DAC directives.

Para-20 (NBF), 2017-20

7.4 National Endowment Scholarships for Talent (NEST)

7.4.1 Introduction

National Endowment Scholarships for Talent (NEST), a Company incorporated with SECP under Section 42 of the Companies Ordinance 1984 is a non-profit organization, whose mission is to identify and develop un-served and under-served areas for providing the quality education throughout the country. NEST generates revenue from its Endowment fund to achieve its objectives. So far, Endowment Fund of Rs. 5.2 billion was invested which realized the profit over 1,559 million for scholarships and operational expenditure. Company invests in Term Deposit Receipts (TDR), which is considered to be the safest available investment option.

Objectives:

The main objectives of the NEST are:

- To provide scholarships to needy cum talented students, who do not have enough resources to continue their studies.
- To provide vertical mobility to the most vulnerable segments of society to eradicate poverty.

7.4.2 Comments on Audited Accounts

7.4.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts of the organization for the years 2019-20 and 2020-21 till December 31, 2021.

Audit recommends that the annual audited accounts for the year 2020-21 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

7.4.2.2 The working results of the NEST for the years 2016-17 to 2018-19 are given below:

(Rs. in million)

	2018-19	% Inc / (Dec)	2017-18	%Inc / (Dec)	2016-17
Revenue (Markup on Investment	378.984	38.78	273.083	91.04	142.949
Admin & General Expenses	34.096	(2.50)	34.972	1,012.69	3.143
Scholarship Programs	25.403	(59.05)	62.034	100	-
Finance Cost	0.122	1,270.78	0.0089	100	-
Excess over Expenditure	319.362	81.38	176.068	25.94	139.807

(Source: - Annual Audited Accounts)

7.4.2.3 Revenue of the organization has increased by 38.78% during the year 2018-19 as compared to 2017-18 which was 91.04 % of the year 2016-17. However, revenue from interest on saving account decreased from Rs. 11.122 million to Rs. 3.107 million during 2017-18 to 2018-19 vide foot note No. 16 of the annual audited accounts 2018-19. The management needs to explain the reason of declining trend of revenue.

7.4.2.4 Scholarship disbursed during the year 2017-18 was Rs. 62.034 million and for the year 2018-19 was Rs. 15.075 million. On the other hand, there was an increasing trend in the Admn. & General Expenditure during the 2018-19 which was Rs. 34.096 million as compared to previous year of Rs. 28.137 million. The decreasing trend in disbursement of scholarship and increase in Admn. & General expense was contradictory to the core objective of the project for providing scholarships to talented needy student. Audit requires to justify the reason for decreasing trend in the year 2018-19.

7.4.2.5 While checking the annual audited accounts for the year 2018-19, it was observed that Administrative & General Expenses for the year 2017-18 were showed as Rs. 28.137 million instead of Rs. 34.972 million as given in the accounts of 2017-18. The management should need to justify/explain the discrepancy.

7.4.2.6 Long Term Loans include Qarz-e-Hasna loan of Rs. 11.00 million in the financial statements for the year 2017-18 whereas, in financial statements for the year 2018-19 the same was reflected as Rs. 7.813 million. Audit to justify/explain the discrepancy in both figures.

7.4.2.7 The Chartered Accountant has given qualified opinion on the financial statement of the organization for the year 2017-18 on the basis of “no provision for taxation” under section 2(36) of Income tax ordinance 2001, vide Paragraph

A of chartered Accountant opinion, whereas the chartered accountant has given unqualified opinion on the financial statements for the year 2018-19 despite the same discrepancy exist in the accounts. Provision for taxation is still not recognized by management. Audit requires justify/explain the position regarding non-recognition of provision for tax in the financial accounts 2018-19.

7.4.3 Compliance of PAC Directives

No PAC meeting has been conducted so far hence, no compliance is outstanding.

7.4.4 Audit Paras

7.4.4.1 Irregular investment of funds without approval of the BOD - Rs. 5,200 million

According to the Finance Division letter No. F.4 (1)/2002-BR.II dated. 02.07.2003, (a) for the sake of the safety and security of deposits, the bank/financial institutions taking a deposit should have a minimum “A” rating (long-term) as appearing on the web-site of the State Bank of Pakistan. (b) The process of selection of bank/(s) should be transparent therefore, prior to placing deposits with a bank under this new policy, and in case the total working balances exceed Rs. 10 million, the selection of the bank/(s) as well as the terms of deposits will be approved by the concerned Board of Directors / Governing Body on the basis of competitive bids from at least three independent banks; (c) The risk associated with keeping deposits should be diversified therefore, in cases where total working balance of an enterprise exceeds Rs.10 million, not more than 50% of such balance shall be kept with one bank; (e) The working balance limit of each organization should be determined with the approval of the administrative ministry in consultation with Finance Division.

Clause 7 & 08 of the said policy states that Principal Accounting Officer of the ministry concerned will be responsible for the implementation of the above instructions regarding the PSEs / local/ autonomous bodies under his control. All the PSEs /local/autonomous bodies of the administrative control invest the funds in accordance with the above mentioned policy.

During audit of the NEST for the year 2016-17 to 2018-19, it was observed that funds to the tune of Rs. 5,200 million were invested in the National Bank of Pakistan in different TDRs for short period of 03 to 06 ranging from 5.8% to 6.95% since 2015-16 to 2018-19 without approval of the BoD and proper competition between different scheduled banks. As investment was more than Rs.10 million, therefore the management was required to invest in different banks for minimizing risk of the company. The management of the company failed to properly plan in determining the working balances for the year and investment of the surplus funds in different banks as per finance division instructions and thus company was deprived of the handsome profit/earning from the funds provided by the government. Investment committee was also not formed for evaluation of the rates of different banks.

Matter was reported to the management on 03.01.2022. Management replied that competitive rates were obtained from various banks. ABL offered the most competitive rates which matched with those of NBP, thus funds were invested with NBP. Investment policy has been approved as part of Finance Manual. Due to establishment of new office, the investment could not be done in proper manner but now remaining funds are invested wisely to be matured at various times to ensure funds availability as well as maximum profit earning.

Reply was not tenable as investments were not made as per approved finance division policy and prior approval of the Board.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons for non-investments of the funds as per approved finance division policy besides taking disciplinary action against the individual(s) held responsible

Para-1 (NEST, 2016-19)

7.4.4.2 Non-utilization of the funds as per PC-1 Rs. 681.516 million and non-achievements of the PC-1 targets

According to Para 05 of the PC-1 for establishment of Pakistan Human Resource Development Endowment Fund (PHRDEF) duly approved by the Executive Committee of National Economic Council (ECNEC) in its meeting held on 2nd March, 2015, the objective of the program is to promote academic

excellence by providing financial support to the talented but needy/less privileged students who do not have the financial resources to get educated beyond tenth grade/level. As per table at Para 08 of the PC-1, 1360 and 6058, 10801 and 15590 number of students were required to be awarded scholarships during the year 2015-16, 2016-17, 2017-18 and 2018-19 respectively at the average rate of Rs. 4,786 per month.

During audit of the NEST for the year 2016-17 to 2018-19, it was observed that an amount of Rs. 5,200 million was released by the finance division up to 2018-19 for payment of scholarships under the approved programs of Liaqat, Sir Syed, Iqbal, Jinnah and other office running activities. An amount of Rs. 844.215 million was earned as cumulative profit by placing the funds worth Rs. 5,200.000 million in different TDRs on fixed rate of interest in National bank of Pakistan.

Audit observed that out of total profit of Rs. 844,215,195 earned during the 04 years, only Rs. 77,109,600 were incurred on the specific task i.e. payment of scholarships and Rs. 82,589,153 utilized lavishly on salary and non-salaries. The balance profit of Rs. 681,516,442 was still lying unspent in the bank causing non-utilization of the funds on the payment of scholarships up to 30.06.2019. Management failed to award scholarships to the needy students of the remote areas as per approved PC-1 of the project by the ECNEC and thus main objective of providing scholarships to the students was ignored. Out of 33,809 scholarships approved as per PC-1, management provided scholarships to 2609 students during the year 2015-16 to 2018-19 which was only 7.71% of the PC-1 target. Similarly, against the financial targets of 1,941.56 million in the above years, only 107.057 million was disbursed which was 5.51%. This shows lack of interest on the part of management in disbursement of the stipends.

Matter was reported to the management on 03.01.2022. Management replied that NEST was established in 2015 but operationalized in May 2017 when the first batch of employees was hired. During 2017-18, disbursements for scholarships were Rs. 62 million, however, it dropped significantly. New management allocated Rs. 120 million out of Rs. 142 million in 2017-18 for the scholarship. The Liaqat and Sir Syed Scholarships involve a tedious task of validation of documents and due to severe shortage of staff, the targets could not

be achieved whereas planning and budgeting for the relevant years show full commitment to deliver. Scholarship to the 1,308 applicants could not be given on the instructions of the Secretary Planning. He also withheld the remaining PSDP funding from NEST as originally approved.

Reply was not acceptable as funds were not utilized as per the approved PC-1 of the project.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter for non-utilization of the funds on scholarships as per PC-1 and over expenditure on payment of salaries and non-salaries besides fixing responsibility on the individual(s).

Para-2 & 3 (NEST, 2016-19)

7.4.4.3 Loss due to investment of funds on low rate of interest - Rs. 24.80 million

Loss due to investment of funds on low rates - Rs. 42.81 million

According to the Finance Division letter No. F.4 (1)/2002-BR.II dated. 02.07.2003 working balances under the new policy, public sector enterprises and local/autonomous bodies can deposit their working balances required for their operations with any public or private bank subject to the condition that prior to placing deposits with a bank under this new policy, and in case the total working balances exceed Rs. 10 million, the selection of the bank/(s) as well as the terms of deposits will be approved by the concerned Board of Directors / Governing Body on the basis of competitive bids from at least three independent banks.

During audit of the NEST for the year 2016-17 to 2018-19, it was observed that management of the company invested Rs. 5,200 million in the National Bank of Pakistan in different TDRs for short time period 03 months to 06 months since 2016-17 to 2018-19. Interest rates were collected from 17 scheduled banks of the country for six months period by the Chief Financial Officer and acting CEO of the company.

Audit observed that Allied Bank Limited offered the rate of Rs. 6.25% for the 06 months' time period but the management rejected their rates and deposited the amount in National Bank of Pakistan at the rate of 5.80% for the same period causing loss of Rs. 24.80 million (Annex-39). Similarly, the KIBOR rates of the

banks for the same period were higher than the rates offered by the NBP, but management failed to negotiate with other banks for investment on the same or above the KIBOR rates of interest prevailing at that time causing loss of Rs. 42.81 million to the company. (Annex-40).

Matter was reported to the management on 03.01.2022. Management replied that in the Board meetings, Secretary Finance had suggested to keep funds in NBP as it is a government bank to avoid risk.

Reply was not acceptable as Govt. funds were invested on low rate of interest which sustained loss to the Govt.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter for investment on low rate of interest instead of high rates offered by the AA rating bank and not negotiating with the banks on investments on KIBOR rates. Responsibility may be fixed on the individual's held responsible for sustaining loss to the government.

Para-5 (NEST, 2016-2019)

7.4.4.4 Irregular execution of Qarz-e-Hasna Scheme in violation of PC-1 and non-recovery of loan from the students - Rs. 28.95 million

According to Para 05 of the PC-1 for establishment of Pakistan Human Resource Development Endowment Fund (PHRDEF) duly approved by the Executive Committee of National Economic Council (ECNEC) in its meeting held on 2nd March, 2015, the objective of the program is to promote academic excellence by providing financial support to the talented but needy/less privileged students who do not have the financial resources to get educated beyond tenth grade/level.

As per Annexure B(III) read with the table at Para 08 of the PC-1, specific targets for awarding stipends to the students under category of intermediate, bachelor, masters and Ph.D. were fixed in each year since 2015-16 to 2018-19.

During audit of the NEST for the year 2016-17 to 2018-19, it was observed that BOD of the company approved Qarz e Hasna loan scheme to the students for studying in different foreign universities vide agenda item No. 03 of the BoD in its meeting dated. 26.07.2017. An expenditure of Rs. 28.950 million

(Rs. 11.000 million and Rs. 17.950 million) was incurred on payment of loans to the students in the year 2017-18 and 2018-19 respectively.

Audit is of the view that award of Qarz e Hasna loan scheme was violation of the PC-1, approved by the ECNEC, therefore held irregular.

Matter was reported to the management on 03.01.2022. Management replied that in light of the Articles of Association, Board is competent to decide the direction of the company, to initiate and close programs it deems relevant to the current national needs. Furthermore, the program was started by NEST Board, which included Minister and Secretary Planning. Planning Ministry is the premier department for funding and coordinating with ECNEC so we believe they were competent enough to decide on initiating this scheme. We do not believe that regularization from ECNEC of our programs is required as Board of Directors are competent to make decisions for the Company.

Reply was not acceptable as PC-1 was approved by the ECNEC hence revision in the project by the BoD requires approval of the same forum.

No DAC meeting was arranged till finalization of this report.

Audit recommends to justify the initiation of the loan scheme against the PC-1 approved by ECNEC besides regularization of the scheme from the competent authority i.e. ECNEC.

Para-6 (NEST, 2016-2019)

7.4.4.5 Loss due to retention of funds in the Daily Product Account instead of investment in Fixed Deposit Account - Rs. 15.534 million

According to clause (b) of the Finance Division letter No. F.4 (1)/2002-BR.II dated. 02.07.2003, the process of selection of bank/(s) should be transparent. Therefore, prior to placing deposits with a bank under this new policy, and in case the total working balances exceed Rs. 10 million, the selection of the bank/(s) as well as the terms of deposits will be approved by the concerned Board of Directors / Governing Body on the basis of competitive bids from at least three independent banks;

(e) The working balance limit of each organization should be determined with the approval of the administrative ministry in consultation with Finance Division.

During audit of the NEST for the year 2016-17 to 2018-19, it was observed that funds to the tune of Rs. 4,200 million were matured on 01.03.2018 and then kept in the operational daily product bank account NIDA No. 3012889312 for a period of one month and 24 days at the daily product rate of 3.75 % instead of re-investment in the TDR at the fixed higher rate of 6.25% prevailing at the time causing loss of Rs. 15.534 million to the company.

Audit is, therefore, of the view that due to lack of financial control of the management, the company was put into a huge loss of Rs. 15.534 million which was held irregular.

Matter was reported to the management on 03.01.2022. Management replied that during initial stages of company startup, it was expected to have some delays in investment while program disbursements are streamlined. The investments were streamlined later during the year and no more delays have occurred.

Reply was not tenable as due to lack of interest of the management, the public money was lost.

No DAC meeting was arranged till finalization of this report.

Audit recommends justification for retention of huge funds in the daily product account instead of re-investment on fixed rate of interest besides fixing responsibility on the individual(s) for sustaining loss to the government.

Para-7 (NEST, 2016-2019)

Chapter-8

Ministry of Industries and Production

Overview

Ministry of Industries & Production (MOI&P)'s role is that of a facilitator in creating an enabling environment for industrial growth in the country.

Aims & Objectives

The objectives of MOI&P are to achieve efficient, sustainable and inclusive Industrial Development and to play the role of facilitator in industrial development and entrepreneurship through policy intervention, setting up Industrial Parks and Export Processing Zones for investors, skill development of human resource for industrial sector and socio-economic development of country with particular focus on SME development and promotion of traditional crafts of Pakistan.

Governing Laws and Policies

- Rule of Business 1973
- SME Policy, 2007
- Auto Development Policy 2016-21
- Fertilizer Policy, 2001
- Auto Industry Development Programme

Sectoral Analysis

Utility Stores Corporation (Pvt.) Limited was incorporated on September 3, 1971 as a private company under the Companies Act, 1913. (Now the Companies Act, 2017). The USC has its registered office at Plot 2039-F-7, G/7 Blue Area Islamabad. The Company has paid up capital of Rs. 737.73 million fully owned by the Government of Pakistan. The Company is working under administrative control of Ministry of Industries and Production.

The entity comprises of its Head Office at Islamabad, and 09 Zonal Offices at Islamabad, Lahore, Gujrat, Multan, Sargodha, Karachi, Sukkur, Peshawar, Abbottabad and Quetta, headed by Zonal Managers and 64 Regional Offices are operating under the Zonal Managers throughout the country headed

by Regional Managers to control the operational activities of 3,989 utility stores operating at union council level in the country.

Sales of the Corporation increased by 406.55% i.e. from Rs. 9,310.06 million during 2018-19 to 47,160.37 million during 2019-20 whereas Selling & Distribution expenses only decreased by 1.36%. Also, administrative expenses increased by 8.57% i.e. from Rs. 437.45 million during 2018-19 to Rs. 474.96 million during 2019-20. Disproportionate decrease/increase in Selling & Distribution expenses and Administrative expenses with respect to sales needs explanation.

The Corporation has loss after taxation amounting to Rs. 1,418.346 million during the year 2019-20 which resulted in increase in accumulated losses to Rs. 15,513.126 million. The Company has positive cash flows from operations amounting to Rs. 3,223.627 million this is just because of Government subsidy.

There were instances of irregularity and malpractices in appointments, financial management, procurement, contract management and overstaffing in the Corporation. There were issues of non-compliance of Public Sector Companies (Corporate Governance rules) for which Thematic Audit was carried out and a separate Report was generated which is a part of this report too. Management also failed to submit annual audited accounts for the year 2020-21 till Dec 31, 2021.

Audit Profile of Ministry of Industries & Production

(Rs. in million)					
S. No.	Description	Total	Audited	Expenditure audited FY 2020-21	Revenue /Receipts audited FY 2020-21
1	Formations	24	8	42,778.007	111,058.112
2	Assignment Accounts (excluding FAP)	-			
3	Authorities /Autonomous Bodies etc. under the PAO	2	2		
4	Foreign Aided Projects (FAP)	-			

Classified Summary of Audit Observations

Audit observations amounting to Rs. 410,477.359 million were raised as a result of this audit. This amount also includes recoverable of Rs. 8,734.665 million as pointed out by the audit. Summary of the audit observation classified by nature is as under:

Overview of the Audit Observations

Sr. No.	Classification	Amount (Rs. in million)
1	Non-Production of record	74,046.400
2	Reported cases of fraud, embezzlement and misappropriation	36.245
3	Irregularities:	0
A	HR/Employees related irregularities	205.909
B	Procurement related irregularities	5,443.217
C	Management of accounts with Commercial Banks	17.454
4	Value for money and services delivery issues	88.750
5	Others	330,639.384

8.1 Export Processing Zones Authority

8.1.1 Introduction

The Export Processing Zones Authority (hereinafter referred to as “EPZA / the Authority”) was established by the Government of Pakistan on Feb 06, 1980 through Export Processing Zones Authority Ordinance, 1980. The main objective of the Authority is to plan, develop, manage and operate Export Processing Zones (EPZs) in Pakistan in order to invite / help foreign investors.

8.1.2 Comments on Audited Accounts

8.1.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this, the management failed to provide audited accounts of the organization for the years 2010-11 to 2020-21 despite a number of reminders.

8.1.2.2 Audit requires that the annual audited accounts of the years 2010-11 to 2019-20 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

8.1.3 Compliance of PAC Directives

Audit Year	No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
2000-01	1	-	1	194	0
2009-10	8	7	1	96	88
2010-11	8	4	4	11.1.4.1, 11.1.4.2, 11.1.4.3, 11.1.4.5	50
2014-15	22	1	21	9.1.4.2, 9.1.4.8, 9.1.4.11, 9.1.2.1, 9.1.2.2, 9.1.2.3, 9.1.3, 9.1.4.3, 9.1.4.4, 9.1.4.5, 9.1.4.6, 9.1.4.7, 9.1.4.9, 9.1.4.10, 9.1.4.12, 9.1.4.13, 9.1.4.14	5
2015-16	3	1	2	8.1.2.1, 8.1.3	33
2019-20	6	5	1	7.1.4.1, 7.1.4.2, 7.1.4.3, 7.1.4.4, 7.1.4.5	83
Total	48	18	30		37

The overall compliance of PAC directives needs improvement.

8.1.4 Audit Paras

8.1.4.1 Loss of foreign exchange due to non-achievement of export targets - Rs. 216,374.240 million (US\$. 1,352.34 million)

According to clause 41 of license agreement states that the investors application, undertaking annual export of his products per annum, the sanction / approval letter of the license is and shall be treated as integral part of this license agreement.

As per item No.2 (3) of 122nd Board meeting of EPZA dated 15-02-2019 “in the event such units fail in their committed export figure as undertaken by them during a particular fiscal year, they shall be liable to pay a penalty equal to 1% of the shortfall from the committed export performance for a particular year”.

During audit of Export Processing Zones Authority (EPZA), Karachi and Regional Office-Lahore for the years 2020-21 and 2019-20, it was observed that some units of EPZ failed to achieve the envisaged export targets US\$. 1,628.51 million. In this regard the units achieved only 17% targets i.e. US\$.276.154 million as detailed below:

(US\$ in million)				
S. #	Name of zones	Committed Export per annum	Actual Export 2019-20	Difference
1.	Sialkot EPZ	55.19	9.374	45.819
2.	Risalpur EPZ	71.88	3.04	68.83
3.	Gujranwala EPZ	11.39	1.28	10.11
4.	KEPZ	1,490.05	262.46	1,227.58
	Total	1628.51	276.154	1,352.34
US\$.1,352.34 x 160 = 216,374.24 million				

Audit is of the view that the management failed to check the feasibility of the projects before sanctioning units and financial health and resources of the investors which reflects inefficiency.

The matter was reported to the management in June and November, 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that the projection for five years as mentioned by the investors in their investment proposal in Part-H of application form is a part of business plan of the investor, which depends upon economic

condition of the country and overall world economic conditions. For Past one decade or so overall economic condition of Pakistan has been affected by Financial crisis of 2008, War on terrorism, Load Shedding, High cost of electricity/production ,Covid-19 and incentives withdrawn by the Government of Pakistan like exemption on taxation, imposing of presumptive tax, 80:20 percentage of tariff area export. The targets are always tentative dependent of many factors. Non achievement of targets is not a loss. The DAC directed the management to take action against the units having less export and share the action taken with Audit.

Audit recommends implementation of the DAC directives.

(DP No. 66, 85 & 535)

8.1.4.2 Non-production of record - Rs. 74,046.400 million (US\$ 462.790 million)

Section-14 (2) and (3) of Auditor General's (Function, Powers, and Terms and Conditions of Service) Ordinance 2001, provide as under:

14(2): The officer in-charge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete form as possible and with all reasonable expedition.

14(3): Any person or Authority hindering the auditorial functions of the Auditor-General regarding inspection of accounts shall be subject to disciplinary action under relevant E&D Rules.

During audit of Export Processing Zone Authority (EPZA) and Sialkot Export Processing Zone (SEPZ) for the year 2020-21 and 2019-20, the audit issued various requisitions and reminders for production of audited record to the management. However, only partial record was provided. Whereas, the main record of EPZ was not provided to audit, despite issuance of various reminders and verbal requests. Due to non-production of record, audit was unable to ascertain transparency in relevant transactions and complete audit assignment satisfactorily. Annex-41.

Audit is of the view that non-production of record reflects concealment of facts which is a clear violation of Auditor General of Pakistan's mandate.

The matter was reported to the management in April and November, 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC showed its displeasure on non-serious attitude towards provision of record to Audit. The DAC directed the management to provide all requisitioned record to Audit without further delay.

Audit recommends implementation of the DAC directives.

(DP No. 283, 58 & 529)

8.1.4.3 Loss due to non-export by sick units - Rs. 55,483.000 million (US\$ 346.767 million)

As per part H of Export Projections for five years of Application form of investors for setting up an industrial/ trading unit an investor is required to mention committed annual export which must be maintained. The investors are bound to follow their commitments in case they retain the allocated land.

Mission Statement of Export Processing Zone (SEPZ) states that “to mobilize and promote utilization of the national resources, for socio-economic development of the country by enhancing exports. This task is carried out through coordination between national development agencies, external cooperation programs and technical assistance; and through the promotion of private sector investments”.

During audit of Export Processing Zone Authority (EPZA) and Sialkot Export Processing Zone (SEPZ) and for the year 2019-20 and 2020-21, it was observed that the lands at Zone were allotted to the investors for establishment of industrial units. However, 59 units completely suspended its business, and no exports were made till now. Resultantly, the government exchequer sustained loss in term of foreign exchange due to zero export Rs. 55,483.000 million. Detail is as under:

Zone	Name of Unit	Period	Committed export in US\$	Export
SEPZ	12	2019-20	20.507	Zero
KEPZ	47	2016 to 2021	326.260	Zero
Total			346.767	
Equivalent to Pak Rs. (US\$.346.767 million x Rs.160) = Rs.55,483.000 million				

Audit is of the view that the management has failed to attract the genuine exporters/investors in the zones which resulted in loss of foreign exchange.

The matter was reported to the management in March and November, 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that the reduction in exports in the year 2019-20 was due to Covid-19 however, regarding the targeted export it is tentative figure which an investor provides at the time of the investment proposal but due to International business scenario the export orders depend on the order received by investors from the international market. The targeted export is an opportunity window not a binding. The DAC directed the management to take action against the sick units and share the action taken with Audit.

Audit recommends implementation of the DAC directives.

(DP No. 59 & 537)

8.1.4.4 Non transfer of ownership of land – Rs. 12,404.000 million

Rule 03 of Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for the implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and used economically, efficiently, effectively and in accordance with all statutory obligations.

During audit of Export Processing Zones Authority (EPZA), Karachi for the year 2020-21, it was observed that the lands of EPZA are in three phases, Phase-I is on 211 acres land, Phase-II on 94 acres land and Phase-III on 80 acres land, but the ownership of 385 Acres land could not be transferred in the name of EPZA after lapse of 10 to 40 years. Detail of land and its cost is as under:

S. No.	Properties	Measurement	Rs. in million
1.	KEPZ Land Phase-I	211	6,788.940
2.	KEPZ Land Phase-II	94	3,899.632
3.	Buildings	-	354.124
4.	Infrastructure	-	83.229
5.	KEPZ Land Phase-III	80	529.000
Total		385	12,403.927

It was also observed that no concrete efforts were made by the management for transferring of ownership in the name of EPZA.

Audit is of the view that the management failed to transfer the land on its name which reflects inefficiency and poor financial management.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that the land was allotted to EPZA by the Government of Sindh in three phases. During Phase-I, 211 acres of was allotted, Phase-II 94 acres and Phase-III 80 acres. EPZA had written letter to Sindh Board of revenue and Deputy Commissioner, Malir for mutation of land but no positive response received. The DAC directed the management to follow the case vigorously and finalize the mutation in favour of EPZA.

Audit recommends implementation of the DAC directives.

8.1.4.5 Less export than import - Rs. 2,810.719 million (US\$. 17.566 million)

Mission Statement of Export Processing Zone states that “To mobilize and promote utilization of the national resources, for socio-economic development of the country by enhancing exports. This task is carried out through coordination between national development agencies, external cooperation programs and technical assistance; and through the promotion of private sector investments”.

During audit of Export Processing Zones Authority (EPZA), SEPZ and EPZA (RO) Lahore for the year 2019-20 and 2020-21, it was observed that some units made less export against the import amounting to Rs. 2,810.719 million (US\$ 17.566 million) against the mission statement / objectives of Zone. Detail of such cases is as under:

(Amount in US\$)				
Zone	No. of Units	Total Export	Total Import	Deference
SEPZ cumulative as on June 2020	04	2,542,727	4,002,007	1,459,280
GEPZ for the year 2019-20	02	102,440	520,280	417,840
REPZ for the year 2019-20	02	74,520	199,102	124,582
EPZA for 05 years 2016 to 2021	27	28,135,003	43,700,297	15,565,296
Total	35	30,854,690	48,421,686	17,566,998
Grand Total US\$17,566,998 x Rs.160 = 2,810.719 million				

Audit is of the view that the management failed to monitor the mechanism of imports and exports which resulted in violation of EPZA’s mission statement.

The matter was reported to the management in April and November, 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022.

- a) The DAC was apprised by the management that as per Sub rule 5 of 228 of custom rule 2001 allows warehousing of imported goods / raw material for two years period for further export purposes. It is part of business strategy of the exporters. The Rule permits. The export markets are competitive. The DAC directed the management to take action against the units having less export and share the action taken with Audit.
- b) The DAC was briefed by the management that the units established in EPZA are allowed to retain the imported raw material for initial two years and if the investor wants to extend this period the collector exports is authorized to grant one year permission if investor again wants extension of further one year the Chief Collector Customs empowered to give the extension further one year. The DAC directed the management to get facts supported by Rules be got verified from Audit within three days. The DAC directed the management to take action against the units having less export and share the action taken with Audit.
- c) The DAC was apprised by the management that as per clause 2226 of SRO-450(1)/2001 dated 18-06-2001; the Goods admitted to a Zone may remain there for such period as may be prescribed by the Authority. The Exports are competitive in the international market. The DAC considered the stance of management unsatisfactory and directed the CF&AO / MoIP to conduct inquiry within two months and report be shared with Audit.

Audit recommends implementation of the DAC directives.

(DP No. 524, 282 & 65)

8.1.4.6 Excess export in tariff area – Rs. 1,860.895 million (US\$ 11.630 million)

Rule 228(5) of Custom Rules 2001, stated that the units established in the Export processing Zone shall export only up to twenty percent of their total production to tariff area in Pakistan while eighty percent shall be exported to other countries.

During audit of Export Processing Zone Authority (EPZA) and Sialkot Export Processing Zone (SEPZ) and for the year 2019-20 and 2020-21, it was observed that following units of Zones made 65.59% export in the tariff area valuing US\$ 16.732 million against the allowed limit of 20% export in tariff area, which is a clear violation of above-mentioned rules. Detail of such export cases is as under:

(Amount in US\$)							
Zone	No. of Units	Export Tariff Area	Export Abroad	Total Export	Export Allowed in Tariff Area	Excess Export in Tariff Area	% in tariff area
SEPZ	03	734,073	751,415	1,485,488	297,098	436,975	49.42
EPZA	38	15,998,644	8,026,465	24,025,109	4,805,022	11,193,622	66.59
Total	41	16,732,717	8,777,880	25,510,597	5,102,119	11,630,598	65.59
US \$ 11,630,598 @ Rs.160 = Rs. 1,860,895,000							

Audit is of the view that the management has failed to maintain the check and balance on the trading of units. Hence, the units exported more than 20% in the tariff area, which is a serious violation of custom rules.

The matter was reported to the management in April and November, 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022.

- a) The DAC was apprised by the management that as per rule of 228(5) of custom rule 2001 there is a provision for export of 20% of their production to tariff area for home consumption in addition to that the investor is also allowed to sale 3% defective goods to the tariff area however, as per SRO 450(1)/2001 dated 18-06-2001 allows the investor to export their goods to tariff area to EOUs, MB and TI SRO2 or 3in tariff for further processing and re-export the goods from there to abroad and such type of the export is permissible with the approval of Customs Authority. The management agreed with the lapses but apprised that matter is very much complicated as generally 20:80 ratios is allowed but there are certain Schemes also allows margin. The matter needs to be segregated. The DAC directed the management to segregate and reconcile

the amounts with Audit and report in this regard be shared with Ministry with one month.

- b) The DAC was apprised by the management that Audit has objected 38 units are exporting goods without observing 80:20 ratio whereas the exports are generally allowed from units operating in Export Processing Zones are dealt in accordance with the SRO 461(1)/2004, dated 12th June, 2004 which provided export ratio 80:20 for abroad and Tariff area (for home consumption). However, in various other cases, permission to take out finished goods, raw materials and machinery are allowed on case to case basis on the Rules specified for these permissions. There is no violation of Rules. The DAC directed the management to inquire the matter at Ministry level within 3 months and report be shared with Audit.

Audit recommends implementation of the DAC directives.

(DP No. 60 & 523)

8.1.4.7 Un-authorized activity of import and export in KEPZ – Rs. 1,769.850 million (US\$ 11.799 million)

Rule 9-A of Export Processing Zones Authority Rules, 1981, states that if in the opinion of the Authority an investor has failed to carry out the purpose for which, or has not fulfilled the conditions of, the sanction accorded to him under sub-section (1) of section 11 of the Ordinance, it may, after giving him notice to show cause, cancel, revoke or withdraw the sanction.

During audit of Export Processing Zones Authority (EPZA), Karachi for the year 2020-21, it was observed that the management provisionally sanctioned to the investor M/s. IF Zipper on 15.12.2016 for manufacturing of Garment accessories & Packing material in KEPZ Phase-III. On the execution of license agreement, the management allowed operating and functioning of business activities in any rented premises in Phase-I & II of KEPZ on the basis of tenancy agreement. A rent agreement was executed on 26.12.2016 with Ms/. Jubilee Apparel for a period of 11 months of an area of 1600 square fit. It was also observed that the unit is illegally carrying out the business in KEPZ after the expiry of tenancy agreement in rented. The following discrepancies were also observed as under:

- Thereafter, one more extension from 14.02.2018 to 13.01.2019 was given by the Acting Director (IP) without lawful authority.
- Both renting permissions have expired on 25.10.2018 & 13.01.2019.
- It is continuing its activity with M/s. Jubilee International without EPZA permission from 25.10.2018 to date.
- It is continuing its activity with M/s. Home Furnishing without EPZA permission from 31.01.2019 to date.
- These are working in SAH Enterprises without approval till to date.
- EPZA has issued many times various letters but it did not comply with as per tripartite sub-lease agreement dated 26.12.2016.

Audit is of the view that the using of unauthorized EPZA facilities is due to weak internal controls and lack of proper monitoring mechanism at EPZ.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that M/s. IF Zipper Pakistan Pvt Limited was provisionally approved by the Chairman EPZA on recommendation of PAC. The tenancy agreement will be for eleven months .The sponsor paid 1st installment to EPZA on 16.12.2016. A sub-License Agreement was executed (Tripartite) between Jubilee Apparel, IF Zipper and EPZA on 26.12.2016. EPZA issued permission to rent out premises of portion area M/s. Jubilee Apparel to M/s.IF zippers for a period of 11 months w.e.f. 26.12.2016 to 25.11.2017. As the PC-I for the development of Phase-III was scrapped by the BoD. The management advised investor get refund of 1st installment from EPZA Finance Division. Against this letter, the investor filed litigation against EPZA and presently the investor is doing business in the rental premises during the stay period. The DAC showed its displeasure on non-serious follow-up of litigation cases and directed the management to follow-up the court case vigorously.

Audit recommends implementation of the DAC directives.

8.1.4.8 Non-preparation of fresh PC-I of project KEPZ phase-III - Rs. 1,763.504 million

As per decision of 122nd meeting of Board of Directors (item No. 03) on February 15, 2019 as under:

- To scrap the PC-I of KEPZ phase-III and prepare a fresh PC-I, because

the decision of the minutes of DWP meeting dated 25.08.2016 were violated.

- ii PPRA Rules were violated and M/s. Naqvi & Siddiqui Associates be black listed.
- iii Recovery from the contractor be made and responsibility be fixed.
- iv The Board also assigned looking after the fresh work of PC-I, cost estimates to the committee consisting of Mr. Hassan Masood Khawaja & Mr. Mustafa Hemani.
- v It was further resolved that EPZA should approach Chief Secretary, Sindh and Supreme Court Registry, Karachi to help vacate the encroached land belonging to KEPZ Phase-III.

During audit of Export Processing Zones Authority, Karachi for the years 2020-21, it was observed that the PC-I of KEPZ Project Phase-III was scrapped by the BoD in its 122nd meeting on February 15, 2019 and issued the direction to prepare a fresh PC-I. However, despite a lapse of 03 years, the management did not prepare a fresh PC-I of KEPZ Project Phase-III which is a violation of Board's directives. The management failed to generate revenue on account of allotment charges and Annual Ground Rent (AGR) amounting to Rs.1,640.50 million (193 plots @ Rs.8.50 million allotment per plot) and Rs.123.004 million (1000 Sq. meter x 193 plots x US\$ 4.00= \$768,780 @ Rs.160) respectively.

Audit is of the view that non-submission of fresh PC-I reflects inefficiency and weak management in execution of project resulted in loss of Rs. 1,763.504 million.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022.

- a) The DAC showed its displeasure on non-implementation of the decision of the BoD and directed the management to implement the decision of the BoD within one month.
- b) The DAC was apprised by the management that EPZA Board had scrapped the PC-I resultant development work of Phase-III was stopped and constituted a new committee to prepare new PC-I. Since then the Boards meeting could not be hold and it has completed the tenure on March 7, 2021. Now the matter of fresh PC-I for the development of Phase-III will be placed in the next BoD. The DAC showed its displeasure on the inordinate delay occurred in the preparation of PC-I and directed

the management to prepare fresh PC-I for the development of Phase-III within 3 months.

- c) The DAC was apprised by the management that EPZA Board had scrapped the PC-I resultantly development work of Phase-III was stopped and constituted a new committee to prepare new PC-I. Since then the Boards meeting could not be hold and it has completed the tenure on March 7, 2021. Now the matter of fresh PC-I for the development of Phase-III will be placed in the next BoD. On 23rd November 2021 and EPZA has requested to MOIP to give permission to EPZA to execute KEPZ Phase-III project through self-Financed basis or through advance payment from Prospective investors who wish to establish industries in KEPZ. After getting approval from MOIP EPZA will initiate this project through hiring services of Engineering firms for re-visiting the existing master Plan of KEPZ Phase-III along- with the preparation of Engineered estimates and supervision of construction of development works. The DAC directed the management to complete the process within three months and report be shared to Audit and Ministry.

Audit recommends implementation of the DAC directives.

(DP No. 511, 534 & 533)

8.1.4.9 Non-imposition of penalty as service charges - Rs. 1,455.125 million

Clause 18 of license agreement between Export Processing Zones Authority (EPZA), and Investors states that the investor shall be free to start production/trading/service activity or any other industrial activity as approved by the Authority during the construction period. Provided, however, the investor shall be bound to commence such activities within a period of 3 months from the date of expiry of the construction period or issue of the completion certificate whichever is earlier. Provided further if such activity is not commenced within a period of three stipulated above, the investor shall be liable to pay service charges applicable on 25% of amount of exports stated by the investor at the time of submission of application for license.

During audit of Export Processing Zones Authority (EPZA), Regional Office-Lahore for the year 2019-20, it was observed that EPZA Risalpur, Sialkot and Gujranwala have approved various industrial units for enhancing export activities. However, its units did not start the industrial activities as mentioned in their approval letter.

Audit is of the view that the management granted undue favour to these industrial units by not imposing 25% of service charges amounting of Rs. 1,455.125 million (SEPZ Rs. 714.075 million, REPZ Rs. 464.25 million and GEPZ Rs. 276.8 million) which resulted in loss.

The matter was reported to the management in June 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that the EPZ in Sialkot and Gujranwala are Joint Ventures between EPZA and PSIC (Punjab Small Industries Corporation) and as per clause 09 of MOU between EPZA and PSIC, “the ownership of the Land rest with PSIC till such time the expenses incurred by PSIC are fully recovered.” The EPZ in Risalpur is a Joint Venture between EPZA and SDA (Now KPEZDMC) and as per clause 6.1 of Agreement between EPZA and SDA, “this agreement is subject to the condition that the absolute and indefeasible title to the said land shall be legally held by SDA.” Hence as Ownership of land in two cases lies with PSIC, and in case of Risalpur lies with SDA the said clause 18 of License Agreement between EPZA and Investors is not applicable. The DAC directed to the management to verify the factual position with Audit.

Audit recommends implementation of the DAC directives.

8.1.4.10 Loss due to non-imposition of construction penalty - Rs. 620.960 million (US\$ 3.881 million)

As per clause 8 of the License Agreement, the investor is bound to complete construction and start running the unit within a period of 18 months from the date of approval. As per clause-11 of the License Agreement, 50% of construction is to be completed within one year period to avoid cancellation of the plot. Moreover clause No.10 prescribes non-construction fee @ US\$ 5 per square meter per month upon failure of the investor to raise construction or to start installing unit.

During audit of Export Processing Zones Authority, Karachi for the years 2020-21, it was observed that 06 Units (KEPZ phase II) failed to complete the construction work despite lapse of 06 to 50 months against the allowed period of 18 months. As a result, the envisaged investment could not be materialized and

achievement of export remained zero. However, the management did not impose the non-construction penalty amounting to Rs. 620.960 million (US\$ 3.881 million).

Audit is of the view that the management failed to charge penalty on account of completion of projects which reflects inefficiency and weak financial management.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that that EPZA board had approved the clause of agreement for imposition of penalty of US\$ 5 per sq. Meter per month to US \$ 3000/- per annum. Audit has objected the non-imposition of construction penalty on 6 units. The EPZA will impose penalty during the issuance of completion Certificates. The DAC directed the management to impose and recover construction penalty within one month and report be shared with Audit and Ministry.

Audit recommends implementation of the DAC directives.

8.1.4.11 Loss of presumptive tax and service charges due to non-auctioning of units - Rs. 136.771 million (US\$ 854,824)

Mission Statement of Export Processing Zone states that “to mobilize and promote utilization of the national resources, for socio-economic development of the country by enhancing exports. This task is carried out through coordination between national development agencies, external cooperation programs and technical assistance; and through the promotion of private sector investments”.

Rule 9 (A) of Export Processing Zones Authority Rules, 1981 states that if in the opinion of the Authority an investor has failed to carry out the purpose for which, or has not fulfilled the conditions of, the sanction accorded to him under sub-section (1) of section 11 of the Ordinance, it may, after giving him notice to show cause, cancel, revoke or withdraw the sanction.

During audit of Export Processing Zone (EPZA), Karachi for the year 2020-21, it was observed that 06 units of KEPZ had been taken over by the management from the years 2015 to 2020, but no auction was made till now which resulted in a loss on account of presumptive tax and service charges

Rs.126.312 million (US\$ 789,450). Furthermore, a unit M/s. Bahrain Recycling remained closed since 1990, however, the management failed to auction the unit and also did not charge service charges and Presumptive tax amounting to Rs.10.459 million (US\$ 65,374) despite a lapse of considerable time.

Audit is of the view that the management failed to auction the units since 2015 which reflects slackness and negligence.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022.

- a) The DAC was apprised by the management that EPZA has taken over 7 units since 2015. Out of 7 units the cases of two units are in court of law. The valuation of these building has been assigned to Government valuers as the valuation work is completed the auction of buildings will be carried out. The DAC directed the management to complete the auction process on war footings within 3 months.
- b) The DAC was apprised by the management that EPZA has served final Show cause Notice to M/S Bahrain Recycling. It was further briefed that the unit went to the Banking Court therefore EPZ may not take any action in order to avoid contempt proceedings. The DAC directed the management to follow the case vigorously.

Audit recommends implementation of the DAC directives.

(DP No. 517 & 514)

8.1.4.12 Loss of rental income due to non-renting out of KEPZ warehouses – Rs. 95.840 million

Export Processing Zones Authority Ordinance, 1980, section 10, the Authority may, pursuant to the master plan, prepare schemes in respect of:

a)	land use, zoning and land reservation;
b)	public buildings;
c)	industrial warehousing and buildings;
d)	transportation and communications; roads, streets, railways, jetties, walls, workshops, sheds, godowns, navigation channels;
e)	telecommunication, including wireless, telex and telephones;
f)	community facilities, including water supply, sewerage disposal, electricity supply, gas supply and other public utilities;and
g)	Environmental control and prevention of pollution.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2020-21, it was observed that six warehouses of KEPZ were lying un-utilized since 2005. Hence the management sustained a loss of Rs. 95.840 million as on 30.06.2021. The KEPZ warehouses built on plot Nos. 1, 2 & 3, Sector B-X. Annex-42.

Audit is of the view that the Authority has failed to rent out KEPZ warehouses since long due to inefficient management. Hence, the Authority suffered a loss of Rs. 95.840 million due to non-renting of warehouses.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The management was apprised by the management that the confiscated goods are lying in the KEPZ warehouses occupied by the Custom since 2005. KEZA is under the rules are bond to provide the spaces to the Customs. EPZA have reminded 17 times to Customs to auction the goods and vacated the premises. After vacation of premises will rent out as per rental policy. The DAC directed the management to follow the case vigorously and vacation of the warehouses by the Custom Authorities and their proper Auction.

Audit recommends implementation of the DAC directives.

8.1.4.13 Non-recovery of outstanding dues – Rs. 79.685 million

As per agreement with various investors for rented out property, Annual Ground Rent of the allotted plots at the specified rates was required to be recovered in advance on or before 10th July, every at the prescribed rate in US\$. Similarly, the utilities bills were also to be recovered on due dates and in case of non-payment of two or three consecutive bills the utility services would have to be suspended in order to recover the outstanding balances and to avoid their heavy accumulation.

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

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2020-21, it was observed that an amount of Rs.79.685 million was lying outstanding against different parties as detailed below:

No. of Units	Nature of Account	Outstanding Amount in US\$ * Rs.160	Rs. in million
15	Electricity charges	62,705	10.032
14	Annual Ground Rent (AGR)	387,944	62.071
59	Clearing and Forwarding Agents	-	3.970
36	Advances against expenses to employees	-	3.611
Total		450,649	79.685

Audit is of the view that the management did not recover its dues, which resulted into blockage of funds and chances of converting the receivables into the bad debts cannot be ruled out.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022.

- a) The DAC was apprised by the management that out of total outstanding amount of US\$ 55,394 have been recovered and remaining receivables are sub-judice in the court of law. The DAC showed its displeasure on inordinate delay in the finalization of court cases. The DAC directed the management to take concrete measures for the recovery of remaining amount and monthly report in this regard be shared with Audit and Ministry.
- b) The DAC was apprised by the management that that EPZA has formed a review committee to propose action against all clearing and Forwarding Agents who are defaulters and not functional from the last three years, their cases will be forwarded to Pakistan customs for cancellation of their clearing and Forwarding licenses. The DAC directed the management to take action against defaulters monthly report in this regard be shared with Audit and Ministry.
- c) The DAC was apprised by the management that out of 3.611 million the advances of Rs. 2.670 million have been adjusted. The record is available for verification. The DAC directed the management to get the facts verified from Audit. The DAC directed to the management to verify the factual position with Audit.

Audit recommends implementation of the DAC directives.

(DP No. 508, 509 & 510)

8.1.4.14 Irregular sublet of unit in violation of rule - Rs.70.770 million (US\$. 471,800)

Clause 17 (B) of General Agreement and lease deed dated 16.02.2004, states that the Authority reserves the right to withdraw / cancel/revoke the sanction of the investor if he commits any breach or violates any of the terms and conditions agreed upon between the investor and the authority under this agreement or any other agreement or if in the opinion of the authority the purpose for which, sanction was accorded is not being fulfilled.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2020-21, it was observed that the management allowed the premises to M/s Premier Stitching Limited and M/s Karima Textile. However, they sublet their premises to various investors without any approval of management. Furthermore, both investors did not make any tangible efforts to resume their industrial activities of their approved / sanctioned line of business since many years. Annex-43.

Audit is of the view that undue favour was extended to the investors for rental premises in violation of rules which reflects inefficiency and weak internal controls.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022.

- a) The DAC was apprised by the management that the premises of the investors after given leased out to the investor, can be sublet to any other investor who required space for storing /processing/warehousing of goods to make their own exports subject to condition that EPZA will charge @10% of the total rent applicable on the fix rate of US\$ 0.50 per square meters. This income is additional income of EPZA besides the AGR charges on the lease land. The Chairman is competent to approve these cases. In the case of the rental permission granted by the EPZA to M/s. Premier Stitching is under the Rules. The DAC directed the management to get the facts verified from Audit
- b) The DAC was briefed by the management that EPZA has not violated rules or breach any regulations under the EPZA Ordinance 1981, as EPZA

is a competent to give rental permission therefore, decision of EPZA on M/s Karima Textile was in accordance with the Rules Where EPZA is Authority for subletting permission to an investor. As EPZA authorized to rental permission, gaining income by means of getting rental income from M/s Usman Global Trading and M/s Saltex @ 0.50 per square feet along with AGR @ 4.00 per square meters .Moreover, is also pertinent to mention here that EPZA is not only obtaining rental income but also getting AGR income on allotted plots. The DAC directed the management to get the facts verified from Audit.

Audit recommends implementation of the DAC directives.

(DP No. 528 & 530)

8.1.4.15 Less recovery from investor - Rs. 41.887 million (US\$ 380,790)

Clause 08 of lease deed dated 16.02.2004 with M/s Premier Stitching that the Lessee shall use the plot for the purpose of manufacturing & processing of all types of textile and shall not use or permit it to be used for the purpose other than leased out, except with the prior consent in writing of the Lessors.

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

During audit of Export Processing Zones Authority (EPZA), Karachi for the year 2020-21, it was observed that the management approved an investment proposal of M/s Premier Stitching for manufacturing of bed sheets, curtains and accessories on 18.09.2003. In this regard, the investor has paid down payment for four plots of land admeasuring 5,821 square meters on the account of Annual Ground Rent @ 1.50 per square meter. Furthermore, the management allowed to M/s. Premier Stitching for changing in line of business, but the difference on

account of Annual Ground Rent (AGR) and Security Deposit amounting to Rs. 41.887 million (US\$ 380,790) as detailed below:

Description	Industrial	Processing & Recycling	Difference	Covered Area Sq. Meter	Difference (in US\$)
A	B	C	D	E	F (D*E)
Annual Ground Rent	1.500	4.000	2.500	5,821	14,552.500
Security Deposit	5.000	30.000	25.000	5,821	145,525.000
AGR 7.7 years * 14,552.500= 235,265.420 Security Deposit = 145,525.000 Total in US \$ = 380,7890.420 * Rs. 110= 41,886,946					

Audit is of the view that the management has failed to collect the applicable difference which resulted in to loss of Rs.41.887 million.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC considered the stance of management unsatisfactory and directed the CF&AO / MoI&P to conduct inquiry within two months and report be shared with Audit.

Audit recommends implementation of the DAC directives.

8.1.4.16 Non-recovery on account of ground rent - Rs. 26.715 million

As per clause 10 of Memorandum of Understanding (MoU) signed between Export Processing Zone Authority (EPZA) and Sarhad Development Authority (SDA) stated that ownership of the land will rest with SDA. The land will be allotted to investors on lease basis by SDA/EPZA. Ground rent will be shared by SDA and EPZA in the manner as mutually agreed, SDA being prime beneficiary to recover the cost.

During audit of Export Processing Zones Authority, (EPZA) Regional Office-Lahore for the year 2019-20, it was observed that a Memorandum of Understanding (MoU) was signed between SDA & EPZA in the year 1997 regarding establishment of Export Processing Zone at SDA Industrial Estate, Nowshera to accelerate the pace of industrialization in the Province. As per agreement, the SDA was bound to share the ground rent with EPZA. Contrary to

the above, SDA did not pay a single penny on account of ground rent since 1997. The details are as under:

Details of Annual ground rent from Risalpur Zone, Nowshera for the year 01.01.2020 to 31.12.2020				
	Actual area (acre)	Actual area (Sq.met)	Agreed rate per Sq.met (USD)	Total AGR in USD
Area for Industry	54	218,529	0.5	109,265
Area for warehouse	11	44,515	1.25	55,644
Total annual AGR in USD				164,909
Total annual AGR in PKR (164,909 @ Rs.162)				26,715,260

Audit is of the view that due to slackness of management, a huge amount of Rs. 26.715 million could not be recovered from SDA despite a lapse of considerable time.

The matter was reported to the management in June 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was briefed by the management that as per Agreement signed between EPZA and SDA the matter of revenue streams was mutually agreed as under; As per Clause 7.5 “For providing such services under EPZA concept as detailed above, Export Processing Zones Authority shall charge administrative charges from the investors at the rate not more than 1% of FOB value of Export as applicable in other EPZs.” And as per Clause 8.10 “SDA shall charge cost of plot, annual ground rent and service fee from the investor to carry out its responsibilities as set out in this agreement. The cost of plot, service fee and other charges shall be determined in consultation with EPZA.” Therefore the AGR is not chargeable by EPZA. The DAC directed to the management to verify the factual position with Audit.

Audit recommends implementation of the DAC directives.

8.1.4.17 Non-imposition of liquidity damages - Rs. 15.930 million

Clause 47.1 of bidding documents provides that the amount of liquidated damages 0.10% (one tenth of one percent) of contract price for each day of delay in completion of the works subject to a maximum of 10% of contract price stated in the letter of Acceptance.

During audit of Export Processing Zones Authority, Karachi for the year 2020-21, it was observed that the contract of enhancement of electric load from

11.02 to 27.00 MW was awarded M/s Barqtron Engineering Solutions amounting to Rs. 159.30 million. Work completion period was fixed for four months i.e. 07.12.2020. Later on, the contract value was enhanced upto Rs. 225.000 million. As per schedule, power plants were to be completed within 06 months i.e. from 13.10.2020 to 24.02.2021 which was further extended up to March 30, 2021. However, work was not completed up to October, 2021. Neither the liquidity damages charges of Rs. 15.930 million were imposed nor the performance bond was forfeited / encashed.

Audit is of the view that management extended undue favor by not imposing LD charges which reflects negligence.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC considered the stance of management unsatisfactory and directed the CF&AO / Mo&IP to conduct inquiry within 3 months and report be shared with Audit.

Audit recommends implementation of the DAC directives.

8.1.4.18 Excess expenditure on excess working strength – Rs. 9.300 million

As per Board of Directors (BoD) of Export Processing Zone Authority (EPZA), the Board fixes the HR strength of the Authority.

During audit of Export Processing Zones Authority (EPZA), Regional Office-Lahore for the year 2019-20, it was observed that excess employees were working against the sanctioned strength as detailed below:

S. #	Designation	Sanctioned Strength	Current Working Strength	Variance/Excess
1	Deputy Manager	0	2	2
2	Assistant Manager	1	8	7
3	Supervisor	1	7	6
4	Assistant	0	6	6
5	Clerk / Typist	1	4	3
6	NaibQasid	1	5	4
7	Security Guard	0	3	3
Total		4	35	31

Audit is of the view that the management deployed surplus staff against the sanctioned strength as approved by the BoD which resulted in an excess

expenditure of Rs.9.300 million per annum (31 employees @ Rs. 25,000 per month @ 12 months).

The matter was reported to the management in June 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that sanctioned strength of the Staff is approved by the BoD. The DAC considered the stance of the management unsatisfactory. The DAC directed the management to rationalize the staff position, seek fresh approval of sanctioned strength of all regional offices from BoD and shift the surplus staff to Headquarters.

Audit recommends implementation of the DAC directives.

8.1.4.19 Irregular renting out of premises in violation of BoD directives - Rs. 3.664 million

As per decision of Board of Directors Meeting No: 121 held on January 11, 2019:

- i. The Board decided that to restrict the activity, no fresh permission / license should be given to worn (used) clothing.
- ii. No Sale / Purchase / Transfer to be allowed to existing units of worn (used) clothing retrospectively effective from 3rd January 2019; thus ratifying the Chairman's decision.

During audit of Export Processing Zones Authority (EPZA), Karachi for the year 2020-21, it was observed that the management allowed premises to M/s. Insiya Packages on lease agreement. Thereafter M/s. Insiya Packages sublet the premises to M/s. Greens International for 11 months from 15.05.2019 to 14.04.2020 regarding use for warehousing / storage purpose of used textile clothing (UTC) in the ban period with the approval of management in violation of BoD directives. The rent for 11 months amounting to Rs. 3.664 million (USD. 24,424) is also held irregular and unjustified.

Audit is of the view that the premises was allowed on rental basis in ban period in violation of BoD directives which reflects inefficiency and serious procedural lapses.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that the EPZA Board of Directors in its 121st Board of Directors Meeting held on January 11, 2019 under Agenda Item No.12-viii under title “only restricts Used Textile Clothing business through Sale/Purchase/Transfer” however existing units may not be stop to work in the zone. Whenever they require spaces on temporarily basis they can be allowed after payment of EPZA share. The management agreed to recover the rent amount. The DAC directed the management to get the recovery process completed within one month and report be shared with Audit.

Audit recommends implementation of the DAC directives.

8.1.4.20 Fraudulent activities in Risalpur Export Processing Zone - Rs. 3.261 million

Clause 9-A of EPZA Rule, 1981 states that if in the opinion of the Authority an investor has failed to carry out the purpose for which, or has not fulfilled the conditions of, the sanction accorded to him under sub-section (1) of section 11 of the Ordinance, it may, after giving him notice to show cause, cancel, revoke or withdraw the sanction.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2020-21, it was observed that the Collector (Adjudication) passed an order for recovery of short paid amount of duty / taxes Rs.3.261 million and imposed a penalty of Rs. 100,000 on an investor M/s. Pearl River Mining due to illegal goods removed from REPZ. Thereafter, management conducted an internal inquiry which recommended action against the employees of EPZ i.e. Mr. Muhammad Naveed (Manager REPZ), Mr. Muhammad Ikhlaq (Security Guard) and Mr. Faiz Ali under EPZA E&D rules against gross negligence in removal of illegal goods. However, just after two months, Mr. Muhammad Ikhlaq (Security Guard) was assigned the Shoulder promotion from Security Guard (S-I) to S-II on 28.07.2021 and then to ASI on 11.10.2021.

Audit is of the view that the removal of goods from EPZ were made due to weak internal controls and lack of proper monitoring mechanism. Furthermore, the management did not take any action the accused.

The matter was reported to the management in November 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that Chairman EPZA had constituted a Committee to investigate the case of import gate passes of M/s. Pearl River Mining (Pvt) Ltd which was issued by Risalpur EPZ. The inquiry committee submitted its report and pointed out that the electronic weigh machine was removed on the instructions of Mr. Muhammad Naveed, Ex- Manager (REPZ) with the connivance of Security Guard and Pump Operator. M/s. Pearl River Mining (Pvt.) Ltd has deposited custom duty along with penalty and the persons who connivance with Mr. Muhammad Naveed denied the statement. The Pakistan Customs had recovered the total duty and taxes amount of weighbridge. On the basis of above facts, the Chairman EPZA has quashed the inquiry. As far as Shoulder Promotion of Mr., Muhammad Akhlaq, is concerned it was an incentive on the recommendation of his immediate supervisor without any financial benefit. This is not a regular promotion of an employee. Secretary EPZA is competent to approve all cases of S-1 to S-III employees. The DAC directed the CF&AO / MoIP to conduct denovo-inquiry to probe the matter and fix responsibility.

Audit recommends implementation of the DAC directives.

8.1.4.21 Loss due to waive off on rental charges - Rs. 2.426 million (US\$ 16,170)

As per rules of Export Processing Zones Authority (EPZA), “Annual Ground Rent of the allotted plots at the specified rates was required to be recovered in advance on every 10th of January and 10th of July every year”.

During audit of Export Processing Zones Authority, Regional Office-Lahore for the year 2019-20, it was observed that the management granted approval to M/s Sodagher Leather Industry, Sialkot to rent out their factory premises to M/s Finery Metal Industries on temporary basis for eleven months w.e.f. 01.02.2019 to 31.12.2019. As per approval, M/s Sodagher Leather Industry was required to deposit an amount of USD 16,170 on account of 10% EPZA rental share for period of eleven months within fifteen days from the issuance of this

letter. Later on, the Project Appraisal Committee (PAC) meeting recommended to withdraw it and charge rental processing fees of USD 1,000 only.

Audit is of the view that the management extended undue favour to the investor by waiver which reflects poor financial management resulting in a loss of Rs. 2.426 million (US\$ 16,170 @ Rs. 150).

The matter was reported to the management in June 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that condition of 10% of rent was removed in the light PAC held on 02 March, 2020 where it was decided that “EPZA may withdraw the letter dated 09.04.2019 and approval/permission may be granted subject to the payment of USD 1000 as processing fees by the original allottees of all new and old cases. The above facility has been granted by EPZA to other Zone investors on account of ease of doing business.” The management agreed with the audit and ensured that recovery will be ensured.

Audit recommends implementation of the DAC directives.

8.1.4.22 Non-finalization of accounts

Section (10) of Public Sector Companies (Corporate Governance) Rule, 2017 states that every Public Sector Company shall, within one month of the close of first, second and third quarter of its year of account, prepare a profit and loss account for, and balance- sheet as at the end of, that quarter, whether audited or otherwise, for the Board’s approval. Annual report including annual financial statements shall be placed on the Public Sector Company’s website.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2020-21, it was observed that the annual accounts have not been prepared since 2011-12 till date.

Audit is of the view that underlying weaknesses in accounting system have caused delay in timely preparation of accounts and timely completion of audit.

The matter was reported to the management in October 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that EPZA has completed audit of its

annual accounts (financial statements) for FY 2013-14 and compliance report has been submitted to SECP in accordance with the law. However, preparation of annual EPZA accounts for the remaining financial years is at advance stage and Audited Accounts will be provided to the Government Audit. The DAC directed the management to get the Accounts prepared and Audited within one month and be shared with Audit.

Audit recommends implementation of the DAC directives.

8.2 Karachi Tools, Dies and Moulds Centre

8.2.1 Introduction

Karachi Tools, Dies and Moulds Centre (KTDMC) was incorporated in 2006 as a company limited by guarantee having share capital under Section 42 of the Companies Ordinance, 1984. The primary objective of the Company is to establish and run an Information Technology (IT) based common facility centre primarily for improving the skills of engineers and designers, enhancing the quality of designing, engineering and manufacturing of local tools, dies and moulds. The Company is a wholly owned subsidiary of Pakistan Industrial Development Corporation (Private) Limited (PIDC).

8.2.2 Comments on Audited Accounts

8.2.2.1 The working results of company for the year ended June 30, 2020 as compared to previous years are given below:

	(Rs. in million)						
	2019-20	% Inc / Dec	2018-19	% Inc / Dec	2017-18	% Inc / Dec	2016-17
Income	163.34	(18.60)	200.67	14.59	175.12	20.36	139.47
Other Income	16.09	80.17	8.93	51.35	5.90	(14.34)	6.75
Total Income	179.43	(14.39)	209.60	15.78	181.02	19.23	146.22
Direct Cost	(132.35)	(11.26)	(149.14)	(20.33)	(123.94)	(18.55)	(100.95)
Admin Expense	(30.33)	(0.13)	(30.29)	(24.44)	(24.34)	(6.84)	(22.68)
Total Expenses	(162.68)	(9.33)	(179.43)	(21.00)	(148.28)	(16.63)	(123.63)
Surplus/Deficit	16.74	(44.49)	30.16	(7.85)	32.73	31.00	22.58

(Source: Annual Audited Accounts)

8.2.2.2 Income of the company decreased from Rs.200.670 million in 2018-19 to Rs.163.340 million in 2019-20, registering a decrease of 18.60%, which needs justification.

8.2.3 Compliance of PAC Directives

Audit Year	No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
2013-14	5	1	4	8.2.4.1, 8.2.2.1, 8.2.2.2, 8.2.3	25
2015-16	7	3	4	8.4.2.2, 8.4.4.1, 8.4.4.2, 8.4.4.3,	42
2019-20	1	1	-	7.4.4.1	0
Total	13	5	8		38

The overall compliance of PAC directives needed to be improved.

8.2.4 Audit Paras

8.2.4.1 Non-recovery of dues and refund of tax - Rs. 76.415 million

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

During audit of Karachi Tool, Dies & Moulds Centre (KTDMC) for the year 2019-20, it was observed that an amount of Rs. 76.415 million was lying outstanding against Students, trade debtors and FBR as detailed below:

S. #	Description	Amount (Rs. in million)
1.	Students	3.801
2.	Trade Debtors	4.474
3.	FBR	68.140
Total		76.415

Audit is of the view that non-recovery of outstanding amount reflected inefficiency and weak recovery mechanism.

The matter was reported to the management in April 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022.

- a) The DAC was apprised by management that as per the audited financial statements of KTDMC for the year ended June 30, 2020 the amount of trade debts Rs.60.243 million. Accordingly, Rs. 56,777,976 have been recovered subsequently. The outstanding balance after recovery is Rs.3.465 million. The DAC directed the management to verify the factual position with Audit.
- b) The DAC was apprised by management that under section 153 of the Income Tax Ordinance, however, as a Non-Profit Organization, KTDMC may claim for the refund of Income Tax under Section 170 of the Income Tax Ordinance, 200. The management further apprised that it has filed the refund applications and got refund of two years 2018 and 2020 of Rs.16.018 million. The DAC directed the management to follow the cases vigorously with concerned corners and efforts be shared with Ministry and Audit on regular basis.

Audit recommends implementation of the DAC directives.

8.2.4.2 Irregular procurements without tender - Rs.10.438 million

Rule 12(2&3) of PPRA, 2004 states that that the 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. In cases where the procuring agency has its own website it may also post all advertisements concerning procurement on that website as well.

Rule 09 of PPRA, 2004 states that a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned. The annual requirements thus determined would be advertised in advance on the Authority's website as well as on the website of the procuring agency in case the procuring agency has its own website.

During audit of Karachi Tool, Dies &Moulds Centre (KTDMC) for the year 2019-20, it was observed that the management purchased raw material valuing

Rs. 10.438 million through different purchase orders without advertisement and on splitting basis in violation of rules.

Audit is of the view that procurements without tender and by splitting is held irregular and justified.

The matter was reported to the management in April 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that, due to project requirements of various sizes for each product, which are finalized after the designing of Moulds, KTDMC cannot procure all items at once. Therefore, the purchase orders are given time to time to the prequalified suppliers. The management contested the audit observation that there is no violation of PPRA Rules. The DAC directed the management to get the facts verified from Audit.

Audit recommends implementation of the DAC directives.

8.2.4.3 Avoidable expenditure – Rs.4.214 million

Rule 4 (3) of Corporate Governance Rules, 2017 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Karachi Tool, Dies & Moulds Centre (KTDMC) for the year 2019-20, it was observed that the management outsourced the mould job / machining work from different parties / clients amounting to Rs. 4.214 million. The management has all the available technical machinery / plant with the required strength of technical and engineering manpower. But, the management outsourced the work of mould from various clients / parties instead of utilizing its own production capacity to the full extent and reduced the earning capacity. Annex-44.

Audit is of the view that outsourcing of work in the presence of own production capability reflects in-efficiency and poor management of resources available within.

The matter was reported to the management in April 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was briefed by the management that certain jobs were outsourced due to limitation of in-house machining resources, non-availability of texturing services, expertise for refurbishment of the Hydraulic Cylinders, transportation and welding. The DAC directed the management to get the facts verified from Audit.

Audit recommends implementation of the DAC directives.

8.2.4.4 Non-verification of degrees/certificates

Cabinet Secretariat, Establishment Division (Management Services Wing) through its D.O. No. 6(28)2011-DG-II, dated March 08, 2011 informed that the Prime Minister has been pleased to direct that measures should be taken to authenticate degrees / certificates of all Federal Government employees of the respective Ministries / Divisions, their attached departments, subordinate offices and autonomous bodies under their administrative control. The verification process may be initiated by the respective Ministries / Divisions and Heads of autonomous / semi-autonomous organizations at their own, and it will be the responsibility of concerned Secretary and Head of the Department / Organization to have the degree/ certificates verified.

During audit of Karachi Tool, Dies & Moulds Centre (KTDMC) for the year 2019-20, it was observed that the management appointed 36 contract employees for different posts over the years, however, their degrees/certificates were not got verified as per instructions of the Government.

Audit is of the view that non-verification of degrees / certificates of the employees / officers reflected inefficiency and weak internal controls.

The matter was reported to the management in April 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by management that it is in process to comply with the aforesaid observation, and is continually approaching the employees to submit their degrees / certificates duly endorsed by the HEC. The DAC took serious

view of this gross negligence and directed the management to get the remaining degrees verified within three months report be shared with Ministry and Audit.

Audit recommends implementation of the DAC directives.

8.3 National Industrial Parks Development and Management Company

8.3.1 Introduction

The National Industrial Parks Development and Management Company (NIPD&MC) was incorporated as a public company with a share capital limited by guarantee on March 07, 2005 under Section 42 of the Companies Ordinance, 1984. Government of Pakistan (GoP) holds 58.31% shares and Pakistan Industrial Development Corporation (Private) Limited (PIDC) holds 41.69 % shares in the Company. The principal activity of the Company is establishing, developing and managing industrial estates of parks and upgrading existing estates and undertaking related activities.

The Company has entered into agreements with PIDC for establishment of Korangi Creek Industrial Park (KCIP) and Pakistan Steel Mills (PSM) in respect of Bin Qasim Industrial Park (BQIP) Project as a consequence of which the Company incurs expenditure on development of industrial parks on land owned by PIDC and PSM respectively.

8.3.2 Comments on Audited Accounts

8.3.2.1 The working results of the Company for the year 2020-21 as compared to previous years are given below:

	(Rs. in million)						
	2020-21	% Inc / (Dec)	2019-20	% Inc / (Dec)	2018-19	% Inc / (Dec)	2017-18
Revenue	57.860	78.76	32.368	(3.10)	43.259	(66.70)	129.905
Administrative Expenses	(94.981)	(19.12)	(117.44)	3.55	(113.416)	1.11	(112.170)
Reversal of management fees	-	-	(194.893)	100.00	-	-	-
Operating profit/(loss) for the year	(37.120)	(86.74)	(279.966)	285.45	(70.156)	1161.57	5.561
Other Income	148.963	(50.63)	301.711	35.11	216.238	45.62	148.490
Financial Charges	(0.067)	8.06	(0.062)	100.00	(0.031)	(31.11)	(0.045)
Profit/(loss) before taxation	111.776	415.52	21.682	(85.15)	146.049	(5.10)	154.006
Taxation	4.040	-	-	-	-	-	-
Profit/(Loss) after taxation	107.735	396.89	21.682	(85.15)	146.049	(5.10)	154.006

(Source: Annual audited accounts)

8.3.2.2 Other income of the company decreased to Rs. 148.963 million from previous year's of Rs. 301.711 million registering a decrease of 50.63% which needs justification.

8.3.2.3 Cash and bank balance decreased to Rs. 249.138 million from previous year Rs. 863.47 million in 2020-21, registering a decrease of 71.150%, which needs justification.

8.3.2.4 Short term investment decreased from Rs. 1,500.000 million during the year 2019-20 to Rs. 1,200.000 million during the year under review registering a decrease of 20% which needs justification.

8.3.2.5 Development expenditure of the company increased from Rs. 4,269.000 million in 2019-20 to Rs. 4,590.000 million in 2020-21 registering an increase of 7.52% which requires justification.

8.3.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
1994-95	74	71	3	67, 69, 70	96
1997-98	74	73	1	180	99
1998-99	20	17	3	137,138,141	85
2006-07	5	4	1	94	80
2008-09	4	3	1	104	75
2013-14	4	1	3	8.1.2.1, 8.1.2.2, 8.1.3	25
2015-16	8	1	7	8.2.4.1, 8.2.2.1, 8.2.2.2, 8.2.2.3, 8.2.2.4, 8.2.3, 8.2.4.2	13
2019-20	4	2	2	7.2.4.1, 7.2.4.2,	50
Total	193	172	21	-	89

The overall compliance of PAC directives needs to be improved.

8.3.4 Audit Paras

8.3.4.1 Non-utilization of allotted land - Rs.3,790.736 million

Rule.5.(1)of Public Sector Companies (Corporate Governance) Rules, 2013 state that the board shall exercise its power and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of National Industrial Parks Development & Management Company (NIPD&MC)for the year 2019-20,it was observed that major portion of the land have been sold to investors for establishment of industrial units at Korangi Creek Industrial Parks (KCIP). However, out of sold land, a little portion of land has been constructed and operational by the investors so far. The detail of un-utilized land is as under:

Particular	No. of Units	land in acres	Value of land (in million)
Construction was delayed due to non submission of building plans to NIP	20	19.613	748.749
construction have not been started despite license agreement	12	10.224	247.680
Pending building plans in CBKC	21	19.951	497.503
Construction was delayed due to non-provision of electricity	11	10.903	639.998
Units are under construction	-	42.166	1,656.506
Total land sold but still unconstructed	-	102.857	3,790.436

Audit is of the view that the management failed to take action against the investors for not utilization of allotted land which shows inefficiency and lack of planning.

The matter was reported to the management in April 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that total of 127 acres of land at KCIP has been allotted to various customers. 40 acres (32%) of land has already been colonized while 24 acres (19%) is under construction and expected to be completed by next Financial Year. The land under construction may also be considered in the sphere of colonization, and in that way, the total colonization covers more than 50% of the area rather than 17.78% as mentioned by the Audit.

The DAC directed the management to get the above stated facts along with no Real Estate Business going on in the allotment of Plots verified from Audit.

Audit recommends implementation of the DAC directives.

8.3.4.2 Non-recovery from investors - Rs. 1,107.635 million

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

During audit of National Industrial Parks Development & Management Company (NIPD&MC) for the year 2019-20 it was observed that an amount of Rs. 1,107.635 million was outstanding against the investors. Annex-45.

Audit is of the view that the accumulation of outstanding amount indicates weak internal controls and poor financial management.

The matter was reported to the management in March 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that 778 million which is 70% recovery has been made from the 35 customers whereas only 329 million is remaining against 7 customers. The DAC showed its displeasure on non-serious follow-up of recovery and directed the management to follow-up the recovery cases vigorously.

Audit recommends implementation of the DAC directives.

8.3.4.3 Recurring loss of AGR due to non-imposing of maintenance charges - Rs. 1,002.728 million

As per terms and conditions with investors at KCIP clause 8.6. on execution of the sub-lease deed, the allottee shall be liable to pay to NIP or its Estate Management Company such Annual Ground Rent charges in such manner and at such time as is notified by NIP. Further, as per section 8.6.1 on execution

of the Certification of Completion, the allottee shall be liable to pay to NIP or its Estate Management Company such monthly maintenance charges in such manner and at such time as is notified by NIP.

During audit of National Industrial Parks Development & Management Company (NIPD&MC) for the year 2019-20, it was observed that various investors/ industrial units are operational at Korangi Creek Industrial Parks (KCIP). However, management failed to recover an amount of Rs. 1,002.728 million on account of Annual Ground Rent (AGR) /maintenance charges from industrial units as detailed below:

S. No.	Company name	Size of plot	Total value of Manual charges	License agreement date
1.	ScaalifeFarma (Pvt) Ltd.	2.279	55,835,500	19.11.2013
2.	Universal Brushware	1.181	34,839,500	18.06.2014
3.	Hoorapharma (Pvt) Ltd.	1.86	223,320,000	22.01.2015
4.	MAI Pakistan Ltd.	3.937	96,456,500	14.02.2013
5.	Alpino Foods	0.474	11,613,000	12.03.2014
6.	Al-Rehman Lubricants (Pvt) Ltd.	0.473	11,588,500	14.02.2013
7.	Mehran Commercial Enterprises	0.531	13,009,500	22.10.2014
8.	Prince Are Press (Pvt) Ltd.	0.515	15,192,500	02.07.2014
9.	Serajsons (Pvt) Ltd.	0.954	28,143,000	02.07.2014
10.	MullalbrahimjiKarimbhai	0.473	11,588,500	07.03.2013
11.	Palpex (Pvt) Ltd.	0.515	12,617,5100	02.07.2014
12.	Medipilas Innovation (Pvt) Ltd.	1.042	25,929,000	18.6.2014
13.	Adamjee Automotive (Pvt) Ltd.	0.981	24,034,500	10.04.2017
14.	Unico Paints Industries (Pvt) Ltd.	0.52	15,340,000	24.08.2017
15.	Avant Venture Unit-3.	0.392	11,564,000	12.09.2017
16.	Universal Packaging Company (Pvt) Ltd.	1.201	35,429,500	28.03.2017
17.	InterwoodMobel (Pvt) Ltd.	1.049	30,945,500	28.03.2017
18.	Tufail Chemical (Hdz)	2.211	187,935,000	19.06.2018
19.	Scurprint (Pvt) Ltd.	0.619	18,260,500	10.04.2017
20.	FarukImpex Corporation	1.042	25,529,000	14.02.2013
	Total	22.249	1,002,728,600	

Audit is of the view that the management failed to recover the dues from the investors which shows poor financial management and weak recovery mechanism.

The matter was reported to the management in April 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that the amount of Rs.1, 002.728 million

highlighted by the Audit was actually the amount of sale value of the plot which was mistakenly taken as maintenance charges by the Audit. Ground rent is also applicable to the allottees, only after the execution of the sub-lease in their favor. Due to pending issues of MoU renewal with the Govt. of Sindh, no units have been sub-leased till date. The DAC directed the management to get the facts and notifications issued verified from Audit.

Audit recommends implementation of the DAC directives.

8.3.4.4 Irregular payment to contractor outside Bill of Quantity - Rs. 30.823 million

Rule 5(1) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the board shall exercise its power and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of National Industrial Parks Development & Management Company (NIPD&MC) for the year 2019-20, it was observed that a contract for construction of infrastructure development at Naushahro Feroze Industrial Park was awarded to M/s. Gul Construction Co. at a contract price of Rs. 264.847 million in August, 2017. Before commencement of the work, a soil investigation was conducted by Soil Testing Services (STS) in May, 2017, where the sand layer for protection of roads was strongly recommended in the soil investigation report however, the consultant failed to incorporate provision of sand cushion in BOQ list. Later on, an extra work of sand cushion was added in the Bill of Quantity (BoQ) without approval of the PIDC Development Working Party and the payment of Rs. 30.823 million was made to the contractor on account of sand cushion.

Audit is of the view that the payment to contractor for any work outside the BoQ is irregular and unjustified. This shows weak internal controls and poor financial management.

The matter was reported to the management in April 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that BOQ of the contracts are tentative which is recommended by the consultant and it may subject to variation if the

consultant finds it necessary, and any such variation in BOQ is not considered an irregularity if it is recommended by the consultant. However, the sand cushion was suggested in the Soil Investigation Report and had to be executed, therefore, the Management decided to execute the same under clause 51.1 (e) – Variations of General Conditions of Contract. Expenditures are within the prescribed limit of 15% over and above that is allowed in PPRA rules and was later approved by the Board of Directors, NIP. Furthermore, the Finance Division also acknowledges the powers of BoD notified by the Finance Division vide letter No. F.1 (25)-DFA (IP&SI)/2006-1210/S/FS/07 Dated March 2007 endorsed by the representative of Finance Division DS/Expenditure during meeting. The DAC directed the management that it must be ensured that the consultant remains blacklisted and no work should be awarded to him in future.

Audit recommends implementation of the DAC directives.

8.3.4.5 Non-blacklisting of contractor for providing fake bank guarantee - Rs. 26.484 million

Rule 19 of PPRA, 2004 states that the procuring agencies shall specify a mechanism and manner to permanently or temporarily bar, from participating in their respective procurement proceedings, suppliers and contractors who either consistently fail to provide satisfactory performances or are found to be indulging in corrupt or fraudulent practices. Such barring action shall be duly publicized and communicated to the Authority:

During audit of National Industrial Parks Development & Management Company (NIPD&MC) for the year 2019-20, it was observed that the contract was awarded to M/s. Gul Construction Co. for infrastructure development at Naushahro Feroze Industrial Park at a contract price of Rs. 264.847 million. The contract was due to be completed in August, 2018, but contractor got extension up to October 31, 2019 and further extended upto April, 2020. Due to delay in construction work, performance bank guarantee got expired and fresh bank guarantee for amounting to Rs.26.484 million was provided which was found fake. As a result of fraudulent activity, the management terminated the contract.

Audit is of the views that that despite providing fake bank guarantee the contractor was not blacklisted by the management which reflects favoritism and undue favour.

The matter was reported to the management in April 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that contractor submitted the fake bank guarantee which was verified from the concerned bank and the contract was terminated. The PEC and PPRA have been requested to blacklist the said firm as per laid down procedure. The Audit contested that putting a bar on any firm is the function of the procuring agency. The DAC directed the management to get the facts verified from Audit and with the direction that it must be ensured that the contractor should not be awarded any work in future.

Audit recommends implementation of the DAC directives.

8.3.4.6 Wasteful expenditure on Effluent Treatment Plant - Rs. 12.865 million

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

During audit of National Industrial Parks Development & Management Company (NIPD&MC) for the year 2019-20, it was observed that a contract for procurement of consultancy services for Design/Review and construction/supervision of Combined Effluent Treatment plant was awarded to M/s. NESPAK amounting to Rs. 52.965 million. Later on the management terminated the contract due to higher capital and operating cost estimates, accordingly the management also terminated the consultancy contract with NESPAK. However, till the termination of contract an amount of Rs. 12.865 million was paid to the consultant for its consultancy services.

Audit is of the view that the termination of contract/project on the basis of higher capital and operating cost indicated poor planning. Thus, the management sustained a loss of Rs. 12.865 million.

The matter was reported to the management in April 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that Combined effluent treatment plant at KCIP as envisaged in the Master Plan. After designing the CETP, M/s NESPAK conveyed its expected capital cost which was Rs. 400 million and also its operating cost i.e. Rs. 40.00 million per annum. Upon receiving the cost estimates, NIP approached the representative body of KCIP investors. The standing committee of KCIP consulted its members and informed NIP that absorbing such a high maintenance cost of CETP is not possible. The payment is only consultancy charges paid to M/s NESPAK based on milestones mentioned in agreement. The management further apprised that it is not wasteful expenditure. The DAC directed the management to ensure that same consultancy and should not be awarded in totality in future except cost revision and vetting. The DAC directed to verify the factual position to Audit.

Audit recommends implementation of the DAC directives.

8.4 Pakistan Industrial Development Corporation, Medical Centre

8.4.1 Introduction

PIDC Medical Centre was established in 1959 and awarded Corporation status in February, 1986 as a non-profit organization registered under Section 42 of the Companies Act, 2017 incorporated as Public Limited Company by Guarantee incorporate in Karachi, Sindh.

The principal activities of the center are to provide medical aid, medical relief and / or medical facilities on non-commercial basis to the employees of PIDC (Private) Limited, its units / subsidiaries, associated companies, and other state enterprises in particular and to public in general.

8.4.2 Comments on Audited Accounts

8.4.2.1 The working results of PIDC Medical Centre for the year 2019-20 as compared to previous year are given below:

	2019-20	% Inc / Dec	2018-19	% Inc/Dec	2017-18	% Inc / Dec	2016-17
Income	6.387	3.567	6.167	2.534	6.0146	2.677	5.8578
Expenditure	6.533	3.567	6.308	6.195	5.940	1.312	5.8631
Net surplus(deficit)	0.146	3.546	0.141	87.20	1.1015	-	(0.0528)
Accumulated deficit	(11.235)	1.344	(11.086)	1.316	(10.942)	1.311	10.7968

8.4.2.2 During the year under review, the accumulated deficit increased by 1.344% from Rs.11.086 million to Rs.11.235 million, which needs justification.

8.4.2.3 Due to its financial condition, the Board had decided to wind-up the company. The delay in implementation of this decision needs justification.

8.4.3 Compliance of PAC Directives

Audit Year	No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
2015-16	4	2	2	8.3.2.1, 8.3.2.2	50
2019-20	2	0	2	7.3.4.1, 7.3.4.2	-
Total	6	4	2	-	66

The overall compliance of PAC directives was not satisfactory which needed to be improved.

8.5 Pakistan Chemical & Energy Sector Skill Development Company

8.5.1 Introduction

Pakistan Chemical and Energy Sector Skills Development Company (PCESSDC), was incorporated as a non-profit public-private partnership on January 09, 2009. Its mandate is to promote, facilitate and provide education and training to a young and growing rural population in various disciplines of the chemical and energy sector in Pakistan. Its aim is to provide employment and invest in the productivity of locals for industrial development by establishing Vocational Education and Training Centers (VETCs), Technical Training Centers (TTCs) and management schools. PCESSDC's partners include Pakistan Industrial Development Corporation (PIDC), Engro Corporation, Mari Gas Corporation Limited, Descon Engineering and Saipem of Italy.

Objectives of the project:

The program aims to provide quality technical education offering three year diploma in the fields of Chemical and Mechanical Technology through establishment of a recognized standard Technical Training Centre (TTC) supervised by Chemical and Energy Sector Skill Development Company (CESSDC). It also aims to fill the gaps essential for imparting such education by providing complete practical training facilities along with suitable faculty.

8.5.2 Comments on Audited Accounts

8.5.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this, the management failed to provide audited accounts of the organization for the years 2018-19 to 2020-21.

8.5.2.2 Audit requires that the annual audited accounts of the years 2018-19 to 2020-21 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

8.5.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
2013-14	5	-	5	8.3.1, 8.3.2.1, 8.3.2.2, 8.3.2.3, 8.3.3	0
2015-16	3	2	1	8.5.2.1	66
Total	8	2	6	-	25

The overall compliance of PAC directives needs improvement.

8.5.4 Audit Paras

8.5.4.1 Non-production of record

Section 15 (1) of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 entails that the Auditor General shall perform functions and exercise powers in relation to the audit including supplementary audit of the accounts of the public sector companies in accordance with the provisions of the Companies Ordinance 1984 (XLVII of 1984).

Section 14 (3) of the Auditor-General's Ordinance, 2001, states that any person or authority hindering the auditorial functions of the Auditor General regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Discipline Rules, applicable to such person.

Audit team of Director General Commercial Audit was deployed for conducting the audit of the accounts of Pakistan Chemical and Energy Sector Skills Development Company, Daharki vide letter No.674/Admn/Audit Intimation/2020-21 dated 29.04.2021 on 6th November 2020, however, audit team of this office was denied even entrance to PCESSDC premises.

It is also pertinent to mention that Audit team had also been deputed in November, 2020 vide letter No.23/Admn/Audit Intimation/AP-2020-21/ (PSM) dated 23.10.2020, however, CEO, PCESSDC had not accorded access to the record. The matter was taken up with CEO PIDC who also asked PCESSDC to let audit be carried without fail. It may also be noted that PIDC, which is fully owned by Govt. of Pakistan, holding over 50% of shares in PCESSDC.

Audit is of the view that the refusal of the management tantamount to hindering the auditorial functions of the AGP.

The matter was reported to the management in April 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC showed its displeasure on non-serious attitude towards provision of Record to Audit and directed the management to provide all requisitioned record to Audit without further delay.

Audit recommends implementation of the DAC directives.

8.6 Pakistan Gems and Jewellery Development Company

8.6.1 Introduction

Pakistan Gems & Jewellery Development Company (PG&JDC) was incorporated in 2006 as a company limited by guarantee having share capital under Section 42 of the Companies Ordinance, 1984 (now Company's Act 2017). The registered office of the company is situated at PIDC House, Karachi. PG&JDC became operational in April 2007. The primary objective of the company is to promote and develop value added gems and jewellery products and to enhance its competitiveness internationally by facilitation, technology up-gradation, skill development, marketing and branding and to support growth of Gems and Jewellery Industry by way of supporting and facilitating business development services for the enterprises across the Gems and Jewellery value chain.

8.6.2 Comments on Audited Accounts

8.6.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this, the management failed to provide audited accounts of the organization for the years 2020-21.

8.6.2.2 Audit requires that the annual audited accounts of the years 2020-21 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

8.6.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
2013-14	3	1	2	8.5.2.1, 8.5.3	33
2015-16	8	2	6	8.7.4.1, 8.7.2.1, 8.7.2.2, 8.7.2.3, 8.7.2.4, 8.7.2.5	25
Total	11	3	8		27

The overall compliance of PAC directives needs improvement.

8.6.4 Audit Paras

8.6.4.1 Non-compliance of Approved Accounting Standards – Rs. 37.522 million

Section V (10) of Memorandum of Association of PG&JDC states that the income and any profits of the Company, shall be applied solely towards the promotion of objects of the company and no portion thereof shall be distributed, paid or transferred directly or indirectly by way of dividend, bonus or otherwise by way of profit to the members of the Company or their family members. Articles of Association and Section-42 of the Companies Act 2017, which inter alia restricts the application of companies' income in promoting its object and prohibits the payment of any dividend to its members.

Further the external Auditors Baker Tilly Mehmood Idrees Qamar (Chartered Accountants) have specified in the Annual Audited Accounts 2019-20 that: in our opinion, this ultra vires the provisions of the Company's Memorandum and Articles of Association and Section 42 of the Companies Act, 2017 (previously repealed Ordinance, 1984) which inter alia restricts the application of Company's income in promoting its objects and prohibits the payment of any dividend to its members.

During audit of Pakistan Gems and Jewellery Development Company (PG&JDC) for the year 2019-20, it was observed that an amount of Rs. 37.523 million was deposited into Government Treasury which was supposed to be utilized for the promotion of objects of the company. The same could have decreased the accumulated deficit and the utilized for promotion or development of the company.

Audit is of the view that the management showed non-compliance against its Memorandum of Association which reflects serious procedural lapses.

The matter was reported to the management in March 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that revenues generated by the company were deposited in the Government Treasury in past but currently the company is running in losses and getting Grant from the Federal Government on annual

basis. The DAC directed the management to verify the factual position with Audit.

Audit recommends implementation of the DAC directives.

8.6.4.2 Unjustified expenditure on rent and security - Rs. 26.968 million

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

During audit of Pakistan Gems and Jewellery Development Company (PG&JDC) for the year 2019-20, it was observed that management incurred an expenditure of Rs. 26.968 million on account of rent and security on non-operational projects/centers as detail below:

(Rs. in million)		
Year	Rent	Security
2019-20	11.982	3.481
2020-21	10.109	1.396
Total	22.090	4.878
Grand Total		26.968

Audit is of the view that the expenditure incurred on rent and security on closed / non-operational projects and centers which shows weak internal controls and poor financial management.

The matter was reported to the management in March 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that PGJDC acquired premises in different provinces on rent to establish its training centers, gem labs, assaying and hallmarking centers and gem exchanges. The rental cost of these projects was met through funding from PSDP against an Umbrella PC-1. The subject Umbrella PC-1 got finished in the year 2017. Currently PGJDC is in the process of entering into collaboration agreements with provincial TEVTAs which have reached

advanced stage. As soon as the Company enters into agreements with provincial TEVTAs, these projects will start operating at their current premises so that easy access to the services of these centers could continue to be provided to the sector. The DAC directed the management to further expedite the process.

Audit recommends implementation of the DAC directives.

8.6.4.3 Irregular appointment of Accounts & Admin Officer and embezzlement of funds – Rs. 17.741 million

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

During audit of Pakistan Gems and Jewellery Development Company (PG&JDC) for the year 2019-20, it was observed that the management appointed Syed Bashir Ahmed as Accounts & Admin Officer at Quetta centre in August 2009 at a salary of Rs. 35,640 per month without having requisite experience. It was further observed that he was involved in Embezzlement of sponsorships fund granted by German Society for International Co-operation Ltd. worth Rs. 12.981 million in 2018 on accounts of submission of fake and untraceable invoices pertaining to different vendors.

Audit is of the view that the management extended undue favor at his appointment and failed to take any action against his embezzlement which reflects favoritism. Thus, payment of Rs. 17.741 million is held irregular and unjustified. (Salary: Rs. 35,000 per month x 136 months = 4.760 million, Amount of Embezzlement Rs.12.981 million).

The matter was reported to the management in March 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that Principal GJTMC-Quetta resigned on

03.08.2014. The PGJDC Management has decided to handover the additional charge of acting Principal GJTMC-Quetta to Syed Bashir Ahmed (who was already supervising/handling the affairs of GEM Exchange Quetta Project) from 04.08.2014 to run operational activities of GJTMC-Quetta till the new appointment of Principal. Audit contested that Syed Bashir Ahmed was involved in Embezzlement of sponsorships fund granted by German Society for International Co-operation Ltd worth Rs. 12.981 million in 2018. The lists of participants were not approved by Head Office. Further, the invoices were fake and the vendors' addresses were untraceable. The DAC directed the management to conduct inquiry at Ministry level to verify the facts reported by Audit within two months and report be shared with Audit and Ministry.

Audit recommends implementation of the DAC directives.

8.6.4.4 Irregular/unjustified appointment of Assistant Manager (Finance) and non-recovery of additional charge allowance – Rs. 9.754 million

Clause 20.3 of Human Resource Policy Manual of PGJDC stipulates that vacancy announcements will be made through advertisements placed in the newspapers and uploaded on the website of the company.

During audit of Pakistan Gems and Jewellery Development Company (PG&JDC) for the year 2019-20, it was observed that Syed Aamir Ali was appointed as Assistant Manager (Finance) without advertisement on July 30, 2010. Later on, the management had given additional charge of Assistant Manager (R&D) to the incumbent with 20% additional allowance w.e.f. 01.07.2015 which was paid till 05.09.2018 amounting to Rs. 401,911. The said post i.e. Assistant Manager (R&D) was abolished by the Board of Directors (BoD) in its meeting dated: September 29, 2016.

Audit is of the view that management appointed the incumbent without advertisement and then allowing additional charge allowance stands irregular and unjustified.

The matter was reported to the management in March 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that the BoD is competent to make appointments. The Audit contested that competency does not mean the BoD

bypass the Federal Government Rules and Service Rules of the organization. The DAC directed the management to terminate the services of Mr. Syed Amir Ali was hired as Assistant Manager Finance with immediate effect and case of condonation be placed before BoD. The DAC further directed management to recover additional charge allowance from the said employee if drawn beyond ceiling fixed by Government. The DAC further directed the management to follow the due process of appointment in future.

Audit recommends implementation of the DAC directives.

8.7 Pakistan Steel Mills Corporation (Pvt.) Limited

8.7.1 Introduction

Pakistan Steel Mills Corporation (Pvt.) Limited (PSM) was incorporated on July 02, 1968 as a Private Limited Company and is wholly owned by the Government of Pakistan. The Corporation was engaged in the manufacturing and sale of iron and steel products. Pakistan Steel Mills is the Country's largest Steel Industrial undertaking, now its operations have closed for the last four years.

8.7.2 Comments on Audited Accounts

8.7.2.1 The working results of Pakistan Steel Mills for the year 2019-20 as compared with those of the previous years are given below:

(Rs in million)					
	2019-20	% Inc / Dec	2018-19	% Inc / Dec	2017-18
Sales-Net	546.44	16.89	467.47	(13.28)	539.03
Cost of Sales	(6,349.15)	11.07	(5,716.28)	(28.61)	(8,007.67)
Gross Profit/(Loss)	(5,802.71)	(10.55)	(5,248.82)	(29.72)	(7,468.64)
Distribution costs	(132.31)	31.34	(100.74)	(34.27)	(53.27)
Administration expenses	(2,918.47)	40.59	(2,075.87)	(11.31)	(2,340.72)
Other Operating Expenses	(482.47)	(72.39)	(1,747.31)	134.74	(744.35)
Finance Cost	(12,288.96)	15.93	(10,600.72)	31.76	(8,045.55)
Total expenses	(15,822.21)	8.93	(14,525)	28.72	(11,283.88)
Other Income	1,659.44	(48.49)	3,221.86	(74.97)	12,869.83
Profit (loss) before Tax	(19,962.52)	20.91	(16,510.16)	179.09	(5,915.80)
Taxation	(542.55)	1257.39	(40.00)	25.46	(31.86)
Net Profit/ (Loss) after Tax	(20,505.07)	23.90	(16,550.13)	178.26	(5,947.66)
Accumulated losses	(209,239.16)	10.28	(189,729.79)	(9.69)	(172,959.60)

(Source: Annual Audited Accounts)

8.7.2.2 Gross Loss increased to Rs. 5,802.710 million in the year 2019-20 as compared to Rs. 5,248.82 million in the year 2018-19 registering an increase of 10.55% which requires explanation.

8.7.2.3 Finance cost showed an increase to Rs. 12,288.96 million in the year 2019-20 as compared to Rs. 10,600.72 million in the year 2018-19 registering an increase of 15.93% which requires justification.

8.7.2.4 Total expenses increased to Rs. 15,822.21 million in the year 2019-20 as compared to Rs. 14,525 million in the year 2018-19 registering an increase of 8.93% which requires justification.

8.7.2.5 In the context of non-operational status and heavy retrenchment of employees, an expenditure of Rs. 33.437 million on POL and Repair & Maintenance shows an abnormal increase which needs justification.

8.7.2.6 Loss before Tax reflected an increase to Rs. 19,962.52 million in the year 2019-20 as compared to Rs. 16,510.16 million in the year 2018-19 registering an increase of 20.91% which needs explanation.

8.7.2.7 Accumulated losses reflected an increase to Rs. 209,239.16 million in the year 2019-20 as compared to Rs. 189,729.79 million in the year 2018-19 registering an increase of 10.28% which needs clarification.

8.7.3 Compliance of PAC Directives

Audit Year	No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
1990-91	6	5	1	700	83
1992-93	25	19	6	136, 137, 138, 140, 143, 145	76
1994-95	12	9	3	118, 120, 126	75
1995-96	28	26	2	121, 122	93
1996-97	36	11	25	100, 101, 111, 112, 113, 114, 117, 118, 123, 1.1, 1.3, 1.5, 1.8, 1.9, 1.10, 2.2, 2.3, 2.7, 2.8, 2.9, 2.10, 2.11, 2.13, 2.15, 3.1	30
1997-98	10	7	3	209, 210, 215	70
1999-00	10	9	1	219	90
2000-01	10	6	4	216, 218, 220, 224	60
2003-04	12	9	3	92.5, 92.6, 92.7	75
2004-05	8	5	3	65, 66, 70	63
2005-06	28	24	4	117.8, 118, 122, 124	86
2008-09	16	13	3	107, 108, 110	81
2009-10	19	12	7	98.1, 99, 100, 104, 105, 109, 110	63
2010-11	10	9	1	11.3.4.6	90
2013-14	15	2	13	8.7.1, 8.7.2.1, 8.7.2.2, 8.7.2.3, 8.7.2.4, 8.7.2.5, 8.7.2.7, 8.7.3, 8.7.4.2, 8.7.4.3, 8.7.4.4, 8.7.4.5, 8.7.4.6 (PAC referred for DAC level)	15
2015-16	18	1	17	8.9.4.5, 8.9.4.8, 8.9.2.1, 8.9.2.2, 8.9.2.3, 8.9.2.4, 8.9.2.5, 8.9.2.6, 8.9.2.7, 8.9.3, 8.9.4.1, 8.9.4.2, 8.9.4.3, 8.9.4.4, 8.9.4.6, 8.9.4.7, 8.9.4.9	6
Total	263	167	96	-	63

The overall compliance of PAC directives needs improvement.

8.7.4 Audit Paras

8.7.4.1 Non-payment of Loan and Mark-up – Rs. 13,600.000 million

Rule 5(5) of Public Sector Companies (Corporate Governance) Rules 2013, Board shall establish a system of sound internal control which shall be effectively implemented at all levels within the public sector companies to ensure compliance with fundamental principle of probity and propriety, objectivity, integrity and honesty.

During audit of Pakistan Steel Mills (PSM) for the year 2020-21, it was observed that PSM obtained loan of Rs. 13,600.000 million in 2012-13 but neither the principal amount is paid nor the due mark up since 2012-13. The loan was received in four tranches since 2013-14 to 2019-20. The loan carrying mark up on the loan payable semi-annually at 6 months KIBOR Plus-1.75%. It was observed that the management failed to repay agreed principal payment along with applicable mark up on due dates which raises serious concern of its future going concern status.

The matter was reported to management in August 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that liability could not be repaid due to extreme liquidity crises of PSM. The privatization of PSM is at final stage and liabilities will be paid there off. The DAC directed to intact the para till finalization of privatization.

Audit recommends implementation of the DAC directives.

8.7.4.2 Doubtful settlement of Retrenchment dues – Rs. 11,614.000 million

Rule 5(5) of Public Sector Companies (Corporate Governance) Rules 2013 states that Board shall establish a system of sound internal control which shall be effectively implemented at all levels within the public sector companies to ensure compliance with fundamental principle of probity and propriety, objectivity, integrity and honesty.

During audit of Pakistan Steel Mills (PSM) for the year 2020-21, it was observed that the management executed retrenchment plan involving an amount

of Rs. 11,614.614 million in the absence of reliable information system as per detail shown below:

Phase	Dated	No. of employees		
		Retrenched	Paid	Unpaid
I	Nov 27,2021	4,544	2,899	1,645
II	March 22,2021	490	242	248
III	July 02,2022	260	224	36
Total		5,294	3,365	1,929

Rs. in million				
S. No.	Department	As on	Deduction	Net payment
1	Provident fund	31.08.2021	128.826	6,631.904
2	Gratuity	01.09.2021	-	3,723.219
3	Payroll	31.08.2021	49.381	705.490
	Total		178.207	11,060.614

Audit is of the view that in the absence of reliable and authentic professional information system, settlement of dues of retrenched employees is held irregular and unjustified.

The matter was reported to management in August 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that around 4,544 employees were retrenched on 27.11.2020. At that time IBM system was working and their records regarding Gratuity, P.F Contributions, PF Loan were available for the purpose of payment and their payments were accordingly recorded in the system. Now, Special Audit on the retrenchment of employees and payment made to them are under progress by an Audit Team of Government Commercial Audit Department. The DAC directed to intact the para till concrete out come after special Audit.

Audit recommends implementation of the DAC directives.

8.7.4.3 Non-recovery / adjustment under various heads – Rs. 1,529.176 million

Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of

strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Mills (PSM) for the year 2020-21, it was observed that the management failed to recover / adjust an outstanding amount under various heads amounting to Rs. 1,529.176 million. The details are as under:

(Rs. in million)					
S. #	Description	Amount	S. #	Description	Amount
1.	Water	174.016	6.	Commercial rent of units	10.80
2.	Electricity bills	118.87	7.	Residential rent of township units	2.12
3.	Gas	0.52	8.	Downstream Industrial Units	2.81
4.	Trade Debtors	51.42	9.	Advances	320.5
5.	Trade Deposit	151.32	10.	Other parties	696.8
Total			1,529.176		

Audit is of the view that non-recovery / adjustment of amounts under various categories indicated slackness and weak recovery mechanism.

The matter was reported to management in August 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022.

- a) The DAC was apprised by the management that most of cases of recovery are in the court of law. The DAC showed its displeasure on non-serious follow-up of court cases and directed the management to follow-up the cases vigorously and monthly report in this regard be shared with Audit and Ministry.
- b) The DAC was apprised by the management that 889.5% recovery has been made from the companies except one company due to litigation. The DAC showed its displeasure on non-serious follow-up of litigation case and directed the management to follow-up the court case vigorously. The DAC directed the management to verify the recovered amount.
- c) The DAC was apprised by the management that Audit has repeatedly issuing the Audit Paras for the last few years by audit which are remained under discussion in the meetings of DAC / PAC. Lastly, this issue was also discussed in the PAC meeting against Audit Para # 7.9.4.1 (2019-20) on 20.10.2021 and recently in the DAC meeting on 24.12.2021 while

discussing the Audit Report for the year 2015-16, 2016-17 & 2017-18. The DAC directed the management to reconcile the already objected amount with Audit within 15days in order to avoid duplication.

Audit recommends implementation of the DAC directives.

(DP No. 460, 461 & 469)

8.7.4.4 Loss on account of delayed settlement of payment - Rs. 1,069.820 million

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

During audit of Pakistan Steel Mills (PSM) for the year 2020-21, it was observed that the management entered in agreement on 22.06.2008 to supply iron ore over five years with M/s. Iran Central Iron Ore Company. After that, management held 10% payment of its supplier which was US\$ 14.264 million. Further, both parties were placed the matter in litigation and the Arbitrator awarded the decision in favor of the supplier. The amount will be paid in PKR equivalent based on the rate of exchange prevailing as on the date of payment.

Outstanding US\$. (in million)	Exchange rate (2020)	Exchange rate (2011)	Loss due to exchange difference (Rs. in million)
14.264	Rs.160	Rs.85	14.264 x (160-85)=1,069.82

Audit is of the view that the management unnecessarily defended the case and bear extra expenses in shape of exchange loss Rs. 1,069.820 million which reflects inefficiency and weak financial management.

The matter was reported to management in August 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that Pakistan Steel entered into long term contract with M/s ICIOC, Iran 22.06.2008 to supply 400,000 MTN Iron Ore (Fine) per

annum for period of (05) years. Contract was valid up-to 30.06.2013. As per contract, LC was being established for each shipment. The seller was entitled to draw 90% LC amount on sailing of the vessel whereas 10% amount was being released after making necessary adjustments on the basis of final settled price verified by independent auditors. In this way 10% balance amount for the last six shipments received from M/s ICIOC, Iran amounting to US\$ 15 million was outstanding as the sufficient funds were not available. Due to non-payment of US\$ 14,264,272, the supplier invoked Arbitration Clause of the contract accordingly Mr. Salman Talibuddin ASC was appointed as Sole Arbitrator. The Arbitrator pronounced his award on 08.12.2017 in favour of M/s ICIOC. The matter of settlement of PSM's Liabilities by selling stock in trade was presented in 414th meeting of PSM Board of Directors held on 06.05.2021 and the PSM Board granted permission to PSM Management to retire its liabilities after sale of its waste/ other material. Consequently, Pakistan Steel paid the amount of Rs. 308.6 million (Equivalent to US\$ 2,005,236.15) to M/s ICIOC in May, 2021 from the funds generated after sale of its waste/ other material. The DAC kept Para intact with the remarks that as deferred payment is the last solution to retire debts during the financial crisis.

Audit recommends implementation of the DAC directives.

8.7.4.5 Loss due to encroachment of land - Rs. 388.000 million

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

During audit of Pakistan Steel Mills (PSM) for the year 2020-21, it was observed that 19.4 acres land was encroached during the year which resulted in total encroachment of and to 269.680 acres. The detail of encroachment of land is as under:

S. No.	Description / Name	Area (Acres)	Per Acre (Rs)	Total (Rs.)
1.	Mian Khan Jokhio Goth	1.78	20 million	388
2.	Northern side of Parking Terminal	14.73		
3.	Near KDA Colony	2		
4.	Near Check Post # 15	0.89		
Total		19.4		

Audit is of the view that the management failed to safeguard its assets and to remove encroachment from its land which reflects inefficiency and weak internal controls.

The matter was reported to management in August 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that the encroachment's under Pir Sarhindi Goth, Photo Goth, Mian Khan Goth, Ali Akbar Goth And Abbasia Society have already been taken by Audit under Printed Para 10.7.4.8 ARSE 2017-18. The DAC was further explained that the matter relates to the encroachment of land by District Authorities and private parties. It was further apprised that matter is sub-judice and under court of Law. The DAC showed its displeasure on non-serious follow-up of litigation cases and directed the management to follow-up the court case vigorously. The DAC directed the management to devise mechanism along-with responsibility to protect the assets of organization.

Audit recommends implementation of the DAC directives.

8.7.4.6 Non-recovery of dues from Country Club - Rs. 125.332 million

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

During audit of Pakistan Steel Mills (PSM) for the year 2020-21, it was observed that the management failed to recover its dues from M/s Arabian Sea Country Club amounting to Rs.125.332 million as detailed shown below:

Head of Account	Rs. in million
Electricity	60.360
Water	6.952
Treated water	15.450
Annual Ground Rent	38.265
Annual Right of Way charges	4.305
Total	125.332

It was further observed that lease Rent period (i.e. 20 years) has already been expired on 31.07.2017 which were not renewed till date.

Audit is of the view that the management failed to recover its dues from M/s Country Club which reflects inefficiency and weak recovery mechanism.

The matter was reported to management in August 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that efforts are being made to recover the outstanding amount. The delay was due to reconciliation and issue on the revision of ground rent. The DAC directed the management to resolve issues with the club and ensure recovery within three months.

Audit recommends implementation of the DAC directives.

8.7.4.7 Loss due to supply of gas at lower rates – Rs. 88.750 million

Rule 5(5) of Public Sector Companies (Corporate Governance) Rules 2013, Board shall establish a system of sound internal control which shall be effectively implemented at all levels within the public sector companies to ensure compliance with fundamental principle of probity and propriety, objectivity, integrity and honesty.

During audit of Pakistan Steel Mills (PSM) for the year 2020-21, it was observed that the management purchases gas at commercial rate and supply it to users at domestic rates which resulted in loss of Rs. 88.75million as detailed below:

S. #	Location	(Amount in Rs.)
1.	Average Billing at Commercial Rate	9,853,380
2.	Average Billing at Domestic Rate (Rs.673x3,652 customers)	2,457,796
3.	Excess monthly payment (9,853,380-2,457,796)	7,395,584
	Excess Annual payment (Avg) (7,395,584 x 12 months)	88,747,008

Audit is of the view that purchases of gas at bulk supply rate and selling it at lower price reflects poor financial management.

The matter was reported to management in August, 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that PSM has been dealing the natural gas supply system / network in Steel Town since its inception. PSM receives Natural Gas on Bulk metering category and supply to individual consumers on Domestic category rates having fixed charges for employees & non-employees residing in Steel Town. The management is making serious efforts since December, 2017 till to date regarding installation / provision of individual / separate natural gas consumption meters for Pakistan Steel Township Residential Colony comprising 4500 Houses, but M/s SSGC is not paying attention and using delay tactics and the case is still pending at M/s SSGC Office. The DAC directed the management to pursue the case with the SSGC vigorously and monthly report in this regard be shared with Audit and Ministry.

Audit recommends implementation of the DAC directives.

8.7.4.8 Non-recovery of dues from allottees - Rs. 53.520 million

Section 5.1 of agreement between PSM and NIP dated 13-07-2007, states that both parties agree that the price of each plot of the land shall be Rs.7.00 million per acre, which includes Rs.1.50 million per acre for the cost of land while the remaining amount of Rs.5.50 million is the cost of infrastructure development charges. Provided that NIP and PSM agree that the price of each plot of the land mentioned in the GOP letter shall be mutually reviewed by NIP and PSM after a period of five years from the date of this agreement and thereafter on an annual basis where after any increase in the amount shall be determined by PSM and NIP on the basis of the situation existing at the time of the said revision.

Section 5.2 of agreement between PSM and NIP dated 13.07.2007, states that it is understood by both parties that the aforesaid amount pertaining to the cost of each plot of the land shall be paid by NIP to PSM on a pro-rata basis once NIP receives such amount from the third party in accordance with the Terms and conditions.

During audit of Pakistan Steel Mills (PSM) for the year 2020-21, it was that the management failed to recover its agreed share against allotment of land from M/s National Industrial Park amounting to Rs. 53.52 million as detailed follows:

(Rs. in million)							
S. #	Name of Allottees	Area in Acres	Date of Allocation	Value of land/Acre	Total Dues	Recovered	Total Outstanding
1	Pinnacle Biotech	10	21.03.2017	13	130	91	39
2	Lucky Auto Industries	05	03.06.2019	23	115	100.48	14.52
Total							53.52

Audit is of the view that the management failed to recover its share which reflects inefficiency and lack of internal controls.

The matter was reported to management in August 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was explained that the matter relates to the cost of share of land between PSM and NIP. The matter has already resolved as NIP has paid due share of 320.2 acres of land sold. The current outstanding is the share of PSM against 15 Acres of Land. Out of Rs. 53.52 million, Rs. 14.517 million has been received and the record has been provided to Audit for verification. The remaining amount will be received as and when paid by the third party to NIP. The Audit apprised that the process of recovery would be on-going process. The DAC directed to get the recovered amount verified from Audit.

Audit recommends implementation of the DAC directives.

8.7.4.9 Irregular appointment of 36 employees - Rs. 22.130 million

Public Sector Companies (Corporate Governance) Rules, 2013 section 5(1) states that the Board shall exercise its power and carry out its fiduciary duties

with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Steel Mills (PSM) for year 2020-21, it was observed that the management hired 36 employees on different posts for 89 days on daily basis without advertisement and codal formalities. Annex-46.

Audit is of the view that the management appointed the employees in violation of rules which reflects inefficiency and weak internal controls.

The matter was reported to management in August 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that the BoD is competent to make appointments. The hiring on daily wages as temporary employed within the purview and competence of CEO, PSM. Moreso, Board of Directors in its 407th Meeting held on 16.01.2020 also resolved / approved to make appointments against essential vacant positions. The Audit contested that competency does not mean the BoD bypass the Federal Government Rules and Service Rules of the organization. The DAC directed the management to justify the appointment on Daily wages basis with Rules along with Daily wages rates notified by the Deputy Commissioner of the area. The DAC further directed the management to ensure no further appointment be made on the daily wages basis and no extension shall be given to existing contractual employees.

Audit recommends implementation of the DAC directives.

8.7.4.10 Loss of revenue due to late allotment of industrial units – Rs. 9.588 million

As per lease agreement;

- Lease period 60 years renewable.
- Lease money total Rs. 59,150,000 at rate 35,000,000 per acer pay able in three installments.
- Annual ground rent at rate Rs.12.16 per Sq. Yard with yearly increase 5%.
- Maintenance charges at rate Rs.16 per Sq. yard.

During audit of Pakistan Steel Mills (PSM) for the year 2020-21, it was observed that the management allotted 4.69 acer lands to three parties on

01.06.2021 for manufacturing of auto parts. This allotment was made against the application submitted in 2006 after expiry of 15 years period. The delayed allotment resulted in sustaining a loss of revenue amounting Rs. 9.588 million as detailed below:

Party Name	Land Area (yard)	Allotment year	Application Year	Delay years	GR Rs. 12.16 per SqY x col. 2 x 5 (Rs.)	Maint. Rs. 16 per SqY x col. 2 x 5 (Rs.)	Total Rs. Col. 5+6 (Rs.)
1	2	3	4	5	6	7	8
M/s Javed Steel Manufacturing	1.69 Acre (8180)	2021	2006	15	1,492,032	1,963,200	3,455,232
M/s Javed Steel	2.00 Acre (9680)	2021	2006	15	1,765,632	2,323,200	4,088,832
M/s Ashtec Enterprise	1.00 Acre (4840)	2021	2006	15	882,816	1,161,600	2,044,416
Total					4,140,480	5,448,000	9,588,480

Audit is of view that the management failed in allotment of land on time which resulted in loss of revenue Rs.9.588 million which reflect inefficiency.

The matter was reported to management in August 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that the Management of PSM have no deliberate part in delay of allotments of DSIU plots and causing loss to PSM and National Exchequer because PSM remained on Privatization List since 2006 on and off till date. Being on the list of privatization program, PSM was barred from making any allotments/investments until the finalization of Privatization program or being allowed by Privatization Commission. The DAC showed its displeasure on inordinate delay in the allotment of industrial units and directed the management to conduct inquiry to fix responsibility within one month.

Audit recommends implementation of the DAC directives.

8.7.4.11 Loss due to theft of assets - Rs. 6.500 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the

oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Mills (PSM) for the year 2020-21, it was observed that the management sustained a loss of Rs. 6.496 million due to theft incidents of various items as detailed below:

S. #	Case No.	Description	Occurrence Date	Rs. in million
1	1981-D	Copper and Brass	07.06.2021	2.250
2	1913-D	Theft of High Tension Wire	16 & 18.10.2020	2.296
3	1950-D	11 electrical equipment, cables	02.02.2021	1.043
4	1945-D	Theft of copper	18.01.2021	0.866
5	1905-D	Theft of electric pole	30.09.2020	0.040
6	1927-D	Cutting /stealing of 03 core HT Cables	04.10.2020	-
7	1932-D	132 KV Transmission line conductors.	25 .12.2020	-
8	1959-D	Theft of both sided Railway Track	03.03.2021	-
Total				6.496

Audit is of the view that despite having a full-fledged security department, the management failed to safeguard the assets which show negligence and weak internal controls. The stolen of costly items is clear negligence of security department.

The matter was reported to management in August 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that most of theft cases under investigation of Police of concerned areas. The DAC showed its displeasure on non-serious follow-up of investigation cases and directed the management to follow-up the cases vigorously and monthly report in this regard be shared with Audit and Ministry.

Audit recommends implementation of the DAC directives.

8.7.4.12 Irregular continuation of services of officers beyond the age of superannuation - Rs. 5.626 million

As per Establishment Division O.M.No.4/1/84-R.I, dated September 02, 1990, all Ministries/Divisions were requested to adhere to the instructions issued

by the Establishment Division and not to allow any officer to continue in service beyond the age of superannuation or contractual appointment without prior approval of the competent authority i.e. Prime Minister.

During audit of Pakistan Steel Mills (PSM) for the year 2020-21, it was observed that the management allowed to continue services of six (06) officers after retirement on superannuation in violation of Government instructions. The details are as under:

S.#	Name	Designation	Salary Per month	No. of Months	Salary (Rs. in million)
1	Mr. M. Yameen	Job Specialist	60,000	9	0.540
2	Mr. Rao M. Sarfraz	Job Specialist	60,000	9	0.540
3	M. Ayub	Manager	97,000	12	1.164
4	M. ShafiqAnjum	Secretary	175,000	5	0.875
5	Mr. M.Iqbal	Job Specialist	163,167	7	1.142
6	Feroz Ahmed	Manager	105,000	13	1.365
Total					5.626

Audit is of view that re-appointment and continuation of services of retired officers stands irregular and unjustified. Therefore, payment of Rs.5.626 million paid on account of salary is also held irregular.

The matter was reported to the management in August 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that the BoD is competent to make appointments. The hiring on daily wages as temporary employed within the purview and competence of CEO, PSM. Moreso, Board of Directors in its 407th Meeting held on 16.01.2020 also resolved / approved to make appointments against essential vacant positions. The Audit contested that competency does not mean the BoD bypass the Federal Government Rules. The DAC directed the management to justify with rules the re-employment of superannuated employees and process the case in the light of Audit observation for the approval of the Competent Authority within one month.

Audit recommends implementation of the DAC directives.

8.7.4.13 Non-recovery of Insurance claims from a private company - Rs. 4.330 million

As per clause 118 of Insurance Ordinance 2000. Payment of liquidated damages on late settlement of claims.-

(1) It shall be an implied term of every contract of insurance that where payment on a policy issued by an insurer becomes due and the person entitled thereto has complied with all the requirements, including the filing of complete papers, for claiming the payment, the insurer shall, if he fails to make the payment within a period of ninety days from the date on which the payment becomes due or the date on which the claimant complies with the requirements, whichever is later, pay as liquidated damages a sum calculated in the manner as specified in sub-section(2) on the amount so payable unless he proves that such failure was due to circumstances beyond his control”. The coverage of life insurance of employee was requires to be arranged from State owned company M/s State Life Insurance Corporation to protect employees interest.

During audit of Pakistan Steel Mills (PSM) for the year 2020-21, it was observed that an amount of Rs.4.330 million was recoverable from M/s East West Life Assurance Company since 2012 on account of death and injury claims of employees of PSM. The management awarded a contract to M/s East West Life Assurance Company vide letter of award dated 11.08.2011 regarding group life insurance coverage of its officers on annual basis for the period 01.07.2011 to 30.06.2012 being the lowest bidder @ 4.99% of total sum assured Rs.1.740 million.

Audit observed that full payment of premium Rs.8.686 million was paid in 4 equal installments on the basis of draft policy No.G-178. Due to certain disputes, the PSM management did not sign the policy for which Insurance Company stopped payment of death and injury claims. Management failed to recover the amount of insurance claims after lapse period of 10 years.

The management filed case against the Insurance Company vide suit No. 14/2013 before the Insurance Tribunal in 2013 for recovery of claim amount of but case is pending for proper evidence due to poor follow-up of the management. Thus, recovery of Rs. 4.330 million is still pending.

Audit is of the view that management failed to recover the due amount which reflects poor recovery mechanism.

The matter was reported to management in August 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that matter is sub-judice and under court of Law. The DAC showed its displeasure on non-serious follow-up of litigation cases and directed the management to follow-up the court case vigorously. The DAC kept the Para intact and its fate will be decided in the light of the decision of the Court during next meeting.

Audit recommends implementation of the DAC directives.

8.7.4.14 Non-finalization of annual accounts

Section 10(1) of Corporate Governance Rules, 2013 states that every Public Sector Company shall, within one month of the close of first, second and third quarter of its year of account, prepare a profit and loss account for, and balance-sheet as at the end of, that quarter, whether audited or otherwise, for the Board's approval. Annual report including annual financial statements shall be placed on the Public Sector Company's website.”

Section 233 of Companies Ordinance, 1984 states that the balance sheet and the profit and loss accounts and income and expenditure account are audited by the statutory auditor of the company and auditor’s report is to be attached with the annual accounts.

During audit of Pakistan Steel Mills (PSM) for the year 2020-21, it was observed that the management failed in preparing annual audited accounts for the year 2020-21.

Audit is of the view that non-preparation of annual audited accounts is violation of rules.

The matter was reported to management in August 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC was apprised by the management that Pakistan Steel Mills (PSM) has completed audit of its annual accounts (financial statements) for FY-2019-20 and compliance report has been submitted to SECP in accordance with the law. However, process of audit of PSM accounts for the financial year 2020-21 is at final stage and Audited Accounts will be provided to the Government Audit. The DAC directed

the management to get the Accounts Audited within one month and be shared with Audit.

Audit recommends implementation of the DAC directives.

8.7.4.15 Non-production of record

According to Section-14(1)d. & (3) of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001, the officer incharge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition. Any person or authority hindering the auditorial functions of the Auditor General regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Discipline Rules, applicable to such person.

During audit of Pakistan Steel Mill (PSM) for the year 2020-21, it was observed that various requisitions and reminders were issued for information/record, however the same was not provided by the management. Annex-47.

Audit is of the view that due non-production of requisite record and restricting access to audit evidence, audit team is unable to assess and examine the material area of working which reflects slackness and negligence.

The matter was reported to management in August 2021. The irregularity was discussed in DAC meeting held on January 13 & 14, 2022. The DAC showed its displeasure on non-serious attitude towards provision of Record to Audit. The DAC directed the management to provide all requisitioned record to Audit without further delay.

Audit recommends implementation of the DAC directives.

8.8 Heavy Electrical Complex (Pvt.) Limited

8.8.1 Introduction

The Company was incorporated as a Private Limited Company on December 09, 1991, fully owned by State Engineering Corporation (Pvt.) Limited Ministry of Industries and Production, Government of Pakistan. The registered office of the company is situated at Third Floor, Software Technology Park, (STP-I), 5-A Constitution Avenue, F-5/1, Islamabad. The Company is engaged in the manufacturing and repair of power transformers.

8.8.2 Comments on Audited Accounts

8.8.2.1 The working results of the Company for the year 2020-21 as compared to the preceding years were tabulated below:

	2020-21	% Inc/ (Dec)	2019-20	% Inc/ (Dec)	2018-19
Sales	372.93	68.14	221.80	(27.46)	305.78
Cost of sales	428.55	235.17	127.86	(57.67)	302.03
Gross profit/(loss)	55.62	(40.79)	93.94	2411.76	3.74
Operating expenses					
Administrative expenses	57.73	(6.62)	61.82	4.11	59.38
Selling & distribution expenses	11.18	(5.25)	11.80	15.46	10.22
Operating profit/(loss)	124.52	513.10	20.31	(130.84)	(65.86)
Other income	4.54	(42.96)	7.96	48.51	5.36
Financial charges	43.32	(39.52)	71.63	25.78	56.95
Loss for the year before tax	163.30	276.61	43.36	(63.08)	117.44
Taxation	0.12	(96.43)	3.36	(11.11)	3.78
Loss after taxation	163.42	249.79	46.72	(61.46)	121.22

(Source: Annual Audited Accounts)

Sale of the company was increased by 68.14% from Rs. 221.80 million in 2019-20 to Rs. 372.93% in 2020-21, on the other hand the cost of sales was increased by 235.17% from Rs. 127.86 million in 2019-20 to Rs. 428.55 million in 2020-21. The disproportionate increase in cost of sales to sales resulted in gross loss of Rs. 55.62 million during 2020-21 against gross profit of Rs. 93.94 million in 2019-20. Due to abnormal increase in cost of sales the net loss was increased to Rs. 163.42 in 2020-21 from Rs. 46.72 million in 2019-20. Disproportionate increase in cost of sales as compared to increase in sales shows

inefficient utilization of available resources and rate lack of control over expenditure. Efforts need to be made to boost the sales and curtail the cost of sales to make the company a viable unit in coming years.

8.8.2.2 Cost of sales increased by 235.17% to Rs. 428.548 million in 2020-21 as compared to Rs. 127.861 million in 2019-20. One of the element in cost of sales was depreciation of own assets which increased by 97.99% to Rs. 35.396 million in 2020-21 in comparison to Rs. 17.878 million in the year 2019-20. The increase was due to abnormal increase in depreciation of building during the year which increased by 876% to Rs. 19.251 million from Rs. 1.973 million in 2019-20. The abnormal increase in depreciation of building during the year needs clarification.

8.8.2.3 Trade debts increased by 7.34% to Rs. 296.906 million as on June 30, 2021 as compared to Rs. 276.598 million in 2019-20. A provision for expected credit loss was also made against trade debts. Early recovery/adjustment of trade debts is stressed upon the management to avoid further provision on account of bad debts in the years to come.

8.8.2.4 Stock in trade included work in process of Rs. 199.586 million as on June 30, 2021 (2019-20 – Rs. 314.010 million). Early completion of said work in process is stressed upon the management.

8.8.2.5 Advances stood at Rs. 16.383 million as on June 30, 2021 (2019-20 – Rs. 16.263 million). The figure included advances to suppliers Rs. 16.383 million as on June 30, 2021 (2019-20 – Rs. 15.226 million). Early adjustment of said advances is stressed upon the management.

8.8.2.6 Other receivables decreased by 16.99% to Rs. 141.571 million as on June 30, 2021 (2019-20 – Rs. 170.482 million). The figure included sales tax receivable Rs. 139.788 million as on June 30, 2021 (2019-20 – Rs. 167.171 million), early recovery of sales tax is stressed upon the management.

8.8.2.7 Trade and other payables included advances from customers Rs. 298.420 million, sales tax payable Rs. 17.639 million and Management pension fund Rs. 18.101 million. Early clearance of said liabilities is stressed upon the management.

8.8.2.8 Fixed Assets, store & spares and Work in progress stood at

Rs. 2,494.092 million, Rs. 1.711 million and 199.586 million respectively as at June 30, 2021 as per books of the Company but no physical verification thereof was carried out at the close of financial year. In the absence of physical verification of these assets/stores value therefore, cannot be authenticated. Need for carrying out physical verification of all the assets/stores at the close of financial year is stressed upon the management.

8.8.2.9 The Chartered Accountants in their qualified opinion expressed that the company has not taken into consideration the impact of liquidation damages/late delivery charges while determining the transaction price as per provisions of IFRS-15. Accordingly, revenue is required to be reduced by penalties comprising late delivery charges. Resultantly, trade debts include an amount of Rs. 181.811 million relating to late delivery charges damages which is doubtful of recovery. The company has recognized provision of only Rs. 32.609 million there against instead of recognition of allowance for expected credit loss considering current and forward looking factors enumerated by IFRS-9 (Financial instruments). Consequently, revenue for the year is overstated by Rs. 4.910 million, whereas retained earnings and trade debts are overstated by Rs. 149.201 million as at June 30, 2021. The management may review the case and position needs to be explained.

8.8.2.10 The company has recorded provision for gratuity as per management estimates instead of actuarial valuation as per requirement of IAS-19- "Employees benefits". The management estimate does not account for financial, demographic and other actuarial assumptions for calculation of present value of the provision against gratuity. The impact of difference of provision from actuarial valuation cannot be quantified.

The above qualifications are repeatedly pointed out by the Chartered Accountants firm; however, no corrective action has been taken so far.

8.8.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	%age of compliance
1995-96	05	04	01	190	80
1996-97	05	04	01	169	80
1998-99	03	02	01	262	67
2000-01	04	03	01	299	75
2002-03	09	07	02	103.5,103.8	78
2003-04	05	0	05	104.2,107&107.1,107.2,104&104.1, 108.3	-
2005-06	06	05	01	132.3	83
2006-07	05	04	01	107.1	80
2007-08	03	02	01	80.2	67
2008-09	06	06	0	NIL	100
2009-10	03	02	01	132	67
2010-11	09	01	08	11.11.1, 11.11.2.1, 11.11.2.2, 11.11.2.3, 11.11.2.5, 11.11.2.6, 11.11.3, 11.11.4.1	11
2013-14	14	03	11	8.19.1, 8.19.2.1, 8.19.2.2, 8.19.2.3, 8.19.2.4, 8.19.2.5, 8.19.2.6, 8.19.2.7, 8.19.4.1, 8.19.4.3, 8.19.4.5	21
2015-16	09	01	08	8.20.1, 8.20.2.1, 8.20.2.2, 8.20.2.3, 8.20.2.4, 8.20.2.5, 8.20.2.6, 8.20.3	11
2019-20	04	02	02	7.14.2.2, 7.14.3	50
Total	90	46	44		51

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

8.9 National Fertilizer Corporation (Pvt.) Limited

8.9.1 Introduction

National Fertilizer Corporation of Pakistan (Pvt.) Limited (NFC) was established in August, 1973 as a private limited company to carry out the business of manufacturing, buying, selling, exporting and importing all types of chemical fertilizers. The Corporation has three wholly owned subsidiaries including two institutes of engineering and one marketing company. The Company's main source of income includes dividend from investment in subsidiary companies and return on bank deposits and other investments.

Due to privatization of all fertilizer manufacturing units of NFC, the principal activities of the Corporation like manufacturing, buying, selling, exporting and importing all types of chemical fertilizers were stopped. However, marketing and selling of fertilizer imported by Trading Corporation of Pakistan is being carried out by the subsidiary company National Fertilizer Marketing Limited which was also merged with TCP w.e.f. Dec. 23, 2019.

8.9.2 Comments on Audited Accounts

8.9.2.1 The working results of the National Fertilizer Corporation of Pakistan (Pvt.) Limited for the year 2020-21 as compared with the previous years are given below:

(Rs. in million)							
	2020-21	% Inc /(Dec)	2019-20	% Inc /(Dec)	2018-19	% Inc /(Dec)	2017-18
Income:							
Dividend	5.192	(15.20)	6.123	(26.37)	8.316	(27.94)	11.540
Profit on bank deposits	401.195	(37.16)	638.421	46.55	435.632	44.71	301.030
Other Income	83.869	357.48	18.333	(20.44)	23.044	(18.28)	28.200
Total Income	490.257	(26.04)	662.878	41.94	466.993	37.04	340.770
Expenses							
Administrative Expenses	136.436	(7.98)	148.272	(24.14)	195.450	31.03	149.160
Financial Charges	0.031	(44.64)	0.0560	(18.84)	.069	(23.33)	0.090
Total Expenses	136.467	(8.00)	148.328	(24.136)	195.519	31.00	149.250
Profit before taxation	308.789	(39.99)	514.549	89.54	271.473	41.75	191.520
Taxation	89.020	(40.02)	148.416	90.172	78.043	35.82	57.460
Profit after taxation	219.769	(39.98)	366.133	89.29	193.430	44.29	134.060

Source: (Annual Audited Accounts)

The profit after taxation of the company decreased from Rs. 366.133 million in 2019-20 to Rs. 219.769 million in 2020-21 registering a decrease of 39.98% which was mainly due to decrease in income from profit on bank deposits from Rs. 638.421 million in 2019-20 to Rs. 401.195 million (37.16% decrease) and increase in the expenses from Rs. 148.329 million in 2019 to Rs.181.468 million in 2020-21 (22.34%). No income has been generated through any operational activity as main source of income of NFC is profit on bank deposits. Efforts need to be made to decide the fate of NFC, either assigning some function of the Company or otherwise.

8.9.2.2 The organization booked an expenditure of Rs. 45.00 million on account of loss on disposal of subsidiaries in the year 2020-21. Neither any detail of the subsidiaries (name, volume of branches) was mentioned in the financial statements nor was any justification for their disposal provided.

8.9.2.3 No provision was made against the tax liability amounting to Rs. 81.947 million for the tax year 2016 as declared by FBR on Oct. 31, 2018. Furthermore, an amount of Rs. 11.644 million is also receivable from Pakistan Machine Tool Factory was also outstanding for which no provision was made in the financial statements for the year 2020-21.

8.9.2.4 Included in the Property, Plant and Equipment an amount of Rs. 32.742 million for free hold land purchased in the name of NFC institute Nausharo Feroz (sub campus of NFC-IET Multan).However the title of the land was not transferred in the name of the NFC as yet. The project has now been declared abundant due to improper selection of site and non-viability of the project which caused loss to the Government exchequer. Reasons for wrong selection of site and subsequent expenditure incurred needs to be explained.

8.9.2.5 Federal Government vide notification dated Dec. 23, 2019 merged NFML with TCP and two institutes in Ministry of Education and the administrative control was transferred on April 30, 2020. However, as on June 30, 2021 the shareholdings were not transferred and still appearing in the books of accounts.

8.9.2.6 Dividend income decreased by 17.93% from Rs. 6.123 million in 2019-20 to Rs. 5.192 million in 2020-21 mainly due to decrease in the dividend

income from Alflah GHP Market from Rs. 4.078 million in 2019-20 to Rs. NIL in 2020-21. Reasons for decrease in the dividend income need to be explained.

8.9.2.7 Non-current Assets included an amount of Rs. 18.800 million representing 10% shares held in Pak China Fertilizer. The company is inactive since long. Fate of the investment along with the returns thereon may be provided.

8.9.2.8 Non-current Assets included receivables, as at 30th June, 2021 of amount Rs. 263.937 million on account of WAPDA which is outstanding since many years. Reasons for non-recovery of receivables from WAPDA need to be explained.

8.9.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
1995-96	36	35	1	36	97
1999-00	28	27	1	294	96
2000-01	35	33	2	271,273	94
2001-02	17	16	1	286	94
2010-11	08	06	02	11.3.1, 11.13.2.5	75
2013-14	04	03	01	8.22.2.2,	75
2019-20	18	01	17	7.16.2.1, 7.16.2.2, 7.16.2.3, 7.16.3, 7.16.4.1, 7.16.4.2, 7.16.4.3, 7.16.4.4, 7.16.4.5, 7.16.4.6, 7.16.4.7, 7.16.4.8, 7.16.4.9, 7.16.4.10, 7.16.4.11, 7.16.4.12, 7.16.4.13	06
Total	146	121	25		83

The compliance of the PAC directives was satisfactory; efforts need to be made for 100% compliance.

8.10 Pakistan Stone Development Company

8.10.1 Introduction

Pakistan Stone Development Company (PSDC) is a public company limited by guarantee incorporated under Companies Ordinance 1984 (now Companies Act 2017). The Company is a subsidiary of Pakistan Industrial Development Corporation (Pvt.) Limited (PIDC). The registered office of the Company is situated at Islamabad Chamber of Commerce building, 2nd floor, G-8/1 Mauve Area, Islamabad.

The objective of the Company is to upgrade the supply of marble and granite in Pakistan through improved quarrying practices and support infrastructure. This involves introduction of new technologies and techniques and establishment of model quarries, up gradation of existing quarries, establishment of industrial cities and establishment of Rock Mining Training Institutes to impart quarrying skills in Pakistan.

8.10.2 Comments on Audited Accounts

8.10.2.1 The working results of the Company for the year 2020-21 as compared to previous years are given below:

(Rs. in million)					
Description	2020-21	% Inc / (Dec)	2019-20	% Inc / (Dec)	2018-19
Revenue	74.834	(23.35)	97.628	(13.25)	112.535
Cost of Sales	(66.956)	(6.58)	(71.673)	(13.00)	(82.338)
Gross Income/(Loss)	7.878	(69.65)	25.955	(14.05)	30.197
Administrative expense	(74.466)	(10.05)	(82.784)	1.40	(81.642)
Provision for doubtful debts	(8.270)	(53.80)	(17.899)	(18.12)	(21.860)
Impairment on receivable from projects	(46.819)	(56.28)	(107.089)	-	-
Programme expense	(0.187)	(63.90)	(0.518)	(24.27)	(0.684)
Other income	16.210	(36.00)	25.303	65.54	15.285
Reversal of impairment due to increase in NRV of Marble City Risalpur	-	-	-	-	10.282
Net profit/(Loss)	(105.654)		(157.032)		(48.422)

(Source Annual Audited Accounts)

Investment made by the GoP in the company was for Rs. 1,274.766 million (Rs. 102.185 million share capital and Rs. 1,172.580 million advances against issue of shares). However, accumulated loss arrived at the level of Rs. 1,959.756 million due to poor management and improper utilization of assets and human resources which needs justification.

8.10.2.2 The gross income of the company was reduced to Rs. 7.877 million by 69.65% for the year 2020-21 (Rs. 25.954 million: 2019-20). One of the major contributing factors for abnormal decrease in gross income is that the income from Machine pool has been reduced to Rs. 0.590 million by 102 % for the year (Rs. 15.450 million: 2019-20). Furthermore, revenue has been reduced to Rs. 74.834 million by 23.35 % (Rs. 97.628 million: 2019-20) for the year whereas, cost of sales has reduced only by 6.28 %. However, audit recommends to justify the reason for abnormal decrease in gross income.

8.10.2.3 Rs. 0.187 million were booked as programme expenses during the year 2020-21 but no activity was performed during the year and Rs. 0.187 million were charged under the same head as depreciation expense, which indicated that programme had been closed. The benefits achieved after incurring the expenditure may be elucidated.

8.10.2.4 Financial statements of the company shows that the other income decreased to Rs. 16.209 million by 36% (Rs. 25.302 million: 2019-20). This abnormal decrease in other income contributes to the incurring loss for the year amounting to Rs. 105.655 million. Audit recommends to justify the reason along with detail for abnormal decrease in other income.

8.10.2.5 Cash & Bank balance for the year has decreased to Rs. 32.940 million by 48.67 % (Rs. 64.171 million: 2019-20). Decrease in cash & Bank balances was due to negative balance of cash from operating activities amounts to Rs. 33.743 million. Such huge decrease in cash & bank balances may create liquidity problems for the company. However, Audit recommends to justify the reason for decrease in cash & Bank balances by 48.67 %.

8.10.2.6 Cost of Sales includes expenditures on repair & Maintenance has increased to Rs. 6.929 million by 103% (Rs. 3.414 million- 2019-20). Similarly, expenditures on communication and expenditures on expenditures on utilities has

been increased during the year by 19.26% and 43.70% respectively. It is pertinent to mention here that despite of abnormal increase in above said expenditure revenue for the year has been reduced by 23.23 %. Audit recommends that the position needs to be clarified.

8.10.2.7 Administrative expenses includes expenditures on site up-gradation has increased to Rs. 1.012 million by 40.38% (Rs. 0.721 million- 2019-20). Similarly, expenditures on office utilities and auditor's remuneration has been increased during the year by 30.26 % and 32 % respectively. Audit recommends to justify the reason for abnormal increase in above mentioned expenditures.

8.10.2.8 Financial statement of the company shows that the other income includes reversal of provision through recovery amounting Rs. 2.239 million. Notes to the accounts are silent about the head of reversal of provision, which needs to be clarified.

8.10.2.9 Cash and Bank Balances included a sum of Rs. 32.899 million which were kept in deposits accounts at nominal mark-up rates of 3% to 4 % p.a. as on June 30, 2021 (2019-20: Rs. 64.006 million 4% to 6% p.a). The working balance limit of the Company may be determined and surplus funds be invested in some other profitable scheme.

8.10.2.10 Provision for doubtful debts were made on trades debts for Rs. 54.605 million, Rs. 65.290 million and Rs. 67.393 million in 2018-19, 2019-20 and 2020-21 respectively which showed an increasing trend. Furthermore, overall trade debts showed increasing trend of Rs. 21.112 million in 2019-20 and Rs. 22.734 million in 2020-21 indicating poor receivable management. Early adjustment was stressed upon the management.

8.10.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
2013-14	06	0	06	8.16.1, 8.16.2.1, 8.16.2.2, 8.16.2.3, 8.16.2.4, 8.16.2.5, 8.16.4.1	0
2015-16	03	0	03	8.17.1, 8.17.2, 8.17.4.1	0
Total	09	0	09		0

Compliance of the PAC directives was very poor which requires immediate attention of the PAO.

8.11 Small and Medium Enterprises Development Authority

8.11.1 Introduction

Small and Medium Enterprises Development Authority (SMEDA) was created under a notification dated October 13, 1998 issued by the Prime Minister of Pakistan office and is working under the Ministry of Industries, Government of Pakistan. On August 12, 2002 an Ordinance was promulgated for the establishment of SMEDA as an autonomous body under the Federal Government for encouraging and facilitating the development and growth of small and medium enterprises in Pakistan.

SMEDA is primarily working as an apex policy making body for economic and commercial development of Small and Medium Enterprises (SMEs). The primary objective of the Authority is to provide a fresh impetus to Pakistan's economy through launching aggressive SMEs support programs.

8.11.2 Comments on Audited Accounts

8.11.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts of the organization for the year 2018-19 to 2020-21 till December 31, 2021.

Audit recommends that the annual audited accounts for the years 2018-19 to 2020-21 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

8.11.2.2 The working results of the Authority for the year 2017-18 as compared to previous years are as under:

(Rs. in million)					
	2017-18	%Inc/ (Dec)	2016-17	%Inc/ (Dec)	2015-16
Income					
Grant from Government of Pakistan	238.221	2.67	232.030	3.10	225.053
Income from projects	2.410	(71.64)	8.497		-
Income from services	4.230	232.55	1.272	(52.84)	2.697
Other income	1.150	(5.58)	1.218	26.09	0.966
Total income	246.011	1.23	243.017	6.25	228.716
Expenditure					
Salaries, wages and other benefits	151.104	9.37	138.157	21.33	113.871
Traveling and vehicle running	29.607	27.54	23.213	0.93	22.999
Repair and maintenance	4.110	(2.68)	4.223	33.13	3.172
Depreciation	4.346	(16.17)	5.184	(20.87)	6.551
Rent Rates and taxes	23.522	8.99	21.581	11.78	19.306
Projects expenditure	2.526	(71.67)	8.917	158.46	3.450
Provision for staff gratuity	25.799	21.98	21.150	26.82	16.677
Other expenditure	35.001	10.58	31.652	(24.75)	42.061
Total expenditure	276.015	8.63	254.077	11.39	228.087
(Deficit)/surplus of income over expenditure	(30.004)	171.28	(11.060)	(1,858.35)	0.629

(Source: Annual Audited Accounts)

8.11.2.3 The Office cleaning & dusting charges increased from Rs. 4.239 million during 2016-17 to Rs. 5.497 million during 2017-18 registering an increase of 29.68%. The reason for huge increase needs to be clarified.

8.11.2.4 Advertisement expenses increased from Rs. 0.312 million during 2016-17 to Rs. 1.071 million during 2017-18 registering an increase of 243.27%. The reasons for huge increase needs to be explained.

8.11.2.5 Travelling and Vehicle running expenses was increased from Rs. 23.213 million during 2016-17 to Rs. 29.609 million during 2017-18 registering an increase of 27.56%. The reason for huge increase needs to be clarified.

8.11.2.6 Long term receivables amounting to Rs. 1.079 million are outstanding for last two years. The explanation regarding nature of receivables and reasons for non-recovery of said advances may be provided to audit.

8.11.2.7 Provision against doubtful advance to suppliers of Rs. 1.019 million was included during 2016-17 and remained outstanding during 2017-18. The reasons for non-recovery of said advances along with basis for the actions to write off said advances needs justification.

8.11.2.8 The advances to employees against gratuity increased from Rs. 19.063 million during 2016-17 to Rs. 26.719 million during 2017-18. These advances increased either due to non-adjustment of previous advances or grant of additional advances which needs to be explained.

8.11.2.9 An amount of Rs. 28.508 million during 2017-18 lying in current account resulted non-earning of profit on deposit. The placement of said funds in current account needs to be justified.

8.11.2.10 Salaries, Wages and other benefits of key management personnel increased from Rs. 9.602 million in 2016-17 to Rs. 17.280 million in 2017-18 registering an increase of 79.96%. Reasons for the abnormal increase may be provided.

8.11.3 Compliance of PAC Directives:

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
2003-04	02	0	02	120 & 121	-
2004-05	02	01	01	77	50
2006-07	04	03	01	86.3	75
2009-10	09	06	03	114.4, 114.5, 114.6	67
2015-16	04	0	04	8.26.1, 8.26.2, 8.26.3, 8.26.4.1	0
Total	21	10	11		48

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

8.11.4 Audit paras

8.11.4.1 Loss due to excessive payment on account of hotel stay charges – Rs. 2.506 million

According to clause-1.1 of SMEDA Manual for PSDP, financial transactions in Government are governed by the principles of legality/regularity, economy and propriety. The governmental system of financial management is based on the concept of stewardship. Funds are released from public treasury in the name of any entity to achieve a specific set of objectives. Govt. Functionaries i.e. Secretary/Principal Accounting officer of a Ministry, Heads of Department, Heads of Office, Drawing and Disbursing Officer etc. act as stewards for these

funds and are liable to render an account showing that the same have been spent according to given rules and regulations for the desired objectives.

Furthermore, according to para-5 of Finance Division instructions dated July 3rd 2017, “Government servants up to BPS 1-19 can claim actual room rent charges on production of receipts subject to maximum of three DAs in specified stations.”

During audit of SMEDA for the years 2019-21, it was observed that the management of National Business Development Program (NBDP) was paying hotel stay charges to employees without keeping in view any travel policy. The employees were paid bills of different hotels i.e. PC Hotel, Marriott Hotel, Serena Hotel, Holiday Inn Hotel, Avari Hotel, Hotel One, etc. without keeping in view any limit. Hotel room rent ranging from Rs. 25,000 per night to Rs. 37,000 per night was claimed and paid during their official visits during the period under review.

It was worth mentioning here that the Govt. officers of BPS-17 to 22 have entitlement of hotel stay ranging from Rs. 7,680 per night to Rs. 14,400 per night. Audit noted that the management was making 70% extra payment approximately on account of hotel charges by violating the Government policy. Payment of Rs. 3.580 million on account of hotel stay charges was made by NBDP Project. Thus, loss of Rs. 2.506 million (Rs. 3,579,920 x 70%) was made to the public exchequer.

Audit was of the view that the management should follow Govt. Travel Policy while making payment of hotel stay charges but the same was not adhered which resulted lavish expenditure from public money.

The matter was reported to the management on November 29, 2021. The management in its reply January 24, 2022 stated that the hotel stay charges were paid in accordance with approved Travel Policy.

The reply was not tenable as the hotel stay charges/lodging allowance per diem mentioned in travel policy was ranging from Rs. 3,000 to 6,000 for different levels of employees. The employee wise hotel stay charges were at higher side than the admissible. Further, the approval of the travel policy was not shared with audit.

DAC in its meeting held on January, 28, 2022 directed the management to get the clarification from the Finance Division regarding no upper cap for claiming of hotel charges.

Audit recommends compliance of the DAC directives.

Para-2 (SMEDA), 2019-21

8.11.4.2 Unjustified grant of additional charge to the SMEDA employees beyond six months – Rs. 5.220 million

According to SMEDA additional charge Policy, the additional charge shall not be for more than six months unless reasons for this are recorded and approval by the competent authority.

During the audit of SMEDA for the year 2019-21 it was observed that management was managing the operations of different PSDP Projects by granting additional charge of PD/PM etc. to the SMEDA employees. Further, it was noted that the additional charge was granted by more than six months. In some cases, the employees were working on additional charge by more than three years due to which the performance of the project was affected badly. The projects were being managed on adhoc basis and the employees posted on additional charges were enjoying other allied facilities besides additional charge payments. Thus, the granting of additional charge to the 21 employees and payment of Rs. 5.220 million on account of additional charge was held as unjustified in audit.

Audit was of the view that the management should have granted additional charge to the employees upto maximum period of six months and advertise the post for regular appointments but the same was not done just to extend favor to the employees.

The matter was reported to the management on November 29, 2021. The management in its reply dated January 24, 2022 stated that due to non-availability of suitable candidates, the additional charge beyond six months was granted to SMEDA employees.

The reply was not tenable as the management failed to provide the documentary evidence regarding hiring process against the post filled through

additional charge. Further, the management failed to provide any rule in support of granting of additional charge beyond six months.

DAC in its meeting held on January, 28, 2022 after detailed deliberation, kept the Para pending.

Audit recommends to investigate the matter and fix the responsibility on the person(s) at fault, additional charge may be terminated immediately and recover the payment beyond six months from concerned employees.

Para-3 (SMEDA), 2019-21

8.11.4.3 Excess payment on account of pay and allowances - Rs. 7.255 million

According to advertisement published in newspapers regarding appointment of CEO of SMEDA, the salary and other privileges/benefits will be offered of MP-I Scale after approval of the SMEDA Board.

During the audit of SMEDA for the years 2019-21, it was observed that the management appointed Mr. Hashim Raza as Chief Executive Officer of SMEDA w.e.f. January 15, 2020 for three years in 19th Board meeting held on 14th October 2019. As per advertisement, the salary was to be fixed in MP-I Scale after approval of the Board. Contrary to that, the SMEDA Board approved pay over and above MP-I scale in 18th meeting held on September 16, 2017 two years before the appointment of the above mentioned CEO.

Thus, due to non-fixation of salary in MP-I Scale and non-submission of salary matter in upcoming Board meeting, the management made excess payment of Rs. 7.255 million (excess payment of Rs. 201,540 per month x 36 month) on account of salary to CEO.

Audit is of the view that had the management should submit the matter in upcoming Board meeting for approval of salary of the CEO by keeping in view the salary of MP-I Scale but the same was not followed.

The matter was reported to the management on November 29, 2021. The management in its reply January 24, 2022 stated that the MP-I scale was mentioned in advertisement for general information and salary was paid in accordance with BOD approval.

DAC in its meeting held on January, 28, 2022 directed the management to ascertain the position that what was approved by the Cabinet Division and what was drawn by the concerned officer. The DAC further directed the management to get approval of any change in Package.

Audit recommends compliance of the DAC directives.

Para-4 (SMEDA), 2019-21

8.11.4.4 Loss due to hiring of building at higher rate from the rates announced by the Government - Rs. 57.286 million

According to Ministry of Housing and Works (Estate Wing) OM No. F.2(65)/2011-Policy dated March 17, 2017, Standing Committee in its meeting held on November 02, 2016 approved rates for hiring of Commercial Buildings for office accommodation i.e. Rs. 60/- per Sft. for DHA, Gulberg, Mall Road, Lahore w.e.f. March 17, 2017. The rate for hiring of office accommodation from April 14, 2008 to March 16, 2017 was Rs. 30 per Sft. for these areas.

During audit of SMEDA for the years 2019-21, it was observed that management hired 15,810 sq. ft. w.e.f. 1st July, 2013 in Aiwan-e-Iqbal building situated at Mall Road, Lahore at higher rates i.e. Rs.113 per sq.ft against the admissible rates approved by Government. The management paid an amount of Rs. 150.576 million on account of rent whereas the payment in lines of Government directions was to be made Rs. 93.290 million. The management neither bothered to refer the case to Ministry of Finance through administrative ministry for approval nor was any assessment certificate obtained from PWD. Thus, due to hiring of office accommodation in violation of government directions, the public exchequer sustained loss of Rs. 57.290 million.

Audit is of the view that management was required to follow the Government instructions for hiring the buildings for office accommodation but the same was not done.

The matter was reported to the management on November 29, 2021. The management in its reply January 24, 2022 stated that the building was hired with the approval of BOD.

The reply was not tenable as the rent was more than the limits approved by the Finance Division. The management failed to get approved the rent limits

from Finance Division. Further, the management also failed to obtain rent reasonability certificate from PWD.

DAC in its meeting held on January, 28, 2022 directed the management to formulate hiring policy for rental building and get it approved from Finance Division.

Audit recommends compliance of the DAC directives.

Para-7 (SMEDA), 2019-21

8.11.4.5 Unjustified purchase of two vehicles without regular appointment of incumbents - Rs. 4.241 million

According to PC-I, six vehicles were to be purchased namely one for Project Director, four for Program Directors and one Pool vehicle. Furthermore, as per SMEDA office order, the additional charge of the post of Project Director and one Program Director was assigned to SMEDA employees i.e. GM and DGMs already availing dedicated official transport facility.

During audit of SMEDA for the years 2019-21, it was observed that the management of National Business Development Program (NBDP) purchased six vehicles valuing Rs. 17.723 million on June 30, 2021. During review of record, it was noted that these vehicles were to be purchased, namely one for Project Director, four for Program Directors and one for Pool duties. The post of Project Director and Program Director was filled by the management by granting additional charge to SMEDA employees since inception of the project. Vehicles of SMEDA have already been allotted to these officers. As the fresh appointments for these posts were not made by the management and the employees working on additional charge basis were already availing designated transport facility, the management should have avoided to purchase the two vehicles approved for these designated posts. Vehicles valuing Rs. 4.241 million were purchased without any requirements and was held as unnecessary purchase in audit. Moreover, the delivery of six vehicles has also not been made by the vendor despite lapse of more than four months.

Audit is of the view that the management should purchase vehicles by keeping in view the actual requirement but the same was not followed just to

provide dual facility to the SMEDA officers. Moreover, no efforts were made by management for early delivery of vehicles by vendor.

The matter was reported to the management on November 29, 2021. The management in its reply January 24, 2022 stated that vehicles purchased were pool vehicles and allocation of vehicles was mentioned in PC-I inadvertently.

The reply was not tenable as allocation of vehicles was clearly mentioned in PC-I. In case of any mistake, the revise approval of the said amendment was also not obtained from CDWP. The vehicle purchased for the officers already utilizing the SMEDA vehicles tantamount to dual expenditure.

The DAC in its meetin held on January, 28, 2022 kept the Para intact and its fate would be decided in the next meeting in accordance of utilization of vehicles.

Audit recommends to investigate the matter and fix the responsibility on the person(s) at fault, the vehicles purchased unnecessarily may be re-sold and receipts therefrom be deposited into consolidated fund. Besides, efforts be made for early delivery of vehicles.

Para-13 (SMEDA), 2019-21

8.11.4.6 Irregular promotion of officer without availability of post – Rs. 8.877 million

According to Ministry of Industries & Production, Islamabad's letter dated April 20, 2004 containing approval for establishment of SMEDA legal Services Cell, the legal services department in the Head Office was to be headed by a Manager (Legal Services) and would be assisted by one Assistant Manager and two Management Associates. In all regional offices of SMEDA, there would be one Assistant Manager (Legal Services).

During audit of SMEDA for the years 2019-21, it was observed that the management promoted Mr. Shaheen Tahir as Deputy General Manager w.e.f. October 09, 2018 despite non-availability of post of Deputy General Manager in Legal Services Cell.

Audit holds that the officer was not entitled to be promoted due to non-availability of the post of Deputy General Manager in Legal Cell.

Thus, promotion of officer as Deputy General Manager without having a sanctioned post in legal cell and payment of salary valuing Rs. 8.877 million (Rs. 227,620 x 39 months) was held irregular in audit.

The matter was reported to the management on November 29, 2021. The management in its reply January 24, 2022 stated that the officer was appointed in legal cell and subsequently posted at different posts. The promotion was as per SMEDA rules.

The reply was not tenable as the legal cell was approved by the ministry and the officer was appointed as Assistant Manager Legal after establishment of legal cell and he could not be promoted beyond the cap post of legal cell i.e. Manager Legal. Just to accommodate the officer, the management posted the officer in other wings and promoted against other post. The legal cell could not be merged with other wings without approval of Ministry.

The DAC in its meeting held on January, 28, 2022 directed the management to provide the copy of HR policy and Rules approved by the Federal Government.

Audit recommends compliance of the DAC directives.

Para-14 (SMEDA), 2019-21

8.11.4.7 Irregular excess expenditure on account of honorarium – Rs. 2.845 million

As per PC-I pertaining to “National Business Development Program”, the project location was all Pakistan consisting of Head Office at Lahore, four Provincial Offices and 35 regional offices and accordingly the budget for HR Overhead expenditure was allocated in PC-I.

During audit of SMEDA for the years 2019-21, it was observed that the management of National Business Development Program (NBDP) made payment of Rs. 15.714 million on account of salary as mentioned in PC-I to project employees. Besides, the management also paid an allowance to project employees which was not included in PC-I. The said allowance was included in salary by dividing HR overhead cost proportionately between the employees. Audit further observed that management had also made payments on account of employees’ compensation/honorarium, daily wages, short term contract

employees, Stipend Payments and overtime allowance despite the fact that there was no provision in PC-I regarding incurring of these expenses. The management during discussion replied that all these payments were made from HR overhead cost.

Furthermore, during review of PC-I, it was found that the HR overhead cost valuing Rs. 12.869 million (included 10% addition in cost of initial year) was provided for in the budget mentioned in PC-I whereas, Rs. 15.714 million was incurred resulting in excess payment of Rs. 2.845 million in violation of PC-I approved by ECNEC. The excessive payment was made to enjoy undue benefits i.e. honorarium/compensation payments and allowance to project employees.

Audit is of the view that the management should have incurred the HR Over Head cost by following the limits mentioned in PC-I but the same was not adhered with the intention to enjoy the public money for personal benefits.

The matter was reported to the management on November 29, 2021. The management in its reply January 24, 2022 stated that the daily wages, compensations, short-term contract, stipends and over-time payments were charged to HR cost. Further, the cost of allowances and cost of internal assignments charged to HR overhead. The expenditure was incurred within the budget.

The reply was not tenable as the management failed to provide any budget allocation in PC-I for payment of daily wages, compensations, short term contract, stipend and over time from HR cost. All these expenditures were incurred from HR overhead without keeping in view the limits mentioned in PC-I.

The DAC in its meeting held on 28th January, 2022 directed the management to refer the case to the Finance Division for approval of expenditure incurred beyond the limits.

Audit recommends compliance of the DAC directives.

Para-16 (SMEDA), 2019-21

8.11.4.8 Irregular appointment of employees without record - Rs. 67.242 million

According to Clause-08 of SMEDA appointment Rules, the applications received against the advertised vacant post(s), within the closing date, shall be scrutinized and the appropriate potential candidates shall be short listed by the HR Department in line with the advertised criteria and presented to the relevant HR Committee within two weeks of the closing date of the advertisement for conducting tests or interviews as the case may.

During audit of SMEDA for the years 2019-21, it was observed that the management of National Business Development Program (NBDP) appointed 28 candidates during the month of February, 2019 against various posts i.e. Program Directors, Managers, Assistant Managers, Management Associates Coordinators, etc. The management was requested to provide the detail of appointment process i.e. Profiles of all applicants applied against specific post, short listing criteria duly approved by the competent authority, details of candidates shortlisted showing segment wise marks given to each candidate, interview call letter to shortlisted candidates along with evidence regarding delivery of interview call letter to the candidates.

The management failed to provide the said detail on one or other pretext reasons and provided only the summarize form of candidates applied for the post and short listing criteria. The implementation of short listing criteria was not provided to audit. Furthermore, the experience certificates possessed by the employees should also be verified from ex-employers but the same was also not done. Thus, due to non-availability of complete appointment files of each post and non-verification of experience certificate from ex-employer, the appointment of 28 employees and payment of salary valuing Rs. 67,241,921 was held irregular in audit.

Audit is of the view that the management should make appointment by following the transparent appointment process in order to avoid any irregularity.

The matter was reported to the management on November 29, 2021. The management in its reply January 24, 2022 stated that the appointment process and record was shared with audit.

The reply was not tenable as the management provided only detail of candidates applied for the post. The candidates shortlisted, approval of short listed candidates and interview call letters to the all-shortlisted candidates was not

shared with audit. Further, the experience certificates were also not got verified from ex-employers.

The DAC in its meeting held on 28th January, 2022 directed the management to fix responsibility for the lapses.

Audit recommends compliance of the DAC directives.

Para-17 (SMEDA), 2019-21

8.11.4.9 Excess payment of pay & allowances in deviation of standing instructions of Finance Division – Rs. 18.183 million

According to Para-1 of Finance Division Letter No. F.4(9)R-14/2008 dated July 19, 2017 regarding Pay Packages for the Project staff recruited for development projects funded by PSDP, the standard pay package was announced consisting on PPS-1 to PPS-12 ranging Salary from Rs. 16,000 per month to Rs. 500,000 per months along with admissibility of 5% annual increment. As per Para-2(i) of said letter, based on the sensitivity and size of the project, the CDWP shall decide on whether the Project Director is to be placed in PPS-10 or PPS-11 or PPS-12.

During audit of SMEDA for the years 2019-21, it was observed that the management of National Business Development Program (NBDP) appointed employees in PPS-5 to PPS-19 in February, 2019 against various posts in development project NBDP. However, it was observed that in deviation to the above instructions of Finance Division excess payment of Rs. 18.182 million were allowed and paid to the officers/officials.

The matter was reported to the management and Principal Accounting Officer on November 29, 2021. The management in its reply January 24, 2022 stated that the salaries to the project employees were paid in accordance with salary mentioned in PC-I duly approved by the CDWP.

The reply was not tenable as the Finance Division issued revised project pay scales during July, 2017 and CDWP approved the project after three months i.e. during October 2017. Further, the said project pay scales were effective since 2009 and these were revised during 2017. The management should include the salary structure in PC-I in accordance with Finance Division's directives.

The DAC in its meeting held on 28th January, 2022 directed the

management to refer case to Planning Commission for clarification. The DAC further directed the management to provide certificate that no Permanent employee was allowed such package working on the project.

Audit recommends compliance of the DAC directives.

Para-18 (SMEDA), 2019-21

8.11.4.10 Irregular appointments due to consideration of degrees issued by non-recognized universities/institutes – Rs. 24.108 million

According to Clsuse-09 (viii) of SMEDA appointment Rules, within six months of the appointment to a particular position of an employee, the HR department shall get done the verification of the employee's degrees/credential done.

During audit of SMEDA for the years 2019-21, it was observed that the management of National Business Development Program (NBDP) appointed 08 candidates during the month of February, 2019 against various posts i.e. Deputy Program, Directory Program Assistant Managers, Program Management Associates. Audit noted that these employees possessed degrees issued by the private sector universities.

As per short listing criteria, the management awarded marks to the candidates having degrees from the Universities not recognized by the HEC. The short listing criteria was defective as the degrees issued by the HEC non-recognized institutes could not be accepted. To ensure the genuineness of the degrees, the management should have verified the degrees from HEC.

Contrary to that, the management verified the degrees from concerned private universities which was not acceptable. As the verification of degrees issued by the private sector was the mandate of HEC, the management should take up the matter with HEC but the same was not done. Thus, the appointments of candidates having degrees issued by the HEC non-recognized institutes and payment of salary Rs. 24.108 million made to these employees was held irregular in audit.

Audit is of the view that the management should made consider the degrees issued by HEC recognized institutes and also verified the said degrees from HEC rather than from the concerned private sector university in order to avoid any irregularity.

The matter was reported to the management and Principal Accounting Officer on November 29, 2021. The management in its reply January 24, 2022 stated that the degrees were verified from concerned universities and now the degrees have also been got verified from HEC.

The reply was not tenable as the management provided the copies of degrees verified through candidates. The management should take up the matter with HEC in order to ensure the genuineness of the degrees provided by the candidates.

The DAC in its meeting held on 28th January, 2022 directed the management to get the degrees officially verified from HEC.

Audit recommends compliance of the DAC directives.

Para-20 (SMEDA), 2019-21

8.11.4.11 Irregular payment to Training Service Provider (TSP) due to non-fulfillment of terms and conditions – Rs. 33.054 million

According to Clause-5.3(iv) of special condition of contract signed between NBDP and different TSPs, payment will be made in two installments for each phase upon submission of following documents i.e. Sales tax invoice, participants feedback forms (original), attendance sheets (original), Program Brochure, Trainer Profile(s), Photographs, activity completion report. Upon successful completion of all training programs assigned/agreed during each phase and submission of requisite documents stipulated in the preceding section, the respective TSP shall be paid.

During audit of SMEDA for the years 2019-21, it was observed that the management of National Business Development Program (NBDP) made agreements with different Training Service Providers (TSP) and outsourced the training programs. The trainings were conducted by the TSPs on certain locations. Audit scrutinized and found that detail of training attributes i.e. participant's intimation to attend the training on certain venue/date and time, participant's attendance sheets, Trainer Profiles, Trainer invitation for certain training on the schedule finalized, participant's feedback and activity completion reports were not available with management.

Non-availability of core documents raised questions that the trainings were conducted just in papers. The management was required to verify the attributes of the trainings conducted by the TSPs and payment should be made after making sure fulfillment of terms and conditions of the agreement. Thus, due to non-fulfillment of terms and conditions, the payments of Rs. 33,054 million made to TSPs was held irregular in audit.

Audit is of the view that the management should make sure the fulfillment of terms and conditions in order to make the training expenditure fruitful for the participants but the same was not followed.

The matter was reported to the management and Principal Accounting Officer on November 29, 2021. The management in its reply January 24, 2022 stated that the Training Service Providers provide the training in accordance with RFP and staff of the project assured physical delivery of training.

The reply was not tenable as the management failed to provide the documents required for payment to TSP. The documentary evidence showing Sales Tax Invoice, Trainer Profile(s), Activity Completion Report, participant's Feed Back Forms (original), was not provided against the payment made to each TSP.

The DAC in its meeting held on 28th January, 2022 directed the management to probe the matter at Ministry level and fix responsibility.

Audit recommends compliance of the DAC directives.

Para-23 (SMEDA), 2019-21

8.11.4.12 Excessive expenditure on renovation at NBDP Lahore based offices in violation of PC-I – Rs. 10.080 million

As per PC-I pertaining to “National Business Development Program”, the project location was all Pakistan consisting of Head Office at Lahore, four Provincial Offices and 35 regional offices and accordingly the budget was allocated in PC-I for establishment/fixed cost.

During audit of SMEDA for the years 2019-21 it was observed that the management of National Business Development Program (NBDP) arranged renovation work valuing Rs. 15.980 million executed at Lahore offices (i.e.

NBDP HO, one Provincial office and one RBC). It was mentioned in PC-I that the management can incur expenditure on renovation work of Rs. 5.900 million for Lahore offices (i.e. NBDP HO, one Provincial office and one RBC) but the same was not followed. The management did not adhere to the limits mentioned in

PC-I. Thus, the management incurred excessive expenditure on renovation work of Rs. 10.080 million in Lahore office in violation of PC-I.

Audit is of the view that the management should incur expenditure on renovation by keeping in view the limits mentioned in PC-I but the same was not adhered resulting in irregular incurrence of expenditure.

The matter was reported to the management and Principal Accounting Officer on November 29, 2021. The management in its reply January 24, 2022 stated that renovation work was completed within the budget of PC-I and cost of activities was estimated and could be changed during execution.

The reply was not tenable as the management referred the total budget of PC-I whereas, in PC-I, separate budget was mentioned for renovation at HO, Provincial offices and regional offices. The management carried out the renovation work at HO by consuming the budget of provincial offices and regional offices in violation of PC-I. Further, the approval for change in cost of activities was also not obtained from CDWP.

The DAC in its meeting held on 28th January, 2022 directed the management to get the PC-I revised from the competent Forum and copy be shared with Audit.

Audit recommends compliance of the DAC directives.

Para-26 (SMEDA), 2019-21

8.11.4.13 Non-return of funds lying in inland LC account since two years – Rs. 15.867 million

Non-forfeiture of performance security – Rs. 1.587 million

As per clause 2.3 of the special conditions of the agreement dated January 24, 2020 signed between NBDP and M/s Grant Thornton Anjum Rehman Chartered Accountants for provision of counselling services, the consultants shall commence the services within seven days after the date of signing of contract

agreement or such other time period as the parties may agree in writing. As per clause 2.4, the period of completion of services shall be four months from the commencement date of the services or such other period as the parties may agree in writing. The services are estimated to be completed before May 24, 2020. According to para-3 of letter of acceptance dated December 26, 2019 issued to M/s Grant Thornton Anjum Rehman Chartered Accountants, as security for due performance of the undertaking and obligations of the contract, submit the performance security equal to 10% of the amount mentioned in this letter of acceptance within fourteen working days of receipt of the letter of acceptance.

During audit of SMEDA for the years 2019-21, it was observed that the management of National Business Development Program (NBDP) made agreements valuing Rs. 15.867 million with M/s Grant Thornton Anjum Rehman Chartered Accountants, M/s Tally Marks Consulting Pvt. Ltd and M/s Ovex Technologies Pakistan Limited for obtaining of counseling services, Grants Management Information System services and website development services.

Audit noted that the said services were to be provided by the concerned consultant within four months from the date of signing of agreement which was not provided despite lapse of two years approximately. To avoid laps of funds, the management opened inland Letter of Credit accounts and transferred the amount to concerned LC account. Due to non-provision of services by the consultants, neither the management transferred the funds valuing Rs. 15.867 million to Finance Division nor forfeited the performance security of Rs. 1.587 million.

Audit is of the view that the management should transfer the amount to Finance Division due to non-provision of services by the consultants.

The matter was reported to the management and Principal Accounting Officer on November 29, 2021. The management in its reply January 24, 2022 stated that the work by two consultants has been completed and accordingly payment was made after imposing 7% penalty on delay in services. The services of third consultant will be completed during three years.

The reply was not tenable, as the detail of work done by each consultant was not provided to audit. Further, the penalty on account of delay was to be

imposed @ 10% whereas, the management imposed 7% penalty on one consultant only.

The DAC in its meeting held on 28th January, 2022 kept the Para intact and its fate would be decided in the next meeting.

Audit recommends to investigate the matter and fix the responsibility on the person(s) at fault, the amount lying in LC account may be returned to Finance Division immediately and the amount of performance security may be recovered from the person(s) held responsible.

Para-28 (SMEDA), 2019-21

8.11.4.14 Irregular payment due to grant of excessive increments to certain employees – Rs. 5.122 million

According to Clause-15(1) of employee's performance, promotions and increment regulations, increments shall be given to the employees, as per the percentage decided by the authority against each performance rating in the performance appraisals. The Chief Executive Officer may at his discretion increase/decrease the increment percentage on the basis of the performance of an employee. Reasons for the same shall be recorded by the CEO in writing.

During audit of SMEDA for the years 2019-21, it was observed that the management granted increments to employees w.e.f. July 01, 2020 on the basis of performance rating evaluate by the reporting officers. As per performance ratings, the increment ranging from 3% to 15% could be granted to the employees proportionate to their performance ratings. Contrary to that, the management granted excessive increments i.e. upto 30% to selected employees against the performance rating assigned by the reporting officer.

The management was requested to provide written basis/justifications for grant of excessive increment to selected employees but the same was not provided and thus, granting of excessive increment and payment valuing Rs. 5.122 million was held irregular in audit.

Audit is of the view that the management should granted increment by following the performance rating in order to avoid any disparity between the employees but the same was not followed.

The matter was reported to the management and Principal Accounting Officer on November 29, 2021. The management in its reply January 24, 2022 stated that CEO granted the increments in accordance with SMEDA Employees Performance, Promotion and Increment Rules.

The reply was not tenable as increments could be granted ranging from 3% to 15% in accordance with performance rating. Whereas, the management granted increments beyond the performance rating upto 30%. Further, the documentary evidence regarding performing of extra task by the each employee and in written consideration and appreciation by the CEO was not provided.

The DAC in its meeting held on 28th January, 2022 directed the management to justify the excessive grant of increment to selected employees.

Audit recommends to investigate the matter and fix the responsibility on the person(s) at fault, the said payment may be get regularized from Finance Division and the excessive payment made to selected employees may be recovered from concerned.

Para-30 (SMEDA), 2019-21

**8.11.4.15 Irregular payment in violation of PPRA rules - Rs. 4.440 million
alongwith non-deduction of LD and rent charges – Rs. 2.584
million**

According to Clause-42(c-iv) of Public Procurement Rules-2004, a procuring agency shall only engage in direct contracting if repeat orders are not exceeding fifteen per cent of the original procurement. According to Clause-47.1 of the bidding documents, Rs. 5,000 for each day of delay in completion of the works subject to a maximum of 10% of contract price stated in the letter of acceptance shall be deducted.

During audit of SMEDA for the years 2019-21, it was observed that the management of National Business Development Program (NBDP) made agreement with M/s Progress Dynamics (Pvt.) Ltd and made payment of Rs. 19.566 million. The Civil work/renovation work valuing Rs. 13.570 million and purchase & installation of Air conditioners valuing Rs. 3.824 million was incurred at NBDP HO, Provincial Offices and Regional Business Centers.

The management made payment of Rs. 15.795 million on account of renovation work due to addition/deletion in work. Further, it was noted that the management approved and paid variation orders valuing Rs. 4.440 million which becomes 33% (Rs. 4,439,921/ Rs. 13,570,026 x 100) of the original procurement. As per PP rules, the management can issue repeat order equivalent to the 15% value of the original procurement of renovation work, however, the said rules was not adhered to by the management resulting undue favor extended to the contractor.

Furthermore, the management granted extension of four months and fifteen days from time to time without any logical grounds which resulted inordinate delay in completion of the work. The extension was granted with the condition “no cost implications”. The management hired rented space on temporary basis at 7th floor of Aiwan-e-Iqbal for two months @ Rs. 209,090 per month in order to complete the renovation work smoothly. But due to late completion of renovation work, the management paid rent for five months rather than two months. As no cost implications were to be borne, the management should have imposed LD on the contractor besides recovery of rent of three months, however, the same was not recovered from the contractor due to which undue favor was extended to him. Thus, due to non-recovery of LD charges and rent of three months, loss of Rs. 2,583,829 (Rs. 19,565,591x 10% and Rs. 209,090 x 3 months) was suffered.

Audit is of the view that the management should not issue repeat order of more than 15% and in case of necessary work, re-tendering should be made. Further, the management should have impose the LD charges on contractor and recovery of rent for additional months.

The matter was reported to the management and Principal Accounting Officer on November 29, 2021. The management in its reply January 24, 2022 stated that the repeat work was due to variation in renovation work and was within the limit of 15%.

The reply was not tenable as the management included the cost of AC in renovation work intentionally. Whereas the separate budget for purchase of AC was mentioned in PC-I and nature of both procurement was different. The renovation work (civil) contract was of Rs. 13.570 million and increase in

renovation work was of Rs. 4.439 million indicating 33% increase. Further, the management also extended the period of completion four times with no cost implication. The cost implication was born by the management in shape of rent for additional months. Moreover, no justification was provided for extension in time granted under force major clause.

The DAC in its meeting held on 28th January, 2022 directed the management to justify the violation of PP Rules and non-imposing of LD charges on contractor.

Audit recommends compliance of the DAC directives.

Para-32 & 33 (SMEDA), 2019-21

8.11.4.16 Non-formulation of BODs and Sub-Committees since three years

According to Clause-6(1) of SMEDA Ordinance, 2002, the BODs will consist of twelve members including six persons from the private sector.

According, as per clause 8(1), the Board shall meet not less than twice in a calendar year.

Furthermore, According to clause-09, the Board may, for the purpose of obtaining advice and assistance in carrying out the purposes of this ordinance, constitute a committee consisting of the members of the Board and any other suitable person or persons as it may deem fit.

During audit of SMEDA for the years 2019-21, it was observed that the BODs was not constituted for three years. The private members retired since 2017. The BODs was incomplete due to which regular meeting of the Board was not held in violation of SMEDA Ordinance. Only one meeting during 2019-20 and one meeting during 2020-21 was held by the ex-officio members. Furthermore, the sub-committees of the Board were also not formulated in violation of SMEDA Ordinance.

Audit is of the view that the management should make efforts for early formulation of complete Board as well as constitution of sub-committees.

The matter was reported to the management and Principal Accounting Officer on November 29, 2021. The management in its reply January 24, 2022 stated that the request was submitted to ministry for formulation of board.

The reply was not tenable as BOD was dysfunctional since four years due to which there was no check and balance on SMEDA official activities.

The DAC in its meeting held on 28th January, 2022 directed the management to take up the matter with government for constitution of Board within three months.

Audit recommends compliance of the DAC directives.

Para-37 (SMEDA), 2019-21

8.11.4.17 Non-finalization of annual accounts since 2017-18 to 2020-21

According to Clause-24(3) of SMEDA Ordinance, 2002, the accounts of the authority shall be audited annually by a reputable firm of chartered accountants selected by the Board and together with the report of the Auditors thereon, be submitted to the Board for approval by the 31st December of each year.

During audit of SMEDA for the year 2019-21 it was observed that the annual accounts for the years 2017-21 were not prepared due to which true pictures of financial position of the authority was not confirmed. The management was requested to provide the reasons for non-preparation of annual accounts so far. The management replied that the accounts were in process and would be provided after approval of the BOD. The inordinate delay in preparation of annual accounts was not acceptable as it was the violation of SMEDA Ordinance.

Audit is of the view that the management should make efforts for early preparation of annual accounts but the same was not done.

The matter was reported to the management and Principal Accounting Officer on November 29, 2021. The management in its reply January 24, 2022 stated that the accounts were not finalized due to non-existence of BOD.

The reply was not tenable as the accounts should be finalized before 31st December after completion of financial year. The non-completion of annual accounts was the violation of the rules.

The DAC in its meeting held on 28th January, 2022 directed the management to get the Accounts prepared and audited within two months and be shared with Audit.

Audit recommends compliance of the DAC directives.

Para-38 (SMEDA), 2019-21

8.12 State Engineering Corporation (Pvt.) Ltd

8.12.1 Introduction

State Engineering Corporation (Pvt.) Ltd. (SEC) was incorporated in 1973 under the Companies Ordinance 1913 (now Companies Act 2017) with a paid up capital of Rs. 836 million fully subscribed by the Federal Govt. The Corporation is working under the administrative control of Ministry of Industries and Production. As at June 30, 2019, the company has fully paid up Capital of Rs. 889.96 million. Moreover the company also has Govt. Equity Fund of Rs. 2,249.76 million (Rs. 2,249.76 million on June 30, 2018) representing the funds available for issue of shares to GoP.

The registered office of the company is situated at Third Floor, Software Technology Park, (STP-I), 5-A Constitution Avenue, F-5/1, Islamabad. The Corporation manages and controls important segments of Engineering Industry of Pakistan. The industrial units are dealing in designing, engineering, manufacturing and supply of light, medium and heavy engineering plants and machinery.

The core objectives of the Corporation are as follows:

- To promote Industrial Self-reliance and build a sound technical/Industrial base in the country.
- To upgrade facilities for maximum possible indigenization and maintenance of technological edge over other domestic competition.
- To induct local and foreign Private Sector Partners, whenever possible, to promote joint ventures with them for achieving higher operational efficiencies.

8.12.2 Comments on Audited Accounts

8.12.2.1 The working results of the Corporation for the year 2020-21 as compared to previous years are given below:

(Rs. in million)

Description	2020-21	% Inc / (Dec)	2019-20	% Inc / (Dec)	2018-19
Income					
Service charges	35.00	(36.36)	55.00	-	55.00
Interest income	3.208	(29.65)	4.56	21.00	3.77
Total income	38.208	(35.85)	59.56	1.34	58.77
Expenditure					
Operating expenses	38.702	(21.37)	49.22	(15.00)	57.91
Operating Profit/(loss)	(0.494)		10.34		0.860
Profit/(loss) before Taxation	(0.501)		10.49		1.442
Taxation	2.800	(36.36)	4.40	-	4.40
Profit / (loss) after Taxation	(3.301)	(154.09)	6.09	-	(2.96)
Accumulated profit/ (loss)	(1226.09)		(1,222.79)		(1228.88)

(Source: Annual Audited Accounts)

The main source of income of the corporation was service charges which reduced by 36.36% from Rs. 55.00 million in 2019-20 to Rs. 35.00 million during 2020-21 which needs justification.

8.12.2.2 Due to decrease in income, the corporation sustained a net loss of Rs. 3.30 million in 2020-21 as against the profit of Rs. 6.09 million in 2019-20. Accumulated loss of the Corporation has grossed up to Rs. 1,226.09 million over the years, continuous trend in losses raised doubts about the corporation's ability to run as a "Going Concern". Presently only three (03) companies are functioning under SEC. Out of these three (03) companies, HEC is in the process of privatization. The service charges received from these companies are insufficient to meet the operating expenses of SEC. Audit would suggest that the Corporation should seek avenues of income other than service charges in order to meet its operational expenditure, otherwise, Government should wind up the Corporation.

8.12.2.3 The Corporation had three associated undertakings under its control with 100% shareholding namely Pakistan Machine Tool Factory (Pvt.) Limited (PMTF), Heavy Electrical Complex (Pvt.) Limited (HEC) and ENAR Petrotech Services (Pvt.) Limited. Corporation also partially owned 24.88% shares of Pakistan Engineering Company (PECO). During the year 2020-21, the shares of

PMTF transferred to Strategic Plans Division (SPD) and 100% shares of ENAR Petrotech Services (Pvt.) Limited transferred to OGDCL by Ministry of Industries and Production, Government of Pakistan in light of decision of Cabinet. Audit would suggest detailed scrutiny of record of transfer of shares and subsequent fate.

8.12.2.4 During the year, the corporation revalued its land measuring 1,746 Kanal and 09 Marlas using market price valuation method which resulted in a revaluation surplus of Rs. 3,492 million. Out of total land, 800 Kanal area of land is in the possession of Pakistan Atomic Energy Commission under a joint venture agreement dated May 17, 1992 and 850 Kanal area of land is in the possession of Heavy Mechanical Complex (Private) Limited. Resultantly, the Corporation, without having clear possession, cannot utilize all of the economic benefits associated with the land as the land in the possession and use of above mentioned government entities cannot be used or sold in active market. Therefore, this land cannot be revalued using market price valuation method as the external auditors have given their qualified opinion in this regard. Audit would stress to resolve the issue with its associated undertaking for valid valuation of its land assets.

8.12.2.5 The Company has recorded provision for gratuity as per management's estimates instead of actuarial based valuation as per requirements of IAS 19- 'Employee Benefit'. The management's estimates did not account for financial, demographic and other actuarial assumptions for calculation of present value of the provision against gratuity. The impact of difference of provision from actuarial valuation cannot be quantified. Audit would require the management to adopt standard method of valuation in consultation with their external audit firm.

8.12.2.6 Amount due from associated undertakings increased from Rs. 294.131 million in 2019-20 to Rs. 323.631 million in 2020-21. Moreover amount due from associated undertakings included an un-reconciled balance of Rs. 5.885 million receivables from Heavy Electrical Complex (Private) Limited. Audit would stress the management to take up the matter with its associated undertakings for reconciliation and early recovery.

8.12.2.7 Long term investments include an amount of Rs. 499.751 million in associates. This amount represented increase in fair value of 24.88% shares of PECO held by the corporation. Current status along with dividend earned on these shares over the last ten years may be provided to audit.

8.12.2.8 Loan from Government has increased from Rs. 208.283 million in 2019-20 to Rs. 233.283 million in 2020-21 registering an increase of Rs. 12.00 %. This represents loan received from Ministry of Finance / Industries & Production for annual operational expenses, new induction and expansion in future. Terms and conditions of this loan were not settled. Finance Division had claimed repayment of loan but no amount was paid. Audit would stress the management to settle the terms and condition and repayment schedule with the Government.

8.12.2.9 The company maintained SEC management pension fund of Rs. 2.015 million (Note 20.1c). Out of these funds, management invested an amount of Rs. 3.181 million in shares of companies on which a loss of Rs. 0.704 million booked in 2017 and Rs. 0.640 million booked in 2016 which needed detailed scrutiny. Justification for non-conducting audit of Pension Fund after 2017 may be provided besides providing latest audited accounts of the said fund.

8.12.2.10 Contingencies and commitments show an amount of Rs. 9.435 million as counter guarantees issued by the corporation to various banks, financial institutions and other agencies on behalf of its associated undertakings with no movement in last two years. Present status and reasons for non-return of counter guarantee to the corporation is required from the management.

8.12.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
1996-97	05	04	01	163	80
1998-99	04	03	01	257	75
1999-00	06	0	06	319, 320, 321, 322, 323, 324	-
2000-01	05	04	01	296	80
2002-03	03	01	02	89 & 90, 90.2	33
2003-04	05	02	03	102, 102.1, 102.4	40
2005-06	06	02	04	129.1, 129.2, 129.4, 130	33
2008-09	05	04	01	120.1	80
2009-10	04	03	01	129	75
2013-14	07	01	06	8.17.1, 8.17.2.1, 8.17.2.2, 8.17.2.3, 8.17.2.4, 8.17.2.5, 8.17.2.6	14
2015-16	09	0	09	8.18.1, 8.18.2.1, 8.18.2.2, 8.18.2.3, 8.18.2.4, 8.18.2.5, 8.18.2.6, 8.18.2.7, 8.18.3	0
Total	59	24	35		41

The compliance of the PAC directives was not satisfactory which need attention of the PAO.

8.13 Technology Up-gradation and Skill Development Company

8.13.1 Introduction

Technology Up-gradation and Skill Development Company (TUSDEC) is a Company incorporated in January 2005 and licensed under Section 42 of the Companies Ordinance 1984 (Now Companies Act 2017). The principal activity of TUSDEC is to upgrade technology & skills of the key and strategic Industrial Clusters and connect Pakistan to the global value chain. TUSDEC is a subsidiary of Pakistan Industrial Development Corporation (Pvt.) Limited (PIDC). The principal office of TUSDEC is located at State Cement Corporation Building, Kot Lakhpat, Lahore.

8.13.2 Comments on Audited Accounts

8.13.2.1 The working results of the company for the year 2020-21 as compared to previous years are as under:

(Rs. in million)							
Particulars	2020-21	% Inc/(Dec)	2019-20	% Inc/(Dec)	2018-19	% Inc/(Dec)	2017-18
Income from services	79.67	1.48	78.51	(23.94)	103.22	53.90	67.07
Amortization of grant related to income	34.64	39.56	24.82	(14.91)	29.17	72.40	16.92
Total Income	114.31	10.63	103.33	(21.96)	132.40	57.66	83.98
Operating Cost	81.89	(33.12)	122.45	2.84	119.07	5.46	112.91
Project Expenses	32.50	29.79	25.04	(30.11)	35.83	133.72	15.33
Administrative and general expenses	93.57	(12.40)	106.82	(18.16)	130.52	(1.77)	132.87
Selling Expenses	1.20	4.35	1.15	(11.54)	1.30	2.36	1.27
Total Expenditure	209.14	(18.14)	255.47	(10.90)	286.72	9.28	262.38
Other Income	7.13	23.36	5.78	13.56	5.09	(32.40)	7.53
Deficit before taxation	(87.72)	(40.07)	(146.36)	(1.92)	(149.23)	(12.66)	(170.87)
Taxation	-	-	-	-	-	-	-
Deficit for the year	(87.72)	(40.07)	(146.36)	(1.92)	(149.23)	(12.66)	(170.87)

(Source: Annual Audited Accounts)

The accumulated deficit of the company in the year 2020 was Rs. 577.897 million which was increased to Rs. 664.570 million in 2021. It is pertinent to mention here that the company is projects based organization but accumulated losses clearly shows weak financial management of the projects resulting in net accumulated loss of Rs. 664.570 million till financial year 2020-21. Reasons for continuing losses should be investigated at Ministry level.

8.13.2.2 As per Note-19 under head Deferred Grant, management has Rs. 877.350 million as opening balance on 1st July 2020 against six projects and received another Rs. 377.718 million during the current year. Details of grants project wise are as under:

(Rs. in million)						
Name of Project	Opening Balance	Addition		Deletion/Transfer		Closing Balance as at June 30, 2021
		Grants Received during the year	Other Income	Amortization of Grant for the year	Grants returned/surrendered/Transferred	
0	1	2	3	4	5	6 (1+2+3) -(4+5)
Engineering Support Centers	730.280	120.877	9.583	-	59.657	801.083
National Vocational and Technical Commission	6.010	23.139	0.077	12.249	-	16.978
Footwear Cluster Development Centre	24.583	22.0450	-	-	1.252	45.380
NASPAT	24.451	33.400	-	-	18.075	39.776
Industrial Designing and Automation Centre (IDAC)	92.776	132.275	-	-	96.956	128.095
GIZ	(0.750)	45.977	0.470	20.248	-	25.449
Total	877.350	377.718	10.130	32.497	175.940	1,056.761

The above table shows that management amortized only Rs. 32.497 million during the year. As the company had already sufficient balance of Rs. 877.350 million on account of grant and further an amount of Rs. 377.718 million was also received in 2020-21 which clearly showed that unrealistic grant was demanded. If budget was prepared realistically basis this amount of grant could have been avoided. Demand for further grant, while having sufficient balance on account of grant, needs justification.

8.13.2.3 Management received an amount of Rs. 308.602 million against the projects namely Engineering Support Centers, Footwear Cluster Development Centre, NASPAT and Industrial Designing and Automation Centre (IDAC) during the year 2020-21 despite having sufficient balance on account of these projects amounting to Rs. 872.09 million but not a single penny was spent during this year against these projects. This shows weak operational management and negligence at the part of management which needs to be justified with full facts and figures

8.13.2.4 As per Note-12, management invested Rs. 15.00 million in bank since long in shape of TDR on roll-over basis, having maturity period of one to three months and carry mark-up at the rate ranging from 5.75% to 7.25% per annum during the year 2020-21. Management should have invested the amount on annual basis to earn more interest, while management received interest which is almost equal to saving account interest ranging from 5.50% to 6.50% during the year. Management needs to justify the investment for one to three months instead of annual basis with full facts and figures.

8.13.2.5 As per Note-20, trade and others payables increased to Rs. 50.293 million in the year 2020-21 from Rs. 48.461 million in the year 2019-20. This amount include Rs. 10.679 million which is payable to M/s TRUMPF (Germany) on account of Performance Bond since long which needs justification with full facts & figures along with client wise aging of payables.

8.13.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras #	% of compliance
2010-11	15	01	14	11.9.1, 11.9.2, 11.9.2.2, 11.9.2.3, 11.9.2.4, 11.9.4.1, 1.9.4.2, 11.9.4.3, 11.9.4.4, 11.9.4.5, 11.9.4.6, 11.9.4.7, 11.9.4.8, 11.9.4.9	7
2013-14	06	0	06	8.10.1, 8.10.2.1, 8.10.2.2, 8.10.2.3, 8.10.2.4, 8.10.4.1, 8.10.4.2,	0
2015-16	07	0	07	8.13.1, 8.13.2.1, 8.13.2.2, 8.13.2.3, 8.13.2.4, 8.13.2.5, 8.13.2.6	0
2019-20	08	02	06	7.23.2.1, 7.23.2.3, 7.23.2.4, 7.23.2.5, 7.23.2.6, 7.23.3	25
Total	36	3	33		8

The compliance of the PAC directives was very poor which needs immediate attention of the PAO.

8.14 Utility Stores Corporation of Pakistan (Pvt.) Limited

8.14.1 Introduction

Utility Stores Corporation of Pakistan (Pvt.) Limited (the Company) was incorporated on September 03, 1971 as Private Limited Company under Presidential order issued vide President Secretariat U.O dated March 26, 1971. The Corporation is registered under Companies Ordinance 1984 (now Companies Act, 2017) with its registered office at Islamabad.

The Company has paid up capital of Rs. 737.73 million fully owned by the Government of Pakistan. The Company is working under administrative control of Ministry of Industries and Production. The key objectives of the Company are to:

- i. Undertake the procurement of essential consumer goods from domestic and external sources.
- ii. Ensure the availability of quality goods in adequate and regular quantities and market them at prices lower than the market, through a chain of store operations.

8.14.2 Comments on Audited Accounts

8.14.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this the management failed to provide audited accounts of the organization for the year 2020-21 till December 31, 2021. Audit recommends that the annual audited accounts of the past year be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts.

8.14.2.2 The working results of the Corporation for the year 2019-20 as compared to previous years are given below:

(Rs. in million)					
Particulars	2019-20	% inc. /(dec)	2018-19 (Restated)	% inc. /(dec)	2017-18
Net Sales	47,160.37	406.55	9,310.06	(65.86)	27,267.17
Gross Profit	178.15	(5.23)	187.99	(92.05)	2,364.78
S&D Expenses	(7194.18)	(1.36)	(7293.26)	5.66	(6902.32)
Admin Expenses	(474.96)	8.57	(437.45)	2.17	(428.15)
Finance Cost	(637.06)	4456.94	(13.98)	(57.40)	(32.82)

Profit/ (Loss) before Tax	(716.36)	(88.90)	(6,448.51)	36.90	(4,710.41)
Profit/ (Loss) for the year	(1,418.35)	(77.74)	(6,372.64)	26.85	(5,023.76)
Share Capital & Reserves	288.83	103.25	(8,871.87)	248.88	(2,542.98)
Non- Current Liabilities	7,606.07	169.24	2,825.00	19.44	2,365.14
Current Liabilities	51,949.40	35.39	38,368.62	(2.65)	39,414.55
Total Equity & Liabilities	59,844.30	85.15	32,321.75	(17.62)	39,236.71
Fixed Assets	8,066.77	61.24	5,002.99	16.96	4,277.46
Current Assets	51,777.53	89.53	27,318.76	(21.24)	34,954.50
Total Assets	59,844.29	85.15	32,321.75	(17.62)	39,236.71
Net Cash Flow from Operating Activities	3,223.63	245.81	932.20	117.39	(5,361.00)
Net Cash Flow from Investing Activities	(14.36)	(78.88)	68	9.68	62
Net Cash Flow from Financing Activities	11,653.65	--	--	--	--
Increase/ (Decrease) in Cash & Cash Equivalent	14,862.93	1,385.86	1,000.29	118.88	(5,299)
Cash & Cash Equivalent at beginning of the year	2,611.12	63.29	1,599	(76.82)	6,898
Net Changes in Cash & Cash Equivalent	17,474.03	572.18	2,599.62	62.58	1,599
Profitability Ratios					
Gross Profit to sales	0.38	(96)	9.52	9.80	8.67
Profit/(Loss) Before Taxation	(1.52)	(97.44)	(59.40)	243.75	(17.28)
Net Profit/(Loss) to sales	(3.01)	(95.03)	(60.51)	228.50	(18.42)
Expense Ratios					
% of S&D Expenses	15.26	(77.84)	68.89	172.18	25.31
% of Admin Expenses	1.01	(77)	4.39	179.62	1.57
% of Finance Cost	1.35	864.29	0.14	16.67	0.12
Liquidity Ratios					
Current Ratio	0.99	33.78	0.74	(16.85)	0.89
Quick Ratio	0.79	16.18	0.68	(9.33)	0.75
Cash to Current Liabilities	0.33	371.43	0.07	75	0.04
Net Working Capital	(171.87)	(98.28)	(10,019.93)	124.66	(4,460.06)
Investment Ratios					
Earnings/(Loss) Per Share Basic	(19.23)		(81.72)	20	(68.10)
Activity Ratios					
Inventory Turnover	4.37	10.35	3.96	34.23	2.95
Average Age of Inventory	83.57	(9.41)	92.25	(25.38)	123.62
Receivable Turnover	2	308.16	0.49	(54.62)	1.08
Average Collection Period	182.24	(75.53)	744.90	120.38	338
Payable Turnover	0.9	275	0.24	(76)	1
Average Payment Period	403	(73.50)	1520.83	316.67	365
Capital Structure Ratios					
Debt to Total Asset	99.51	(15.56)	117.85	10.65	106.5

Sales of the Corporation increased by 406.55 % i.e. from Rs. 9,310.06 million during 2018-19 to 47,160.37 million during 2019-20 whereas Selling & Distribution expenses only decreased by 1.36 %. Also, administrative expenses

increased by 8.57% i.e. from Rs 437.45 million during 2018-19 to Rs. 474.96 million during 2019-20. Disproportionate decrease/increase in Selling & Distribution expenses and Administrative expenses with respect to sales needs explanation.

8.14.2.3 The Corporation has loss after taxation amounting to Rs. 1,418.346 million during the year 2019-20, resulted in increase in accumulated losses to Rs. 15,513.126 million. The Company has positive cash flows from operations amounting to Rs. 3,223.627 million this is just because of Government subsidy.

8.14.2.4 Gross profit margin ratio of the USC decreases from 2.02 % to 0.38 % in the year 2019-20. Furthermore, it remained between 2% and 9% for the financial year 2017 to 2019. A low gross profit margin of USC shows that the corporation is not managing its cost of sales well. On the other hand, Gross Profit is insufficient to cover operating expenses of the corporation. A low profit margin indicates a high cost of goods sold, which can be attributed to adverse purchasing policies, low sales, stiff market competition, or wrong sales promotion policies.

8.14.2.5 Net Profit Margin is one of the Profitability Ratios that use to measure and assess the proportion of an entity's net profit after reducing the operating expenses. Financial statements of the Utility Stores Corporation show continuously loss for last 4 years. Net loss of Rs. 1,418.35 million and net loss to sales ratio is 3 % in the year 2020. It is because of increasing operating expenses.

8.14.2.6 A lower Expense ratio typically means that the business is being managed efficiently and is more profitable for investors. Selling & Distribution Expense ratio of the USC is very low because of increase in sales or revenue. S&D Expenses are 1% of sales in financial year 2019-20. On the other hand, Gross Profit is 38% of the sales which seems dangerous for the corporation.

8.14.2.7 The current ratio for the Utility Stores Corporations is 0.99 for the year 2019-20 that is very low because a current ratio of 2:1 is considered safe.

8.14.2.8 Similarly Quick ratio for the Utility Stores Corporations is 0.79 for the year 2018-19 that is slightly improved from previous year, but it is considered very low because the ideal liquidity ratio or the generally accepted 'norm' for liquidity ratio is '1'. Quick ratio evaluates the liquidity of a company by comparing its cash plus almost cash current assets with its entire current financial

obligations.

8.14.2.9 Net working capital is a measure of liquidity. It shows how much short-term resources the Corporation would have in continuing its operations if it had to settle all of its current liabilities. The net working capital is calculated by deducting all current liabilities from all current assets. The net working capital of USC resulted in a negative amount of Rs.171.87million. It means that the Corporation has to pay current liabilities that are more than current assets of which is very alarming.

8.14.2.10 Liquidity ratios of the Utility Stores Corporation are less than '1' which are very low than industry average or ideal ratios and negative working capital. It means the corporation has much lesser current assets to pay off current liabilities.

8.14.2.11 Earnings per Share (EPS), also called net income per share that measures the amount of net income earned per share of stock outstanding. The higher the earnings per share of a company, the better are its profitability.

EPS ratio of the Utility Stores Corporation for the year 2019-20 is negative 19.23. It means the corporation is bearing loss of Rs. 19.23 per share instead of earning profit.

8.14.2.12 The inventory turnover ratio is an efficiency ratio that shows how effectively inventory is managed by comparing cost of goods sold with average inventory for a period. This measures how many times average inventory is "turned" or sold during a period. There is a decrease in average age of inventory which was Rs. 92.25 million in 2018-19 decreased to Rs. 83.57 million in 2019-20 with a decrease of 9.41%. Low inventory turnover would likely indicate weaker sales, excessive inventory (dead or obsolete), and some products cross their expiry.

8.14.2.13 Financial Ratio Analysis of utility Store Corporation shows that the inventory turnover ratio is between 3 to 4.5 times for the year 2017, 2018, 2019 and 2020 which is very low. This means that there is just 3 to 4.5 inventory turns per year due to poor inventory management control. Similarly, Inventory Age ratios for the Utility Stores Corporation are 85 days, 124 days, 92 days and 84 days for the financial years 2017, 2018, 2019 and 2020 respectively. This

indicates that Corporation sells its entire inventory within 84-days to 124-days period. It means for long time inventory is blocked instead of sale which is very high for such industry.

8.14.2.14 The average collection period is the average number of days required to collect receivable amounts from Debtors. Average collection period for the Utility Stores Corporation 182 days in the year 2020. It means 182 days are required to collect debt amount from debtor which needs justification.

8.14.2.15 Average Payment Period (APP) is a solvency ratio that measures the average number of days it takes a business to pay its vendors for purchases made on credit. Average payment period is the average amount of time it takes a company to pay off credit accounts payable. Average payment period for the Utility Stores Corporation is 403 days in the year 2020. It means after 403 days payable amount is paid to a vendor or creditor.

Activity ratios of the Utility Stores Corporation indicate that the corporation is not managing well its inventories, cash, receivables and payables.

8.14.2.16 The debt to total asset ratio is a ratio that measures the amount of total assets that are financed by creditors. Generally, a ratio of 40 percent or lower is considered a good debt ratio. A ratio above 60% is generally considered to be a poor ratio.

8.14.2.17 Debt to equity ratio for the Utility Stores Corporation is between 87% to 127% in the last four years. It means the major portion of the Assets is financed by Debt portion which seems that corporation is highly leveraged which may be putting themselves at risk of insolvency or bankruptcy.

8.14.2.18 The Chartered Accountants issued qualified opinion in their audit report for the year 2019-20 on the following basis:

- As per qualification of the Chartered Accountants, records for sales, inventories, salaries and benefits and other expenses are maintained at their regions, which are not integrated with the accounting system maintained at head office. Furthermore, the absence of proper inventory software system, tracking of quantitative data of goods sold is not maintained by USC which resulted in auditor's inability to obtain assurance on the completeness of item-wise sales.

- Finance Division through office memorandum F.15 (3) R-14/84 dated 16 October, 1984 has directed all autonomous / semi-autonomous bodies and corporations are under their administrative control, where the pension scheme does not exist that the payment of gratuity in addition to contributory provident fund should not be allowed to their employees on their departure for quitting the service. However, the company has accounted for provision of gratuity amounting to Rs. 1,017.628 million at the reporting date which is in contravention/violation of articles of association of the company and finance division's office memorandum, which need justification.
- The company's existing process relating fraud prevention, detection and response are not formally documented and standardized. In the absence of formalized system of fraud risk assessment, prevention, detection and response framework, it is not possible to evaluate the effectiveness of these processes and accordingly, auditors remained unable to evaluate financial impacts, if any, of ongoing investigations/inquiries and cases involving the company and its personnel on the financial statements.
- The company has recognized a balance payable to Trading Corporation of Pakistan (Private) Limited (TCP) amounting to Rs. 23,999.144 million. In response to the auditors, standard confirmation letter, TCP confirmed a balance receivable from the Company amounting to Rs. 53,526.987 million which comprises of principal amounting balance amounting to Rs. 24,335.261 million and accrued mark up on outstanding principal balance amounting to Rs. 29,191.726 million resulting in a difference of Rs. 29,527. 843 million between the balances as recognized by the Company and the amount confirmed directly by TCP. Furthermore, the Company has not provided to auditors reconciliation or supported documents in explanation of this difference. As a result, auditors were unable to determine whether any adjustment has been required in respect of recorded or unrecorded balances payable to TCP.
- It is emphasized on the matter regarding recoverable from store in charge amounting to Rs. 1,569.233 million including Rs. 382.305 million

relating to embezzlement of cash funds in Quetta region. The company has recorded provision amounting to Rs. 1,482.254 million on accounts of non-recovery of these balances.

- The company has advance income tax amounting to Rs. 2,753.455 million relating to tax years 2009 to 2016 in respect of amended assessment order which the company is contesting before different appellate forums. The recoverability of this amount is subject to pending court decision.
- It is also emphasized on the matter regarding Tax Refund due from the FBR against various demands of Sales Tax and Federal Excise Duty valuing Rs. 1,315.891 million relating to period from July 2011 to June 2016, which needs early recovery to reduce the financial crises of the corporation. The company is in appeal against these cases and the recoverability of the amount is subject to the pending court decision.

8.14.3 Compliance of PAC Directives:

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of Compliance
1990-91	03	02	01	250	67
1992-93	05	02	03	149,150,151	40
1994-95	08	05	03	156,157,160	63
1995-96	13	12	01	131	92
1997-98	02	01	01	214	50
1998-99	07	06	01	172	86
1999-00	04	01	03	251,252,253	25
2002-03	08	07	01	142.4	88
2005-06	05	04	01	147.3	80
2006-07	07	05	02	87.2, 87.4	71
2007-08	08	03	05	89.2, 89.3, 90, 91, 93	38
2008-09	06	04	02	116,118	67
2009-10	13	06	07	117.2, 117.4, 118, 119, 120, 122, 123	46
2010-11	16	07	09	11.6.2, 11.6.3, 11.6.4.1, 11.6.4.2, 11.6.4.3, 11.6.4.4, 11.6.4.6, 11.6.4.7, 11.6.4.8	44
2013-14	09	02	07	8.25.1, 8.25.2.1, 8.25.2.3, 8.25.2.4, 8.25.2.5, 8.25.2.6, 8.25.2.7, 8.25.2.8	22
2015-16	12	05	07	8.27.1, 8.27.2, 8.27.3, 8.27.4.1,	42

				8.27.4.3, 8.27.4.4, 8.27.4.7	
2019-20	23	04	19	7.24.2.1, 7.24.2.2, 7.24.2.3, 7.24.2.4, 7.24.2.6, 7.24.2.7, 7.24.2.8, 7.24.2.9, 7.24.3, 7.24.4.1, 7.24.4.2, 7.24.4.3, 7.24.4.4, 7.24.4.5, 7.24.4.6, 7.24.4.7, 7.24.4.8, 7.24.4.9, 7.24.4.11	17
Total	149	76	73		51

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

8.14.4 Audit Paras

8.14.4.1 Doubtful supply of ghee and oil - Rs. 10.246 million

As per clause 54 of Accounting Manual of Utility Store, the template of Stock Debit Note (SDN), at the time of delivery of Commodities from warehouse to stores, Name of Driver, Vehicle No. and Signatures of Driver/person (s) who delivered the commodities to stores was required to be mentioned at the face of SDN.

During the audit of USC Regional Office Islamabad, it was observed that 49,506 Kgs/Ltr of Oil and Ghee valuing Rs. 10,246,280 was delivered to 7 identified stores during the month of April, 2021. According to above referred template of SDN, Name of Driver, Vehicle No. and Signature of the persons who delivered the Commodities to Stores were to be mentioned but management supplied the above quantity of ghee /oil without mentioning required data at the face of template of SDN.

In the absence of above required information, Audit held supply of Ghee and Oil valuing Rs. 10.246 million as doubtful.

The DAC in its meeting held on 28th & 29th January, 2022 was apprised by the management that the case under reference pertains to the direct delivery at store by the vendor. Prior and during the Holy Month of Ramzan, Regional Manager requested the vendor to arrange direct supply at stores in order to ensure timely & un-interrupted supplies to avoid any shortage of subsidized and other essential stock at stores and due to non-availability of space at warehouses. The DAC directed the management to check due diligence, requirement and sale

analyses, prepare internal report of availability of stock available on the concerned stores and their consumption during Ramzan.

Audit recommends to implement the directives of the DAC.

Para-1 (USC) 2020-21

8.14.4.2 Un-authorized direct supply of ghee/oil to stores by the vendors - Rs. 55.008 million

According to Chapter -2, Para 2.02 (d) of Store Operations Manual of Utility Stores Corporation of Pakistan Limited 1982, stated that “on receipt of requisition, the Head Office is to consolidate and prepare the bulk purchase order which is to be supplied directly by the Manufacturer Supplier to the Warehouse”.

During the audit of USC Regional Office Islamabad, it was observed that the quantity of 293,854 kgs of ghee oil valuing Rs. 55.008 million was directly supplied to the stores by the vendors concerned. According to the above provisions, the entire quantity of ghee/oils was required to be delivered in the warehouse. After preparation of GRN (Goods Receipt Note), the same was to be supplied to the stores on demand basis. The details of stores along with quantity of ghee/oil directly supplied is given in Annex-48.

Audit is of the view that the documentation of the ghee was managed as evident from the record that the invoice of vendor, GRN, SDN and Store Receipt were found of the same date in most of the identical cases. Thus, direct supply of 293,854 Kgs ghee/oil valuing 55.008 million to the stores by the vendors was held irregular and unauthorized.

The DAC in its meeting held on 28th & 29th January, 2022 was apprised by the management that after preparation of GRN (Goods Receipt Note), the same was to be supplied to the stores on demand basis. The DAC directed the management to check due diligence, requirement and sale analyses, prepare internal report of availability of stock available on the concerned stores and their consumption during Ramzan. The stock position at the warehouses and approval of the competent authorities, due vigilance be got verified from Audit.

Audit recommends to implement the directives of the DAC.

Para-2 (USC) 2020-21

8.14.4.3 Expected black marketing of subsidized Ghee/Oil due to inter zones/region transfer – Rs. 115.035 million

As per Corporate Governance Rules 2013, the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage.

During audit of Utility Stores Corporation (USC) Islamabad for the period ending 30th June 2021, it was observed that Regional Managers of various regions purchased Ghee/Oil from IFFCO Oil Mills during January 2020 to May 2021 which were in excess of the requirement. Resultantly a quantity of 667,475 packets of 1 Kgs valuing Rs. 115.035 million were transferred to other Zones and Regions as given in the enclosed statement.

Audit is of the view that Government due to shifting and transfer of huge quantity of ghee/oil to the other zones/region, the chances of black marketing/suspicious sale in the open market could not be ruled out.

The DAC in its meeting held on 28th & 29th January, 2022 was apprised by the management that the sole reason of shifting was that during this period insufficient ghee was available at some of USC Regions and USC valued customers were seeking to buy subsidized ghee. In order to fill this gap, it was decided to shift the Hayat Ghee from Islamabad & Rawalpindi South Regions to stock deficient Regions at the risk & cost of the vendor. The DAC directed the management to analyses previous 03 year practice and due vigilance, link all relevant documents and get the facts verified from Audit.

Audit recommends to implement the directives of the DAC.

Para-3 (USC) 2020-21

8.14.4.4 Doubtful delivery of Atta by flour mills - Rs. 41.242 million

According to Clause-x of terms and condition for pre-qualification of flour mills for supply of Atta by flour mills to USC stores circulated vide USC Head Office letter No. 4092/MAR/W&WF/3458 dated 14.06.2019, flour mills were required to supply Atta only on receiving of in writing, demand of USC duly signed by concerned Regional Manager. No verbal/telephonic demand was to be entertained by flour mills. In case of failure of these conditions by pre-

qualified flour mills, the security money will immediately be forfeited and the defaulted flour mill was to be black listed temporary/permanent basis in all government departments.

During the audit of USC Islamabad for the period ending June, 2021, it was noticed that regional management of Islamabad issued demand/supply schedule to flour mills for supply of Atta to stores for the months of January to June 2020. Record showed that flour mills management failed to follow Atta supply schedule issued by the management and delivered 47,598 bags (20 kg per bag) valuing Rs. 38.078 million to those stores for which demand was not notified. Hence delivery of Atta without demand of USC is open to doubt.

Similarly, USC Regional Office Attock management fixed allocation of Atta to each store for Ramzan 2021 after the Government of Pakistan announced subsidy on Atta. However it was observed from the record that out of total 58 stores of Attock Region, the quantity of Atta issued to 6 stores was in excess by Rs. 3.164 million and in remaining 52 stores, the quantity of Atta supplied to these stores was less than their allocation.

Audit is of the view that delivery of Atta without demand and in excess of demand was violation of terms and condition of contract/tender documents. This state of affairs clearly showed that the delivery was made on the will and wish of the management of flour mills which tantamount to doubtful delivery of Atta worth Rs. 41.042 million.

The DAC in its meeting held on 28th & 29th January, 2022 was apprised by the management that the demand/supply schedule is prepared by the concerned Regional Manager and he is competent to amend the demand/ supply schedule at any time according to prevailing situation of stores/ location based on availability of stocks at Region. The DAC directed the management to provide detailed daily sale reports and due vigilance of all 58 stores to Audit for verification and kept the Para intact to be discussed in the next meeting.

Audit recommends to implement the directives of the DAC.

Para-4 (USC) 2020-21

8.14.4.5 Short supply of Atta bags from flour mills – Rs. 267.096 million
Non-forfeiture of security money and blacklisting of flour mills – Rs. 37.500 million

As per provisions of Contract Agreement signed between USC and Flour Mills, Flour Mills were bound to supply 80% Atta against quota of wheat lifted from PASSCO.

According to Clause-22 (III, IV & V) of the agreement executed between USC & Flour Mills, in case miller cause any loss to the wheat stocks because of misappropriation, theft, etc. he/ she will be liable to make good the entire loss at the value of wheat stock at the market rate. In such an eventuality with the permission of MD, USC ZM/ RM shall be at liberty to launch criminal and civil proceedings against the concerned miller for recovery of government dues. Clause 21(v) of the agreement provides that in case the miller fails or neglects to observe any of his obligations under the contract, it shall be lawful for the government/ agency to forfeit the security after granting opportunity to the miller and the mill can also be black listed if MD USC deems fit.

During audit of Utility Stores Corporation (USC) Islamabad for the year period ending June 30, 2021, it was observed that management entered into agreement with various flour mills and allocated 147,280.427 M. Tons wheat during January 2020 to June 2021. The flour mills were required to supply 5,886,097 bags of 20/Kg Atta to stores but they supplied 5,563,161 bags of 20/Kg Atta and remaining 323,365.4 bags of 20/Kg Atta valuing Rs. 267.096 million were not provided till the close of audit.

Furthermore, in various regions of USC Lahore Zone, Regional Managers were intimating the store wise allocation of Atta to above flour mills on hand written “kachi parchi”/ “Whatsapp” which was violation of the USC Head Office instructions for Atta allocation. Audit holds that security money of the flour mills valuing Rs.37.00 million was required to be forfeited as well as to blacklist the flour mills on accepting store wise Atta allocation on hand written “kachi parchi”/ “Whatsapp” during 2019-20 to 2020-21.

In Regional office, Sargodha, M/s Naseem & Co-Hayat Flour Mill did not lift the PASSCO wheat and supply of Atta on verbal and written request of USC

Regional management vide letter dated 25.03.2020 and later on Atta allocation quota has been cancelled vide letter dated 22.10.2020. Thus, security money of Rs. 500,000 of flour mill was required to be forfeited besides initiating the case for blacklisting against Flour Mill.

DAC in its meeting held on 28th & 29th January, 2022 was apprised by the management that at present, no balance of 20 kg bag of Atta is pending against allocated Wheat. During Ramzan and COVID pandemic situation/ transport restrictions, the supply/ availability of essential commodities was to be ensured as per direction of Prime Minister and accordingly stock was ensured with quickest available source of communication i.e. Whatsapp etc. Further, the earnest money deposited by M/s Hayat Flour Mill for Rs. 500,000 was withheld/ retained by USC and action as per rules against the flour mills for non-lifting of PASSCO wheat has been initiated. The DAC directed the management that Whatsapp record be regularized and get the facts verified from Audit.

Audit recommends to implement the directives of the DAC.

Para-5 (USC) 2020-21

8.14.4.6 Irregular purchase of Atta from flour mill without signing of agreement – Rs. 1.770 million

Irregular supply of Atta by flour mills – Rs. 2.698 million

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

During audit of Utility Stores Corporation (USC) Islamabad for the year ending June 30, 2021, it was observed that the management of Regional Office Lahore (North & South) purchased Atta valuing Rs. 1.770 million during Ramzan 2019 from M/s Ali Hajveri Flour Mills, Lahore without signing any agreement. Due to non-execution of agreement with flour mill, Thus, due to non-signing of agreement, the purchase of Atta of Rs. 1.770 million was held irregular.

Similarly, the said flour mill supplied 2,000 bags of 20 kg Atta to USC by grinding the market wheat rather the PASSCO wheat supplied by the USC. As per agreement, the flour mill was responsible to supply Atta by grinding the PASSCO wheat supplied by the USC which was not adhered to by mill. The management of the mill requested on May 15, 2021 to USC for payment against Atta of market wheat. In response, USC requested the mill management to explain the reasons for supply of Atta of market wheat but no response was received. Thus, due to non-compliance of agreement, the Atta valuing Rs.2.698 million (Rs. 1350 per 20kg bag x 2,000 bags) supplied by mill management was also held irregular.

The DAC in its meeting held on 28th & 29th January, 2022 was apprised by the management that agreement was signed after completing all formalities. It was further clarified that Atta was received prior to PASSCO wheat allocation to ensure availability of Atta and flour mill was paid less amount against extra cost of PASSCO wheat and USC has not suffered any loss. The DAC considered the stance of management unsatisfactory and directed the management to identify lapses, conduct inquiry within one month and report be shared with Audit.

Audit recommends to implement the directives of the DAC.

Para-6 (USC) 2020-21

8.14.4.7 Loss due to extending undue favor to flour mills by allowing each 5th bag of Atta in addition to other charges - Rs. 5,302.402 million

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

During audit of Utility Stores Corporation (USC), Islamabad for the period ending 30th June 2021, it was observed that the management entered into agreements with different flour mills for supply of Atta by grinding the wheat supplied by the PASSCO. It was noted that the management allowed each 5th bag of 20 kg of Atta to Flour Mills as a profit margin. Flour Mills were also allowed

to adjust by-products i.e. Maida, Suji and Bran by keeping 5th bag of Atta. The cost of by-products was more than the value of Atta. Moreover, all types of cost pertaining to Atta, i.e. wheat procurement cost, freight, loading/unloading, quality test checking cost, grinding charges, empty bag charges, supply charges of Atta to USC, milling staff charges, electricity charges, etc. were included in the payment for supply of 20 kg bags of Atta to USC. Thus, due to inclusion of all types of cost, the management should have allowed only a normal profit to Flour Mills by obtaining 5th bag of 20 kg Atta as well as by-product but the same was not done. This scenario indicated that undue favor was extended to flour mills. The management allocated 662,800,207 Kgs wheat to the flour mills, and Flour Mills delivered 530,240,166 kgs (i.e. 80% of wheat) of Atta by retaining 132,560,041 (20% of Wheat) i.e. 6,628,002 bags of 20 Kgs) which resulted into loss of Rs. 5,302,401,640 (i.e. 132,560,041 Kgs/20 Kg = 6,628,002 x Rs. 800 per bag) to the USC.

Audit is of the view that the USC was required to execute agreement by allowing normal profit to flour mills rather than permission to keep each 5th bag of 20 kg Atta which was held irregular and undue benefit to the respective flour mills.

The DAC in its meeting held on 28th & 29th January, 2022 was apprised by the management that each 5th bag of 20 kg of Atta to FMs was allowed to adjust by-products i.e. Maida, Suji and Bran by keeping 5th bag of Atta and all types of cost pertaining to Atta. The DAC directed the management to review and verify rates competency that who is the beneficiary of agreement, is it a good agreement, analyse the facts of agreement. DAC further directed the management to make detailed analysis about the viability of agreement within three months.

Audit recommends to implement the directives of the DAC.

Para-7 (USC) 2020-21

8.14.4.8 Expected black marketing/ suspicious sale of subsidized sugar due to inter region transfer/shifting – Rs. 66.049 million

According to Clause-5 (a) of Public Sector Companies (Corporate Governance) Rules, 2017, the Board shall establish a system of sound internal

control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety, objectivity, integrity and honesty and relationship with the stakeholders, in the following manner, namely:- (a) the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage. The principle shall be adhered to, especially with respect to the following, namely: - (i) handling of public funds, assets, resources and confidential information by directors, executives and employees; and (ii) claiming of expenses.

During audit of Utility Stores Corporation (USC) Regional Office, Islamabad for the period ending 30th June 2021, it was observed that Regional Manager Islamabad demanded/received Sugar during January 2020 to April 2021 in excess of the requirement. Resultantly a quantity of sugar valuing Rs. 66.049 million was transferred to other Regions.

Audit is of the view that Government announced subsidy on the sugar and due to shifting and transfer of huge quantity of sugar to the other regions, the chances of black marketing/Suspicious sale in the open market cannot be ruled out. Further the demand of the respective regions was also not made available to Audit. Extra expenditure on transportation was also borne by the Corporation which directly hit the profit and loss account.

The DAC in its meeting held on 28th & 29th January, 2022 was apprised by the management that excess stock of sugar was shifted within Zone's regions with the approval of Zonal Manager. The consignee region prepared SCN's duly signed and stamped by concerned Incharge Warehouse against consigner region SDN. Hence there is no expected black marketing as the said stock was delivered and received on proper documents as per proper procedure. The DAC directed the management to provide detailed daily sale reports and due vigilance of all stores to Audit for verification. DAC further directed the management to justify the transportation cost for inter-region transfer of Sugar.

Audit recommends to implement the directives of the DAC.

Para-8 (USC) 2020-21

8.14.4.9 Excessive issuance of sugar and ghee over and above the approved daily allocation to stores - Rs. 25.034 million

Utility Store Corporation (USC) Rawalpindi South Region fixed the revised daily allocation of Sugar, Ghee & Atta to stores for the month of Ramzan 2020 and 2021.

During the audit of USC, Islamabad it was observed that the management of USC RO Rawalpindi South issued 99,200 Kgs of sugar valuing Rs. 6.762 million and 70,272 Kgs Oil and Ghee valuing Rs. 11.940 million to 8 stores and Franchise store over and above their approved daily allocation.

On scrutiny of the Inventory Control Ledger (ICL) it was noticed that 56.400 M.ton of Sugar was issued in four days w.e.f. 20.05.2020 to 23.05.2020 to store at Muslim Town Rawalpindi. Audit observed that the said store with a maximum storing capacity of 6 M.ton at a time has received 56.400 M.ton of Sugar. The storing of such huge quantity in the said store is beyond the comprehension.

Furthermore, the average total daily sales of the store was Rs. 1,000,000. Whereas, on 23.05.2020 abnormal sales of Rs. 5,500,048 were noticed. The same behavior was also observed in other stores. Moreover, no daily quota was approved for Franchise Stores. However, it was noticed that huge quantity 70 M.ton of subsidized Ghee was issued to a Franchise Chadian Stop Khan Market, Rawalpindi.

Similarly it was observed that USC Regional Office Attock fixed allocation of Atta, Ghee and Sugar to each store for Ramzan 2021 after the Government of Pakistan announced subsidy on these items. It was observed from record that in 2 stores out of 58, Sugar was supplied in excess of their allocation whereas in remaining 56 stores, total allocation fixed for these stores was not provided.

Detail is given hereunder:

Sr.#	Commodity	Store Code	Total monthly allocation Bags (Nos.)	Issued Bags (Nos.)	Excess Bags (Nos)	Value of Excess Rs.
1.	Sugar	3039	30 x 30 = 900	1163	263 x 40 x 68	715,360
2.	-do-	3037	25 x 30 = 750	793	43 x 40 x 68	116,960

						832,320

The issuance of store over and above the approved daily limit of the stores is held irregular, which needs justification.

Management in its reply dated 21.01.2022 stated that the supply was made to stores due to pressure of customers increased at the store outlets due to COVID-19 situation and to ensure availability to the main store.

The DAC in its meeting held on 28th & 29th January, 2022 considered the stance of management unsatisfactory and directed to conduct inquiry within one month and report be shared with Audit.

Audit recommends to implement the directives of the DAC.

Para-9 (USC) 2020-21

8.14.4.10 Irregular grant of franchise license to various parties without insurance of stocks – Rs. 418.791 million

Non-termination of franchise license on purchase of stocks less than Rs. 300,000 per month – Rs. 84. 938 million

According to the Clause-2.17 of the agreement Franchise Utility Stores Scheme dated: August 25, 2020, the franchise will arrange appropriate finances to ensure smooth operating of Franchise Store. Franchise will be terminated if it does not purchase USC stock worth Rs. 300,000 in a month.

During audit of USC, Islamabad for the period ending 30th June 2021, it was observed that the management awarded 66 licenses to the franchise owners in Islamabad Region who purchased stocks valuing Rs. 418.791 million from USC Islamabad Region during the period 2018-19 to 2020-21 as detailed below:

S. #	Name of Region	No. of Franchise Stores	Total Sale (Rs.)	Period
01	Islamabad	34	333,852,575	2020-21
02	Lahore North	14	25,358,954	2019-21
03	Lahore South	18	59,579,520	2019-21
Total:-		66	418,791,049	

It is also to be added that the management awarded license to following franchise owners which purchased stocks of Rs. 84.938 million without observing the criteria of purchase as detailed below:

S. #	Name of Region	No. of Franchise Stores	Total Sale (Rs.)	Period
02	Lahore North	14	25,358,954	2019-21
03	Lahore South	18	59,579,520	2019-21
Total:-			84,938,474	

Furthermore Franchise Store No: 4002, 4004, 4039, 4041, 4047, 4090, 4100 and 4101 of Lahore North and stores No: 5029, 5030, 5036, 5065 and 5066 of Lahore South Region had very meager business during 2018-19 to 2020-21. Their contracts were required to be terminated as per terms and conditions of the respective agreement but same was not done. This resulted into irregular operation of above Franchise Utility Stores having business of Rs. 84.938 million.

Audit is of the view that the management was required to get insurance coverage from the owners of the franchise according to the terms and conditions of the agreement but no insurance was arranged. Further the licenses of the above mentioned stores who did not sale out the stock as per agreement may be cancelled.

The DAC in its meeting held on 28th & 29th January, 2022 was apprised by the management that in the Franchise Agreement the Franchisee will be responsible for getting his stocks insured, and USC will not be responsible for any lapse in this regard. So that Franchisee may not raise any claim regarding insurance of his stocks upon USC. However, it has not mentioned in agreement that due to non-insurance of stock by Franchisee his license will be cancelled. However, due to this lapse on the part of Franchisee, directions has been issued to them for getting their stock insured vide letter dated 19th January 2022. During the period from 2018-19 and 2020 due to acute deficiency of stock at USC Warehouses, Franchisees were not able to purchase sufficient stock as per their demand. Therefore, Franchisees are not at fault for the less purchases during above period. Since the availability of stock has improved and the Franchisees are getting maximum stocks. The DAC directed the management to review the Franchise Debtors and Creditors and get the facts verified from Audit

Audit recommends to implement the directives of the DAC.

Para-12 (USC) 2020-21

8.14.4.11 Unjustified return of Atta and sugar from various stores of RM Lahore South – Rs. 15.270 million

According to clause a, n & v of the USC Head Office letter No: 4092/MAR/W&WF/3074 dated: May 18, 2017, allocation of Atta to stores will be made according to demand/ population by concerned Zonal Manager/Regional Manager.

During audit of Utility Stores Corporation (USC) Islamabad for the period ending June 30, 2021, it was observed that the management of Regional Office South Lahore failed to properly assess the requirement of Atta and sugar of the stores under their jurisdiction and large quantity of Atta and sugar valuing Rs. 15.270 million were returned by the respective stores during August 2020 to May 2021 which was held irregular.

Furthermore, certain quantity of sugar was received from other regions without any cogent reasons which showed poor planning on the part of head office management who failed to assess the actual requirement of sugar in other regions and same was transferred to Lahore South which was also held irregular.

Audit is of the view that Atta and sugar are high saleable items and return of these items from stores and franchise stores was failure of the regional management. The regional management was required to make proper assessment of the actual requirement of Atta and sugar of the stores of Lahore South Region and make adequate allocation of Atta and sugar but incorrect assessment was made which resulted into return of Atta and sugar from stores either due to poor quality or due to bad planning.

In the DAC meeting held on 28th & 29th January, 2022 the management explained that the objected amount is hardly 0.4% of the total sales made during the said period which is the part of business. The DAC directed the management to get the facts verified from Audit under the policy on the subject.

Audit recommends to implement the directives of the DAC.

Para-13 (USC) 2020-21

8.14.4.12 Loss due to poor execution of lease agreement - Rs. 17.728 million

As per Clause (h) of lease agreement between Utility Stores Corporation of Pakistan and Institute of Computer and Management Sciences (ICMS) Peshawar dated 31stDecember 2004, “the monthly rent of the building will be 2.50 lacs, 50% of which will be adjusted towards ICMS investment and remaining 50% will be paid by ICMS to the USC in advance by the 10th of every month. The monthly rent will be increased @ 25% after every three years. After full adjustment of the ICMS investment worth Rs. 5.00 million, ICMS will pay full rent to the USC in advance by the 10th of each month”. Furthermore, clause (n) states that “security shall be Rs. 1.00 million with the USC which shall be retained by USC from the investment being made by ICMS, till the expiry of agreement.”

During the audit of Utility Stores Corporation Islamabad for the period ending June, 30 2021 it was observed that the management of USC Peshawar Zone rented out its property consisting of four floors i.e. basement , ground, first and second floor, each having 20,315 ft. covered areas with a total covered area of 81,260 square foot located at plot No. 39 B-2 phase 5 Hayatabad Peshawar to the Institute of Computer and Management Sciences (ICMS) Peshawar at a monthly rent of Rs. 250,000 per month vide lease agreement dated 31stDecember 2004 for a period of 10 years.

It was observed that the lessee failed to pay the agreed rent since April 2008. The lease agreement expired on 2014, however, the lessee continued the possession of building till October 2018 without any extension in lease agreement. Finally, the building was vacated through Civil Court’s order dated September 9th 2018. However, management failed to recover the outstanding rent from the defaulter lessee since 2008 worth Rs. 17.729 million till date. Moreover, the management also failed to obtain the security Rs. 1 million as per terms and conditions of the lease agreement.

Audit is of the view that the management failed to execute the lease agreement as per agreed terms and conditions with the lessee. Resultantly the organization sustained huge loss of Rs. 17.728 million on account of rent of building.

The DAC in its meeting held on 28th & 29th January, 2022 was apprised by the management that the matter is sub-judice. The DAC showed its displeasure on non-serious follow-up of court cases and directed the management to follow-up the cases vigorously and monthly report in this regard be shared with Audit and Ministry.

Audit recommends to implement the directives of the DAC.

Para-14 (USC) 2020-21

Chapter-9

Ministry of Information Technology and Telecommunication

Overview

The Ministry of Information Technology and Telecommunication (MoITT) is the national focal Ministry and an enabling arm of the Government of Pakistan for planning, coordinating and directing efforts to initiate and launch Information Technology and Telecommunication programs and projects aimed at economic development of the country.

Aims & Objectives

The following are the functions of the Ministry of Information Technology and Telecommunications:

- Preparation of an overall integrated plan as well as the formulation of policy for the development and improvement of Information Technology and Telecommunications, including related infrastructure, in Pakistan.
- Co-ordination with the Provincial Governments, autonomous bodies, private sector, international organizations and foreign countries in respect to Information Technology and Telecommunications.
- Human resource development in the field of information technology and telecommunications.
- Promotion of information technology applications.
- Providing guidelines for the standardization of software for use within the Government.
- Planning, policy-making and legislation covering all aspects of telecommunication excluding radio and television and issuance of policy directives.
- Matters relating to the National Information Technology Board and Pakistan Software Export Board.
- All matters relating to National Telecommunication Corporation (NTC), Telecommunications Foundation (TF), Special Communications

Organization (SCO), Virtual University (V.U) and Electronic Certification Accreditation Council.

- The administration of the Prevention of Electronic Crimes Ordinance 2007 and the rules made there under.
- Safeguard the interest of Government of Pakistan in entities having public shares or government equity-like PTCL, USF Co. & Information and Communication Technology R&D Co.

Governing Laws and Policies

- The Prevention of Electronic Crime Act, 2016
- Pakistan Telecommunication (Re-Organization) Act, 1996
- ETO Act
- Telegraph Act 1885
- Wireless Act
- SF Rules, 2006
- R&D Fund Rules, 2006
- Rule of Business 1973

Audit Profile of Ministry of Information Technology & Telecommunication

(Rs. in million)					
S. No.	Description	Total	Audited	Expenditure audited FY 2020-21	Revenue /Receipts audited FY 2020-21
1	Formations	1	1	406.708	167.967
2	Assignment Accounts (excluding FAP)				-
3	Authorities /Autonomous Bodies etc. under the PAO	1	1	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations amounting to Rs. 1,266.400* million were raised as a result of this audit. This amount also includes recoverable of Rs. 129.906 million as pointed out by the audit. Summary of the audit observation classified by nature is as under:

Overview of the Audit Observations

Sr. No.	Classification	Amount (Rs. in million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities:	
A	HR/Employees related irregularities	-
B	Procurement related irregularities	1,266.400
C	Management of accounts with Commercial Banks	-
4	Value for money and services delivery issues	-
5	Others	-

* Expenditure pertaining to previous years are included

9.1 Pakistan Software Export Board (Guarantee) Limited

9.1.1 Introduction

Pakistan Software Export Board (Guarantee) Limited was founded in Pakistan under the Companies Ordinance, 1984 on June 13, 1998, as a company limited by guarantee. It is an apex Government body mandated to promote Pakistan's IT Industry in local and international markets. PSEB facilitates the IT industry through a series of projects and programs in infrastructure development, human capital development, company capability development, international marketing, strategy and research, and the promotion of innovation and technologies to deliver high value-added services and enhance IT and IT-enabled services export from Pakistan. The registered office of the Company is situated at 2nd floor, Evacuee Trust Complex, Sector F-5/1 Islamabad. The company is wholly owned and controlled by the Federal Government through the Ministry of Information Technology.

9.1.2 Comments on Audited accounts

9.1.2.1 The working results of the Board for the year 2020-21 as compared to previous years are as under:

(Rs. in million)							
	2020-21	% Inc / (Dec)	2019-20	% Inc / (Dec)	2018-19	% Inc / (Dec)	2017-18
Amortization of deferred grants	113.712	326.37	26.67	(72.91)	98.44	(48.07)	189.56
Federal Govt. grant	126.991	19.60	106.18	8.35	97.97	(0.84)	98.825
Amortization of deferred grant in-kind	31.859	8.59	29.34	5.40	27.83	52.08	18.3
Revenue from bandwidth and related services	63.865	1.74	62.77	(2.64)	64.47	23.88	52.043
Registration and renewal fee	72.806	39.82	52.07	10.79	47.00	53.11	30.696
Other income	22.960	(9.21)	25.29	40.22	18.04	77.01	10.19
Total income	432.195	42.96	302.31	(14.55)	353.77	(11.47)	399.61
Expenditure:							
Project Cost-Deferred grant related to projects	113.712	326.43	26.666	(72.91)	98.44	(48.07)	189.56
Salaries allowances and benefits	122.740	7.17	114.524	13.25	101.13	12.32	90.035
Data node bandwidth & related charges	30.307	(3.97)	31.561	15.43	27.34	24.11	22.03
Rent, rates and Taxes	15.010	8.98	13.773	(9.36)	15.19	46.27	10.39
Repair & Maintenance	5.556	66.00	3.347	16.38	2.88	8.20	2.66
Others Expenses	78.074	58.67	49.206	(12.65)	56.33	13.37	49.69
Total expenditures	365.399	52.84	239.077	(20.65)	301.31	(17.30)	364.36
Surplus Before Taxation	66.795		63.235	20.54	52.46	48.81	35.25
Taxation	12.833	33.25	9.631	66.63	5.78	(35.97)	9.03
Surplus After Taxation	53.962	5.630	53.604	14.84	46.68	77.99	26.23

Source: Annual Audited Accounts

The total income of the board increased to Rs. 432.195 million during the year 2020-21 as compared to Rs. 302.31 million during the year 2019-20, registering 42.96% increase over the year but the increase is due to amortization of deferred grants during the year. The management needs to increase the revenue from their core activities.

9.1.2.2 Funds of Rs. 158.547 million have been kept in saving accounts in private banks i.e. Bank Alfalah Limited and Habib Bank Limited at interest rate

of 5.5% during the year under review. Keeping of huge funds in saving accounts in private banks needs to be explained.

9.1.2.3 Accrued liabilities as on June 30th 2021 stood Rs. 8.757 million against Rs. 7.223 million in the year 2019-20. Detailed break up of accrued along with its current status may be provided.

9.1.2.4 Grant received in kind received during the year Rs. 14.251 million. Detailed break up of assets received along with cost and their physical location may be provided to audit.

9.1.3 Compliance of PAC Directives

Sr. No.	Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
1	2004-05	01	0	01	82	-
2	2005-06	02	01	01	159	50
3	2008-09	04	03	01	147	75
4	2010-11	17	12	05	13.1.4.3, 13.1.4.5, 13.1.4.8, 13.1.4.9, 13.1.4.10,	71
5	2011-12	03	0	03	11.1.2.1, 11.1.3, 11.1.4.1	0
6	2012-13	03	0	03	11.1.2.1, 11.1.3, 11.1.4.1	0
7	2013-14	03	0	03	10.1.2.1, 10.1.3, 10.1.4.1	0
8	2014-15	09	0	09	11.1.2.1, 11.1.2.2, 11.1.2.3, 11.1.2.4, 11.1.2.5, 11.1.2.6, 11.1.2.7, 11.1.2.8, 11.1.3	0
9	2015-16	07	0	07	10.1.2.1, 10.1.2.2, 10.1.2.3, 10.1.2.4, 10.1.2.5, 10.1.2.6, 10.1.3	0
10	2016-17	04	0	04	9.1.2, 9.1.3, 9.1.4.1, 9.1.4.2	0
11	2017-18	07	0	07	12.1.2.1, 12.1.2.2, 12.1.2.3, 12.1.2.4, 12.1.2.5, 12.1.2.6, 12.1.3	0
Total		60	16	44		27

Overall compliance with the PAC directives was very poor which requires immediate attention of PAO.

9.1.4 Audit Paras

9.1.4.1 Irregular award/ execution of contract - Rs. 550.576 million

Loss due to certification of trainee at cost of PSEB and non-recovery of mobilization advance - Rs. 76.296 million

According to para-8.2 (Care & Diligence in the training) of the contract signed between Pakistan Software Export Board (PSEB) and Information Technology Training Companies, “the party B shall exercise care and diligence expected from a company of its category in the provision of the Training to the satisfaction of party A shall meet and deliver the performance of related activities as specified in this contract.”

Moreover, according to para-8.3 (c) of the contract, “the party B shall ensure that all the trainee who complete the training program may appear for the certification exam.”

During the audit of Pakistan Software Export Board (PSEB) for the year 2020-21 it was observed that DDWP in their meeting held on October 15th 2019 approved development Project “Certifications of IT Professionals at cost of Rs. 901.250 million. The completion period of the Project was three years from the date of administrative approval dated December 18th 2019.

The management of PSEB awarded contracts for provision of training and arrangement of examination to six companies to deliver training in 32 courses to 6000 ICT Graduates and Professionals working in ICT industry and Public Sector under Phase –I of the Project. Detail is given below:

S #	Company Name	No. of course awarded	No. of trainees allocated	Total Training and Certification cost	Rs. in million	
					Value of 1 st Work Order	Mobilization Advance 20% of value of 1 st Work Order
1	Phalia International	14	2500	233.746	141.642	24.500
2	New Horizon & Stepnex Services Pvt. Ltd.	6	600	122.512	122.512	24.502
3	Corvit Networks Pvt. Ltd	5	2100	79.349	64.849	12.969
4	Dice Analytics & 360 Technologies	3	300	22.714	22.714	0
5	Global Knowledge and Sigma Ent.	1	200	54.945	54.945	10.989
6	Minhaj University & Badar Expo	3	300	37.309	16.039	0
	Total	32	6000	550.576	422.701	72.960

The following irregularities were observed during award of contract:

- It was observed that 200 marks were allocated for infrastructure in technical evaluation of training firms as per bidding documents. The technical evaluation was carried out on the basis documents only without physical inspection of infrastructure of those trainings firms.
- No performance guarantee was obtained from those training firms.
- Mobilization advance of Rs. 72.960 million was granted to those firms against insurance guarantee
- As per agreement, the companies failed to collect share of training cost in advance from each trainee.
- The management cancelled the contracts with all those firms but management failed to recover the mobilization advance Rs. 49.002 million.
- As per agreement, the firms have to train 6,000 trainee but they failed and trained only 1,704 candidates.
- The certification exam of trainees was not conducted as per agreement and the management awarded contract to M/s Creative Era for certification exam at the cost of Rs. 27.294 million.

Hence, total loss of PSEB is Rs. 76.296 million (Mobilization advance Rs. 49.002 million of the defaulted firms + Cost of Certification exam of trainee Rs. 27.294 million).

The matter was reported to the management but no reply was received.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter and fix responsibility thereof and recover the loss from the defaulting companies as per terms and condition of contracts.

Para-1 (PSEB), 2020-21

9.1.4.2 Irregular execution of CMMI training in deviation of approved PC-I – Rs. 329.673 million

Non-recovery of mobilization advance – Rs. 53.610 million

According to approved PC-I of the Project “Certification of IT Professionals” CMMI Trainings would be provided to the original training providers only. CMMI training, Consultancies/ appraisal would be allocated on turn-key basis to the original training provider”

Furthermore, 40 participants will be selected from IT Industry and IT Organizations/ Departments of Public Sector at the ratio of 50%. The participants from the IT shall pay 50% of the course fee and other related expenses in advance to PSEB. Whereas, remaining 50% would be paid through this project.

During the audit of Pakistan Software Export Board for the year 2020-21 it was observed that DDWP in the meeting held on October 15th 2019 approved development Project “Certifications of IT Professionals” at cost of Rs. 901.250 million. The completion period of the Project was three years from the date of administrative approval dated December 18th 2019.

It was observed that management of PSEB awarded work order to M/s Capital Technologies Pvt. Ltd for CMMI Trainings to PSEB selected participants on February 10th 2020 at cost of Rs. 329.673 million.

However, it was observed that in deviation of the approved PC-I the training was provided to 21 participants of Public Sector 03 participants from the private sector.

The following major deviation from approved PC-I was observed.

- The participants of CMMI training were selected by training firm himself instead of PSEB as per approved PC-I.
- The training carried out in deviation to approved PC-I because the firm could not receive an amount of Rs. 52.725 million from the private sector participants.
- The total amount of mobilization advance of Rs. 53.610 million was paid to the company on entire component despite the fact that second component was to be started on completion of first component.

The matter was reported to the management but no reply was received.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter and fix responsibility thereof.

Para-2 (PSEB), 2020-21

9.1.4.3 Irregular payment of mobilization advance to the Information Technology Companies - Rs. 187.460 million

According to standard conditions of contract of Pakistan Engineering Council, “An interest free Mobilization advance up to 15% of the contract price shall be paid by the employer to the contractor upon submission of guarantee /bond for the full amount of advance in specified form from scheduled bank in Pakistan.”

Furthermore, according to Rule-25 of Public Procurement Rules-2014, a procuring agency shall formulate precise and un-ambiguous bidding documents that shall be made available to the bidders immediately upon publication of invitation to bid.”

During the audit of Pakistan Software Export Board (PSEB) for the year 2020-21, it was observed that in deviation of the above instructions the management of PSEB paid mobilization advance of Rs. 187.460 million during the above period to various Information Technology Training and Appraisal firms from 20% to 70% of the contract price in different development projects.

Audit observed that the payment of mobilization advance was included at the time of execution of contract whereas there has been no clause of mobilization advance in Expression of Interest (EOI) advertisement.

The matter was reported to the management but no reply was received.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter and fix responsibility thereof.

Para-3 (PSEB), 2020-21

9.1.4.4 Irregular expenditure due to selection of IT Companies in non-transparent method in deviation of approved PC-I – Rs. 68.785 million

According to para-6 (4) Selection Criteria for IT Companies of the approved PC-I of development project “Enhancing IT Export through Industry Support” the selection criteria for Information Technology (IT) companies for CMMI level 2, 3 & 5 consultancy and appraisal “the IT companies will be invited to submit their expression of interest through national tendering. Selection IT company will be made for each level on the basis of evaluation of technical committee according to the criteria as per approved PC-I.”

During the audit of Pakistan Export Board for the year 2020-21 it was observed that development project “Enhancing IT Export Through Support Programs” was approved by the Central Development Working Party (CDWP) in their meeting held on 11.02.2016 at cost of Rs. 259.600 million. The duration of the project was five year from the date of administrative approval i.e. April 28th 2016.

However, it was observed that in deviation to the criteria as per approved PC-I, the management selected ten (10) IT companies for CMMI Level-2 consultancy and appraisal on pick and choose basis. The following major lapses were observed.

- The selection of IT companies was not as per approved PC-I rather than it was on pick and choose basis.
- Appraisal contract of Stepnex Service Pvt. Ltd was awarded to M/s Quality Assurance Institute despite the fact that company was not

included the list of consultancy contract awarded to M/s Catalytic Consultant.

- The 18 companies could not acquire CMMI Level 3 as they have acquired the CMMI Level 2 in the previous program.
- IT Company for CMMI Level- 3 & 5 was selected against the approve PC-I because they have not acquired CMMI Level 2
- The record regarding advance receipts of cost of consultancy and appraisal of selected IT companies was not available.

The expenditure incurred on consultancy and appraisal of CMMI Level-2, 3, & 5 worth Rs. 68.785 million was held irregular due to non-transparent selection of IT companies.

The matter was reported to the management but no reply was received.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter and fix responsibility thereof.

Para-4 (PSEB), 2020-21

Chapter-10

Ministry of Information, Broadcasting and National History & Literary, Heritage Division

Overview

The Ministry is responsible to release the Government information, media galleries, public domain and government unclassified non-scientific data to the public and international communities. The MoIB has jurisdiction for administering the rules and regulations and laws relating to information, broadcasting and the press media in Pakistan.

Aims & Objectives

The goal of MIBS is “to achieve country wide media coverage for a well-informed public”

The specific objectives are:

- To provide legal and policy framework in order to guide the operations of the media industry
- To coordinate the provision of government information to the public in order to ensure consistency and portray a positive image of government
- To interpret Government policy to the public in order to solicit their support and participation in national programmes
- To provide timely news and information to the public
- To improve the capacity of the public media in order to attain countrywide coverage
- To conduct research in media and national topical issues in order to improve the quality of media products, measure public response and influence government policy
- To facilitate the protection of copyright and related rights in order to reduce piracy and unfair exploitation of intellectual property
- To develop and manage human resources in order to enhance the performance of the ministry

- To provide effective financial management services and oversight in order to ensure accountability and transparency
- To provide administrative and logistical support services for efficient operations of the Ministry
- To establish and maintain an information management system in order to improve accessibility to information for speedy and informed decision making
- To plan, coordinate, monitor and evaluate the implementation of ministerial policies, legal framework, projects and programmes in order to ensure their effective implementation and compliance

Governing Laws and Policies

- Rule of Business 1973
- Information Policy of the Federal Government
- Copy right Act.

Sectoral Analysis

Pakistan Television Corporation (PTV) is the Pakistan's state-owned television broadcaster, founded on 26 November 1964. Pakistan entered into Television Broadcasting age with a small pilot TV Station established at Lahore from where transmission was first beamed in Black & White with effect from 26 November 1964. Television centers were established in Karachi and Islamabad in 1967 and in Peshawar and Quetta in 1974. The National Broadcaster has flourished since then, and today has PTV-Centers in Islamabad, Lahore, Karachi, Peshawar, Quetta, Muzaffarabad, AJK and Multan. Being the largest Television Network, PTV is serving about 92% of the population of Pakistan and having largest terrestrial infrastructure of the country. The bouquet of PTV Network consists of nine TV Channels i.e. PTV Home, PTV News, PTV World, PTV Sports, PTV Global, PTV Bolan, PTV National, PTV Parliament and AJK TV. While introducing the sophisticated branch of the electronic media in the country, the broader perspective kept in mind was to inform and educate the people through wholesome entertainment and to inculcate in them a greater awareness of their own history, heritage, current problems and development as well as knowledge of the world at large.

Pakistan Television Corporation is the biggest media organization of Pakistan. It is an autonomous public sector organization. The main responsibility of PTV is to provide public service broadcasting not only within Pakistan but also outside Pakistan. It makes programmes for its viewers in different genres i.e. drama, documentaries, current affairs, entertainment and sports. Its programmes are produced in Urdu as well as in all regional languages i.e. Sindhi, Punjabi, Pashto and Balochi. While producing its programmes, it pays due attention to the interest and aspirations of all strata of society and tries to reflect those effectively in its programmes.

Audit Profile of Ministry of Information, Broadcasting and National History & Literary, Heritage Division

(Rs. in million)

S. No.	Description	Total	Audited	Expenditure audited FY 2020-21	Revenue /Receipts audited FY 2020-21
1	Formations	4	1	10,627.759	5,154
2	Assignment Accounts (excluding FAP)				-
3	Authorities /Autonomous Bodies etc. under the PAO	1	1	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations amounting to Rs. 25,210.511* million were raised as a result of this audit. This amount also includes recoverable of Rs. 206.394 million as pointed out by the audit. Summary of the audit observation classified by nature is as under:

Overview of the Audit Observations

Sr. No.	Classification	Amount (Rs. in million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities:	-
A	HR/Employees related irregularities	630.179
B	Procurement related irregularities	433.478
C	Management of accounts with Commercial Banks	5,587.636
4	Value for money and services delivery issues	-
5	Others	18,559.218

* Expenditure pertaining to previous years are included

10.1 Pakistan Broadcasting Corporation Limited

10.1.1 Introduction

Pakistan Broadcasting Corporation (PBC) was incorporated under the Pakistan Broadcasting Corporation Act, 1973 effective from 20th December, 1972. PBC has its own Board of Directors constituted under the provision of above act and being managed through Ministry of Information & Broadcasting and National Heritage.

The core operational activities of the PBC are to provide broadcasting services for general reception in all parts of Pakistan and the territorial waters thereof and on board ships and aircrafts (home services) and in other countries and places (External Services) for the purpose of disseminating information, education and entertainment through programme which maintain a proper balance in their subject matter and a high general standard of quality and morality.

10.1.2 Comments on Audited Accounts

10.1.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts of the organization for the year 2019-20 and 2020-21 till December 31, 2021.

Audit recommends that the annual audited accounts for the years 2019-20 and 2020-21 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

10.1.2.2 Working results of the Foundation for the year 2018-19 as compared with previous years are as under:-

(Rs. in millions)					
	2018-19	% Inc/(Dec)	2017-18	% Inc/(Dec)	2016-17
Advertisement Income	250.454	(23.76)	328.510	(7.42)	354.841
Cost of Services	3,623.881	5.86	3,423.159	7.43	3,186.328
Gross Loss	3,373.427	9.01	3,094.650	9.29	2,831.487
Selling, general and administrative expenses	2,258.974	10.13	2,051.181	11.56	1,838.575
Loss before tax	5,632.401	9.46	5,145.830	10.19	4,670.063
Subsidy from Government of Pakistan	5,249.768	20.85	4,344.171	9.01	3,985.000
Other Income	159.796	343.72	36.013	(14.51)	42.127
Loss before taxation	222.837	(70.90)	765.646	19.09	642.935
Provision for taxation	5.795	(34.96)	8.910	9.39	8.145
Loss after taxation	228.632	(70.48)	774.554	18.96	651.080

(Source: Annual audited accounts)

The advertisement Income was decreased from Rs. 328.510 million during 2017-18 to Rs. 250.454 million during 2018-19 registering a decrease of 23.76%. The advertisement income should be the major source of income due to media based organization. The decrease in advertisement income needs to be explained.

10.1.2.3 Under head Selling, General and Administration Expenses, the subscription and membership expenses increased abnormally i.e. from Rs. 0.130 million during 2017-18 to Rs. 76.182 million during 2018-19 for which no detail was provide in the accounts. The reason for abnormal increase in these expenses needs to be justified.

10.1.2.4 Under head Selling, General and Administration Expenses, the interest on CDL (Cash Development Loan) was Rs. 35.811 million during 2018-19 as compared to “Nil” amount during 2017-18. The said interest was paid against development loan which was also increased from Rs. 2,867.586 million during 2017-18 to Rs. 2,936.492 million during 2018-19. The utilization of said loan along with plan for repayment of loan to avoid undue interest cost needs to be explained. The reasons for payment of interest during 2018-19 also needs to be explained as no interest was paid during previous years.

10.1.2.5 The subsidy received from Government of Pakistan increased from Rs. 4,344.171 million during 2017-18 to Rs. 5,249.768 million during 2018-19

registering an increase of 20.85%. The increase in said subsidy indicates that the PBC is relying only on Govt. funding rather than making efforts for generation of revenue by utilizing its own resources. This also indicates that the financial viability of the Corporation is very remote. The efforts made by the Corporation for generation of revenue by utilizing its own resources need to be explained.

10.1.2.6 The capital work in progress decreased from Rs. 549.846 million during 2017-18 to Rs. 538.423 million during 2018-19 registering a decrease of 2.07% only. The management succeeded to complete and capitalized the work in progress valuing Rs. 18.925 million during 2018-19 whereas, additional work valuing

Rs. 7.502 million was included in capital work in progress. This scenario indicates the pace of the management towards early completion of works was very slow. Thus, the reasons for delay in completion of works need to be explained.

10.1.2.7 The external auditors raised qualification pertains to non-compliance of IAS-19 “employee’s benefits” as the said standard has not been adopted by the Corporation. Consequently, Corporation has not carried out actuarial valuation of staff gratuity amounting to Rs. 24,787.133 million as required under the aforesaid IAS. In the absence of related information, Auditors were not able to determine the impact of such valuation on these financial statements. The qualification raised by the external auditors also needs to be resolved.

10.1.2.8 The PBC has invested in Shalimar Recording Company by issuing 1,080,000 shares including 990,000 bonus shares since long. The actual investment was Rs. 900,000 against 90,000 shares of Rs. 10 each. However, the Shalimar Recording Company did not pay a single rupee to PBC against dividend on account of return on their investment. The PBC should take up the matter with Shalimar Recording Corporation for receipt of the same and in case of no return, the investment should be taken back. The external auditors also raised qualification that the said investment is stated at cost in non-compliance with IAS-28 which requires to value this investment using the equity method of accounting. The qualification raised by the external auditor also needs to be resolved.

10.1.2.9 Non-current assets classified as Held for Sale valuing Rs. 22.553 million was stood same in balance sheet since 2016-17 onward. These assets pertain to flats constructed at Karachi. The reasons for non-sale of these flats despite passing of more than three years needs to be justified. The external auditor also raised qualification that the building cannot be classified as non-current assets held for sale as per requirement of IFRS-5. Therefore, the accounting and presentation of these assets are not accordance of International Financial Reporting Standards (IFRS). The qualification raised by the external auditor also needs to be resolved.

10.1.2.10 Stores and Spares were of Rs. 123.719 million during 2018-19. The management created provision for obsolete and slow moving stores and spares valuing Rs. 65.353 million resulted net Stores and Spares valuing Rs. 58.367 million during 2018-19. The huge provision against Stores and Spares indicates that these items were procured without any planning resulted into loss to the Corporation due to non-utilization of these spares which needs to be explained. The external auditor also raised qualification that this provision is based on exercise carried out in June, 2006. In absence of such assessment in current and prior years, the auditors were unable to determine whether any adjustments to these amounts were necessary. The qualification raised by the external auditor also needs to be resolved.

10.1.2.11 The provision valuing Rs. 51.498 million against Debtors considered doubtful was made by the Corporation. The huge provision indicates that the management was not making any efforts for receipt of debtors due to which Corporation sustained loss. The reasons for creation of huge provision against doubtful debts needs to be clarified.

10.1.2.12 The PBC received capital Grant from Japan International Corporation and USAID valuing Rs. 1,350.670 million and Rs. 721.300 million respectively many years ago. As per available annual accounts of the Corporation, these grants were lying as Deferred Capital Grants since 2016-17. The reason for non-capitalization/non-utilization of these grants despite passing of more than four years needs to be explained.

10.1.2.13 Under head of Other Liabilities, payable to Government of Sindh an amount of Rs. 80.700 million was lying outstanding in books of accounts since

long. The inordinate delay in payment caused imposition of penalty. The reason for non-payment along with description of transaction resulted creation of said liability needs to be explained.

10.1.3 Compliance of PAC directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
1990-91	06	04	02	354,359	67
1991-92	11	10	01	300	91
1992-93	07	05	02	205, 209	71
1993-94	10	08	02	182,183	80
1994-95	05	04	01	219	80
1996-97	06	04	02	180,182	67
1997-98	09	08	01	115	89
1998-99	28	26	02	1.1, 8 (SAR-56)	93
1999-00	06	02	04	159,160,162, 163	33
2000-01	04	03	01	127	75
2003-04	17	14	03	124.4,125,130	82
2005-06	06	05	01	152.4	83
2006-07	05	03	02	120.1,120.2	60
2007-08	11	08	03	94.3, 94.4, 99	73
2008-09	15	08	07	132, 133, 134, 135, 131.5, 131.6, 136	53
2009-10	02	0	02	148, 149	0
2013-14	04	0	04	9.1.2.1, 9.1.3, 9.1.4.1, 9.1.4.2	0
2014-15	21	01	20	10.1.2.1, 10.1.2.2, 10.1.2.3, 10.1.2.4, 10.1.2.5, 10.1.2.6, 10.1.2.8, 10.1.2.9, 10.1.3, 10.1.4.1, 10.1.4.2, 10.1.4.3, 10.1.4.4, 10.1.4.5, 10.1.4.6, 10.1.4.7, 10.1.4.8, 10.1.4.9, 10.1.4.10, 10.1.4.11	05
2016-17	09	0	09	8.1.2, 8.1.3, 8.1.4.1, 8.1.4.2, 8.1.4.3, 8.1.4.4, 8.1.4.5, 8.1.4.6, 8.1.4.7	0
Total					

Overall compliance of the PAC directives was not satisfactory and needs immediate attention of the PAO.

10.2 Pakistan Television Corporation Limited

10.2.1 Introduction

Pakistan Television Corporation Limited (PTVCL) was established as an un-quoted public limited company under Companies Act 1913 (Now Companies Act 2017) on Nov 26, 1964. All its shares are held by Government of Pakistan. There is no change in the pattern of shareholding of company since incorporation.

Aims & Objectives

The main purpose and objectives of the corporation are:

- i To provide television broadcasting services by telecasting programs of all kinds, news pictorials and documentaries, local and foreign films of all kinds and nature for the purpose of disseminating information, education and entertainment.
- ii To carry out instructions of the Government of Pakistan with regard to general pattern or policies of programs, announcements, news etc.
- iii To carry on the business of commercial advertisement by selling programs and advertising time of television stations either directly or through advertising agencies or by setting up advertising agencies or by other means.

10.2.2 Comments on Audited Accounts

10.2.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts of the organization for the year 2019-20 and 2020-21 till December 31, 2021.

Audit recommends that the annual audited accounts for the years 2019-20 and 2020-21 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

10.2.3 Compliance of PAC Directives:

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No	%age of compliance
1989-90	09	08	1	478	89
1990-91	06	04	2	362,364	67
1991-92	07	06	1	312	86
1992-93	05	3	2	212,214	60
1994-95	05	02	3	223,225,228	40
1996-97	05	03	2	184,187	60
1997-98	09	05	4	121,122,123,124	56
1998-99	06	04	2	1.1.4,2.1.1(SAR-55)	67
1999-00	09	02	7	165,166,168,169, 170,172,173	22
2000-01	18	06	12	133, 134, 137, 170, (1.1, 1.1.1, 1.1.3, 1.1.2, 1.1.5, 1.1.6, 1.1 .7, 4.11)	33
2001-02	03	02	1	158	67
2002-03	09	05	04	166.1, 166.3, 166.4, 166.7	56
2003-04	08	06	02	126.2, 130	75
2004-05	03	02	01	81	67
2005-06	12	12	00	Nil	100
2006-07	21	11	10	121.6, 121.8, 122, 124, 125, 126, 127, 128, 129, 130,	52
2007-08	07	02	05	100, 100.1, 101.2, 101, 102	29
2008-09	13	05	8	138, 139, 140, 141, 142, 143, 144, 145	38
2009-10	11	03	08	152, 153, 154, 156, 157, 158, 159, 160	27
2010-11	23	17	06	12.3.2.5, 12.3.2.6, 12.3.2.7, 12.3.2.13, 12.3.4.5, 12.3.4.7	74
2015-16 One para	34	07	27	9.1.2.1, 9.1.2.2, 9.1.2.3, 9.1.2.4, 9.1.2.5, 9.1.2.6, 9.1.2.7, 9.1.2.8, 9.1.2.9, 9.1.2.10, 9.1.2.11, 9.1.3, 9.1.4.1, 9.1.4.2, 9.1.4.3, 9.1.4.4, 9.1.4.6, 9.1.4.8, 9.1.4.9, 9.1.4.10, 9.1.4.12, 9.1.4.16, 9.1.4.17, 9.1.4.18, 9.1.4.19, 9.1.4.21, 9.1.4.22	21
Total	223	115	108		52

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

10.2.4 Audit Paras

10.2.4.1 Non-appointment of Chief Financial Officer and Chief Internal Auditor

According to Rule-13(1) of the Public Sector Companies Corporate Governance Rules 2013, the Board shall appoint a chief financial officer, a company secretary and a chief internal auditor.

During audit of PTVC for the year 2020-21, it was observed that the PTVC was formed as a public limited company bearing registration No: 54/19650201 on February 10, 1965 and new company Registration CUIN No 0002026 was made on August 01, 2007.

After the introduction of Public Sector Companies Corporate (Governance) Rules 2013, the company was required to appoint Chief Financial Officer (CFO) and Chief Internal Auditor (CIA) but same were not appointed by the management in violation of rule-13(1) of the Public Sector Companies Corporate Governance Rules 2013 which was held irregular. Furthermore, no internal audit activity was being carried out despite presence of the Internal Audit Department and employees were getting pay and allowances without carrying out internal audit.

Keeping in view of above, the management violated provisions of Corporate Governance Rules by non-appointment of Chief Financial Officer and Chief Internal Auditor which was held irregular.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that as per decision of PTV Board of Directors in its 229th meeting held on September 26, 2019, an agreement was executed with M/s. Career Pakistan for hiring of services of Chief of functions in PTVC including Chief Financial Officer. The firm provided top ten candidates which were interviewed by HR Committee of PTV Board of Directors. The first two selected candidates did not join PTV. Next candidate on the merit list was Mr. Usman Bajwa, who was engaged as Chief Financial Officer w.e.f. April 13, 2020, however, he resigned from the services of PTVC w.e.f June 01, 2020. Further, as per decision of PTV Board the management started the process of hiring of services of Chief Financial Officer and General Manager

Internal Audit, which will be completed in due course of time. Keeping in view the importance of internal audit the management is going to outsource this task to chartered accountant firm which is in process and will be completed shortly.

The reply was not convincing as the management was unable to appoint Chief Financial Officer and Chief Internal Auditor despite Board's direction since 2019. Furthermore, Internal Audit Reports were demanded by audit but same were not provided. The outsourcing of Internal Audit System to third party in the presence of PTV Audit Department was wastage of resources.

No DAC meeting was arranged till finalization of this report.

Audit recommends to explain the reasons for the non-compliance of Corporate Governance Rules and PTV Board decision dated: September 26, 2019 by non-appointment of Chief Financial Officer and Chief Internal Auditor and fix the responsibility thereof.

Para-4 (PTVC, 2020-21)

10.2.4.2 Irregular refund of PTV dues To M/s SRBC – Rs. 36.291 million

According to Rule 5(5) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety.

During audit of PTVC for the year 2020-21 it was observed that the management made payment of Rs. 56.088 million to M/s SRBC against their invoice for utilization of airtime of ATV Channel during July 18, 2018 to December 31, 2018 after deduction of receivable amount of PTV valuing Rs. 36.291 million vide cheque No. 04252230 dated: May 05, 2021.

The management of M/s SRBC on May 07, 2021 requested PTV to release deducted amount of Rs.36.291 million from their invoice as they had gone through tremendous financial pressure due to low revenue during COVID-19. Accordingly the PTV management released Rs. 36.291 million in two installments to M/s SRBC. M/s SRBC ensured to refund the PTV's dues during next financial year.

Keeping in view the above facts, the refund of PTV's own dues of Rs. 36.291 million to M/s SRBC was held irregular.

Audit was of the view that the management was required not to release the deducted receivable amount of PTV to M/s SRBC.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that PTVC was continuously pursuing the amount of Rs. 36.00 million receivable from M/s. SRBC for which letter No. CF(P&D)/ATV/2018/ PGM/517 dated October 21, 2021 and letter of even number dated January 04, 2022 was issued to M/s. SRBC.

The reply was not convincing as the management was unable to recover Rs. 36.291 million despite lapse of almost nine months.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons of irregular release of PTV's own dues to SRBC beside its non-recovery during current financial year for fixing responsibility thereof.

Para-6 (PTVC, 2020-21)

10.2.4.3 Irregular withdrawal of PSDP funds from assignment accounts – Rs. 14.642 million

According to Revised Procedure for the operation of Assignment Account of Federal Government issued by the Finance Division (Budget Wing) vide OM No: F.2(2)-BR-II/2008-295/2017 dated: June 16, 2017, the transfer of funds from the assignment account for deposit into chest or any bank account is completely forbidden.

During audit of PTVC for the year 2020-21 it was observed that the Government of Pakistan Finance Division provided PSDP funds amounting to Rs. 35.043 million for two projects (Rs.17.832 million for RBS Jura Neelam Valley AJK + Rs.17.211 million for RBS Sharda Neelam Valley AJK) during 2009-10. The management withdrew total released amount of PSDP funds from the treasury but could spent an amount of Rs. 20.401 million upto 2020 and returned Rs. 14.642 million. Furthermore, the management also earned interest on these bank deposits which was also retained by the management unnecessarily.

Audit is of the view that the management was required to withdraw PSDP funds from Assignment Account as per cash flow requirement but the management drawn Rs. 35.043 million from assignment account in advance and balance amount of Rs. 14.642 million was returned /deposited in the Federal Treasury after lapse of 12 years i.e. 2009 to 2021.

Keeping in view of the above, the withdrawal of PSDP funds of Rs. 14.642 million from Assignment Account in advance and its retention in commercial bank account for earning profit for 12 years in violation of Finance Division's instructions was held irregular.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that main purpose for transferring of funds from the assignment account to PTV account was to complete the civil work project timely. There was no violation rather audit should appreciate that PTV managed to settle the contractual liabilities without any penalties due to delayed payments.

The reply was not convincing as the civil works contracts of Sharda and Jura were cancelled hence advance withdrawal and non-utilization of PSDP funds during 12 years was irregular and failure of the management.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons for withdrawal of public funds from assignment account in violation of the Finance Division's instructions for fixing responsibility thereof beside refund of interest amount earned on deposits of PSDP funds in Federal Consolidated fund.

Para-8 (PTVC, 2020-21)

10.2.4.4 Irregular utilization of PSDP funds against Chagi auditorium, Gilgit Baltistan & RBS Mian Channu – Rs. 32.123 million

According to clause-4.3 of the Guidelines for Project Management issued by Planning Commission in August 2008, re-appropriation of funds from one development project to another development project is not allowed.

Moreover according to the Clause-2(2) of the Revised Procedure for the operation of Assignment account issued by the Controller General of Accounts

Islamabad vide No.916 /CGAJA.A/RP-2018 (LC) dated: October 16, 2018, The authorities using the assignment accounts must ensure that not only the-total expenditure is kept within the limits of the authorized appropriation but also that the funds allocated to spending units are expended in the public interest.

During audit of PTVC for the year 2020-21 it was observed that PTV management incurred an expenditure of Rs.12.100 million on Chagi Auditorium, Rs.8.700 million on remaining civil work of RBS Kotli Sattian and Rs.11.323 million on RBS Mian Channu during the year 2019-20 and 2020-21.

All these expenditure of Rs. 32.123 million were incurred from the unspent balances of PSDP funds of other projects. The expenditure from unspent balances of PSDP funds of other projects were made without any approval from the DDWP or Planning Commission of Pakistan.

Thus expenditure of Rs. 32.123 million from unspent balances of PSDP funds of other projects were made in violation of the Project Management Guidelines of Planning Commission of Pakistan as well as revised procedure for the operation of assignment account, hence held irregular/ unauthorized.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that PTV has not incurred Rs. 12.100 million on Chaghi Auditorium out of PSDP funds allocated during financial year-2020-21. Further PTV awarded contract of RBS-Kotli Sattian @ total cost of Rs. 24.700 million to M/s Sher Bacha & Brothers, Engineering cost estimate of Rs. 21.660 million for remaining civil work of RBS-Kotli Sattian was prepared by consultant in 2018. Therefore, due to time overrun, cost has increased. However, deficit of Rs. 4.457 million instead of Rs. 8.700 million met out from unspent balance / amount of PSDP completed projects of Gilgit Baltistan with the approval of competent authority. The Planning Division had allocated Rs. 20.243 million during current financial year-2021-22. Therefore, the deficit of Rs. 4.457 million will be recovered from the defaulter contractor M/s. Nafcon Construction Company. In this regard, a case was already under process with Legal Department. Further, PTV arranged the re-appropriation of Rs. 15.000 million with the approval of Principal Accounting Officer / Secretary (Information & Broadcasting) to recoup an amount of (Rs.

11.323 & Rs. 3.600 million) already spent and payment of final bill of civil work at RBS-Mian Channu within the approved cost of said project.

The reply was not convincing as management was required to obtain the approval of the Finance Division to utilize the unspent balances of other PSDP Project Funds.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons of utilization of unspent balances of PSDP funds on other projects in violation of the government standing instructions for fixing responsibility thereof. Obtain the ex post facto approval of the Finance Division for irregular utilization of other projects PSDP Funds.

Para-9 (PTVC, 2020-21)

**10.2.4.5 Irregular / un-justified award of dubbing work - Rs. 42.646 million
Irregular / un-justified payment of Sindh Sales Tax on behalf of
media houses - Rs. 4.409 million**

As per Rule 12 (2) of PPRs-2004, all procurements 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. According to Clause-3(2) of the Sindh Sales Tax on Services Act 2011, a taxable service is not provided by registered person shall be treated as a taxable service if the service is listed in 2nd schedule to this Act is provided to resident person or by a non-resident person in the course of an economic activity.

During audit of PTVC for the year 2020-21 it was observed that voice dubbing work of Turkish dramas Ertughrul and Yunus Emre was awarded to M/s KJ Production Karachi and Team NJ Media for dubbing at total cost of Rs. 42.646 million.

The dubbing work of Turkish dramas was awarded on the basis of quotations instead of tendering. Thus violation of PPRA Rules was made by the management. This resulted into irregular selection of media houses and payment of Rs. 42.646 million made there against was also held irregular.

It was further observed that the management executed agreements with these media houses with inclusion of 13% Sindh Sales Tax (SST) on per episode cost of dubbing. However instead of deducting 13% SST from the per episode cost i.e. Rs. 85,000 at the time of payment to the firms concerned, PTV management made payment of Rs. 4.409 million @ 13% to Sindh Board of Revenue on account of SST. Thus, payment of Sales Tax by PTV management amounting to Rs. 4.409 million on behalf of the firms not registered with Sales Tax authorities was held irregular and tantamount to undue favour to the firms.

Thus, award of dubbing work worth Rs. 42.646 million made in violation of PTV's own Purchase Procedure as well as PPRA Rules and payment of Rs. 4.409 million as SST on behalf of both firms was held irregular.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that voice dubbing of Turkish drama Ertugrul was awarded to M/s KJ Production, Karachi for dubbing of 179 episodes @Rs. 85,000 per episode after completing all necessary procedures through a special committee constituted specifically for evaluation of available production/dubbing firms. The PTV does not have any such experience of dubbing of drama serials of such stature and voice over artists for dubbing of a higher quality. The PTV's own dubbing cell was not capable to handle big projects like Ertugurul and Yunus Emri. It could not provide seven episodes per week as required by the transmission due to its limited resources.

The reply was not convincing as dubbing work was awarded on quotation basis and PTV own dubbing cell was sitting idle. Further, payment of Sindh Sales Tax on behalf of dubbing firms was also irregular.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons for award of dubbing work in violation of PPRA rules and payment of SST on behalf of firms instead of withholding from their fee, for fixing responsibility thereof.

Para-13 & 17 (PTVC, 2020-21)

10.2.4.6 Irregular hiring of services of Telephone Operator (BS-07) as Associate Electrical Engineer (BS-16) from MOIP – Rs.2.151 million

According to serial No: 11 of the Civil Establishment Code issued by the Consultation with Establishment Division in matters relating to appointments, promotions, deputations etc. In accordance with Rule 11 of Rules of Business, "no Division shall, without previous consultation with the Establishment Division, issue or authorize the issue of any orders which involve a change in the terms and conditions of service of federal civil servants". This provision in the Rules makes it obligatory for the Ministries/Divisions to consult the Establishment Division, in matters relating to appointment, deputation of civil servants, to any autonomous body or corporation.

During audit of PTVC for the year 2020-21, it was observed that Mr. Nasir Javaid Telephone Operator (BS-07) from Ministry of Information, Broadcasting, National Heritage was posted in PTV as Associate Electrical Engineer in Group-4 equal to BS-16 on deputation basis on standard terms and conditions for a period of two years. .

The deputation of Telephone Operator (BS-07) as Associate Electrical Engineer in (BS-16) was made in violation of rules and tantamount to undue favour to the incumbent. The management also extended deputation period of the telephone operator for further two years without obtaining NOC from the lending Ministry which was against the rules.

Keeping in view the above facts, deputation of Telephone Operator (BPS-07) as Associate Electrical Engineer (BPS-16) and payment of pay and allowances valuing Rs. 2.151 million for the period February 2018 to September 2021 in violation of rules was held irregular.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that Mr. Nasir Javaid, Telephone Operator (BPS-07), of Ministry of Information & Broadcasting, Islamabad submitted a request dated January 16, 2018 for placement of his services in PTVC on deputation basis as Associate Engineer (Electrical) (G-4). The prescribed qualification for the post of Associate Engineer (Electrical) (G-4) was 03 years Diploma of Associate Engineer (Electrical) at least in 2nd Division. The ministry unilaterally placed the services of the incumbent on deputation basis to PTVC vide Office Order dated January 17, 2018. The deputation period of Mr. Nasir Javaid was further extended for a period of 01 year up to January 18, 2021.

Due to shortage of Associate Engineer (Electrical) (G-4) at TV Centre, Lahore, Managing Director, extended the deputation period for a period of 02 years i.e. up to 18.01.2023. The case regarding repatriation of services of Mr. Nasir Javaid, Associate Engineer (Electrical) (G-4) (on deputation) back to Ministry of Information & Broadcasting, was under submission to the competent authority for approval and he will be repatriated soon.

The reply was not convincing as there was no genuine need for the deputation of the telephone operator (BPS-07) in PTV. Furthermore, extension of deputation required approval of parent office/ ministry but MD PTV approved the extension which was irregular.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons of obtaining the services of BS-07 official against the post of associate engineer electrical (BPS-16) against the rules provision for fixing responsibility thereof.

Para-16 (PTVC, 2020-21)

10.2.4.7 Engagement of Shoaib Akhtar and Rashid Latif without approval of Board at exorbitant rates – Rs. 86.064 million

According to Agenda Item No: 3 of the 243rd meeting of PTVC Board of Directors dated: December 07, 2020, the Board approved termination of the services of professionals/ contract employees who are drawing salary above Rs.350,000 per month and their termination letters be issue today positively with the signature of Director Admn and the Chairman.

According to Clause-5 of the agreement for hiring of services of Mr. Shoaib Akhtar dated: October 20, 2016, during the pendency of this agreement the second party will remain associated exclusively with PTV Sports and shall not appear, or engage with any other television network within the Pakistan territory, however he would be allowed to make appearances in channels abroad. This exclusively would only be restricted to screen.

During audit of PTVC for the year 2020-21 it was observed that the Managing Director approved the engagement of the services of Mr. Soaib Akhtar as expert/ analyst/ Brand Ambassador of PTV Sports for three years vide contract dated: October 20, 2016 at monthly salary of Rs.1.500 million per month.

Afterwards the management on the recommendations of Director Sports PTV dated May 29, 2017 terminated the contract agreement of Mr. Shoaib Akhtar due to sale of his game show to Geo Channel who had conflict of interest with PTV. The Managing Director again on the recommendations of Director Sports PTV approved to engage the services of Mr. Rashid Latif at monthly package of Rs. 850,000 and Mr. Shoaib Akhtar with package of Rs. 1.111 million per month on January 04, 2019 as experts for three years without approval of the PTVC Board.

Thus, engagement of experts on contract without approval of the Board of Directors at exorbitant salary valuing Rs. 86.064 million without obtaining competitive rates was held irregular.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that M/s. Shoaib & Rashid were hired on a monthly retainer as talent and not as contractual employees. Therefore the ceiling of Rs 350,000 monthly isn't applicable or relevant to their hiring.

The reply was not convincing as PTV engaged the talent through contract hence they were contract employees and Board's decision was also applicable on them.

No DAC meeting was arranged till finalization of this report.

Audit recommends to explain the reasons for the engagement of experts on three years contract without approval of the PTV Board for fixing responsibility.

Para-18 (PTVC, 2020-21)

10.2.4.8 Irregular appointment of chartered accountants for audit of PTVC for 2019-20 – Rs. 1.326 million

According to Rule-38 of the PPRs-2004, the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity.

During audit of PTVC for the year 2020-21 it was observed that M/s Riaz Ahmed & Company Chartered Accounts was appointed as statutory auditors for the financial year 2019-20 at fee of Rs. 1.276 million plus out of pocket expenses of Rs. 50,000.

However it was observed from tender proceedings that M/s Howarth Hussain Chaudhry & Co quoted lowest offer of Rs. 861,300 plus out of pocket expenses. The matter was presented before the Audit Committee in its meeting held on July 24, 2020 wherein the committee recommended to negotiate the fee with second lowest bidder M/s Raiz Ahmed & Company with bid price of Rs. 1.682 million and finalize their appointment as statutory auditors for the financial year 2019-20 on the plea that they have strong financial team and working experience with PTVC in comparison with two other competing firms.

This resulted into irregular appointment of 2nd lowest bidder M/s Riaz Ahmed & Company Chartered Accountants at higher rates by ignoring the 1st lowest bidder M/s Howarth Hussain Chaudhry & Co.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that in the light of revised Rule-36 of PPRs (most advantageous bid) vide S.R.O. 442(1)/ 2020 dated May 15, 2020, PTVC appointed M/s. Riaz Ahmed & Company Chartered Accountant Firm by completing all the codal formalities as per PPRA & PTVC Rules.

The reply was not convincing as bid of M/s Howarth Hussain Chaudhry & Co. bid was most advantageous but management preferred the appointment of 2nd lowest bidder M/s Riaz Ahmed & Company Chartered Accountants at higher rates which was held irregular.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons of appointment of 2nd lowest firm as statutory auditors by ignoring 1st lowest firm in violation of PPRA Rules with a view to fix responsibility thereof.

Para-20 (PTVC, 2020-21)

10.2.4.9 Wasteful expenditure on engagement of guards / commandos for Managing Director and continuation of security services without any genuine need – Rs. 5.460 million

According to Rule 5(5) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety, especially with respect to handling of public funds.

During audit of PTVC for the year 2020-21 it was observed that the management engaged special guards / commandos despite having guards of security agency at PTV Headquarters Islamabad for the security of the then Managing Director PTVC during February 27, 2014 to February 26, 2016. After the appointment of new Managing Director of PTVC in 2016 the special guards/ commandos were not laid off by the management and same arrangement was continued till December 31, 2020 when the matter was presented to PTVC Board in its 244th meeting. The Board authorized Managing Director PTV to take a decision in the matter as Board considered their retention to be unnecessary and an expense for PTV. This resulted into wasteful expenditure of Rs. 5.460 million on the engagement of guards / commandos for Managing Director and continuation of security services without any genuine need.

Audit was of the view that the management was required to utilize the guards of security agency hired for the purpose but special guards/ commandos were hired without any genuine need. Thus due to hiring of special security guards/ commandos for Managing Director PTV instead of utilizing the services of already hired security guards, expenditure of Rs. 5.460 million incurred on this account were held wasteful.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that PTV being a Public sector organization has a huge amount of costly and strategic installations, besides these many of National and International stars/dignitaries frequently visit our offices for participation in various Programmes including Sports i.e. current visit of International ex-players Sir Vivian Richard and David Gower, who were much exposed to any unwanted situation, therefore, keeping this scenario if security services were outsourced, it would be much costly for the organization. Therefore, as these professionals were associated with the corporation for a considerable amount of time and have a good coordination with all the officials and were well versed with the Security Protocols, therefore, it was much feasible

to retain their services instead of hiring new officials or outsource the security services.

The reply was not convincing as these commandos were engaged for the security of the then Managing Director PTV and after his transfer/ resignation the security arrangements were required to be terminated but management continued with these security arrangements without any genuine need.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reason for engagement of special guards/ commandos for Managing Director in 2014 for fixing responsibility thereof.

Para-21 (PTVC, 2020-21)

10.2.4.10 Irregular retention of anchors current affairs department at exorbitant salary package – Rs. 53.425 million

According to Clause-168 of the Companies Act 2017, the acts of a person acting as a director are valid notwithstanding that it is afterwards discovered that there was a defect in his appointment; or he was disqualified from holding office; or he had ceased to hold such office: Provided that, as soon as any such defect has come to notice, the director shall not exercise the right of his office till the defect has been removed.

According to Agenda Item No: 3 of the 243rd meeting of PTVC Board of Directors dated: December 07, 2020, the Board approved termination of the services of professionals/ contract employees who are drawing salary above Rs. 350,000 per month and their termination letters be issue today positively with the signature of Director Admn and the Chairman.

During audit of PTVC for the year 2020-21 it was observed that the management hired the services of following anchors in Current Affairs Department of PTV News at exorbitant salary packages. The PTV Board in its 243rd meeting held on December 07, 2020 directed the management to terminate the services of those contract employees who were receiving more than Rs. 350,000 per month. The management instead of terminating the services of these employees, their salary package were revised / reduced. This resulted into

irregular retention of anchors current affairs department at exorbitant rates valuing Rs. 53.425 million.

Thus due to retention of those anchors which were required to be terminated in compliance of BOD's directives, payment of Rs. 53.425 million made on account of their salary was held irregular.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that Anchors were hired in view of their screen value and reputation, and these Anchors were associated with PTV for quite a considerable time. If their services were terminated at that time, it would have been much difficult to arrange new Anchors at this salary on an urgent basis, which could have caused delay in recording of the programs and ultimately damaged the repute of the corporation.

The reply was not convincing as the decision of the Board dated December 07, 2020 was without any condition hence the management was required to comply the decision of the Board in letter and spirit.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons of unauthorized retention of anchors in violation of BoD's directives for fixing responsibility thereof.

Para-31 (PTVC, 2020-21)

10.2.4.11 Irregular utilization of funds released through assignment account – Rs. 378.675 million

According to the Clause-2(2) of the Revised Procedure for the operation of Assignment account issued by the Controller General of Accounts Islamabad vide No.916 /CGAJA.A/RP-2018 (LC) dated: October 16, 2018, The authorities using the assignment accounts must ensure that not only the total expenditure is kept within the limits of the authorized appropriation but also that the funds allocated to spending units are expended in the public interest but also that allocated to the spending units for which the money was provided.

During audit of PTVC for the year 2020-21 it was observed that the Finance Division Government of Pakistan released funds amounting to Rs. 130.900 million through Assignment Account titled, "operational expenses of

PTV Multan” bearing No: 26904-4, Rs. 102.850 million through Assignment Account titled, “operational expenses English News Channel PTV” bearing No: 26885-7 and Rs. 144.925 million through Assignment Account titled, “Reimbursement of recurring expenses of AJK TV to PTV” bearing No: 270350-7.

However it was observed that these funds were utilized for payment of other expenses of PTV Headquarters and other channels.

Thus utilization of funds of Rs. 378.675 million released under assignment account for the purpose other than for which these funds were released, was held irregular.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that the quarterly funds/releases were not received in time from the Government against the Operational Expenses of PTV-Multan, English News Channel & AJK specially 1st quarter releases which were received in the month of September, each year and PTV has to pay the regular expenses timely i.e., satellite expenses, salaries expenses of staff, TA/DA Medical expenses, purchase of stationary and other Misc. office expenses from own funds. Therefore PTV utilized the operational expenses funds of these channels to cover its already utilized funds.

The reply was not convincing as the management was required to obtain prior approval of Finance Division for utilization of funds released for PTV-Multan, English News Channel & AJK against expenses of PTV Headquarters Islamabad and other channels but same was not obtained which was held irregular.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons of irregular utilization of funds for the purpose other than for which these were released for fixing responsibility thereof.

Para-32 (PTVC, 2020-21)

10.2.4.12 Non-recovery of risk & cost amount from the defaulting contractors – Rs. 145.739 million

According to the Clause-A regarding termination of agreement for the civil work of RBS Kotli Sattian and Barkhan dated: June 16, 2021, the agreement shall stand terminated at any stage if the second party fails to abide any clause of this agreement and second party shall be responsible for refund of all the payments with the markup to first party. The first party shall have the right to claim any losses/ damages as a result of termination of the agreement.

During audit of PTVC for the year 2020-21, it was observed that the management awarded three contracts valuing Rs. 133.550 million for the civil work of TV Center Multan, RBS Kotli Sattian and Barkhan during 2008 but same were not completed by the respective contractors within scheduled period of one year and defaulted. The contractors could not complete the work despite availing several extensions. Later on the contracts were terminated by the management during 2010 (TV Centre Multan), 2019 (RBS Kotli Sattian) and 2017 (RBS Barkhan). After termination of these civil works contracts, the management was required to award the remaining civil work valuing Rs. 174.163 million at the risk and cost of the defaulting contractors which was not done. This resulted into non-recovery of risk & cost amount of Rs. 40.613 million. Thus due to extension of undue favour to the contractors by non-recovery of risk & cost amount, the management sustained loss of Rs. 145.739 million (Rs. 174.163 million - Rs. 28.424 million). Moreover the management did not provide documentary evidence regarding forfeiting 5% retention money and 10% performance bond.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that the contractor of PTV Multan could not complete the project in time and stopped the construction activity at sites. Amicable settlement as per clause of the tender documents was made. The contract of civil work of Kotli Sattian was awarded to M/s. Nefcom Construction Company which was terminated due to non-completion of project within given time limit. The contract was terminated and an amount of Rs. 1.380 million has been forfeited which was deposited on account of earnest money/retention money and performance bond. The case has been filed to recover the risk and cost amounting to Rs. 2.812 million through PTV legal department. The contract for remaining civil work of Kotli Sattian valuing Rs.24.098 million was awarded to Sher Bacha & Brother Shangla on July 02,

2021 which would be completed within current year. Similarly PTVC awarded contract of civil work of RBS Barkhan to M/s. ZS (Pvt.) Ltd. Islamabad which was not completed within stipulated time, due to slow progress and poor performance, the contract was terminated in January 2018, with the approval of competent authority. The amount deposited by the defaulting contractor on account of earnest/retention money and performance bond amounting to Rs. 1.229 million has been forfeited. The contract for remaining civil work has already been awarded and would be completed at the end of current financial year.

The reply was not convincing as the management was required to get the remaining work completed at the risk and cost of the defaulting contractors but risk and cost amount was not recovered which resulted in loss.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons for extension of undue favour to the defaulter contractor by non-deduction of LD and to fix responsibility thereof.

Para-35 (PTVC, 2020-21)

10.2.4.13 Irregular transfer of PSDP funds into PTV bank account - Rs. 75.563 million

According to Revised Procedure for the operation of Assignment Account of Federal Government issued by the Controller General of Accounts, Islamabad vide letter No: 574/CGA/AC-IV/I-I/2011 dated: June 20, 2012 and according to Revised Procedure for the operation of Assignment Account of Federal Government issued by the Finance Division (Budget Wing) vide OM No: F.2(2)-BR-II/2008-295/2017 dated: June 16, 2017, the transfer of funds from the assignment account for deposit into chest or any bank account is completely forbidden.

During audit of PTVC for the year 2020-21 it was observed that the Government of Pakistan Finance Division provided PSDP funds of Rs. 238.249 million for the project titled, Multan PTV Project. The management incurred expenditure of Rs. 162.563 million out of the released funds on the project and transferred remaining amount of Rs. 75.563 million in to PTV's bank account in

violation of the Revised Procedure for the operation of Assignment Account issued by the Federal Government.

The Secretary Information and Broadcasting while approving the lowest bid of M/s Hayat Brothers Construction Company for the award of remaining civil work valuing Rs. 108.592 million on August 20, 2010 directed the PTV management to inquire into the matter regarding transfer of PSDP Funds but no inquiry was made.

Thus transfer of funds of Rs. 75.563 million from assignment account to PTV' own account was held irregular.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that the main purpose for transfer of funds from the assignment account to PTV account was to complete the civil work project timely and it was possible when we make payment to contractor timely. Further in the light of tender document clauses, PTV was bound to make/process the contractual payments within 30 days on receipt of bill ensuring awarded work would be completed within stipulated time and budget provision of approved PC-1 to avoid any complication and litigation.

The reply was not convincing as the transfer of funds from the assignment account for deposit into chest or any bank account was completely forbidden according to Revised Procedure for the operation of Assignment Account of Federal Government June 16, 2017. Further, management has not intimated the reasons for not conducting inquiry as per orders of the Secretary Information and Broadcasting.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons of irregular transfer of PSDP Funds to PTVC bank account besides reasons for not conducting inquiry as per orders of the administrative Secretary for fixing responsibility thereof.

Para-37 (PTVC, 2020-21)

10.2.4.14 Award of civil work contract of RBS Mian Channu without budget – Rs. 18.239 million

According to the Rule-5(b), of the Finance Division letter No: F. 3(2) Exp. III/2006 dated: September 13, 2006, Control Over Expenditure: The Principal Accounting Officer shall ensure that the funds allotted to a Ministry / Division, etc., are spent for the purpose for which these are allotted. The expenditure in excess of the amount of Grant or Appropriation as well as the expenditure not falling within the scope or intention of any Grant or Appropriation, unless regularized by a Supplementary Grant or a Technical Supplementary Grant, shall be treated unauthorized. The Principal Accounting Officer is responsible for any laxity in matters of control over expenditure including that on the part of subordinates.

During audit of PTVC for the year 2020-21 it was observed that CDWP in its meeting held on May 21, 2005 approved the PC-I valuing Rs. 81.822 million of PSDP Project RBS Mian Channu Punjab. The management awarded the civil work contract to M/s Baz Muhammad Khan & Co at contract price of Rs. 30.663 million on November 04, 2008. The award of contract was made against budget provision of Rs. 15.397 million with a shortfall of 99.16% i.e. Rs. 15.267 million. Moreover, the management made payment of escalation bills of the contractor valuing Rs. 2.972 million (Rs. 1.972 million + Rs.1.00 million) without any specific allocation of budget. This resulted into award of civil work contract without budget valuing Rs. 18.239 million (Rs. 15.267 million + Rs. 2.972 million).

Audit was of the view that the management was required to start the development work after ensuring the availability of sufficient budget but contract was awarded and escalation bills were paid without budget which was held irregular.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that PTVC awarded the civil work contract to M/s. Baz Muhammad Khan & Company valuing Rs. 30.663 million as per guideline of Ministry of Planning Commission. At the time of awarding contract, the amount of civil work approved under head (building & consultancy) was Rs. 15.397 million. Later on it was approved for Rs. 43.134 million in revised PC-I. Therefore the short fall of Rs. 15.267 million pointed out in the Audit Para was not justified.

The reply was not convincing as against approved PC-I cost of Rs. 81.822 million and contractor bid of Rs. 30.663 million, available budget was Rs. 15.397 million hence there was short fall of Rs. 15.267 million. The management has not intimated the detail of available budget of the project at the time of initiation of project.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons for the award of civil work contract without availability of budget for fixing responsibility thereof.

Para-42 (PTVC, 2020-21)

10.2.4.15 Non-payment of annual ground rent and lease extension charges – Rs. 31.872 million

Loss due to imposition of delay charges - Rs. 2.957 million

According to Rule 5(5) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety.

During audit of PTVC for the year 2020-21, it was observed that Capital Development Authority (CDA) allotted plot No: 02 & 03 measuring 31169.60 sq. yards (6.44 acres) in Sector F-5/1, Islamabad for construction of PTV Headquarters building on 33 years lease in 1974 which was expired on April 19, 2007.

After expiry the management was required to obtain NOC from Building Control Section (BCS), NOC Revenue from CDA but the management failed to make payment of annual ground rent (AGR) valuing Rs. 2.884 million for the period April 20, 1994 to April 19, 2007 against which CDA imposed delay charges of Rs. 2.957 million. Furthermore, the management was also required to make payment of lease extension charges valuing Rs. 28.987 million for 2nd term of lease starting from September 02, 2007 to September 01, 2040 but same was not paid which was held irregular.

Audit was of the view that the management was required to make the payment of annual ground rent of Rs. 2.884 million for the period April 20, 1994 to April 19, 2007 timely but same was not paid which resulted in imposition of

delay charges of Rs. 2.957 million. Furthermore, lease extension charges of Rs. 28.987 million were also not paid which was also held irregular.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that CDA served a notice to PTV on January 2020 for outstanding dues amounting to Rs. 50.773 million in respect of lease extension charges, + Annual Ground Rent + delay charges on AGR etc. In response, PTV asked CDA to provide bifurcation/formula of calculation of outstanding dues on February 13, 2020. The CDA served two notices letters dated October 15, 2021 and January 27, 2021 amounting to Rs. 34.829 million of AGR, delay charges on AGR, and lease extension charges. The CDA was requested vide letter dated November 15, 2021 to waive off penalty on account of non-construction of buildings, as the buildings have already been constructed on the plots. Meanwhile competent authority has constituted committee on December 21, 2021 to finalize the matter with CDA for lease extension for a further period of 33 years which was in progress.

The reply was not convincing as management was required to abide the bylaws of CDA and make payment of annual ground rent to avoid penalty but same were not followed which resulted in loss.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons of non-payment of annual ground rent and lease extension charges which resulted in to imposition of delay charges for fixing responsibility thereof.

Para-43 (PTVC, 2020-21)

10.2.4.16 Inadmissible payment of remuneration for comparing - Rs. 3.262 million

Non-recovery of inadmissible paid advance - Rs. 0.90 million

According to Rule 5(5) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety, especially with respect to handling of public funds.

According to the minutes of 216th meeting of PTVC Board of Directors dated: May 10, 2018, an Executive Director would not be paid anything extra for

doing any program.

During audit of PTVC for the year 2020-21 it was observed that the management was making continuous payment of Rs. 150,000 per month as remuneration for comparing PTV Sports Game Show to Dr. Nauman Niaz Director Sports PTV in addition to his monthly remuneration as Director PTV Sports in violation of the above referred decision of the PTV Board of Directors. On December 30, 2020 the management issued recovery order amounting to Rs. 3.262 million but same was not recovered. In this way undue favour was extended to the officer concerned at the cost of PTV.

Moreover the management also issued recovery orders of Rs. 540,000 from Mr. Osama Azhar Executive Organizer Sports and Rs. 360,000 from pension dues of retired Controller Finance (P&D) Mr. Sarwar Shahid on May 29, 2017 due to irregular grant of advance of Rs. 900,000 to Mr. Omer Saleem Anchor for recording of programme, “Hi Octane-Race De Celeb” without following the prescribed procedure. However no recovery was made from the officers concerned and undue favour was extended to them at the cost of the company.

Thus, the company is expected to sustain loss of Rs. 4.162 million on account of non-recovery of inadmissible paid amounts for remuneration of comparing and advances.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that the services of Mr. Nauman Hamid Niaz was hired as Content Head (Sports)/Anchor Person/Compare/Host for PTV Programs vide an agreement dated January 25, 2012 which was effective from December 07, 2011 @ Rs. 25,000 per program with minimum 12 programs per month for a period of 01 year. The Anchor resigned from the said post upon termination of the agreement w.e.f. August 07, 2012. The management re-engaged as Head of PTV Sports/Sr. Anchor at a remuneration of Rs. 400,000 per month w.e.f. January 01, 2012 as there was a dire need to continue hosting such a high profile program of PTV Sports “Game On Hai”, keeping in view his expertise and screen requirement the then Secretary Information, was not only the PTV Board Chairman and MD PTV as well granted special waiver to Dr. Nauman Hamid Niaz, Director Sports to screen

appearance. Further, recovery of Rs. 540,000 from Mr. Osama Azhar and Rs. 360,000 from Mr. Sarwar Shahid was under investigation of Inquiry Committee.

The reply was not convincing as the management was required to obtain approval of the Board of Directors for the re-engagement of Dr. Nauman Naiz at exorbitant salary of Rs. 400,000 but no approval was obtained which was held irregular.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons of undue favour extended to the officers concerned by non-recovery of inadmissible paid amounts and to fix responsibility thereof.

Para-44 (PTVC, 2020-21)

10.2.4.17 Wasteful expenditure on hiring of professionals at special executive scales – Rs. 136.752 million

According to Clause-168 of the Companies Act 2017, the acts of a person acting as a director are valid notwithstanding that it is afterwards discovered that there was a defect in his appointment; or he was disqualified from holding office; or he had ceased to hold such office: Provided that, as soon as any such defect has come to notice, the director shall not exercise the right of his office till the defect has been removed.

Supreme Court in its Order dated: July 14, 2018 directed National Accountability Bureau to inquire all the appointments of officers who are drawing monthly salaries of Rs.1.5 million or more and a copy be endorsed to auditor General of Pakistan.

During audit of PTVC for the year 2020-21 it was observed that the PTV Board in its 128th meeting held on October 22, 2018 accorded approval for the hiring of seven functional chief from the market without any advertisement at initial of the Special Executive Pay Scales @ Rs. 870,000 per month. The Board of Directors in a meeting directed the management to terminate the services of these seven Chiefs and the same was done by management accordingly. Afterwards the management reinstated these contract employees upon advice of Ministry of Law & Parliamentary Affairs that in the light of the Islamabad High Court decision to dissolve the Board all the decisions became invalid and without

jurisdiction. The advice of the Ministry of Law & Parliamentary Affairs was made against the provisions of Companies Act, 2017.

Audit was of the view that the management was required to appoint these professionals after advertisement as per direction of the Supreme Court but no advertisement was made. Hence payments of Rs. 136.752 million on account of their pay and allowances was held irregular.

The matter was reported to the management on January 03, 2022 but no reply was submitted by the management till finalization of this report.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons of appointment of these professional in violation of prescribed procedure as well as Supreme Court's orders for fixing responsibility thereof.

Para-46 (PTVC, 2020-21)

10.2.4.18 Irregular and unadjusted expenditure on foreign visits without approval of administrative ministry and Finance Division - Rs. 16.391 million

The Government of Pakistan Cabinet Division, Islamabad vide O.M. No. F-9-148/2002-Min dated February 19, 2003 prescribed the following procedure for visit abroad for official/officers working in autonomous bodies:

- i. In case of officer of BPS-20, and above the approval of the Minister In charge will be necessary with prior clearance by the Ministry of Finance.

During audit of PTVC for the year 2020-21, it was observed that the management granted advances against TA/DA valuing Rs.16.391 million to its employees to accompany Prime Minister and President of Pakistan for official media coverage since 2018. The cases were forwarded to the Finance Division during 2018 but approval was still awaited despite lapse of three years. This resulted into irregular expenditure of Rs. 16.391 million on foreign visits by PTVC employees without approval of the administrative ministry and Finance Division.

Audit was of the view that the management was required to get the approval of the administrative ministry with prior clearance by the Finance

Division before travel but no approval was obtained from administrative ministry and Finance Division which resulted into irregular expenditure on foreign visits and non-adjustment of Rs. 16.391 million on account of advance TA/DA.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that as per practice, the amount was given to PTV Officials deputed for VIP Coverage abroad after nomination by President and Prime Minister Secretariats. After completion of tour, TV Officials submitted adjustment of expenditure which was communicated to Ministry of Information & Broadcasting, who afterwards issued financial approval. In respect of advances amounting to Rs.16.391 million the financial approval of Ministry was still awaited due to some unknown reasons, and the amount was still appearing in account code 32004002 “Advance against TA/DA”.

The reply was not convincing as the management was unable to obtain financial approval of the administrative ministry/ Finance Division despite lapse of four years.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter for taking the tour without the approval of administrative ministry and Finance Division for fixing the responsibility thereof.

Para-52 (PTVC, 2020-21)

10.2.4.19 Irregular appointment of contract employees on bogus degrees – Rs. 184.227 million

According to D.O No: 6(28)2011-DG-II dated: March 08, 2011, the Prime Minister has been pleased to direct that measures should be taken to authenticate degrees/ certificates of all Federal Government employees of the respective ministries/ divisions, their attached department, subordinate offices and autonomous bodies under their administrative control.

During audit of PTVC for the year 2020-21 it was observed that the management made appointment of 21 employees on contract basis during 2001, 2005, 2006, 2007, 2009, 2012, 2013 and 2016. On verification, their educational

degrees were found bogus and their services were terminated during 2017 and 2018.

This resulted into irregular appointment of employees on bogus degrees and payment of pay and allowances valuing Rs. 184.227 million.

Audit was of the view that the management was required to get the degrees verified immediately after joining the services of PTVC but same was verified as late as two to nineteen years. The management was also required to file criminal cases against these employees but no case was filed against them.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that as per instructions of Government of Pakistan, PTVC started degree verification process of its employees in the year-2013, however, being a number of more 4,000 employees, having different Universities & Educational Boards, financial constraints and delayed response from Universities/Boards, the said process remained very time consuming. The services of 27 employees was hired on contract basis by PTV during the period from 2001-2013 and their services have been terminated after declaration of their certificates/degrees as bogus/fake and their cases have also been referred to Federal Investigation Agency for criminal proceedings and recovery of amount which was drawn in shape of salary and allowances amounting to Rs. 44.001 million.

The reply was not convincing as management took almost four years to get the educational degrees verified from respective universities/ boards which was bad HR management.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons of non-verification of degrees just after joining the PTV service for fixing responsibility thereof.

Para-54 (PTVC, 2020-21)

10.2.4.20 Non-preparation of consolidated annual procurement plan of PTV Irregular procurement by splitting the demand – Rs. 7.245 million

According to Rule-9 of the PPRs 2004, save as otherwise provided and subject to the regulation made by the Authority, with the prior approval of the Federal Government, a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed

accordingly without any splitting or regrouping of the procurements so planned. The annual requirements thus determined would be advertised in advance on the Authority's website as well as on the website of the procuring agency in case the procuring agency has its own website.

During audit of PTVC for the year 2020-21 it was observed that the management prepared and posted the annual procurement plan of Admn Department of PTV Headquarters Islamabad for the year 2020-21 at its own website but procurement of goods and services valuing Rs. 7.245 million was made by splitting the procurement instead of centralized procurement.

Moreover, no procurement plan of other departments of PTV Headquarters especially of Engineering Department who needed costly imported equipment was prepared and uploaded on PTV web site which was violation of the above referred rule. Furthermore, each department of PTV News, PTV Global, PTV World, PTV Academy & Sports, PTV Central Sales Office Karachi, PTV Center Karachi, PTV Center Lahore, PTV Center Peshawar, PTV Center, Quetta, PTV Center AJK Muzaffarabad were also making individual purchases instead of centralized procurement at PTV Headquarters which was held irregular.

Audit was of the view that the management was required to prepare consolidated Annual Procurement Plan of PTVC and make centralized procurement for better competitive rates but no consolidated Annual Procurement Plan of PTVC was made which was violation of the above referred rule. Furthermore, each department of PTV cost centers was making procurement individually in violation of the provisions of the PPRs 2004 which was held irregular.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that PTV has already adopted centralized procurement system for the purchase of all capital items whereas budget for building maintenance, stationery & miscellaneous items was being maintained at local level. Hence, nominal budget was allocated to all centers to full-fill their day to day exigency of requirement.

The reply was not convincing as during audit management informed that each department of PTV headquarters and each channel make separate procurement and no centralized procurement plan was prepared or approved by management.

No DAC meeting was arranged till finalization of this report.

Audit recommends to explain the reasons for the procurement of goods and services by splitting the demand for fixing responsibility thereof.

Para-55 (PTVC, 2020-21)

10.2.4.21 Irregular grant of Special House Rent Allowance @ 70% of the running basic to officers – Rs.23.010 million

According to Rule 5(5) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety, especially with respect to handling of public funds. Moreover as per Rule 4.10 of PTV Employees Service Rules, House Rent Allowance @ 50% of progressive basic pay is admissible to PTV employees.

During audit of PTVC for the year 2020-21 it was observed that the management granted Special House Rent Allowance @ 70% of running basic pay to the four Directors which was discriminatory and unjustified as other employees were receiving House Rent Allowance @ 50% of their running basic pay. This resulted into irregular grant of Special House Rent Allowance @ 70% to the concerned officers valuing Rs. 23.010 million.

Audit was of the view that the management was required grant House Rent Allowance @50% as allowed to the other employees of the PTVC but discriminatory treatment was given to above officers in violation of the PTV Employees Service Rules.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that PTV BOD who was competent authority for framing rules, approved revision/increase of House Rent Allowance facility for the whole time working Directors from 60% to 70% of progressive basic pay scale in its 202nd meeting held on July 04, 2013.

The reply was not convincing as these whole time working directors were already drawing highest salary range hence grant of additional benefit of house rent allowance @ 70% of progressive basic pay scale was not justified.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons for the grant of Special House Rent Allowance@70% of the running basic in violation of rules for fixing responsibility thereof.

Para-58 (PTVC, 2020-21)

10.2.4.22 Irregular appointment of anchor persons and cable man at PTV news Islamabad – Rs. 59.485 million

According to the Judgment of Supreme Court of Pakistan, we consider it appropriate to make reference of the case titled as Abdul Jabbar Memon (1996 SCMR 1349) wherein it has been observed that the Federal Government, Provincial Governments, Statutory Bodies and the Public Authorities have been making initial recruitments, both ad-hoc and regular, to posts and offices without publicly and properly advertising the vacancies and at times by converting ad-hoc appointments into regular appointments. It was held that this practice is prima facie violation of Fundamental Right enshrined in Article 18 of the Constitution guaranteeing to every citizen freedom of profession, which must be discontinued forthwith and immediate steps should be taken to rectify the situation, so as to bring the practice in accord with the Constitutional requirement.

During audit of PTVC for the year 2020-21 it was observed that the management made contract appointment of 11 anchors and cable man.

However it was observed from record that these appointments were made without advertisement in violation of the existing rules.

Thus appointment of anchors and cable man made in violation of rules was held irregular and payment of pay and allowances valuing Rs. 59.485 million was also held irregular.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that in the light of PTV Service Rules Clause-6.04 (i) and criteria laid down by PTV Board of Directors

in 184th meeting held on April 23, 2009 a data base was maintained by PTVC. To further strengthen the data base, advertisements were placed on PTV website and newspapers. As such, PTVC invited applications from eligible candidates for its different fields through advertisement published on September 19, 2019.

The reply was not convincing as the management was requested to provide the advertisement against these recruitments but no advertisement was shared with audit.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons for irregular appointment without advertisement in violation of rules for fixing responsibility thereof.

Para-60 (PTVC, 2020-21)

10.2.4.23 Loss due to less increase in annual rent of various RBS - Rs. 8.28 million

According to Law and Justice Commission of Pakistan Rent Restriction Laws Section 8 A (e) with regards to Immovable Properties (Houses and Shops), which are exclusively meant for being rented out and are actually on rent for a long time, there should be a provision for an automatic increase in their rent, proportionate to the rise in prices and the cost of living. It is suggested that an increase of 10% in the case of houses and 15% in case of shops and business premises should automatically be allowed after every three years or so.

During audit of PTVC for the year 2020-21, it was observed that the management made an agreement with M/s Telenor Pakistan (Pvt.) Limited for a period of 11 years for installation of the BTS and associated equipment at RBS Murree, Muzaffarabad on October 10, 2017 @ Rs. 2.225 million per year and RBS Besham on January 01, 2018 @ Rs 1.382 million.

As per agreement the annual rent was to be frozen for first 03 years and rent was to be increased @ 5% from 4th year. However, as per above referred Rent Restriction Laws, increase in annual rent should be 15% instead of 5%. This resulted into loss of Rs. 8.286 million.

Audit was of the view that the management was required to make agreement on annual rent increase of 15% per year as per Rent Restriction Law

but only 5% increase was agreed which resulted in to loss to the Corporation to the stated extent.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that it was worldwide trend that telecom operators share their infrastructure to save expenses. Similarly, M/s Telenor Pakistan (Pvt.) Ltd preferred PTV for using its infrastructure. The agreement in this regard was finalized after consultation of all stake holders i.e. Finance and Legal Department and approval from competent authority. The agreement was executed in good faith to safeguard PTV's financial interest and it was feared that telecom company M/s Telenor Pakistan (Pvt.) Ltd. would surrender the agreement and avail facility from other telecom companies at lower rates. However keeping in view the prevailing rental rules and practice the agreement with M/s. Telenor Pakistan Limited has been revised by increasing annual rental charges to 15%.

The reply was not convincing, despite acceptance of the fact that management increased less rent and new rent agreements were concluded by increasing rent @ 15%, no responsibility was fixed for the loss which was held irregular.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter of inclusion of provision in the agreement for less increase in rent which resulted into the loss to the Corporation for fixing responsibility thereof.

Para-61 (PTVC, 2020-21)

10.2.4.24 Non-recovery of TV license fee from K Electric – Rs. 1,163.189 million

Un-justified payment of additional TV license fee collection charges – Rs. 1,067,038 million

According to Ministry of Water & Power Notification dated: May 16, 2016 the service fee collected by Electric Distribution Companies on the collection of TV License Fee from electricity bills is reduced to Rs.1 from Rs.5 per paid bill with effect from April 01, 2016.

During audit of PTVC for the year 2020-21, it was observed that an amount of Rs. 1,163.189 million of TV License Fee was receivable from M/s K Electric during the year under review.

Further scrutiny of agreement dated: May 24, 2008, between M/s K-Electric, Karachi & PTV regarding collection of TV License Fee from electricity consumers, it revealed that there was no period or date fixed in the agreement which bound M/s K-Electric to transfer collected TV license fee and M/s K-Electric was at liberty to transfer or retain the collected TV license fee for an indefinite period which resulted into non-recovery of fee.

Furthermore, the management received Rs. 1,067.038 million as TV License Fee collected by M/s K-Electric but the company also deducted Rs. 5 per bill as electricity bill collection charges as per terms of agreement. This provision was against the directions of Ministry of Water & Power Notification dated: May 16, 2016 and normal practice being followed by other companies which were receiving Rs.1 per bill as collection charges. The management did not provide the detail of additional paid amount on account of service charges to K-Electric.

Thus due to inclusion of less favourable provisions in the agreement, huge amount of Rs. 1,163.189 million was still recoverable from K-Electric and Corporation was put to loss on account of payment of additional collection charges.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that total amount of receivables from M/s. K-Electric was Rs. 1,079.663 million instead of Rs. 1,163.189 million because JV No. 32 dated August 18, 2020 amounting to Rs. 83.526 million has been incorporated by the Auditors twice. Further out of Rs. 1,079.663 million an amount of Rs. 997.372 million has been recovered till June 30, 2021 leaving recoverable balance of Rs. 82.290 million. As far as the reduction of service fee from Rs. 5 to Rs. 1 is concerned, we have made chain of correspondence with K-E Authorities and matter was also taken upto Minister's level. We have also approached the NEPRA, they have also directed K-E to reduce the service fee from Rs.5 to Rs.1 but unfortunately no positive response has so far been received from K-Electric.

The reply was not convincing as the management itself provided the figure of receivable amount of Rs. 1,163.189 million from K-Electric during audit. Furthermore, no documentary evidence regarding receipt of Rs. 997.372 million was provided with reply.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons for inclusion of unfavourable terms in the agreement by PTV for fixing responsibility thereof.

Para-64 (PTVC, 2020-21)

10.2.4.25 Huge receivables in the categories of barter, litigation, arbitration and dormant agencies – Rs. 913.396 million

According to Rule 5(5) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety.

During audit of PTVC for the year 2020-21, it was observed that an amount of Rs. 913.396 million was receivable from various categories of defaulters of the corporation as detailed below:

S. No.	Category	Amount outstanding (Rs.)
1.	Barter	94,059,038
2.	Litigation	84,015,936
3.	Arbitration	141,136,846
4.	Dormant agencies	594,184,127
	Total	913,395,947

Audit is of the view that the management was required to make efforts for early recovery of above long outstanding amounts but serious efforts were not made due to which same were outstanding for the last so many years.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that cases in the courts were vigorously pursued through counsels. Further, the matter regarding recovery of outstanding amount from dormant agencies has been referred to Federal Investigation Agency vide letter dated October 01, 2021 and instructions have been issued to the concerned for continuous pursuance in the matter regarding recovery from dormant agencies vide letter dated September 02, 2021, update of which would be shared with Audit authority in due course of time. The receivables against barter agreement Rs. 94.059 million have been booked in contradiction to the clause of barter agreement. Departmental enquiry regarding the same has been initiated and concluded. The implementation on the finding and recommendation of the enquiry committee was under process.

The reply was not convincing as the management remained silent on these matters and taken action only after pointing out by audit which was weak financial management. Furthermore, results of departmental inquiry were not shared with audit.

No DAC meeting was arranged till finalization of this report.

Audit recommends to explain the reasons for non-recovery of huge amount for the last so many years for fixing responsibility thereof.

Para-65 (PTVC, 2020-21)

10.2.4.26 Irregular sub-letting of civil work contracts of Neelam Valley RBS – Rs. 55.620 million

According to the Clause-ii of the contract agreement with M/s Intercity (Pvt.) Ltd and PTV dated: June 25, 2009 the contractor, at his own proper cost and expenses shall do all work and furnish all labour, materials, supplies, water & power tools, machinery equipment and constructional plant that may be necessary for the construction of the works.

During audit of PTVC for the year 2020-21, it was observed that management awarded civil work contracts valuing Rs. 55.620 million of RBS Neelam Valley RBS Dudnial, Kharan, Kel, to M/s Intercity (Pvt.) Ltd.

However it was observed that the contractor sublet these civil works to another contractor in violation of the above referred clause of the contract agreement.

Furthermore, M/s Intercity (Pvt.) Ltd also submitted fake certificate of registration with Pakistan Engineering Counsel. This resulted into irregular sub-letting of civil work contracts of three RBSs valuing Rs. 55.620 million.

Audit was of the view that the management was required to be vigilant after award of civil work contracts in sensitive areas of AJK but no attention was paid which resulted into sub-letting of civil work contracts. Furthermore, the management was also required to check the PEC Certificate of the civil work contractor before award of civil work but same was not checked thus award of work worth Rs. 55.620 million was held irregular.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that contracts of RBSs-Karan, Dhudhnial & Kel (Neelam Valley) valuing Rs. 55.620 million were awarded to M/s. Intercity Private Limited, Muzaffarabad after completing all codal formalities. Later on, Mr. Muzzamil Hussain, Project Manager of M/s. Intercity Private Limited, lodged complaint in FIA against contractor. FIA started

inquiry on the matter and order to stop the construction activities at sites. During Inquiry the Ex-PTV employees lodged an appeal in Honorable High Court, Islamabad. Honorable High Court, Islamabad verdict that “Unicon and its Directors were solely responsible for prequalification of all the contractors, including M/s Intercity, who in connivance with Unicon has submitted a fake and fictitious certificate of PEC and has also submitted the fake scrutiny report, as a result of the fraud committed by the Unicon and M/s Intercity, and on receipt of decision of Honorable High Court, Islamabad, case was processed for termination of contracts awarded to M/s. Intercity Private Limited, Muzaffarabad which was approved by Competent Authority during October, 2017. Meanwhile, contractor obtained stay order against termination on October 25, 2017 and case was in court and was last heard on November 22, 2021 and next date of hearing was March 31, 2022. Further PTV had also filed a case for recovery of Rs. 117.580 million against defaulter contractors M/s Intercity Pvt. Limited Muzaffarabad and next date of hearing was February 22, 2022.

The reply was not convincing as the contracts were awarded to M/s Intercity Private Limited on incorrect technical evaluation. Furthermore, no supervision of respective works was carried out by Project Department which resulted in litigation.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons for sub-letting of civil work contracts by M/s Intercity (Pvt.) Ltd and award of work on fake PEC certificate for fixing responsibility thereof.

Para-66 (PTVC, 2020-21)

10.2.4.27 Huge losses due to non-arranging insurance cover of sports events – Rs. 1,245.00 million

According to Rule 5(5) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety. Moreover as per Section 10 of National Insurance Corporation Act 1976, all insurance business relating to any public property or to any risk or liability appertaining to any public property shall be placed with the Corporation and with no other insurer.

During audit of PTVC for the year 2020-21, it was observed that the management sustained loss of Rs. 1,245.00 million during 2018-19 due to non-arranging insurance cover of the sports events telecasted.

In Audit Committee meeting dated December 17, 2019 Joint Secretary M/o Finance stated that management should stop procurement of loss making sports events and prepare proposals to telecast sports events in collaboration with private channels to avoid further losses. Furthermore, the Chief Commercial Officer deliberated that since very beginning, PTV procure sports rights but not a single event has been insured resulting in considerable losses during various cricket events due to unpredicted circumstances.

Audit was of the view that the Board of Directors was required to direct the management to arrange insurance cover of all the sports events telecasted on PTV from NIC to minimize the risk of unpredicted situations and exchange rate fluctuation resulted into loss but no decision was made

Thus, PTV was put to loss of Rs. 1,245.00 million during 2018-19 due to non-arranging insurance cover of the sports events.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that insuring the cricket content was quite complicated as content was only insured off-shore and most of the top companies do not insure matches due to droppages or early finishes rather they offer on acquisition cost. Therefore, insurance coverage for sports events was not feasible keeping in view cost benefit analysis.

The reply was not convincing as the management was unable to comply the direction of Joint Secretary M/o Finance dated December 17, 2019.

No DAC meeting was arranged till finalization of this report.

Audit recommends to explain the reasons for not arranging insurance cover of all the sports events telecasted on PTV to minimize the loss due to exchange rate fluctuation and late payments for fixing responsibility thereof.

Para-67 (PTVC, 2020-21)

10.2.4.28 Difference in certain head of accounts of Financial Statements and subsidiary record – Rs. 537.279 million

According to Rule 5(5) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety.

During audit of PTVC for the year 2020-21, it was observed that the Auditors M/s Grant Thornton Chartered Accountants during Special Audit of PTVC for the year 2017-18 observed that there was a difference of Rs. 537.279 million between receivable amount as per Financial Statements and Subsidiary Record/ confirmation by respective parties.

Audit was of the view that the respective departments of PTVC were required to reconcile the receivable figures but lack of coordination between PTV Central Sales Office Karachi and Finance Department PTV Headquarters Islamabad resulted into above differences which could not be settled till date thus held irregular.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that as per their record the difference was Rs. 25.359 million (Rs. 2,848,850,272 – Rs. 2,873,808,996) which was due to the effects of adjusting entries taken/considered during finalization of accounts and by that time these entries were not taken/updated in the subsidiary record. They update record/books as and when the adjusted trial balance received from Head Office, Islamabad.

The reply was not convincing as chartered accountants observed theses discrepancies during special audit and management neither shared the reply to the specific observation of special audit nor provided reconciliation of the figure of special audit.

No DAC meeting was arranged till finalization of this report.

Audit recommends to explain the reasons for non-reconciliation of subsidiary accounts record and with related parties for fixing responsibility.

Para-69 (PTVC, 2020-21)

10.2.4.29 Extra recurring financial burden due to irregular grant and continuation of acting charge – Rs. 4.438 million

According to Establishment Division O.M. No 1/21/76-AR-I/R-II dated April 6, 1987, the current charge arrangement is made as a temporary measure pending appointment of a person to the post on a regular basis. It is expected that case for regular appointment will be simultaneously initiated and finalized within the period of 6 months which is considered sufficient for the purpose. Normally, therefore, there should be no occasion for extending current charge arrangement beyond 6 months.

During audit of PTVC for the year 2020-21, it was observed that the Board of Directors decided to grant two years (730 days) LPR instead of one year (365 days) to 348 employees of the Corporation despite the fact that due to severe financial crunch an amount of Rs. 2,042 million of commutation was payable by PTV to 423 retired employees who retired between April 24, 2014 to July 2019.

Furthermore, PTV was also not making payment of its contribution into PTV Employees Pension Fund which has been accumulated to the tune of Rs. 12.00 billion. After proceeding of above employees on extra ordinary LPR, the management granted acting charge to the junior officer/ officials to serve in officiating capacity. This resulted into extra recurring financial burden of Rs. 4.438 million (PTV Headquarters only) on the Corporation. Furthermore, in the most of above cases officers were serving on acting charge basis beyond the prescribed period of six months which was held irregular.

Thus, due to grant of two years LPR to 348 employees in violation of rules, and grant of acting charge to junior officers / officials, Corporation was put to sustain extra financial burden of Rs. 4.438 million.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that officiating arrangements have been made with the approval of the competent authority in accordance with Clause-7.11, 7.12 & 7.13 of PTV Service Rules to run day to day affairs of the corporation. There was no restriction of specific period in PTV Service Rules as such no violation has been committed by the management. Hence any facility or incentive allowed to PTV employees was awarded through the approval

of the Managing Director, who was the competent authority for implementation of PTV Service Rules.

The reply was not convincing as the corporation cannot make rules in violation of the instructions of the Establishment Division. Furthermore, scheme of 730 days LPR also requires approval of the establishment division but no approval was obtained which was held irregular.

No DAC meeting was arranged till finalization of this report.

Audit recommends to explain the reasons for grant of two years LPR in violation of rules and promotion of officers/ officials on acting charge basis for fixing responsibility.

Para-74 (PTVC, 2020-21)

10.2.4.30 Irregular obtaining of running finance facility from commercial banks – Rs. 5,512.073 million

According to Rule 5(5) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety.

During audit of PTVC for the year 2020-21, it was observed that the management obtained interest rates from M/s HBL and M/s MCB and submitted the case to Audit Committee and Board of Directors who granted approval for obtaining Running Finance Facility.

Likewise, state owned PASSCO also obtain cash credit finance from consortium of banks including ABL, HBL, UBL, MCB and NBP and other leading commercial bank through competitive rates but in case of PTV no competitive rates were obtained which resulted into irregular obtaining of Running Finance Facility valuing Rs. 5,512.073 million.

Audit was of the view that the management was required to obtain most competitive rates from all leading commercial banks but they obtained rates from M/s HBL and M/s MCB only without any competition which resulted into irregular obtaining cash credit finance valuing Rs. 5,512.073 million.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that PTV was maintaining its accounts in M/s. HBL since its establishment. However with the opening of new branch of M/s. AKBL at PTV PTV-HQrs. PTV has shifted its some accounts in M/s. AKBL. However PTV has obtained Running Finance Facility of Rs.300 million from M/s. HBL & Rs.350 million from M/s. Askari Bank at mark-up rate of KIBOR + 0.40 %. PTV was not in position to obtain Running Finance Facility from other commercial banks because banks demand certain financial securities and full filling other procedural formalities before sanctioning running finance facility.

The reply was not convincing as the management was required to obtain competitive rates from leading commercial banks and then ask HBL and AKBL to match the highest rates but no such activity was performed which resulted in irregular running finance facility.

No DAC meeting was arranged till finalization of this report.

Audit recommends to explain the reasons for the irregular obtaining of cash credit finance from M/s HBL and M/s MCB for fixing responsibility thereof.

Para-75 (PTVC, 2020-21)

10.2.4.31 Loss due to creation of huge pension liabilities in excess of the fair value of PTV assets – Rs. 12.50 billion

According to Rule 5(5) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety.

During audit of PTVC for the year 2020-21, it was observed that the Board in its 239th meeting held on August 11, 2020 was told that present value of obligation (pension liability) as at year ended June 30, 2019 amounts to Rs. 12.50 billion against fair value of assets of Rs. 52.433 million which was in excess of Rs. 12.50 billion. This casts significant doubt about the entity's ability to pay off the excess liability. This resulted into creation of excess pension liability of Rs. 12.50 billion.

Audit was of the view that the PTV Board of Directors /management was required to make repayment plan of the huge pension liability but management was maintaining un-funded pension scheme and not making contribution into PTV Pension Fund and also not making the full payment of commutation to its employees which resulted into huge pension liabilities of Rs. 12.50 billion.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that the pension liability of Rs. 12.50 billion was incorporated in the year 2015 upon instructions of Statutory Auditors on account of actuarial valuation.

The reply was not convincing as the management was also required to payment plan of the subject liability but no such plan was approved by the management.

No DAC meeting was arranged till finalization of this report.

Audit recommends to explain the reasons for the accumulation of huge pension liability for fixing responsibility.

Para-78 (PTVC, 2020-21)

10.2.4.32 Irregular grant of honorarium to ineligible PTV employees - Rs. 18.070 million

According to policy decision of the Managing Director PTV on August 2015 duly endorsed by Chairman PTVC and Federal Minister for I&B, if any public office holder want to grant honoraria then the same must be done from their own budget as PTV will not be bound to fund such gestures. Furthermore, as per direction of the Secretary Standing Committee dated November 24, 2020, all genuine and rightful employees of PTV who worked for budget session 2018-19 & 2019-20 may be given honoraria forthwith and payment of honoraria to the rest of employee may follow.

During audit of PTVC for the year 2020-21, it was observed that the management moved a summery to the Prime Minister for the grant of honorarium equal to 05 & 03 month salary announced by the Federal Minister of Finance to all employees who performed duties in the Parliament House during budget session 2018-19 & 2019-20 on July 22, 2019. After approval of the summary

management requested the Ministry of I&B for provision of funds in this regard. The ministry informed that Finance Division has regretted the request of PTV.

The Standing Committee of I&B provided list of 12 PTV employees each for session 2018-19 & 2019-20 but management made payment of honoraria valuing Rs.18.070 million to 61 employees for 2018-19 and 55 employees for 2019-20 along with seven staff members of minister's office.

Thus, PTV management paid irregular payment of honoraria amounting to Rs.18.070 million to ineligible employees in violation of the Standing Committee's directives.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that no payment has been made to any ineligible employee of PTVC in compliance with the honorarium announced by the Federal Minister for Finance for the budget sessions 2018-19 & 2019-20, as all the employees were duly verified by the concerned Head of Division/department. It was further stated that 12 to 15 employees were also included in the main list/chart prepared by the Audit Team in the subject para, therefore, they have also got this due payment of honorarium along with other PTV employees whose names have been verified by their concerned department. In the light of recommendations of Board of Directors in its 248th meeting held on June 24, 2021. The competent Authority has approved honorarium for the budget session 2018-19 and 2019-20.

The reply was not convincing as only 12 employees were recommended by Standing Committee of I&B. Hence payment of honorarium to 61 employees for 2018-19 and 55 employees for 2019-20 was held irregular.

No DAC meeting was arranged till finalization of this report.

Audit recommends to explain the reasons for the payment of honoraria to ineligible PTV employees instead of 12 employees recommended by Standing Committee for fixing responsibility.

Para-79 (PTVC, 2020-21)

10.2.4.33 Irregular hiring the services of Regional Sales Manager on invalid degree – Rs. 4.950 million

According to appointment letter bearing No: HP/107/152-B/11916 dated: December 28, 2019, issued to Mr. Rizwan Malik for the post of Regional Sales Manager, verification of his degrees / educational documents was mandatory from the concerned board / institute/ university within one month of his joining. In case of non-compliance, his services will be terminated automatically without any notice.

During audit of PTVC for the year 2020-21 it was observed that the management hired the services of Mr. Rizwan Malik as Regional Sales Manager at monthly salary of Rs. 275,000 per month for one year contract w.e.f December 28, 2018. An amount of Rs. 4.950 million was paid to officer on account of salary for the period December 28, 2018 to August 17, 2020.

On August 17, 2020 the management terminated his services due to the reasons that his BBA and MBA degrees were sent for verification to HEC but HEC responded on October 16, 2019 that Premier College of Business Administration & Economics, Lahore was not recognized by HEC. This shows that the management released salary to the officer concerned for 10 months despite confirmation from HEC that his degree was not valid. In this way undue favour was extended to the officer concerned.

This resulted into irregular appointment of Mr. Rizwan Malik Regional Sales Manager and payment of pay and allowances valuing Rs. 4.950 million (Rs. 275,000 x 19 months 20 days).

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that Mr. Rizwan Malik was appointed w.e.f. December 28, 2018 as Regional Sales Manager with the approval of competent authority, in accordance with the PTV's policy as approved by PTV's BOD in its 184th meeting. He joined his duties w.e.f. June 01, 2019. The Bachelor & Master degrees were sent to HEC, Islamabad in January-2019 for confirmation, in response, Assistant Director, Accreditation & Attestation confirmed that the said institute was not recognized, therefore, the transcripts / degrees issued by the said college did not verify/attested by HEC.

In view of the report, his salary was seized and a case regarding disciplinary proceedings was initiated which took at-least one year due to completion of procedural requirements, and finally approved by the competent authority wherein his services were terminated w.e.f. August 17, 2020. Meanwhile, the incumbent also filled a civil suit No.22432/14 against HEC & Premier College which was still pending before court of law. Later on the incumbent requested for release of pending dues from June-2019 to August-2020, and on the recommendation of PTV Legal Advisor, his salary was released on basis of services rendered during the period.

The reply was not convincing the management was required to get the educational degrees of the new inductees verified soon after joining the duty but late action was taken which resulted in irregular payment of pay and allowances valuing Rs. 4.950 million.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons for the irregular appointment of Regional Sales Manager on invalid degree and release of salary for ten months even after confirmation of invalidity of degree, for fixing responsibility thereof.

Para-81 (PTVC, 2020-21)

10.2.4.34 Irregular release of 100% share of PCB without 100% receipt of advertising income – Rs. 107.789 million

Non-recovery of advertising income – Rs.17.059 million

According to clause-10.4 of the agreement for space licensing on satellite beam (Pakistan Territory only) between PCB and PTV dated: September 16, 2020, on the next working day after the transmission of the relevant PCB content, either party's share under clause-9.1 from such gross sales as received shall be transferred to their designated bank accounts. For any payments received after the transmission of the PCB content, the parties' share of such payments shall be transferred to the respective designated accounts on the next working day. Furthermore, as per clause-10.3 of the agreement dated: September 16, 2020, a designated account being an escrow account as defined supra shall be opened and maintained by PCB wherein all payments from the sale of commercial air time shall be deposited.

During audit of PTVC for the year 2020-21 it was observed that the PCB did not open and maintain an Escrow Accounts for the collection of advertising income and release of the PTV share. The PTV management opened a collection accounts for deposit of receipts from the advertisers.

An amount of Rs. 170.401 million received to PTV out of total sale income of Rs. 187.460 million. PTV made payment of 100% share of the PCB i.e.

Rs. 107.789 million against 57.5% share as per agreement i.e. Rs. 97.981 million from total income of Rs. 187.460 million. Thus, 100% share was transferred without receipt of 100% advertising income in violation of the above referred clause of the agreement as an amount of Rs. 17.059 million was still recoverable from the advertisers.

Audit was of the view that the management was required to ask the PCB to open an Escrow Accounts under the provisions of the agreement but same was not opened. Furthermore, PTV released 100% share of PCB in violation of the above referred agreement instead of release of proportionate share of PCB from the received advertising income.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that as per agreement clause 10.3, an escrow account was to be opened for receipt of income of PCB events where from respective shares of PCB and PTV was to be transferred to their designated account. But due to completion of procedural formalities the said account was not opened in time and financial year of advertising companies was going to be closed therefore PTV was compelled to offer its own account for receipts of income of three PCB events. The agreement income generated through airing of PCB events was required to be distributed between the parties. Therefore, PTVC had released 57.50% share of PCB against total income generated Rs. 187.456 million however, it was pertinent to mention here that we have ongoing business with PCB and an amount of approximately Rs. 50 million related to PCB was at our end that was still to be paid after recovery from the market.

The reply was not convincing as the management was required to release the share of PCB after receipt of income in the collection account but 100% share

was released from own sources which was held irregular. Furthermore, PCB has not opened escrow account which was held irregular.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons for the release of 100% share of PCB despite recoverable amount of Rs. 17.059 million from the advertisers for fixing responsibility thereof.

Para-83 (PTVC, 2020-21)

10.2.4.35 Non-deduction of FED and income tax from the income share of PCB – Rs. 19.402 million

According to sub-section-2 of Section-49 of the Income Tax Ordinance 2010, Exemption under this section shall not be available in the case of Corporation, Company, a regulatory authority, a development authority, other body or institution established by or under a Federal law or a Provincial law or an existing law or a Corporation, Company, a regulatory authority, a development authority or other body or institution set up, owned and controlled, either directly or indirectly, by the Federal Government or a Provincial Government, regardless of the ultimate destination of such income as laid down in Article 165A of the Constitution of the Islamic Republic of Pakistan.

During audit of PTVC for the year 2020-21 it was observed that the management made payment of 100% share of the Pakistan Cricket Board (PCB) (57.5%) i.e. Rs. 107.789 million from the total advertising income of Rs. 187.460 million during July 13, 2021 to September 15, 2021.

However deduction of FED @ 10% and Withholding Tax @ 8% valuing Rs. 19.402 million was not made from the payments made to the PCB in violation of the above referred section of the Income Tax Ordinance 2010.

Audit was of the view that the management was required to deduct FED and Withholding Tax at prescribed rates as per applicable law but the same was not deducted on production of indemnity certificate.

Thus, PTV management put the Government exchequer to loss of Rs. 19.402 million on account of non-deduction of FED and withholding tax.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that PTVC has deducted an amount of Rs.19.402 million of FED and Income Tax on M/s. PCB's share which was objected by M/s. PCB, they demanded full payment without deduction of taxes. Number of meetings were held between tax consultants of both the parties and it was decided that M/s. PCB will provide Indemnity Certificate against any and all claims arising from PCB's non-compliance of applicable laws relating to any tax, duty or other fiscal impositions. Our Tax consultant M/s. KPMG also acknowledge/endorsed the same. Therefore PTVC has released an amount of Rs. 19.402 million.

The reply was not convincing as the arrangement of refund of FED and Income Tax to PCB on Indemnity Certificate was not a legal course of action under the rules.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons of non-deduction of FED and Withholding Tax for fixing responsibility thereof.

Para-84 (PTVC, 2020-21)

10.2.4.36 Loss due to non-recovery of the missing items during physical verification – Rs. 7.722 million

According to Rule-161 of the General Financial Rules, in making a physical verification the following instructions should invariably be observed:-

- i) Verification must always be made in the presence of the officer responsible for the custody of the stores or of a responsible person deputed by him ;
- ii) all discrepancies noticed should be brought to account immediately, so that the stores account may represent the true state of the stores ;and
- iii) Shortages and damages, as well as unserviceable stores, should be reported immediately to the authority competent to write off the loss.

During audit of PTVC for the year 2020-21, it was observed that the management made physical verification of assets during 2020-21 and certain items valuing Rs. 7.722 million were found short.

The management was required to conduct inquiry for fixing responsibility of short items and making recovery there against which was not done.

Thus due to non-recovery of missing items, Corporation was put to loss of Rs. 7.722 million.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that the items pointed out by the Auditors being missing items during physical verification for the year 2020-21 were either transferred to other PTV Centers/Offices on temporarily basis/loan basis or permanent basis through issuance of SIRs and debit notes.

The reply was not convincing as the same fact was not pointed out by physical verification teams of PTV and respective management which was held irregular.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons of missing items beside reasons for non-conducting of inquiry in the case for fixing responsibility thereof.

Para-86 (PTVC, 2020-21)

10.2.4.37 Loss due to acquisition of loss making sports events – Rs. 127.412 million

According to Rule 5(5) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety.

During audit of PTVC for the year 2020-21 it was observed that the management acquired the media rights of the certain sports events during the period from 2019 to 2021 and incurred an expenditure of US \$ 9,965.610 million for acquisition of media rights.

However it was observed that PTV sustained loss of Rs. 127.412 million due to receiving very low advertising income from these events. The exact amount of advertising income received from these events was requested from the management but the same was not provided.

Thus due to acquisition of sports events without analyzing its rating resulted into loss of Rs. 127.412 million.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that to full fill PTV screen requirements, the events were procured. In order to assess its viability opportunity cost of regular program cost was also considered which has been ignored by audit. Further-more, these were procured to complement other live sporting events. Therefore, profit & loss of an individual event was not the key to decision but the overall profit of combined events reflected in our profit & loss statement showed overall performance. The non-viable events do at value to our combo/bouquet of events which results in overall profitability/rating.

The reply was not convincing as management was required to comply the direction of Joint Secretary M/o Finance dated December 17, 2019 expressed in Audit Committee meeting that management should stop procurement of loss making sports events and prepare proposals to telecast sports events in collaboration with private channels to avoid further losses.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons for acquisition of sports events without assessing its rating resulting loss to the Corporation for fixing responsibility thereof.

Para-88 (PTVC, 2020-21)

10.2.4.38 Non-recovery of outstanding income from advertising agencies - Rs. 471.013 million

According to Rule 5(5) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety.

During audit of PTVC for the year 2020-21, it was observed that the management purchased various dramas of private production valuing Rs. 74.075 million and earned income of Rs. 1,211.737 million.

Out of total income of Rs. 1,211.737 million, only Rs. 740.724 million was recovered and Rs. 471.013 million were still outstanding. The management also purchased a programme “Aslam ka gaon” costing Rs. 600,000 per episode. Six episodes were aired and management earned Rs. 3.15 million as income without recovery.

Thus, due to non-recovery of advertising income from the advertisers, Corporation is expected to sustain loss to the extent of Rs. 431.013 million.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that Central Sales Office, Karachi was continuously pursuing the recoveries of outstanding payments from Advertising Agencies. An amount of Rs.471.013 million was recoverable as on June 30, 2021 against various agencies against which an amount of Rs. 193.517 million has been recovered upto December 31, 2021.

The reply was not convincing as the management not provided the documentary evidence regarding recovery of Rs.193.517 million till December 31, 2021.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reason for non-recovery of income from advertisers and provide the detail along with copy of the agreement with advertisers for fixing responsibility thereof.

Para-90 (PTVC, 2020-21)

10.2.4.39 Irregular appointment of officer on contract and payment of pay & allowances – Rs. 9.405 million

According to Supreme Court of Pakistan orders dated December 26, 1992, the practice adopted by the Federal Government, Provincial Governments, Statutory Bodies and the Public Authorities for making initial recruitments, both adhoc and regular to posts and offices without publicity and properly advertising the vacancies and at times by converting adhoc appointments into regular appointments is prima facie violation of Fundamental Rights (Article-18 of the Constitution) guaranteeing to every citizen freedom of profession.

During audit of PTVC for the year 2020-21, it was observed that the management appointed Mr. Muhammad Sarosh Butt as Head Sales (Lahore Region) on pay package of Rs. 495,000 per month.

Audit pointed out the following discrepancies:

- 1 The officer was appointed without advertisement as required under the PTV Employees Service Rules as well as in violation of Supreme Court orders.
- 2 The age of Mr. Sarosh Butt at the time of appointment was 51 years against the required 35 years in violation of PTV Service Rules.
- 3 It was further observed that MBA Degree of the officer was not completed at the time of his appointment in PTV.
- 4 The Interview assessment Form was initially filled by the Selection Board with led pencil and afterwards same was corrected with ball point which created doubt.

This resulted into irregular appointment of Head Sales (Lahore Region) in violation of rules by extending undue favor at the cost of Government exchequer.

Thus, the appointment and payment of Rs 9.405 million (i.e. Rs. 495,000 x 19 months = Rs 9,405,000) on account of pay & allowances w.e.f April 01, 2020 to October 31, 2021 was held irregular.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that Mr. Sarosh Butt was appointed against advertisement dated September 19, 2019. The 35 years age limit was for established induction posts, whereas the incumbent was appointed against professional category on the basis of vast market experience in sales functions. Further, the Institute of Management Sciences vide letter dated December 11, 2020 has verified his MBA transcript and he was a bonafide student of Pak-American Institute of Management Sciences in their MBA program from Spring 1993 to Spring 1995. His was not issued due to not submission of fees. A member of Selection Board filled the Assessment form through led pencil, which later on filled in through a ball point after mutual consent of the other Selection Board Members in the light of interview performance.

The reply was not convincing as no such record was found in the personal file of the officer. No age relaxation was granted by the Managing Director PTV in the subject case. Furthermore, as per clarification of the American Institute of Management Sciences letter dated December 11, 2020 the candidate not yet completed the requirements of MBA (Fall 1994). Hence management appointed the officer on incomplete qualification.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter at appropriate level for irregular appointment made in violation of Court directives and Corporation's own Service Rules for fixing responsibility thereof.

Para-91 (PTVC, 2020-21)

10.2.4.40 Non-evaluation of the Managing Director PTVC by the Board – Rs. 26.351 million

According to Rule-8(1) of the Public Sector Companies (Corporate) Governance Rules 2013, the performance evaluation of the members of the Board including the Chairman and the Chief Executive shall be undertaken for which the Board shall establish a process, based on specified criteria, and the Chairman of the Board shall take ownership of such an evaluation. The committees shall also carry out their evaluation on an annual basis.

During audit of PTVC for the year 2020-21, it was observed that the Government of Pakistan appointed Mr. Aamer Manzoor as Managing Director PTV at monthly salary of Rs.1.600 million plus 1800 CC car with driver, unlimited petrol and receipt of medical reimbursement w.e.f June 14, 2019.

However, it was observed from record that in house production of PTV was almost nil and a large portion of the human resource was sitting idle. PTV was resorting on private production dramas which was not a healthy sign in the long run. Apart from it, the rating of the PTV was also not improved. The Civil Work Projects were not completed despite lapse of almost ten to fifteen years and no concrete action has so far been taken to complete these civil work projects.

Audit was of the view that the Board was required to evaluate the performance of the Managing Director PTV with respect to the progress of the Corporation but no performance evaluation was made.

Thus in the absence of any evaluation as required under the Corporate Governance Rules, pay & allowances of Rs. 26.351 million to the officer concerned was held irregular.

The matter was reported to the management on January 03, 2022. The management in its reply dated February 03, 2022 stated that as far as performance evaluation of Board members including the Chairperson, Managing Director was concerned, during 2020-21, most of the time i.e. 18.09.2020 to 26.11.2020 and 18.01.2021 to 02.06.2021, the Board of Directors remained incomplete as a result of various judgments of the honorable Islamabad High Court. Accordingly, the performance evaluation of the Board members including the Chairman and the Chief Executive/Managing Director will be carried out after finalization & submission of audited financial statement by Statutory Auditors.

The reply was not convincing as the management has not carried out the performance evaluation of Managing Director PTV in violation of Public Sector Companies (Corporate) Governance Rules 2013.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons of non-evaluation of the performance of the Managing Director by the Board of Directors in violation of Corporate Governance Rules for fixing responsibility thereof.

Para-77 (PTVC, 2020-21)

10.3 Shalimar Recording and Broadcasting Company Limited

10.3.1 Introduction

Shalimar Recording and Broadcasting Company Limited (SRBC) is an unlisted public limited Company, incorporated in Pakistan on December 18, 1974. The Company commenced its commercial business on July 01, 1976. This company is engaged in operating, telecasting, and broadcasting facilities. In 1989 it created a wholly owned Peoples Television Network (Pvt.) Limited which was later on amalgamated with SRBC with the new name of “STN” now called ATV. Currently it is a recording and broadcasting company with 20 ATV stations in the urban centers of Pakistan.

Corporate Information

Government of Pakistan holds 92.81% shares of the Company through Pakistan Television Corporation Limited (70.95%), Pakistan Broadcasting Corporation (19.67%) and Pakistan National Council of Arts (2.19%). The registered office of the Company is situated at 36, H/9 Islamabad. The Company is under the administrative control of Ministry of Information and Broadcasting, Government of Pakistan.

The company has a paid up capital of Rs.54.900 million and is under the administrative control of Ministry of Information and Broadcasting.

10.3.2 Comments on Audited Accounts

9.3.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts of the organization for the year 2019-20 and 2020-21 till December 31, 2021.

Audit recommends that the annual audited accounts for the years 2019-20 and 2020-21 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

9.3.2.2 The statement of profit and loss of the company for the FY 2018-19 and preceding years is as follows:

Statement of profit and loss				
Year	2019	2018	2017	2016
Revenues	341,407,392	458,340,868	444,036,887	423,809,443
Transmission expenses	295,145,614	265,722,804	271,434,849	305,007,339
Gross Profit	46,261,778	192,618,064	172,602,038	118,802,104
Admin expenses	157,312,231	156,102,811	145,355,069	168,167,967
Operating profit	(111,050,453)	36,515,253	27,246,969	(49,365,863)
Financial charges	278,230	551,581	555,237	494,714
Sub total	(111,328,683)	35,963,672	26,691,732	(49,860,577)
Other income	4,547,751	13,837,411	13,744,181	19,496,868
Profit before taxation	(106,780,932)	49,801,083	40,435,913	(30,363,709)
Provision for tax	11,853,542	30,494,574	37,104,931	33,514,678
Profit after taxation	(118,634,474)	19,306,509	3,330,982	(63,878,387)
Share capital	5,490,000	5,490,000	5,490,000	5,490,000
Earnings per share	(21.61)	3.52	0.61	(11.64)

9.3.2.3 Revenue generation of the company has decreased significantly by 26%. Previously annual growth of 5% in 2017 and 3% in 2018 can be observed which took a steep dip in 2019. This can be attributed to reduction in airtime income by 29% as well as imposition of Federal Excise Duty and Sales tax. Management of SRBC needs to increase the channel's reach to increase airtime income.

9.3.2.4 Direct Cost increased by 9%. Component wise breakup of direct cost includes direct cost incurred on ATV Stations, Rebroadcast stations, studios, and FM Stations. Out of these, cost escalation of 54.95% alone is observed in Studio Expenses because of the resumption of the production and transmission of Morning Show. Annual growth in Transmission expenses is -11% and -2% in 2017 and 2018 respectively but in 2019 growth of 11% has occurred. Transmission expenses as a percentage of revenues stood 61%, 58% in 2017 and 2018 respectively and jumped to 86% of total revenues in the 2019. This shows lack of control over expenses.

9.3.2.5 Profitability ratio shows how efficiently a company generates profit. Decrease in revenue generation and increase of direct cost has taken its toll on the gross profit which decreased by 75% in 2019 as compared to previous year. Gross profit as a percentage of revenue has also decreased from 39% in 2017 to 14% in 2019. The net profit margin remained consistently low at only 1%, 4% in

preceding years and has fallen to negative 35% in 2019. This in turn affected the operating profit/loss negatively. Management needs to take remedial measures in this regard.

9.3.2.6 Other income decreased by 67% which comprises rental income, interest income, house building advances to employees and other income. Reduction in rental income comes out to be 68% whereas for other income decrease comes out to be 66%. This decreasing trend is significant and needs to be explained by the management.

9.3.2.7 Admin expenses as a percentage of revenue increased from 33% in 2017 to 46% in 2019. However annual growth in admin expenses shows that management has been successful in cutting down the expenses as compared to previous year.

9.3.2.8 Return on capital employed is a financial ratio used in assessing a company's profitability and capital efficiency. This ratio can help to understand how well a company is generating profits from its capital as it is put to use. Higher values are considered favorable for a business entity but in case of SRBC data from financial statements suggest that the company is unable to reap the benefits of its capital employed to the fullest. Computation for successive years indicates that ROCE value has decreased continuously from 5% in 2017 to negative 23% in 2019.

9.3.2.9 Interest coverage ratio is used to determine how easily a company can pay interest on its outstanding debt. The lower the interest coverage ratio, higher is the company's debt burden. Computation of this ratio suggests that the company is going to face difficulty in meeting its interest obligations as the value has decreased considerably from 49 in 2017 to negative 399 in 2019.

9.3.2.10 Earnings per share measures the amount of net income earned per share of stock outstanding. The higher the value, the greater is the profitability and market value of the company. The EPS computation shows that company's earnings per share have decreased significantly from 0.61 Rupees in 2017 to negative 21.61 in 2019. Annual growth in EPS also highlights the low profitability of company.

9.3.2.11 Receivables collection period of the company has also increased significantly which shows that the entity is taking more time to collect accounts receivables from its creditors.

9.3.2.12 Debtor has been increased to Rs. 514,649,211 in 2019 whereas Rs. 342,271,544 in 2018 increased by 50.37% the audit recommends that year wise and entity wise breakup of aging of the all debtors be provided. The management of SRBC should need to recover the outstanding amount from debtor and also need to justify the huge outstanding debtors.

9.3.2.13 Financial Ratio Analysis for the corresponding years is as under:

Financial Ratios Analysis			
	2019	2018	2017
<i>Sales analysis</i>			
Revenue Annual Growth %	-26%	3%	5%
Transmission expense growth %	11%	-2%	-11%
Transmission expense as a % of revenue	86%	58%	61%
<i>Profitability Analysis</i>			
Gross profit	14%	42%	39%
Admin Expenses as a % of revenue	46%	34%	33%
Admin Expenses annual growth	1%	7%	-14%
Operating profit margin	-33%	8%	6%
Tax Expense as a % of revenue	3%	7%	8%
Growth in Tax expense	-61%	-18%	11%
Net profit margin	-35%	4%	1%
Return on Capital Employed	-23%	6%	5%
<i>Liquidity Analysis</i>			
Current ratio	3	11	10
<i>Solvency Analysis</i>			
Gearing Ratio	67%	55%	55%
Interest coverage ratio (number of times)	-399.1	66.2	49.1
<i>Investors Analysis</i>			
EPS (Rupees)	(21.61)	3.52	0.61
Annual Growth in EPS	-714%	480%	105%
<i>Working capital Analysis</i>			
Receivables collection period (days)	550.21	272.57	235.74
Creditors payment period (days)	205.87	68.71	71.54

10.3.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of Compliance
2011-12	12	0	12	10.4.1, 10.4.2.1, 10.4.2.2, 10.4.2.3, 10.4.2.4, 10.4.3, 10.4.4.1, 10.4.4.2, 10.4.4.3, 10.4.4.4, 10.4.4.5, 10.4.4.6	0
2012-13	04	0	04	10.4.1, 10.4.2.1, 10.4.2.2, 10.4.3	0
2015-16	08	01	07	9.2.2.1, 9.2.2.2, 9.2.2.3, 9.2.2.4, 9.2.2.5, 9.2.2.6, 9.2.2.7	13
Total	24	1	23		4

The overall compliance of PAC was very poor. Immediate attention of the PAO was required to improve the situation.

Chapter-11

Ministry of Interior

Overview

Interior Ministry is responsible for policing, emergency management, national security, registration, supervision of local governments, conduct of elections, public administration and immigration matters.

Aims & Objectives

To make Islamic Republic of Pakistan a country where rule of law reigns supreme; where every Pakistani feels secure to lead a life in conformity with his religious beliefs, culture, heritage and customs; where a Pakistani from any group, sect or province respects the culture, tradition and faith of the other, where every foreign visitor feels welcome and secure.

Polices

- National Internal Security Policy 2018-2023
- SOPs 2017
- Government Procedures 2017
- Rules of Business
- Visa Policy General
- Visa Abolition Agreements
- Visa Policy For Indian Nationals
- Private Security Companies
- Updated Arms Policy 2012

Audit Profile of Ministry of Interior

(Rs. in million)

S. No.	Description	Total	Audited	Expenditure audited FY 2020-21	Revenue /Receipts audited FY 2020-21
1	Formations	1	-	-	-
2	Assignment Accounts (excluding FAP)	-	-	-	-
3	Authorities /Autonomous Bodies etc. under the PAO	1	-	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations amounting to Rs. Nil were raised as a result of this audit. This amount also includes recoverable of Rs. Nil as pointed out by the audit. Summary of the audit observation classified by nature is as under:

Overview of the Audit Observations

Sr. No.	Classification	Amount (Rs. in million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities:	
A	HR/Employees related irregularities	-
B	Procurement related irregularities	
C	Management of accounts with Commercial Banks	-
4	Value for money and services delivery issues	-
5	Others	

11.1 National Database and Registration Authority (NADRA)

11.1.1 Introduction

National Database and Registration Authority (NADRA) was established on March 10, 2000 by the Government of Pakistan under the National Database and Registration Authority Ordinance 2000 by merging the National Database Organization (NDO) and the Directorate General of Registration (DGR). The principal office of the Authority is situated at Islamabad. The purpose and object of the Authority is to formulate and implement policies and plans for:

- (i) The development and establishment of an improved and modernized system of registration in the Country;
- (ii) The broadening of the registration base to bring within its purview all persons and things, wherever they may be to the extent and in the manner laid down in the Ordinance; and
- (iii) The establishment and maintenance of multi-purpose databases, warehousing, networking, interfacing of databases and related facilities and services.

11.1.2 Comments on Audited Accounts

11.1.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts of the organization for the year 2020-21 till December 31, 2021.

Audit recommends that the annual audited accounts for the year 2020-21 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (**Annex-2**).

11.1.2.2 Working results of the NADRA for the years 2019-20 with those of the previous years are as under:

(Rs. in million)					
	2019-20	% Inc/ (Dec)	2018-19	% Inc/ (Dec)	2017-18
Income					
Turnover-net	21,867.31	(14.08)	25,451.64	9.09	23,331.56
Operating Expenditure	19,177.93	(1.64)	19,497.69	10.61	18,033.38
Operating Income	2,689.39	(54.83)	5,953.95	12.38	5,298.18
Finance Cost	299.63	228.58	91.19	(13.95)	105.97
Other Income	1,685.532	(31.73)	2,468.99	62.60	1,518.41
Net income before tax	4,075.29	(51.09)	8,331.77	24.16	6,710.62
Taxation	318.18	(36.36)	499.98	(10.28)	557.27
Net income for the year	3,757.11	(52.03)	7,831.78	27.28	6,153.35
Other Comprehensive income					
Actuarial gain/(loss) –Gratuity	164.38	253.73	46.470	-	(66.927)
Actuarial (loss) – Pension	(1,675.42)	(14.55)	(1,960.35)	(9.68)	(2,170.45)
	(1,511.04)	(21.05)	(1,913.88)	(14.46)	(2,237.37)
Total comprehensive income for the year	2,246.07	(62.05)	5,917.89	51.12	3,915.97
Accumulated profit/(loss)	20,317.10	12.43	18,071.03	48.72	12,842.18

(Source: Annual Audited Accounts)

Net income of the Authority has decreased by 52.03% to Rs. 3,757.11 million in 2019-20 as compared to Rs. 7,831.78 million in the previous year. The decreased in net income was due to 14% decrease in net revenue and 31.73% decrease in other income respectively during the year under review. The other contributory factor of decrease in net income was increase in finance cost by 228.58% during the year to Rs. 299.63 million from Rs. 91.19 million in the previous year. Furthermore, total comprehensive income for the year was decreased by 62.05% to Rs. 2,246.07 million in 2019-20 against Rs. 5,917.89 million in the previous year. Audit recommends to justify the reason for abnormal decrease in net income and effort needs to be made to increase the net income.

11.1.2.3 Although, Cash and bank balances decreased by 9.26% from Rs. 4,104.435 million as on June 30, 2019 to Rs. 2,988.435 million as on June 30, 2020. The authority also had short-term investment of Rs. 2102.796 million as on June 30, 2020. The Authority should work out its working capital requirements and surplus funds may be invested in appropriate manner at better markup rate.

11.1.2.4 The accumulated surplus of the Authority increased to Rs. 20,317.10 million as on June 30, 2020 against Rs. 18,071.03 million of previous year

registering an increase of 12.43%. The main contributory factor in revenue was operational revenue i.e. 82% of the total revenue. The operations include fee charged from general public on issuance/renewal of CNIC, Form – B, Family Tree, marriage certificate etc. As is evident from the working results, the net income of the Authority is increasing each year. Resultantly, the accumulated surplus increased to that extent. Position showed that the Authority is working as a profit-making concern and the fee determined, for different services has a reasonable profit margin. The management may review the fee structure of different services and benefit may be granted to the general public by making reduction in fee to the maximum possible limit.

11.1.2.5 Expenditure includes marketing and promotion expenses which was increased by 145% to Rs. 139.419 million in 2019-20 from Rs. 56.895 million in the previous year. The abnormal increase under said head needs to be justified.

11.1.2.6 The detail of expenditure showed an expenditure of Rs. 1,393.54 million under the head Research & Development, whereas, the same expenditure was Nil in the previous year. The notes to the accounts are silent about break up and details of said head. Audit recommends to justify the reason for incurring Rs. 1,393.54 million and to provide the evidence along with further breakup.

11.1.2.7 Expenditure under the head Fuel & Lubricants was incurred during the year amounting to Rs. 270.559 million. The Authority adopted monetization policy, the huge amount of expenditure under the head showed that in addition to monetization, the official vehicles are being used by the officers. Position needs clarification.

11.1.2.8 The revenue from export and services performed outside Pakistan was decreased by 1% to Rs. 3,704.95 million in 2019-20 (2018-19 - Rs. 3,736.63 million), whereas expenses on export and services performed outside Pakistan during the year was increased by 15.77% to Rs. 433.028 million against Rs. 384.332 million of previous year. Position with regard to decrease in revenue and abnormal increase in expenses needs clarification.

11.1.2.9 Non-Current Assets included Intangibles assets of Rs. 504.987 million as on June 30, 2020. Note – 5 to the accounts showed that the cost of computer software was Rs. 1,078.428 million, the management is applying rate of

amortization per annum 33.33% and value of Intangible assets as on June 30, 2020 is appearing Rs. 504.987 million. Although, major cost of computer software has since been amortized but the management is still utilizing the said computer software at its network spread at Centers level and still have value. The management may evaluate the computer software and fair value may be portrayed in the annual accounts.

11.1.2.10 Non-Current Assets included investment in subsidiary i.e. NADRA Technologies Ltd. to the tune of Rs. 25.00 million. But no dividend was received on said investment, position needs clarification.

11.1.2.11 Deposits, prepayments and other receivables included amount due from subsidiary company increased by 54 % to Rs. 838.026 million as on June 30, 2020 (2018-19 – Rs. 543.810). Early recovery is stressed upon the management.

11.1.2.12 Advance tax – Net increased by 19% to Rs. 1,493.507 million as on June 30, 2020 (2018-19 – Rs. 1252.717 million). Whereas, tax charged for the year Rs. 318.181 million leaving advance tax closing balance Rs. 1,493.507 million. Payment of advance tax without adjusting the previous one needs justification.

11.1.2.13 Current liabilities included contract liability of Rs. 1,755.381 million as on June 30, 2020 (2018-19 – Rs. 1,165.339 million). The figure is silent by means of notes, position needs to be clarified.

11.1.2.14 Although, Trade & other payables increased by 40% to Rs. 6,921.956 million as on June 30, 2020 (2018-19 – Rs. 4,944.692 million). It included payable to NHA Rs. 657.982 million and to MORE Rs. 259.356 million. The liability is outstanding since long but, yet to be cleared. The management may elaborate the reasons for non-clearance of long outstanding liability and early settlement is stressed upon the management.

11.1.2.15 Although, advances decreased by 2.2% to Rs. 310.200 million as on June 30, 2020 (2018-19 – Rs. 317.368.674 million), however, it includes year end advance to suppliers and contractors Rs. 155.580 million (2018-19 Rs. 133.591 million), against expenses Rs. 83.33 million (2018-19 Rs. 70.801 million) which are still on higher side. Moreover, the figures are silent with regard to secured/un-

secured advances. The management may intimate the secured/un-secured advances, aging analysis and advances doubtful for recovery.

11.1.2.16 Stores, spares and other consumables includes, stores increased by 242% to Rs. 39.310 million as on June 30, 2020 (2018-19 – Rs. 11.504 million). Whereas, notes to the accounts are silent about reason for such abnormal increase. Audit recommends to justify the reason for increase in stores along with detailed break up.

11.1.3 Compliance of PAC Directives

Sr. No.	Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras #	% of Compliance
1	2003-04	75	27	48	11.3, 11.4, 11.5, 11.6, 11.8, 11.13, 11.14, 11.15, 11.16, 11.22, 11.24, 11.25, 11.11, 11.12, 11.23, 11.25, 11.26, 11.27, 11.28, 11.29, 11.30, 11.32, 11.35, 11.37, 11.44, 11.45, 11.48, 11.36, 11.38, 11.39, 11.40, 11.42, 11.54, 11.57, 11.71, 11.75, 11.46, 11.50, 11.51, 11.53, 11.54, 11.55, 11.59, 11.61, 11.65, 11.67, 11.68, 11.69	36
2	2016-17	22	0	22	10.1.2, 10.1.3, 10.1.4.1, 10.1.4.2, 10.1.4.3, 10.1.4.4, 10.1.4.5, 10.1.4.6, 10.1.4.7, 10.1.4.8, 10.1.4.9, 10.1.4.10, 10.1.4.11, 10.1.4.12, 10.1.4.13, 10.1.4.14, 10.1.4.15, 10.1.4.16, 10.1.4.17, 10.1.4.18, 10.1.4.19, 10.1.4.20	0
3	2017-18	11	06	05	13.1.1, 13.1.3, 13.1.4.2, 13.1.4.5, 13.1.4.8,	55
4	2019-20	15	05	10	9.1.2.1, 9.1.2.2, 9.1.2.3, 9.1.2.4, 9.1.2.5, 9.1.3, 9.1.4.2, 9.1.4.3, 9.1.4.4, 9.1.4.5	33
	Total	123	38	85		31

The overall compliance of PAC was very poor. Immediate attention of the PAO was required to improve the situation.

Chapter-12

Ministry of Maritime Affairs

Overview

Ministry of Maritime Affairs in Islamabad is the central administrative authority of the Government of Pakistan primarily assigned to facilitate the ports and shipping industry of Pakistan by providing policy guideline to encourage port development and growth in shipping while maintaining safety standards. The Ministry is headed by the Federal Minister for Maritime Affairs assisted by the Secretary, Maritime Affairs. In Karachi Director General (Maritime Affairs) represents Ministry.

Aims & Objectives

- To formulate and implement plans and policy in conformity with International best practice to transform the ports of Pakistan into modern, competitive, user friendly and a transshipment hub of the region with hinterland connectivity.
- To encourage private ship owning under Pakistan flag by creating favourable conditions.
- To improve governance of the ports while focusing of modern and innovative approaches of land lard ports strategies.
- To maintain safety and security standards as per international Maritime Organization (IMO) Conventions with strenuous efforts aimed at maintaining world class standards of marine pollution control
- To ensure and maintain quality of Pakistani seafarers in accordance with the Standards for Training Certification and Watch-keeping (STCW) 1978 Convention.
- To promote Deep Sea Fishing of Pakistan.
- To regulate the export of Fish and Fisheries Products and also to bring a pronounced positive change in the Harbour Environment.

Governing Laws and Policies

- i. GPA Ordinance, 2002
- ii. KoFHA Ordinance, 1982
- iii. Pakistan National Shipping Ordinance, 1979

- iv. Companies Ordinance 1984
- v. PP Rules 2004.

(Rs. in million)

S. #	Description	Total	Audited	Expenditure audited FY 2020-21	Revenue/ Receipts audited FY 2020-21
1	Formations	4	4	34,951.781	53,610.615

Classified Summary of Audit Observations

Audit observations of Rs. 118,391.951 million were raised as a result of this audit. This amount also includes recoverable of Rs. 6,478.262 million as pointed out by audit. Summary of the audit observations classified by nature is as under:

S. #	Classification	Amount (Rs. in million)
1.	Non-production of record	-
2.	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities	-
A	HR / Employees related irregularities	343.546
B	Procurement related irregularities	1,326.717
C	Management of Accounts with Commercial Banks	70,166.100
4	Value for Money and service delivery issues	-
5	Others	46,555.588

12.1 Gwadar Port Authority

12.1.1 Introduction

Gwadar Port Authority (GPA) was established as a separate organization, after promulgation of the GPA Ordinance No. LXXVII of 2002 dated October 17, 2002, for construction, operations, management, and maintenance of Gwadar Deep Water Port.

The Government of Pakistan has adopted the landlord concept for development of Gwadar Port. This means that GPA will drive the overall development of the port and will raise the funds for development of general port infrastructure (primarily dredging of channels and construction of breakwaters), while private sector investors will be the primary source for the development of terminals and cargo handling capacity. Reputable private investors/operators will be sought on a Build–operate–transfer (BOT) basis for the design, construction and operations of the various terminals that are foreseen. In the longer term, as much as possible, different cargo types will be handled by dedicated terminals. This will allow for terminals to be developed and operated by dedicated operators who are specialized in these particular operations.

12.1.2 Comments on Audited Accounts

12.1.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this, the management failed to provide audited accounts of the organization for the years 1986-87 to 2020-21 despite a number of reminders.

12.1.2.2 Audit requires that the annual audited accounts of the years 1986-87 to 2020-21 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

12.1.3 Compliance of PAC Directives

Audit Year	No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
2013-14	5	1	4	16.1.2, 16.1.3.1, 16.1.3.2, 16.1.3.3	20
2014-15	4	1	2	18.1.4.1, 18.1.3, 18.3.2.1	0
2015-16	5	-	5	17.1.4.3, 17.1.2.1, 17.1.4.1, 17.1.4.2, 17.1.4.4	0
2016-17	5	4	1	15.1.2.1, 15.1.3, 15.1.4.1, 15.1.4.2	
2017-18	4	2	2	14.1.4.1, 14.1.4.3	
Total	20	4	-		20

The overall compliance of PAC directives needs improvement.

12.1.4 Audit Paras

12.1.4.1 Non-insurance of assets – Rs. 1,347.359 million

Section 166 of Insurance Ordinance, 2000 states that, all insurance business relating to any public property or any risk or liability appertaining to any public property, shall be placed with NICL only and shall not be placed with any other insurer.

During audit of Gwadar Port Authority (GPA) for the year 2020-21, it was observed that the management owns following assets that have not in insured in violation of above rule:

S. #	Name of Contract	Book value / Project cost Rs. in million
1	<u>Mullah Band Project</u> Complex -1 Complex -11 Seaman	524.485 294.485 332.832
2	Equipment for Safety of Navigation	14.000
3	Supply Instll. & Commissioning of Floating Jetty at Gwadar Port	56.650
4	Acquisition of Mobile Cranes & Fork lifters for Gwadar Port	111.450
5	Survey / Speed Boat (Break water)	13.457
	Total	1,347.359

Audit is of the view that the management failed to secure the assets by not insuring the same that might result in loss in case of accidents / disasters.

The matter was reported to the management in September 2021. The irregularity was discussed in DAC meeting held on January 03, 2022. The management informed that they have taken up the matter with National Insurance Company Limited (NICL) for insurance but due to shortage of funds only GPA Civic centre building was insured. For the remaining NICL has been contracted to assess the assets. DAC directed to expedite the insurance process and get the stated position verified from the Audit.

Audit recommends implementation of DAC directives.

12.1.4.2 Operating losses due to poor performance – Rs. 744.942 million

Rule (4) (3) of Corporate Governance Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters.

During audit of Gwadar Port Authority (GPA) for the year 2020-21, it was observed that the management underperformed in its business activities which resulted in an operating loss amounting to Rs.744.942 million. The management only generated a revenue of Rs.115.980 million. Furthermore, the management did not submit its annual audited accounts since 2016 due to which actual losses cannot be ascertained till date.

Audit is of the view that the management failed to follow its revenue targets which indicated slackness and poor financial management.

The matter was reported to the management in September 2021. The irregularity was discussed in DAC meeting held on 03.01.2022. The management informed that due to operational difficulties & law and order situation, the revenue targets were not achieved. DAC directed to submit a comprehensive reply containing proper justification of the matter to Audit.

Audit recommends implementation of DAC directives.

12.1.4.3 Non-preparation / submission of project completion reports - Rs. 182.10 million

Clause 9.7 (vi) of Manual of Ministry of Planning & Development and reforms, terms of reference or specified tasks to be accomplished by the Project Directors, states that the custodian of all project documents is responsible to prepare and submit the project completion report (PC-IV).

Furthermore, clause 12.2 states that the project is considered to be completed or closed when all the funds have been utilized and objectives achieved or abandoned for any reason. At this stage the project has to be formally closed and completion report (PC-IV proforma) should be submitted to PIA section of DR&R Division.

During audit of Gwadar Port Authority (GPA) for the year 2020-21, it was observed that following three projects were completed and their retention money was returned back on account of their completion. However, PC-IV of the projects were neither prepared nor the completion reports were submitted to P&A Section of DR&R Division. The details are as under:

S. #	Name of Contract	Rs. in million
1	Equipment for Safety of Navigation	14.000
2	Supply Instll. & Commissioning of Floating Jetty at Gwadar Port	56.650
3	Acquisition of Mobile Cranes & Fork lifters for Gawadar Port	111.450
	Total	182.10

Audit is of the view that the management failed to submit completion reports which stands irregular and unjustified.

The matter was reported to the management in September 2021. The irregularity was discussed in DAC meeting held on 03.01.2022. The management informed that the project completion reports now have been prepared and submitted to the concerned Ministry. DAC directed the management to get the stated position verified from the Audit.

Audit recommends that the responsibility may be fixed against the person(s) at fault for non-finalization of project completion reports within time.

12.1.4.4 Loss of rental income due to non-utilization of buildings - Rs. 124.268 million

Rule (4) (3) of Corporate Governance Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters.

During audit of Gwadar Port Authority (GPA) for the year 2020-21, it was observed that the management failed to rent out the following buildings that resulted into loss of rental income amounting to Rs. 124.268 million as detailed below:

S. #	Name of Project	Vacant Space (Sq.M.)	Tentative rent per month (Rs.)	Tentative rent per year Rs.
1	Zirbar Complex	7050	6,565,030	78,780,360
2	Gurab Complex	3150	892,715	10,712,580
3	Seamen Center	3600	2,897,963	3,477,556
Total		13,800	10,355,708	124,268,496

Audit is of the view that the management failed to utilize the buildings despite its completion which reflects inefficiency and weak financial management.

The matter was reported to the management in September 2021. The irregularity was discussed in DAC meeting held on January 03, 2022. The management informed that it is taking all out efforts to rent out the vacant space. DAC directed to submit a comprehensive reply containing efforts taken to rent out the premises to Audit.

Audit recommends implementation of DAC directives.

12.1.4.5 Non-blacklisting of consultant on submission of fake bills – Rs. 26.152 million

Rule 19 of PPRA 2004 provides that the procuring agency shall devise a comprehensive mechanism for blacklisting and debarment of bidders for a specified time in accordance with regulations made by the Authority, and the bidder or the bidders shall be declared as (b) if the bidder fails to perform his

contractual obligations during the execution of contract or breaches the contract due to his capacity and capability to perform or otherwise.

During audit of Gwadar Port Authority (GPA) for the year 2020-21, it was observed that the management awarded the contract of Feasibility Study of Break Water to M/s Techno Consultant international (Pvt.) Ltd amounting to Rs.119.20 million. The record revealed that the Consultant submitted false payment invoices / bills amounting to Rs. 26.152 million. Later on, the matter was resolved through “Memorandum of Resolution”, but management was required to blacklist the contractor but it failed to do so.

Audit is of the view that non-blacklisting of the contractor shows undue favour towards the contractor.

The matter was reported to the management in September 2021. The irregularity was discussed in DAC meeting held on January 03, 2022. The management informed that 95% work has been completed and blacklisting may result in non-completion of project. DAC directed to conduct an inquiry at Ministry level with NESPAK members within one month.

Audit recommends implementation of DAC directives.

12.1.4.6 Defective agreement resulted in non-imposition of Liquidity Damages charges - Rs.11.920 million

As per General clause of agreement, para 47.1 regarding condition of contract on amount of Liquidated Damages states that, “...maximum of 10% of contract price stated in the Letter of Acceptance be imposed.

As per agreement between Gwadar Port Authority (GPA) and M/s Techno Consultant International (Pvt.) Ltd:

14 th June 2018:	Notice to Commence services, Clause 2.1 of SC of Contract
14 th August 2019:	Expected date of Completion as per Contract Agreement
30 th June 2021:	Actual Completion
22 months delayed:	Extensively delayed the project

During audit of Gwadar Port Authority (GPA) for the year 2020-21, it was observed that the management awarded the contract of Feasibility Study of

Break Water to M/s Techno Consultant International (Pvt.) Ltd amounting to Rs.119.20 million on 8.05.2018 for a period of 14 months. The contractor did not complete the project within stipulated time and took extra 22 months to complete the project. Despite the evident delay, the management did not impose liquidated damages (LD) charges amounting to Rs.11.920 million on the consultant.

Audit is of the view that non-imposing of LD charges on the consultant shows inefficiency and weak internal controls.

The matter was reported to the management in September 2021. The irregularity was discussed in DAC meeting held on January 03, 2022. The management informed that liquidity damages clause not included in the contract agreement. DAC directed to submit comprehensive reply to Audit for verification.

Audit recommends that the responsibility may be fixed against the person(s) at fault for signing a defective contract that resulted in a loss to the organization.

12.1.4.7 Irregular procurement of security services without tender – Rs.5.460 million

Rule 12 (2) of PPRA, 2004 states 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 Gwadar Port Authority (GPA) for the year 2020-21, it was observed that the management hired 13 security guards without adopting tendering process. The details are as under:

Name	Person	Rate p/m	Total	2 years period
M/s Askari Guards (Pvt) Ltd	11	17,500	2,310,000	4,620,000
M/s VIP security Services Pvt Ltd	02	17,500	420,000	840,000
Total				5,460,000

Audit is of the view that by avoiding the tendering process, undue favour was extended to suppliers and GPA was deprived of the benefits of competitive rates.

The matter was reported to the management in September 2021. The irregularity was discussed in DAC meeting held on January 03, 2022. The management informed that the security guards were hired during various years as per need, however, in future management shall ensure tendering process for hiring of security guards. DAC directed the management to conduct an inquiry besides initiating tendering process.

Audit recommends implementation of DAC directives.

12.1.4.8 Non-recovery of outstanding dues from various tenants -Rs.4.790 million

Rule (4) (3) of Corporate Governance Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters.

During audit of Gwadar Port Authority (GPA) for the year 2020-21, it was observed that the management entered into rental agreements with different tenants on account of GPA premises at different rates. However, an amount of Rs.4.790 million was lying outstanding against following tenants:

(Amount in Rs.)						
S.#	Bungalow/Office	Name of Tenant	Date of Agreement	Monthly rent	Rent Paid-up to	Remaining amount
1	1 st Floor GPA old Office	QESCO	01 st July 2017 to 30 June 2020	24,000	June 30, 2020	288,000
2	1 st Floor GPA old Office, Room 208, 210,212	NGIA	16 Jan, 2019 to Jan, 2024	34,650	July 2019	831,600
3	Main Gate GPA	Bank Al Habib	1 st June 2017 to 31 May, 2027	243,256	30 June 2020	2,811,072
4	UBL GPA HO	UBL ATM	21 Aug, 2016	20,000	30 Nov, 2017	860,000
Total						4,790,072

Audit is of the view that non recovery of outstanding dues resulted in inefficiency and poor financial management.

The matter was reported to the management in September 2021. The irregularity was discussed in DAC meeting held on January 03, 2022. The management informed that an amount of Rs. 0.334 million has been recovered from QESCO and efforts are being made to recover the remaining amount. DAC directed the management to expedite the recovery besides verification of recovered amount from Audit.

Audit recommends implementation of DAC directives.

12.2 Korangi Fisheries Harbour Authority

12.2.1 Introduction

The Korangi Fisheries Harbour Authority (KoFHA) was established under Ordinance No. XVI of 1982 for making all arrangements for planning, construction, operation, management and maintenance of Korangi Fisheries Harbour for exploiting fisheries resources beyond territorial waters.

The Harbour was completed in 1992 at a cost of Rs. 938.140 million including foreign component of Rs. 644.240 million (US\$ 26.121 million) financed by Asian Development Bank.

12.2.2 Comments on Audited Accounts

12.2.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this, the management failed to provide audited accounts of the organization for the years 2015 to 2021 despite a number of reminders.

12.2.2.2 Audit requires that the annual audited accounts of the years 2015 to 2021 be provided immediately and timely submission be ensured in future besides, fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

12.2.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	% age of compliance
2003-04	5	4	1	180.2	80
2010-11	5	1	4	16.1.4.1	20
2013-14	8	1	7	16.2.2.1, 16.2.2.2, 16.2.2.3, 16.2.2.4, 16.2.2.5, 16.2.3, 16.2.4.1	13
2014-15	3	1	2	18.2.3, 18.2.2.1	33
2015-16	7	1	6	17.2.4.1, 17.2.4.4, 17.2.2.1, 17.2.3, 17.2.4.2, 17.2.4.3	14
2016-17	3	2	1	15.2.2.1, 15.2.2.1	67
2017-18	2	1	1	14.2.2.1	50
Total	33	11	22		33

The overall compliance of PAC directives needs to be improved.

12.2.4 Audit Paras

12.2.4.1 Non-payment of Asian Development Bank Loan - Rs. 941.000 million

According to Financing Agreement signed between G.o.P and KoFHA on 13.07.1982, the Authority is required to made repayment of loan within 30 years in equal semi-annual installments commencing from April, 1995. The Authority has to made repayment of a total US\$ 26.121 million (Rupees 664.643 million) of the loan amount with 4% interest.

As per PC-I (Revised) approved by ECNEC on 28.05.1994, it was anticipated that during the first year of operation of the Harbour (1994-95), the Authority would start earning a revenue of Rs. 12.4 million which would gradually increase upto Rs. 77.70 million in the year 1999-2000, sufficient enough to meet annual operational/recurring expenses of the harbour and repayment of the loan amount.

During audit of Korangi Fisheries Harbour Authority (KoFHA) for the year 2020-21, it was observed that Asian Development Bank granted a loan of US\$ 26.121 million (664.643 million) with 4% interest to Government of Pakistan (GoP) as sponsor for the construction of Korangi Fisheries Harbour Authority. GoP relent the same of KoFHA through agreement on 13.07.1982. The Authority was required to make repayment of loan within 30 years in equal semi-annual installments commencing from April, 1995. The Authority was required to make repayment of Rs. 841.952 million) of the loan amount with 4% interest. The detail is as under:

(Rs. in million)				
Principal amount due	Interest (4% due)	Total outstanding	Total amount paid	Un-Paid amount Principal +Interest (A-D)
664.643	445.333	1,109.98	182.6410	841.952

The Economic Affairs Division Islamabad has strictly convened to pay the outstanding dues up to 30.06.2021.

Audit is of the view that the management failed to pay the loan on time which results inefficiency and weak financial management.

The matter was reported to the management in September, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management informed that an amount of Rs. 85.383 million will be paid till 01-10-2024 and remaining balance, the Authority is planning to pay extra installment along with current installment. The DAC directed the management to verify the stated position from Audit.

Audit recommends implementation of DAC directives.

12.2.4.2 Irregular & irrational investment - Rs. 350.000 million

As per Finance Division OM No.F.4 (1)/2002-BR.II dated 2nd July, 2003, para (3) (b) says that the process of selection of bank/(s) should be transparent. Therefore, prior to placing deposits with a bank under this new policy, and in case the total working balances exceed Rs.10 million, the selection of the bank/(s) as well as the terms of deposits will be approved by the concerned Board of Directors/Governing Body on the basis of competitive bids from at least three independent banks. Further, Para 6 states, “Before making any investment under this policy, it would be necessary for public sector entities to set up in-house professional treasury management functions. The para-3(e) says that “the working balance limit of each organization should be determined with the approval of the administrative ministry in consultation with Finance Division and the Principle Accounting officer of the ministry concerned will be responsible for the implementation of the above instructions. Specifically, they would need to have an Investment Committee (IC) with defined investment approval authority. Transactions above the approval authority of the IC will be subject to approval of the Board of Directors or an equivalent forum. The IC should be assisted by an Investment Management Unit employing qualified staff with at least 3-5 years of experience of making investment in debt/equity instruments. However, it will be necessary for public sector enterprises to use the services of professional fund managers approved by SECP”.

During audit of Korangi Fisheries Harbour Authority (KoFHA), Karachi for year 2020-21, it was observed that an investment of Rs.350.0 million was

made in National Bank of Pakistan (NBP) branch KOFHA for one to three years in (TDR) at 7.5% and special saving account in violation of above rules/regulation. Besides, it is pertinent to mention here that members of IC are neither assisted by qualified staff nor approved by SECP and also not set up in house professional treasure management functions. The details are as under:

Investment type	Period	Rate	Date	Amount (Rs.)
TDR	2020-21	7.5%	01.04.2021	3,50,000,000

Audit is of the view that the management has ignored the highest quoted rate of JS Bank (7.59%) and investments of Rs.350.0 million without exploring the competitive rates and without the approval of Board of directors (B.o.D) is irregular and unjustified.

The matter was reported to the management in September, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management informed that the investment was made with the approval of BoD. The DAC directed the management to verify the factual position.

Audit recommends implementation of DAC directives.

12.2.4.3 Loss of revenue due to suspended deep Sea license - Rs. 98.300 million

Korangi Fisheries Harbor Authority's Ordinance 1982, Chapter-III, Section-3 states that the Authority shall frame rules for appropriate arrangements for a wholesale auction of fish on the premises of the harbor area and cause the auction fees to be received there from to be credited to the account of Authority for the purpose of funding of operation, maintenance, repair and up keeping of the harbor area.

During audit of Korangi Fisheries Harbour Authority (KoFHA), Karachi for the Year 2020-21, it was observed that the management provided the record and statement showing the revenue from deep sea trawlers activities at harbour from Year 2002-03 to 2005-06 and has not issued any deep sea liscence since 2005 and hence KoFHA is sustaining loss of rupees each year consecutively. It indicates the KoFHA has declined the business targets/ achievements by having a loss of Rs.98.300 million approximately up to Year 2021 which seems a poor

performance of the KoFHA and non-achievement of business targets. The details are as under:

Rs. in million		
S.#	Years	Commission on Coastal Trawlers up to 2005
1	2002-03	6.741
2	2003-04	9.567
3	2004-05	5.688
4	2005-06	2.571
Total		24.569

Audit is of the view that if the business operation activity is still suspended in future and it results into losses and will be increasing in future and will affect the poor performance of the KoFHA of non-achievement of business targets/revenue by suspension of deep sea license.

The matter was reported to the management in September, 2021. The irregularity was discussed in DAC meeting held on January 03, 2022. The management informed that efforts are being made at all forums for issuance of licence. The DAC directed the management to take up the matter with Ministry and Federal Government under intimation to audit.

Audit recommends implementation of DAC directives.

12.2.4.4 Loss of revenue due to non-utilization/development plots - Rs. 27.000 million

Rule (4) (3) of Corporate Governance Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters.

During audit of Korangi Fisheries Harbour Authority (KoFHA), Karachi for the year 2020-21, it was observed that out of total land space of plots measuring 370 acre, 300 acres have not been utilized which resulted in a loss of Rs. 27.00 million annually as detailed below:

S. #	Details description of Vacant Land/Plot	Covered area	Rate per sq. meter	Total (Rs. in million)
1	370	Acre	150	54.000
2	70	Utilized/Developed	-	
3	300	Non-utilized/not Developed	-	
4	150	Acre	150	(27.000)
Total				27.000

Audit is of the view that the management failed to utilize the land which reflects inefficiency and poor financial management.

The matter was reported to the management in September 2021. The irregularity was discussed in DAC meeting held on January 03, 2022. The management informed that Rs. 784.000 million has been allocated for development of land and Phase-I will be completed in three years. The DAC directed the management to take necessary corrective measures to utilize the plots/land in public interest.

Audit recommends implementation of DAC directives.

12.2.4.5 Non-recovery from of various dues – Rs. 23.836 million

Article 24 of KoFHA Ordinance, 1982 states that all fees and sums due on account of property for the time being vested in the Authority and all arrears of tolls, charges, rates and dues imposed under this Ordinance or any rules or regulations may be recovered as arrears of land revenue, in addition to the other modes provided by this Ordinance.

During audit of Korangi Fisheries Harbour Authority (KoFHA) for the year 2020-21, it was observed that the management failed to recover an amount of

Rs. 23.836 million as detailed below:

		Rs. in million
S.#	Description	Amount
1	Flat Commission & Berthing charges	1.054
2	Power Charges, Water Charges & Ground Rent/Berthing charge	20.863
3	Mole Holders & NBP	1.029
4	Karachi Fisheries (Marine)	0.480
5	Tenants (NBP)	0.41
Total		23.836

Audit is of the view that non-recovery of various charges indicate that poor financial management exists in the organization.

The matter was reported to the management in September 2021. The irregularity was discussed in DAC meeting held on January 03, 2022. The management informed that recovery is a recurring process and an amount of

Rs. 12.356 million has been recovered. The DAC directed the management to avoid future loss and to take necessary corrective measures, to execute proper rent agreement with NBP and verify the recovery position by the audit.

Audit recommends implementation of DAC directives.

(DP No. 428,434,430,436,423, 425 &429)

12.2.4.6 Loss on investment - Rs. 3.100 million

As per Finance Division OM No.F.4 (1)/2002-BR.II dated 2nd July, 2003, para (3) (b) says that the process of selection of bank/(s) should be transparent. Therefore, prior to placing deposits with a bank under this new policy, and in case the total working balances exceed Rs.10 million, the selection of the bank/(s) as well as the terms of deposits will be approved by the concerned Board of Directors/Governing Body on the basis of competitive bids from at least three independent banks. Further, Para 6 states, “Before making any investment under this policy, it would be necessary for public sector entities to set up in-house professional treasury management functions. The para-3(e) says that “the working balance limit of each organization should be determined with the approval of the administrative ministry in consultation with Finance Division and the Principle Accounting officer of the ministry concerned will be responsible for the implementation of the above instructions. Specifically, they would need to have an Investment Committee (IC) with defined investment approval authority. Transactions above the approval authority of the IC will be subject to approval of the Board of Directors or an equivalent forum. The IC should be assisted by an Investment Management Unit employing qualified staff with atleast 3-5 years of experience of making investment in debt/equity instruments. However, it will be necessary for public sector enterprises to use the services of professional fund managers approved by SECP”.

During audit of Korangi Fisheries Harbour Authority (KoFHA), Karachi for year 2020-21, it was observed that an investment of Rs. 350.00 million was made in National Bank of Pakistan (NBP) for one year in (TDR) at 7.5% against the higher rates offered by JS Bank i.e. 7.59% which resulted in a loss of Rs.3.100 million.

Audit is of the view that due to irrational decision, the management sustained a loss of Rs. 3.100 million.

The matter was reported to the management in September, 2021. The irregularity was discussed in DAC meeting held on January 03, 2022. The management informed that investment was made with highest profit rate. The DAC directed the management to verify the factual position and fix the responsibility on the person(s) at fault as per Inquiry report.

Audit recommends implementation of DAC directives.

12.2.4.7 Irregular payment of bonus to officers and staff - Rs. 1.486 million

Finance Division through O.M. No. F.3 (5) R.12/80(R.14) Vol-II/2001/544 dated Nov 30, 2001. Applicable to all Autonomous Bodies/Public Sector Enterprises, the payment of bonus to the employees is subject to concurrence of Finance Division. Further, the bonus should be paid to the employees on the basis of operational profit of the organization.

During audit of Korangi Fisheries Harbour Authority (KoFHA) for the year 2020-21, it was observed that management paid a bonus of Rs. 1.486 million to its officers and staff as detailed below:

Description	(Rs. in million)
Staff Bonus	1.413
Officer Bonus	0.064
Contract Employee Bonus	0.009
Total	1.486

Audit is of the view that the payment of bonus despite operational loss and without approval of M/o Finance is held irregular / unjustified.

The matter was reported to the management in September, 2021. The irregularity was discussed in DAC meeting held on January 03, 2022. The management informed that bonus was paid from own revenues of authority and with the approval of BoD. The DAC directed the management to take approval from the Finance Division to regularize the bonus payment.

Audit recommends implementation of DAC directives.

12.2.4.8 Non-preparation of annual accounts

As per Public Sector Companies (Corporate Government) Rule, 2017, section (10) Every Public Sector shall, within one month of the close of first, second and third quarter of its year of account, prepare a profit and loss account for, and balance sheet as at the end of that quarter, whether audited or otherwise, for the Board's approval. Annual report including annual financial statements shall be placed on the Public Sector Company's website:

During audit of Korangi Fisheries Harbour Authority (KoFHA) for the year 2020-21, it was observed that the management failed to finalize its annual accounts since 2013-14.

Audit is of the view that due to weaknesses in underlying accounting system have caused delay in timely preparation of accounts and timely completion of audit.

The matter was reported to the management in September, 2021. The irregularity was discussed in DAC meeting held on January 03, 2022. The management informed that Audited Accounts for the year 2015-16 have been approved by the BoD. Moreover, efforts are being made to complete the remaining backlog. The DAC directed the management to finalize and get the annual accounts approved by BoD without further delay and report to Ministry under intimation to audit.

Audit recommends implementation of DAC directives.

12.3 Pakistan National Shipping Corporation

12.3.1 Introduction

Pakistan National Shipping Corporation (the Holding Company), its subsidiary companies and associates (together ‘the Group’) were incorporated under the provisions of the Pakistan National Shipping Ordinance, 1979 and the Companies Ordinance 1984, respectively. The Group is principally engaged in the business of shipping, including charter of vessels, transportation of cargo and other related services.

12.3.2 Comments on Audited Accounts

12.3.2.1 The working results of the Corporation for the year 2020-21 as compared with the preceding years are given below:

(Rs. in million)

	2020-21	% Inc /(Dec)	2019-20	% Inc/ (Dec)	2018-19
No. of Ships	11.00		11.00		11.00
Cargo carried by owned and chartered vessels	11.09	25.89	8.81	(15.17)	10.38
Operation Revenue					
Own vessels	10,592.72	(13.74)	12,279.63	52.71	8,040.97
Chartered vessels	1,239.01	(4.39)	1,295.86	(53.71)	2,799.42
Total income from shipping business	12,567.95	(7.42)	13,575.49	25.23	10,840.39
Rental Income	220.62	(3.27)	228.08	35.24	168.65
Other income	1,444.68	52.69	946.17	(47.88)	1,815.23
Total revenue	14,233.25	(3.50)	14,749.75	15.01	12,824.27
Operating expenses					
Fleet expenses Direct and indirect	(9,803.74)	8.25	(9,056.29)	10.99	(8,159.30)
Admin expenses	(1,034.52)	(7.66)	(1,120.28)	0.63	(1,113.28)
Other expenses including Real Estate Exp	(321.81)	(19.51)	(399.83)	(38.21)	(647.10)
Total expenses	(11,160.07)	5.52	(10,576.40)	6.62	(9,919.68)
Operating profit/(loss)	3,073.18	(17.33)	3,717.21	27.98	2,904.58
Finance Cost	(557.61)	(50.89)	(1,135.46)	152.24	(450.15)
Profit/(Loss) before Taxation	2,442.19	(5.41)	2,581.75	5.19	2,454.43
Profit/(Loss) after Taxation	2,265.026	(6.17)	2,413.88	10.00	2,194.37

(Source: Annual Audited Accounts)

12.3.2.2 Revenue from own vessels has decreased by 13.74%, from 12,279.63 million tons in 2020 as compared to 10,592.72 million in 2021 which needs justification.

12.3.2.3 Revenue from chartered vessels decreased by 4.39% in the year 2021 to Rs. 1,239.01 million as compared to Rs. 1,295.86 million during previous year which needs clarification.

12.3.2.4 Total fleet expenses increased by 8.25% in year 2021, from Rs. 9,056.29 million in 2020 to Rs. 9,803.74 million in 2021 which needs justification.

12.3.2.5 Gross profit of the company declined by 17.33% from Rs. 3,717.21 million in 2020 to Rs. 3,073.18 million in 2021 which needs explanation.

12.3.2.6 Operating expenses increased by 8.2% from Rs. 9,056.29 million in 2020 to Rs. 9,803.74 million which needs explanation.

12.3.3 Compliance of PAC Directives

Audit Year	No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
2003-04	6	5	1	181	83
2006-07	18	17	1	189	94
2008-09	5	4	1	212	80
2011-12	13	11	2	22.3.2.1, 22.3.2.2, 22.3.2.3, 22.3.2.4, 22.3.2.5, 22.3.2.6, 22.3.2.7, 22.3.2.8, 22.3.2.9, 2.3.2.10, 22.3.4.1	85
2012-13	6	4	2	22.1.2.1, 22.1.2.2, 22.1.2.3, 22.1.2.4	67
2013-14	10	7	3	16.3.2.1, 16.3.4.2, 16.3.4.4	70
2014-15	12	1	11	18.3.2.1, 18.3.2.2, 18.3.2.3, 18.3.3, 18.3.4.1, 18.2.4.2, 18.2.4.3, 18.3.4.4, 18.3.4.5, 18.3.4.6, 18.3.4.7	8
2015-16	11	1	10	17.3.2.1, 17.3.2.2, 17.3.2.3, 17.3.2.4, 17.3.3, 17.3.4.1, 17.3.4.2, 17.3.4.3, 17.3.4.4, 17.4.2.1	9
2016-17	10	9	1	15.3.2.1, 15.3.3, 15.3.4.1, 15.3.4.2, 15.3.4.3, 15.3.4.4, 15.3.4.5, 15.3.4.6, 15.3.4.7	90
2017-18	12	11	1	14.3.2.1, 14.3.2.2, 14.3.2.3, 14.3.3, 14.3.4.1, 14.3.4.2, 14.3.4.3, 14.3.4.4, 14.3.4.5, 14.3.4.6, 14.3.4.7	92
Total	103	70	33		61

The overall compliance of PAC directives needs improvement.

12.3.4 Audit Paras

12.3.4.1 Loss of freight income due to less lifting of cargoes - Rs. 16,148.241 million

Rule (4) (3) of Corporate Governance Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2019-20, it was observed that the management suffered a loss of Rs. 16,148.241 million on account of low lifting of cargoes. The details of vessels lifted low cargos are as under:

S.#	Name of Vessels	Dead weight	Max. Cargo Lifted in 2019-20	Total planned voyages in 2019-20	Total available dead weight 2019-20	Actual voyages 2019-20	Actual weight lifted in 2019-20 M.Tons	Actual Revenue of lifted Cargoes in Rs. 2019-20	Difference lifted cargos in M.Tons	Loss of Income due to lifted low cargo in Rs.
		A	B	C	D=B×C	E	F	G	H=D-F	I=(G÷F×H)
1.	M.T. Khairpur	74,986	62,230	30	1,866,900	14	764,133	1,174,823,000	1,102,767	1,695,458,821
2.	M.T. Lahore	107,018	97,606	27	2,635,362	19	1,360,483	1,314,865,000	1,274,519	11,862,945,311
3.	M.T. Karachi	107,081	94,848	26	2,466,048	21	1,567,064	1,841,788,000	898,984	1,056,586,038
4.	MT. Shalamar	105,315	89,871	24	2,156,904	16	1,177,668	1,843,949,000	979,236	1,533,251,513
Total										16,148,241,683

Audit is of the view that the management failed to utilize the capacity of its vessels to the optimum which resulted in low lifting of cargoes.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management informed the DAC that there is no adverse impact on freight revenue of PNSC, since PNSC has already agreed the freight rates with refineries in excess of market freight rates with a premium of 17 to 18 points above AFRA index. The DAC directed the management to get the record verified by Audit.

Audit recommends implementation of DAC directives.

12.3.4.2 Non-recovery of dues - Rs. 4,393.793 million

Rule (4) (3) of Corporate Governance Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2017-18, it was observed that the management failed to effect recovery of an amount of Rs. 4,393.793 million as detailed below:

S. #	Description	Amount	S. #	Description	Amount (Rs. in million)
1.	Non-recovery of dues from others (trade debts)	768.004	2.	Non-recovery of dues from Government parties	226.560
3.	Non-recovery of dues from Contractors and Suppliers	19.808	4.	Non-recovery of dues against Executives and employees	45.447
5.	Non-recovery of dues from Agents and owners	9.628	6.	Non-recovery from others	88.100
7.	Non-recovery of Sales Tax Refundable	26.00	8.	Non-recovery of dues from parties	3,210.246
				Total	Rs. 4,393.793

Audit is of the view that the management failed to safeguard Corporation's interest as it did not recover the amount of Rs. 4,393.793 million which indicates negligence, inefficiency, lack of propriety approach, weak financial management and poor internal controls within the organization.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management informed that recovery of Rs. 942.689 million have been recovered and efforts are being made to recover the remaining amount. The DAC directed the management to get the recovered amount verified by Audit.

Audit recommends implementation of DAC directives.

12.3.4.3 Loss of income due to transportation of less crude oil - Rs. 643.607 million

As per Contract of Affreightment (CoA) PNSC with NRL Clause-1(a):- Subject to the terms and conditions and provisions of this Agreement, the carrier

undertakes to transport from the Designated Gulf Ports to Karachi, and the company undertakes to pay freight for transportation of estimated quantity of 1,680,000 metric tons crude oil per annum +/-10% ("the Estimated Annual Quantity") at the freight rate determined in accordance with clause 8 of this Agreement. The company may on the basis of its crude oil requirements, and with prior written notice to the carrier, increase from time to time the Estimated Annual Quantity for the remaining period of this Agreement.

During audit of Pakistan National Shipping Corporation (PNSC) for year 2019-20, it was observed that the management suffered a huge loss of freight income due to less transportation of crude oil of National Refinery Limited (NRL). The management was required to receive freight for transportation of crude oil as per Contract of Affreightment (CoA), which was not received. The details are as under:

Cargo lifted Qty (July, 2019 to October, 2019) 04 months in M.Tons	Cargo lifted Qty (November, 2019 to February, 2020) 04 months in M.Tons	Cargo lifted Qty (March, 2020 to June, 2020) 04 months M.Tons	Total Cargo lifted in 2019-20 M.Tons	Estimated/ Guaranteed Annual quantity in M.Tons	DifferencQty lifted in M.Tons	%	AFRA Rate in USS per M.Ton	Total Cost of Dead weight charges in 04 months (March, 2020 to April, 2020) US\$
498,792	483,717.92	204,100.87	1,186,310.79	1,680,000	493,689.21	29.37	7.8064	3,853,935.449
Total dead freight Income loss in Rs. (01 US\$ equal to Pak-Rs.167 average)								643,607,219.97

Audit is of the view that the management failed to penalize M/s NRL for short transportation of crude oil which resulted in revenue loss sustained a revenue loss of Rs. 643.607 million.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management informed the DAC that there is no 'guaranteed' annual quantity i.e. dead freight quantity of 70,000 MT per voyage for which dead freight invoices have already been raised by PNSC as claims to NRL against difference in estimated annual quantity. The DAC directed the management to provide the relevant record to audit for verification.

Audit recommends implementation of DAC directives.

12.3.4.4 Irregular investment in Silk Bank - Rs. 510.00 million

As per no.F.4(1)/2000-Br.ii Islamabad, the 22nd September, 2005 office memorandum subject:- deposits of working balances and investment of surplus funds belonging to public sector enterprises and local/autonomous bodies under federal government: the undersigned is directed to refer to this division's Om of even number, dated 2nd July, 2003 on the above subject. The para 3(a) of the said Om may please be read as follows: 3(a): for the sake of the safety and security of deposits, the banks/financial institutions taking a deposit should have a minimum "a" rating as appearing on the web-site of the credit rating agency...

PNSC's SoPs for surplus funds, 3) states, "for the sake of security and safety of deposits, the bank/financial institutions taking deposits should have minimum "A" rating as appearing on the website of the State Bank of Pakistan". Banks having latest long-term ratings of A/A+ or above are encouraged to quote rates.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2019-20, it was observed that the management invested an amount of Rs. 510.000 million through roll over in TDRs in Silk Bank Ltd. on 18-9-2019 for the period of three (03) months @ 13.50%. The management continued rolling over the same amount throughout the year and last time it rolled over on 23 June, 2020. In this regard, the Audit observed the following irregularities:

- i. The Credit Rating of the Bank stood at long term "A-" with outlook 'Rating Watch-Negative' and short term "A-2", which was below the minimum required "A/A+" with a 'Positive outlook'.
- ii. Annual Report of Silk Bank Ltd. for the year 2019, revealed that Silk Bank Ltd. is non-compliant with the Minimum Capital Requirement (MCR) prescribed by the State Bank of Pakistan as its Capital Adequacy Ratio (CAR) stood at 5.81% against the minimum requirement of 12.5%.
- iii. Financial health of the bank deteriorated as the Bank sustained a loss of Rs. 3,953 million in 2019 and loss per share was (0.44).

Audit is of the view that the management may have given undue favor to Silk Bank by investing such a huge amount of Rs. 510.000 million in the said Bank continuously in 2019-20 and beyond as the said Bank did not meet the

required credit rating. Besides, the Bank was in losses during the year 2019 and did not have the required credit rating.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management informed that it had not violated any instructions of any memorandum of Finance Division. The DAC directed the management to provide the relevant record to audit for verification.

Audit recommends implementation of DAC directives.

12.3.4.5 Unjustified expenditure on idle vessels - Rs. 509.084 million

Rule (4) (3) of Corporate Governance Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2019-20, it was observed that the management incurred a huge expenditure on idle vessels amounting to Rs.509.084 million as detailed below:

S. #	Name of Vessels	Total No. of days Idleness/Empty/Laid up	Total Expenditure (Rs)
1.	M.T. Bolan	22	45,074,538
2.	M.T. Karachi	44	135,024,277
3.	M.V. Multan	25	53,636,605
4.	M.V. Sibbi	14	15,408,149
5.	M.T. Quetta	12	45,971,981
6.	M.V. Khairpur	34	75,418,632
7.	M.T. Shalamar	35	121,127,127
8.	M.V. Chitral	02	3,351,111
9.	M.T. Malakand	01	1,038,328
10.	M.V. Hyderabad	08	13,033,901
Total		197	509,084,649

Audit is of the view that the due to inefficiency of the management, the vessels remained idle for 197 days, resulting in a wasteful expenditure of Rs. 509.084 million.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The

management stated that voyages pertain to repairs/dry docking, due to which no revenue is appearing in those voyages and losses are appearing due to allocation of overhead / repair expense in these voyages. The DAC directed the management to provide the relevant record to audit for verification.

Audit recommends implementation of DAC directives.

12.3.4.6 Losses in the voyages of ships – Rs. 428.536 million

Rule (4) (3) of Corporate Governance Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2019-20, it was observed that 08 vessels performed a total of 100 voyages which incurred an operating loss of Rs. 428.536 million as detailed below:

(Rs in million)					
S.#	Name of Voyage	No. of Voyages	Revenue generated by the Vessel	Expenditure incurred against the Vessel	Difference/ Net loss of each Vessel
1	Hyderabad	03	70.836	99.673	28.838
2	Multan	04	81.259	151.639	70.380
3	Quetta	08	376.961	468.494	91.534
4	Khairpur	09	333.358	527.405	194.048
5	Sibi	02	116.488	151.041	34.553
6	Slot chartering	72	0.427	7.177	6.750
7	Super Lady	01	60.254	61.749	1.495
8	Kudos	01	63.347	64.288	0.941
Total		100	1,102.930	1,531.466	428.539

Audit is of the view that due to ill-planning and poor supervision, the expenditure on the vessels exceeded income.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management informed that Shipping is a cyclic business and the earning indicator of shipping industry BDI during FY 2019-2020 experienced one of its worst turmoil due to Covid situation. The DAC directed the management to verify the factual position.

Audit recommends implementation of DAC directives.

12.3.4.7 Irregular/unjustified adjustment of credit losses of non-recoveries against impairment losses - Rs. 339.659 million

Rule (4) (3) of Corporate Governance Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2019-20, it was observed that the management set aside an amount of Rs.339.659 million in anticipation that these were expected credit losses and the Corporation is unlikely to recover the same. This amount has a direct effect on the current assets of the Corporation. This also means that the revenues which were booked in different times are now considered as doubtful in terms of recovery. After due consideration and analysis, the management has made a decision to consider financial receivables amounting to Rs.339.659 million to be marked as expected credit losses, meaning chances of recoveries are less. Now the management has charged Rs.339.659 million in their financial position and profit and loss account.

Audit is of the view that the management's expectation of credit losses reflects poor asset management, as these are directly associated with the assets and revenues which were already booked in previous years, which sustained the Corporation a loss of Rs.339.659 million.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management stated that the said amount pertained to PSO for which ECC has directed PSO to pay the outstanding amount to PNSC and PNSC request Ministry of Maritime Affairs to take up the matter with Ministry of Petroleum and Energy to implement the decision of ECC for early recovery of said amount from PSO. The DAC directed that meeting may be held between MOMA and Ministry of Petroleum Energy to resolve the issue at earliest.

Audit recommends implementation of DAC directives.

12.3.4.8 Operational losses by subsidiary companies - Rs. 250.848 million

As per Job description of PNSC, the General Manager of Commercial Division was required to perform:

- Utilize vessels allocated in the most profitable manner
- Prepare and maintain vessel schedule
- Ensure proper execution of the voyage, etc

During audit of Pakistan National Shipping Corporation for the year 2019-20, it was observed that the management's subsidiary companies sustained accumulative loss of Rs. 250.848 million as detailed below:

(Amount in Rs)			
S.#	Name of Subsidiary	Total profit/(loss)	Earnings per share in 2019-20
1.	Malakand	(45,363,000)	(0.14)
2.	Multan	(92,485,000)	(0.66)
3.	Sibi	(113,000,000)	(0.45)
	Total	(250,848,000)	

Audit is of the view that operational losses reflects poor financial management resulting in a loss of Rs. 250.848 million.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management informed that each and every voyage and its feasibility is properly worked out and assessed with regard to profit / loss of the voyage before fixing ships. All the voyages were expected in profit at charter hire considering CP daily gross hire above the daily FOC. The DAC directed the management to submit revise reply to the audit.

Audit recommends implementation of DAC directives.

12.3.4.9 Loss of income by non-charging of dead freight - Rs. 152.140 million

Clause 1(b) As per Contract of Affreightment (CoA) PNSC with NRL. The average minimum cargo size shall be 70,000 metric tons based on the average cargo sizes notified by the COMPANY over 4 calendar months barring the period where refinery is under specific turnaround and /or curtailment of crude oil availability imposed by OPEC/crude oil supplier. The dead freight shall be payable by the company to the carrier for the quantity determined as

difference between the total quantity notified by the company over the period of 4 months and 70,000 MT times no of cargoes performed during the same period. However, carrier shall be responsible to arrange upliftment of the quantities as notified by the company and that cargo quantities are not reduced or short loaded for vessel reasons.

As per Contract of Affreightment (CoA) PNSC with NRL Clause-1(b):- all individual cargo sizes below 71,000 Metric Tons shall have the provision of a negative tolerance of 3% for each voyage. (c):- in case the average minimum cargo size falls below 68,870 metric tons, the company shall pay the carrier dead freight for the average minimum cargo size fallen short of 68,870 metric tons.

As per Contract of Affreightment (CoA) PNSC with NRL Clause-1(b):- the Cargo sizes shall not be less than 70,000 metric tons on an average monthly basis subject to a negative tolerance of 0.5%. failing which dead freight shall be payable by the company to the carrier on the difference between 70,000 metric tons less negative tolerance and the said monthly average of cargo sizes to be settled on completion of each month.

During audit of Pakistan National Shipping Corporation for year 2019-20, it was observed that the management did not charge the dead freight of Rs. 152.140 million against National Refinery Limited (NRL), Pakistan Refinery Limited (PRL) and M/s Pak Arab Refinery Limited (PARL) as per contract agreement. Annex-49.

Audit is of the view that the management extended undue favor to Oil Marketing Companies (OMCs) by not charging the dead freight which reflects inefficiency and poor financial management.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The irregularity was discussed in DAC meeting held on January 17, 2022.

- a The management informed the DAC that the no loss has occurred to PNSC for non-charging of dead freight from PRL. Voyage wise detail was given to audit for clarification.DAC directed the management to provide the relevant record to audit for verification.

- b The management informed the DAC that the no loss has occurred to PNSC for non-charging of dead freight from PARL. Voyage wise detail was given to audit for clarification.DAC directed to verify the record.
- c The management informed the DAC that the total lifting quantity applicable for dead-freight during the said period was 273,729 MT (4 voyages) as against minimum quantity of 280,000 MT, i.e. a short lifting of 6,270 MT, for which PNSC has already raised invoice to NRL.DAC directed the management to get the record verified by Audit.

Audit recommends implementation of DAC directives.

(DP No. 222, 223 & 221)

12.3.4.10 Irregular appointment of retired officers - Rs. 148.299 million

As per Cabinet division letter no.6/2/2000-r.3 dated 06.05.2000:- policy guidelines for contract appointments for posts in autonomous/semi-autonomous bodies, corporations, public sector companies etc., owned and managed by the federal government: say that in order to regulate contract appointments in autonomous/semi-autonomous bodies, corporations, public sector companies etc., owned and managed by the federal government, the chief executive has been pleased to lay down the following policy guidelines:-

- (iii) (a) Where the nature of a particular job/vacant position requires contract appointment for a specific period, standing instructions should be issued by the administrative Ministry/Division concerned, after consultation with the Chairman of the Board of Directors/Board of Governors, specifying such posts and the parameters governing appointment on contract basis against such posts.
- (iv) In the case of contract appointment/re-employments of retired civil servants, retired Armed Forces Officers and retired Judges of Superior Courts, the condition of open advertisement shall not be applicable, provided that such appointments shall be made by or with the prior approval of the prescribed authorities in the Federal Government.

During audit of Pakistan National Shipping Corporation (PNSC), for the year 2019-20, it was observed that the management appointed officers of retired armed forces on contract basis in violation of rules. Following irregularities were observed:

- i. All appointments were made without approval of Cabinet Division.
- ii. Appointments were made without the approval of Board of Directors.
- iii. All the retired armed forces officers appointed in the Corporation were appointed on contract period for initial two years but continued in contract period without getting the prior approval from the Ministry. Annex-50.

Audit is of the view that the management has extended undue favor and appointed retired officers of armed forces on contract basis in violation of rules. Thus, the appointment as well as the amount Rs. 148.299 in lieu of salary and allowances paid to the officers is held irregular and unjustified.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management informed that the matter is subjudice in High Court of Sindh. The DAC directed the management to provide the relevant record to audit for verification.

Audit recommends implementation of DAC directives.

12.3.4.11 Loss of income due to late delivery of vessels - Rs. 114.118 million

Clause 6 & 8 of General Terms & Conditions of Dry Docking Contract Time Completion of Work, the yard shall undertake that is shall give the highest priority to the work and any additional work and shall not assign a higher priority to any other work which may interfere with its diligent prosecution of work and any additional work.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2019-20, it was observed that the management awarded four (04) contracts of dry-docking during the period 2019-20 to different shipyards, the management lost the business valuing Rs. 114.118 million. The details of business income loss is as under:

S. #	Name of Vessel	Name of Contract awarded	Approved days	Actual days	Difference / late completion	Opportunity cost loss in (US\$ 155 /PKR)	Total Loss (Rs. in million)
1.	Chitral	M/s. Zhoushan Nanyang Star Building Co. Ltd.	28	49	21	199,436.38	31.243
2.	Sibi	M/s. Colombo Dockyard PLC	24	27	03	19,701	3.058
3.	Malakand	M/s. Colombo Dockyard	24	39	15	393,718	62.597

		PLC					
4.	Multan	M/s. Colombo Dockyard PLC	24	32	08	104,803	17.219
Total							114.118

Audit is of the view that dry-docking of the vessels beyond the time specified cost the management an opportunity loss of Rs. 114.118 million which reflects poor planning.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management informed the DAC that the final scope of work is not in hands of PNSC, as the same always decided by final authority i.e Class survey who is working under IMO regulations. Yards were only be penalized when delays was on their part. PNSC has penalized yards, and deducted amount as per contract terms as given in the reply of draft para. The DAC directed the management to provide the relevant record to audit for verification.

Audit recommends implementation of DAC directives.

12.3.4.12 Appointment of ship personnel beyond the age of superannuation - Rs. 80.120 million

As per Govt. of Pakistan, Establishment Division O.M.No.4/1/84-R-I, dated 02.09.1990, all Ministries/Divisions were requested to adhere to the instructions issued by the Establishment Division and not to allow any officer to continue in service beyond the age of superannuation or contractual appointment without prior approval of the competent authority i.e. prime minister. Further, as per policy guidelines for contract appointments in autonomous/semi-autonomous bodies/corporation, issued by the Government of Pakistan, Establishment Division vide O.M No. 6/2/2000-R.3, dated 6th May 2000, the post should be advertised.

As per PNSC Tenders dated 25.03.2018 and 13.06.2019 for appointments of Afloat Officers for LR-1 product Carrier/Tankers fixed the maximum age up to 55 & 58 years for appointment of Master Mariner (Class-I Deck) and Chief Engineer Mariner (Class-I Motor).

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2019-20, it was observed that the management appointed retired Afloat

Officers on contract for a period of initial 03 years which is violation of the tender and Establishment division instructions. The details are as under:

S. #	Designation	Date of Birth	Date of Appointment	Age at the time of appointment	Period of services	Salary & Allowances paid per month in Rs.	Total amount paid Rs.
1.	Capt. Mirza Rashid Baig, Malakand	05.05.1957	05.05.2019	62	22 months, 26 days	656,088	14,984,203
2.	Capt. Muhammad Iqbal, Hyderabad	02.02.1958	16.02.2019	61	25 months 12 days.	656,088	16,683,381
3.	Capt. Najeeb Anwar, Chitral	24.03.1959	10.02.2019	60	25 months, 18 days.	656,088	16,823,971
4.	Mirajuddin, Chief Engr, Hyderabad	13.02.1960	16.02.2019	59	25 months, 12 days.	643,912	16,373,762
5.	ZiaurRehman, Chief Engr. Multan	15.12.1955	24.04.2019	64	23 months, 06 days.	657,943	15,264,278
Total						3,270,119	80,129,595

Audit is of the view that the management had irregularly hired the services of retired captains and chief engineers beyond the age of 60 years. Thus, an amount Rs. 80.129 in lieu of salary paid is held irregular.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management informed the DAC that the Ministry of Port & Shipping letter dated September 12, 2006 has already approved relaxation in appointment of afloat beyond the age of 65 years. The DAC directed the management to provide the relevant record to audit for verification.

Audit recommends implementation of DAC directives.

12.3.4.13 Loss on sale of bunkers - Rs. 67.466 million

Rule (4) (3) of Corporate Governance Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters.

During audit of Pakistan National Shipping Corporation of Pakistan (PNSC) for the year 2019-20, it was observed that the management sustained a loss of Rs.67.466 million on sale of bunkers as detailed below:

S. #	Name of Vessel	Loss (Rs in million).
1.	MV Chitral	11.162
2.	MV Malakand	36.153
3.	MV Sibbi	2.001
4.	MV Multan	18.148
Total		67.465

Audit is of the view that due to ill planning and non-assessment, the management purchased fuel in bulk quantity which resulted into non-utilization of the same on time and subsequent sale on lower rates than the purchased prices, sustaining a loss of Rs. 67.466 million.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management informed the DAC that this is due to market rates prevailing at time of delivery / re-delivery of vessel, and same cannot be controlled by any of the parties and consultant in loss or sometimes in profit. The DAC directed the management to provide the relevant record along with Surveyor's Reports at the time of sale and purchase of bunkers to audit for verification.

Audit recommends implementation of DAC directives.

12.3.4.14 Loss of revenue due to ocean losses - Rs. 62.939 million

As per the agreement clause regarding Ocean Losses, it is agreed that;

- (i) Ocean loss in respect of cargo carried shall not exceed 0.4% by weight of crude oil Loaded quantity as per Bill(s) of lading per voyage, compared with measurement of shore tanks at discharge port. The quantity delivered shall be quantity actually received in the company's shore tanks. Any unpumpable quantity of crude oil left onboard after completion of discharge shall not be adjusted against allowable ocean loss as mentioned herein, such computations of ocean losses shall made and settled on a voyage-to-voyage basis.
- (ii) If ocean loss on each cargo carried under this agreement exceeds 0.4% by weight as per above clause, the carrier shall be liable to pay the company the cost of ocean loss in excess of 0.4% by weight and freight thereof, without prejudice to any liabilities of the carrier.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2019-20, it was observed that the management incurred ocean losses

amounting to Rs. 62.939 million due to short delivery of crude oil in excess of 0.4% by weight and freight as detailed below:

S. #	Vessel Name	Total voyages	Ocean loss (Rs. in million)
1.	MT Quetta	23	30.983
2.	MT Lahore	19	13.370
3.	MT Karachi	21	18.586
Total			62.939

Audit is of the view that due to mismanagement and technical fault of the ships, the management supplied short quantity causing an ocean loss of Rs. 62.939 million.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management informed the DAC that these discrepancies are due to density variation of cargo being load on top at shore tank and current COA extension with PRL and after tedious negotiation PNSC finally devised a mechanism for sample testing at load and discharge port to overcome the density variation which is the major factor for ocean losses. The DAC directed the management to provide the relevant record to audit for verification.

Audit recommends implementation of DAC directives.

12.3.4.15 Irregular sale of vehicles to officers - Rs. 38.566 million

Section 6 (g) of PNSC Ordinance 1979 states that without prejudice to the generality of the foregoing provision, the Corporation shall, to acquire, hold or dispose of any property, whether movable or immovable, or any shipping undertaking or undertaking connected with shipping.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2019-20, it was observed that the management sold 32 vehicles to the officers of PNSC (Annex-51). Following irregularities were observed:

- i. The management directly sold its vehicles to its officers without calling the public auction.
- ii. Further, during the scrutiny of expenditure of sold vehicles, it was revealed that before selling the vehicles, management incurred an

- expenditure of Rs.18.370 million against the replacement of tyres, replacement of spare parts, replacement of batteries and others etc.
- iii. The amount of all the vehicles sold out to officers has been adjusting through their monthly salaries from the head of monetization allowance.

Audit is of the view that the management extended undue favor to its employees by selling vehicles directly and after incurring expenditures on repair and maintenance. Besides, the sale amount of vehicles has been adjusted through deduction of monthly salary against monetization allowances.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management informed the DAC that the all PNSC vehicle were sold in open auction in transparent manner and vehicle purchase by officers was transferred under approved car monetization policy of PNSC. The DAC directed the management to provide the relevant record to audit for verification.

Audit recommends implementation of DAC directives.

12.3.4.16 Loss due to accident of MT. Bolan - Rs. 32.757 million

Rule (4) (3) of Corporate Governance Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2019-20, it was observed that the management acquired newly Aframax tanker MT Bolan suffered an accident on 31st August, 2019 near Malaysia during berthing operation. As the ship was in damaged condition after off-loading cargo, the ship charterer put the vessel on off hire from 05.09.2019 to 12.09.2019 (08 days). Thus, the Corporation sustained a loss of revenue income Rs. 18.704 million (US\$ 14,000 per days x 08 days x Rs. 167). Furthermore, due to off hire/idleness, the ship also incurred additional cost of bunkering and other overhead amounting to Rs. 14.530 million.

Audit is of the view that due to inefficiency in the operation of vessel, a loss of revenue income and incurring extra expenditure valuing Rs. 32.757 million was incurred.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management informed the DAC that an inquiry was also conducted in which negligence of Master of the vessel was established, upon which his services were immediately terminated and PNSC has received an amount of Rs.25.085 million whereas claim acceptance of P&I Club amounting to USD 51,125. The DAC directed the management to verify the factual position with Audit.

Audit recommends implementation of DAC directives.

12.3.4.17 Excess utilization of bunkers - Rs. 17.906 million

Rule (4) (3) of Corporate Governance Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters.

During audit of Pakistan National Shipping Corporation for the year 2019-20, it was observed that the management utilized fuel on their vessels in excess than the standard, resulting in excess expenditures valuing Rs.23.303 million as detailed below:

S.No.	Vessel Name	Period	Standard allowed in M.Tons	Actual utilized in M.Tons	Excess Utilized in M.tons	Rate of US\$ per M.Ton	Total Cost M.Tons in US\$
			A	B	C=(B-A)	D	E=(C×D)
1.	MV Karachi	June,2019	498.72	513	14.28	378	5,397.84
		July,2019	821.81	931	109.19	378	41,273.82
		October,2019	1,059.22	1,166.30	107.08	310	33,194.80
2.	MV Quetta	September,2019	1,228.74	1,231.10	2.36	342.50	808.30
3.	MV Lahore	October,2019	901.41	991.40	89.99	295	26,547.05
Total amount in US\$							107,221.81
Total amount in Pak-Rs.01 US\$ equivalent to Pak Rs.167 average							Rs. 17.906 million

Audit is of the view that consumption of excess fuel than the standard reflects inefficiency and poor internal controls.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management stated that the actual consumption was well below the standard

consumption and hence there was no inefficiency in operation of the vessels by PNSC. The DAC directed the management to submit the revise reply and verify the factual position with Audit.

Audit recommends implementation of DAC directives.

12.3.4.18 Irregular appointment as Assistant Manager (Planning) - Rs. 15.289 million

As per advertisement the required qualification for the post of Assistant Manager (Planning) was MBA in any discipline including MBA (Maritime) except IT MIS from any HEC approved institution or holders of Master's Degree in Commerce/Economics with two years working experience.

As per advertisement the required qualification for the post of Deputy Manager (Planning) was MBA in any discipline including MBA (Maritime) except IT MIS from any HEC approved institution or holders of Master's Degree in Commerce/Economics with four years working experience.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2019-20, it was observed that the management appointed Mr. Muhammad Zohaib Zafar as Assistant Manager (Planning) in 2010 at monthly salary Rs. 32,208 on contract basis for a period 02 years without having required qualification i.e, MBA. He possessed Bachelor degree in Computer Science. Later on, management re-appointed him as Deputy Manager (Planning) in September 2014 without having MBA degree.

Audit is of the view that the management extended undue favor in the appointment of Mr. Muhammad Zohaib Zafar as Assistant Manager & Deputy Manager (Planning) in violation of required criteria. Thus, his appointment & payment of salary amounting to Rs. 15.289 million is held irregular.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management informed that all codal formalities were observed in the appointments. The DAC directed the management to provide the relevant record to audit for verification.

Audit recommends implementation of DAC directives.

12.3.4.19 Irregular promotion of contractual officers - Rs. 15.000 million

Clause 4 of PNSC Contractual Employee Policy 2013, Promotion Policy required mandatory service limits for promotion are:

Category	Contract
From Managers to General Managers	Five Years
From Deputy Managers to Managers	Five Years
From Assistant Managers to Deputy Managers	Three Years
From Junior Executives to Assistant Managers	Five Years

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2019-20, it was observed that the management promoted junior officers (contractual) in violation of the seniority list. The management promoted the junior officers against the senior seats on pick-and-choose basis without observing the seniority. Moreover, it was also noticed from the scrutiny of contractual employee personal files that there is a practice in the Corporation that contractual employees are promoted against the permanent employees' seats and even juniors were promoted against the seniors' seats in violation of the employees' service rules. The details of promoted contractual employee against the permanent employees' seats as well juniors against the seniority are attached at Annex-52.

Audit is of the view that the management was extending undue favor to its contractual employees/junior officers by promotion them in violation of the service rules of PNSC-1984 and PNSC Contractual Employee Policy-2013.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management informed the DAC that contractual employees are given chance for promotion as per the policy approved by the PNSC Board of Directors. The DAC directed the management to provide the relevant record to audit for verification.

Audit recommends implementation of DAC directives.

12.3.4.20 Loss of freight income due to idleness of vessels - Rs. 10.817 million

Rule (4) (3) of Corporate Governance Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2019-20, it was observed that the management suffered a loss of Rs. 10.817 million on account of cost of idle time of ships (i.e. time when no actual voyage was performed). The details of loss are as under:

Rs. in million				
S. #	Name of Vessel	Total Idle overhead	Less: Repair & maintenance Idle overhead	Actual Idleness
		A	B	C=(A-B)
1.	MV. Khairpur	0.397	0.068	0.328
2.	M.V. Hyderabad	0.380	0.051	0.328
3.	M.T. Shalamar	1.792	0.339	1.453
4.	M.T. Lahore	2.833	0.600	2.232
5.	M.T. Karachi	2.720	0.663	2.057
6.	MT. Quetta	4.936	0.525	4.411
Total		13.065	2.248	10.817

Audit is of the view that the management failed to utilize the vessels properly which led to the ships remaining frequently idle during the whole year.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management informed the DAC that the vessel can't be operated in continues basis, vessels were on idleness for few days during the year for many reasons for which estimates are incorporated in annual budget for freight loss due to idleness. The DAC directed the management to provide the relevant record to audit for verification.

Audit recommends implementation of DAC directives.

12.3.4.21 Irregular promotion of officers - Rs. 10.000 million

Clause17(1)of PNSC Service Rules, 1984 states that an Employee other than an employee appointed on probation shall rank for seniority in his grade on the basis of his continuous services in grade on the date of appointment.

Further, Clause18 sub-clause (1) states that all promotions shall be made on the basis of Seniority-cum-fitness. No employee shall have claimed to be promoted to any particular post or Grade by virtue of seniority alone. (2) Every

Employee on promotion shall be on probation in the higher Grade for six months, extendable by a further period not exceeding three months.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2019-20, it was observed that the management promoted junior officers in violation of the seniority list on pick-and-choose basis. The details are as under:

S. No.	Name	Designation	Promoted as	Number in Seniority list
1.	Mr. Muzaffar Ahmed	Manager (XII)	General Manager (XIII)	02
2.	Mr. Munaf Ahmed,	Deputy Manager (XI)	Manager (XII)	08
3.	Mr. Naeem Ahmed,	Assistant Manager (X)	Deputy Manager (XI)	02
4.	Mr. Nusrat Jamil,	Assistant Manager (X)	Deputy Manager (XI)	09

Audit is of the view that the management extended undue favor to junior officers by promoting them in violation of rules which is held irregular and unjustified.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management informed the DAC that the permanent officers are promoted in accordance with PNSC's approved promotion policy for shore-based employees. The DAC directed audit to verify the PNSC's promotion policy.

Audit recommends implementation of DAC directives.

12.3.4.22 Irregular appointment of Deputy Manager (Tanker) - Rs. 8.351 million

As per Cabinet division letter no.6/2/2000-r.3 dated 06-05-2000:- policy guidelines for contract appointments for posts in autonomous/semi-autonomous bodies, corporations, public sector companies etc., owned and managed by the federal government:- say that in order to regulate contract appointments in autonomous/semi-autonomous bodies, corporations, public sector companies etc., owned and managed by the federal government, the chief executive has been pleased to lay down the following policy guidelines: (ii) For projects which have a limited life, appointments may be made on contract basis by the prescribed appointing authority after open advertisement of the vacancies. The advertisement should indicate prescribed academic and professional

qualifications, experience, age, provincial/regional quotas, special quotas etc., where applicable, as per rules/government policy.

During audit of Pakistan National Shipping Corporation (PNSC), for the year 2019-20, it was observed that the management appointed Mr. Naveed Ahmed Shaikh as Deputy Manager (Tanker) on contract basis for a period 02 years on a monthly salary of Rs. 131,985 without advertisement in violation of the above rule. The details of salary and allowances paid are as under:

Period	Per month salary (Rs.)	Amount (Rs. in million)
1 st September, 2014 to 1 st September, 2016	131,985	3.167
1 st September, 2017- to 30 th October, 2018	131,985	1.583
1 st September, 2018 to 1 st January, 2019	145,000	0.580
1 st January, 2019 to 31 st December, 2019	151,439	1.817
1 st January, 2020 to 31 st March, 2021	185,779	2.786
	Total	8.351

Audit is of the view that the management extended undue favor to the incumbent by appointing him without advertisement is held irregular and unjustified.

The matter was reported to the management in April, 2021. The irregularity was discussed in DAC meeting held on January 17, 2022. The management informed that appointment was made through advertisement and for the post of Deputy Manager (Planning). The DAC directed the management to provide the relevant record to audit for verification.

Audit recommends implementation of DAC directives.

12.4 Port Qasim Authority

12.4.1 Introduction

Port Qasim Authority was established in 1973 under the Port Qasim Authority Act, 1973 (the PQA Act). The principal activities of the Authority are to provide services of ship movement, storage, berthage, wharfage, and towage, etc., besides developing and managing an industrial and commercial estate within its occupied area. The location of operations and principal office of the Authority is situated at Port Muhammad Bin Qasim, Karachi.

12.4.2 Comments on Audited Accounts

12.4.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this, the management failed to provide audited accounts of the organization for the years 2006 to 2020 despite a number of reminders.

12.4.2.2 Audit requires that the annual audited accounts of the years 2006 to 2020 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

12.4.3 Compliance of PAC Directives

Audit Year	No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
1999-00	5	2	3	67, 68, 70	40
2000-01	13	10	3	59, 62, 64	77
2003-04	5	3	2	182, 183	60
2005-06	14	11	3	225.1, 225.4, 228	79
2006-07	1	0	1	194	-
2008-09	5	3	2	213, 214	60
2010-11	7	2	5	20.3.3, 20.3.4.3	29
2011-12	15	3	12	22.4.3, 22.4.4.2, 22.4.4.3	20
2012-13	11	6	5	22.2.3, 22.2.4.1, 22.2.4.2, 22.2.4.4, 22.2.4.5, 22.2.4.6	55
2013-14	13	5	8	16.4.3.1, 16.4.3.2, 16.4.3.3, 16.4.3.4, 16.4.3.5, 16.4.3.8, 16.4.3.10, 16.4.3.11	38
2014-15	63	3	60	18.4.4.2, 18.4.4.4, 18.4.4.27, 18.4.4.26, 18.4.4.1, 18.4.4.43, 18.4.4.34, 18.4.4.29, 18.4.4.15, 18.4.3, 18.4.4.3, 18.4.4.5, 18.4.4.6, 18.4.4.7, 18.4.4.8, 18.4.4.9, 18.4.4.10, 18.4.4.11, 18.4.4.12, 18.4.4.13,	5

				18.4.4.14, 18.4.4.16, 18.4.4.17, 18.4.4.18, 18.4.4.19, 18.4.4.20, 18.4.4.21, 18.4.4.23, 18.4.4.24, 18.4.4.25, 18.4.4.28, 18.4.4.30, 18.4.4.31, 18.4.4.32, 18.4.4.33, 18.4.4.35, 18.4.4.36, 18.4.4.38, 18.4.4.39, 18.4.4.40, 18.4.4.41, 18.4.4.42, 18.4.4.44, 18.4.4.45, 18.4.4.46, 18.4.4.47, 18.4.4.4, 18.4.4.49, 18.4.4.50, 18.4.4.51, 18.4.4.52, 18.4.4.53, 18.4.4.54, 18.4.4.55, 18.4.4.56, 18.4.4.57, 18.4.4.58, 18.4.4.59, 18.4.4.60	
2015-16	18	1	17	17.4.4.1, 17.4.4.3, 17.4.4.5, 17.4.4.10, 17.4.4.15, 17.4.3, 17.4.4.2, 17.4.4.4, 17.4.4.6, 17.4.4.7, 17.4.4.8, 17.4.4.9, 17.4.4.10, 17.4.4.11, 17.4.4.12, 17.4.4.13, 17.4.4.14	6
2016-17	10	8	2	15.4.2.1, 15.4.3, 15.4.4.2, 15.4.4.3, 15.4.4.4, 15.4.4.5, 15.4.4.6, 15.4.4.7	80
2017-18	10	9	1	14.4.2.1, 14.4.3, 14.4.4.1, 14.4.4.2, 14.4.4.3, 14.4.4.4, 14.4.4.5, 14.4.4.6, 14.4.4.7	90
Total	190	66	124	-	35

The overall compliance of PAC directives needs improvement.

12.4.4 Audit Paras

12.4.4.1 Unapproved and unregulated investments - Rs. 66,303.000 million

As per Finance Division No.F.4(1)/2002-BR.II 3 (a) For the sake of the safety and security of deposits, the bank/financial institutions taking a deposit should have a minimum “A” rating (long-term) as appearing on the web-site of the State Bank of Pakistan. This “A” rating refers to the rating scale used by Pakistan Credit Rating Agency and JCR-VIS Credit Rating Company for banks incorporated in Pakistan. Furthermore, as per Finance Division No.F.4(1)/2002-BR.II 6 “Before making any investment under this policy, it would be necessary for public sector entities to set up in-house professional treasury management functions. Specifically, they would need to have an Investment Committee (IC) with defined investment approval authority. Transactions above the approval authority of the IC will be subject to approval of the Board of Directors or an equivalent forum. The IC should be assisted by an Investment Management Unit employing qualified staff with at least 3-5 years of experience of managing investment in debt/equity instruments. However, it will be necessary for public sector enterprises to use the services of professional fund managers approved by SECP”.

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that the management amended the investment policies in violation of Finance Division's directives. Audit observed following amendments against the spirit of the investment made by the PQA in its investments policy;

- a. Higher rate of return was compromised with Bank ratings.
- b. Adaptation of investment ratio of 50:50 and 40:60 ratio between AAA and AA banks.
- c. KIBOR Minus points were accepted, causing potential losses to the Authority.
- d. Only NBP was selected for 40% of the investment of surplus fund.
- e. Against the board directives, AA banks were allowed KIBOR minus points.

Audit is of the view that amendments in the investment policy were the violation of Finance Division's directives which resulted into poor financial management.

The matter was reported to the management in June, 2021. The management in its reply dated January 17, 2022 stated that the PQA has its own investment policy and funds were placed with banks having minimum AA rating banks since 2014 after the PQA Board's decision. The reply of the management is not tenable as it not only violated Finance Division's directives but also ignored and compromised the high return on investment by formulating its own investment policy. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on person(s) at fault.

12.4.4.2 Non-adjustment of tax from tax authorities – Rs. 17,019.421 million

Rule (4) (3) of Corporate Governance Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters.

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that an amount of Rs. 17,019.000 million was outstanding on account of withholding taxes, receivables etc from income tax authorities as detailed below: Annex-53.

(Rs. in million)	
Receivables from Tax Authorities up to 2009	674.359
Receivables from Tax Authorities 2009 to 2020	16,345.062
Total Receivables	17,019.421

Audit is of the view that the management failed to take strenuous efforts to adjust outstanding amounting of Rs. 17,019.421 million from tax authorities which reflects negligence and inefficiency.

The matter was reported to the management in June, 2021. The management in its reply dated January 17, 2022 apprised that the aforementioned amount appears in PQAs Accounts is because, it is the domain and responsibility of FBR to review the cases of assessment of Annual Tax Returns u/s 122, and accordingly after finalization of these assessment, this will be settled against its corresponding tax payable. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends prompt adjustment of amount from tax authorities.

12.4.4.3 Irregular deposit of working balances - Rs. 3,000.000 million

Government of Pakistan, Finance Division (Budget Wing) O.M.No. F.4(1)/2002-BR.II, Islamabad dated 02.07.2003, regarding working balances provides vide para-3 that under the new policy, public sector enterprises and local/autonomous bodies can deposit their working balances required for their operations with any public or private bank subject to the following requirements:

(b) The process of selection of bank(s) should be transparent. Therefore, prior to placing deposits with a bank under this new policy, and in case the total working balances exceed Rs.10 million, the selection of bank(s) as well as terms of deposits will be approved by the concerned Board of Directors/Governing Body on the basis of competitive bids from at least three independent banks.

(c) The risk associated with keeping deposits should be diversified. Therefore, in cases where total working balance of an enterprise exceeds Rs.10 million, not more than 50% of such balance shall be kept with one bank. (e) The working balance limit of each organization should be determined with the approval of the administrative ministry in consultation with Finance Division.

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that the management determined its working balances amounting to Rs. 3,000.000 million which was invested in banks without seeking the approval from administrative ministry (Ministry of Maritimes Affairs) in consultation with Finance Division and without seeking competitive rates.

Audit is of the view that the management failed to comply with the directives of concerned administrative ministry which is held as irregular and unjustified.

The matter was reported to the management in June 2021. The management in its reply dated January 17, 2022 informed that a letter along with reminder is forwarded to Ministry for concurrence. The reply of management is not tenable because the investments were made during the period of 2019 and 2020, whereas concurrence letters were written during the year 2021. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

12.4.4.4 Non-recovery of PDC and Allied Charges - Rs. 2,043.250 million

Sr. No. xx of Annexure-2 states that “you shall complete / commission the proposed unit within the time specified in PQA's Land Allotment Policy, 2000. In case of failure the allotment of plot shall be cancelled and 25% of total Peripheral Development Charges shall be forfeited.” In accordance with clause (ii), (x) of Para-2 of allotment letter, the parties were required to remit remaining Peripheral Development Charges (PDC) within 30 days and Annual Land Rent (ALR) payable yearly in advance.

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that the management failed to recover an outstanding amount of Rs. 2,043.25 million (Rs. 1,921.653 million - Peripheral Development Charges (PDC) and Rs. 121.601 million - Allied Charges) from various land allottees. Moreover, the management made an adjustment of Rs. 2,090 million in PDC receivables and adjustment of Rs. 957 million in Allied PDC in the draft annual accounts for the year 2019-20 without any justification or approval of the Board.

Audit is of the view that management extended undue favour to the allottees due to which heavy amount remained outstanding till date.

The matter was reported to the management in June 2021. The management in its reply dated January 17, 2022 informed that PQA received payments of Rs. 2,090.000 million against PDC receivable and Rs. 957.000 million receivable against allied charges (annual rent and other recoveries/ markup etc.) in the F.Y. 2015-16 and accordingly accounted for in FY 2015-16 rather than 2019-20. The reply of the management is not tenable as the adjustment's break up along with details were not provided showing justification of the same. DAC meeting was held on January 17, 2022 but para was not discussed.

Audit recommends prompt recovery besides investigating the matter with a view to fix responsibility on the person(s) at fault.

12.4.4.5 Irregular award of annual running civil repair and maintenance contracts – Rs. 610.000 million

Rule 36 (b) (v) of PPRA, 2004 states that the procuring agency shall evaluate the technical proposal in a manner prescribed in advance, without reference to the price and reject any proposal which does not conform to the specified requirements;

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that the management floated six (6) tenders for the civil work of annual running maintenance contracts of road networks, housing complex, buildings and offices and water supply and sewerage system amounting to Rs. 610.000 million. However, the management forwarded all the technical bids to a third party consultants for technical evaluation whereas it was required to be done by their in-house technical evaluation committee, being the procuring agency.

Audit is of the view that the secrecy and the spirit of technical evaluation process of the bidding were compromised by the management by submitting the bidding documents to the consultants which is held irregular and unjustified.

The matter was reported to the management in June, 2021. The management in its reply dated January 17, 2022 stated that the services of 3rd party consultant were acquired to ensure transparency as were as better /

professional assessment in initial evaluation. The reply of the management is not tenable as it compromised the secrecy and the spirit of technical evaluation process of the bidding was compromised by submitting the bidding documents to the consultants. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

12.4.4.6 Award of contract in violation of PPRA Rules – Rs. 296.179 million

Rule 07 of PPRA, 2004 states that all procuring agencies whether within or outside Pakistan shall post Contract Awards over fifty million rupees on PPRA's website on the proformas as set out in Annexure-I and Annexure-II to these regulations.

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that the management appointed Consultants M/s HR Wallingford and M/s Techno-Consultant International Pvt. Ltd, (JV of Consultant) for the consultancy services of feasibility study for deepening, widening & straightening of existing navigational channel, commissioning of alternate inner navigation channel and supervision of Capital dredging work at Port Qasim amounting to Rs. 262.105 million. However, the management uploaded the contract on PPRA website on 29.07.2020 after the lapse of two and half year period.

Audit is of the view that the management failed to follow the PPRA rules which is held irregular and unjustified.

The matter was reported to the management in June, 2021. The management in its reply dated January 17, 2022 stated that an amount of Rs. 262.105 million was the cost of bid offered by the bidder, whereas amount of Rs. 296.179 million given at Evaluation Report prepared by PQA in house Committee was also included Rs.34.073 million SST @ 13%; the contract amount. The said S.R.O. does not provide the time line for posting of contract award. The reply of the management is not tenable as it failed to follow the PPRA rules and registering the difference in contract amount as uploaded on PPRA website raises serious questions on the transparency of the award of the contract. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

12.4.4.7 Irregularity in cargo collection – Rs. 152.374 million

Rule-6(I/j) of Public Sector Companies (Corporate Governance) Rules, 2013 the Terms of Reference (TOR) of the audit committee may also include (i) ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure are adequate and effective; (j) review of the Public Sector Company's statement on internal control systems prior to endorsement by the Board;

During audit of Port Qasim Authority (PQA) for the year 2019-20, discrepancy was observed between the amount of gate passes issued and actual amount received, amounting to Rs. 152.374 million as detailed below:

			(Rs. in million)
Year	Gate pass vouchers received from Store Department	Actual cash Collection received at gate	Difference of Collection
2018-19	4.541	81.168	76.627
2019-20	3.297	79.044	75.747
Total	7.838	160.212	152.374

Audit is of the view that the management failed to establish proper cash handling system. The chances of mal-practices/ fraudulent practices in absence of controls cannot be ruled out.

The matter was reported to the management in June, 2021. The management in its reply dated January 17, 2022 stated that in the year 2018-19 an amount of Rs. 81.168 million was collected against issuance of gate passes and in the year 2019-20, an amount of Rs.79.044 million was collected against issuing gate passes. The detailed record is available for verification. The reply of the management is not tenable. The management failed to explain the non-reconciliation of cash amount Rs. 152.374 million on accounts of difference in gate passes and actual cash collection. DAC meeting was held on January 17, 2022 but para was not discussed.

Audit recommends investigation of the matter besides installation of computerized ticketing system to avoid such lapses in the future.

12.4.4.8 Undue favour extended in allowing LPG Handling Facilities – Rs. 150.000 million (US\$ 1,000,000)

Rule 40 of PPRA, 2004 states that without changing the cost and scope of work or services, the procuring agency may negotiate with the successful bidder (with a view to streamline the work or task execution, at the time of contract finalization) on methodology, work plan, staffing and special conditions of the contract. (2) Authority may determine the extent and types of negotiations on procurement by regulations.

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that upon successful bidding an implementation agreement was signed between PQA and Pakistan International Bulk Terminal Pvt. Ltd. (M/s PIBT) dated 06.11.2010 to establish and operate a dedicated Coal, Clinker and Cement Terminal at Port Qasim. Later on, the PQA Board in its 183rd Board meeting held on 11.03.2019 passed Board Resolution No.04/2019 it decided that, subject to legal opinion, M/s PIBT shall be allowed to handle LPG Handling Facilities at its terminal. Resultantly, M/s Vellani &Vellani Advocates were hired to get the opinion. The Advocates categorically advised against signing of any Supplementary Implementation Agreement (SIA) declaring it not legal and in violation of PPRA rules as it was beyond the scope of the project as per the tender. However, the PQA Board carried on with its previous resolution and vide its BR No.23/2019 dated 11 May, 2019 resolved the matter as under;

“After necessary discussion, the Board resolved to offer “LPG Handling Facilities” to all the existing Terminals, on non-exclusive basis against one time Concession fee of Rs.150.000 million (US\$. 1,000,000 * Rs.150), given the importance of this product to meet the energy needs of the Country.”

Audit is of the view that in order to extend undue favour to M/s PIBT, the PQA Board very conveniently side-stepped the matter of PPRA rules violation and disregarded the legal opinion. Offering “LPG Handling Facilities” to all existing terminals does not address the issue of change of scope of work and post-tender negotiations.

The matter was reported to the management in June 2021. The management in its reply dated January 17, 2022 apprised that the PPRA advice

vide its letter dated 13th September 2021 will be submitted to the PQA Board in its forthcoming meeting. However, provided the variation in the legal opinions and the advice by the PPRA, no concession to PIBT for establishment of LPG handling facilities has been given. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends that the matter may be justified and the Board decisions may be revisited in light of PPRA rules as well as the legal opinion.

12.4.4.9 Irregular award of contract of road network – Rs. 150.00 million

Rule 4 of PPRA, 2004 states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that the management awarded the annual civil work contract of running maintenance contract of PQA road network in South West Industrial Zone (SWIZ) to M/s Hassan Enterprises & Contractors amounting to Rs. 150.000 million. Audit observed following discrepancies in the award of the contract:

1. Technical Evaluation Report revealed that the SRB registration of M/s Hassan Enterprises was under process at the time of his submitting the bidding documents.
2. Evaluation Report was not uploaded on the website.
3. Agreement was signed on 06.02.2020, four (04) days prior of LOI issuance.
4. M/s Techno Consultant issued notice to commencement of work on 13.03.2020 which was required to be issued after the 14 days of the date of agreement signing.
5. The management issued letters to the 4 bidders instead of 5 participated bidders for clarification of their bids on 17.01.2020.

Audit is of the view that the management clearly favored the particular contractor and disregarded the above mentioned irregularities which is held irregular and unjustified.

The matter was reported to the management in June 2021. The management in its reply dated January 17, 2022 informed that copy of certificate

of SRB provided by bidder reveals that bidder was registered with S.R.B. The reply of the management is not tenable as the said contractor should not have been declared technically qualified in the first place. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

12.4.4.10 Non-recovery of penalty – Rs. 124.596 million

Clause xiii of Terms and conditions of the PQA Allotment Policy provides that any deviation (s) found in the construction from approved drawings at any stage shall be removed / demolished at your own risk and cost for which purpose unhindered access shall be provided. Further the allottee shall be liable to pay penalties at the following rates till unauthorized structures are removed:

Twenty (20%) Peripheral Development Charges (PDC) per sq. meter per annum plus annual land rent at the prevalent rate(s) at the time on covered area of unauthorized construction receivable as penalty.

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that the management failed to impose penalty on various accounts from the following parties amounting to Rs. 124.596 million as detailed below:

S. #	Name of Party	Amount (Rs. in million)
1	M/s Shujabad Agro Industries (Pvt) Ltd	112.554
2	M/s AGS Metals Limited	12.042
Total		124.596

Audit is of the view that the management did not follow standard acceptable mechanics of imposing penalty which resulted in non-recovery.

The matter was reported to the management in June, 2021. The management in its reply dated January 17, 2022 apprised that the case file forwarded to Legal Department to take legal action as per rules and regulation for recovery of outstanding dues on account of penalty unauthorized construction on the plot EIZ/LL/SP-08/A situated Eastern Industrial Zone PQA. Furthermore, the management in its reply dated January 17, 2022 stated that the case file forwarded to Legal Department to take legal action as per rules and regulation for

recovery of outstanding dues on account of penalty unauthorized construction amalgamation on the plots. The management acknowledged the stance of the audit however failed to recover the penalty amount. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

(DP No. 263 & 262)

12.4.4.11 Irregular transfer of 30 acre plot - Rs. 120.000 million

BR No. 34/2011 dated 20.06.2011 on conversion fee (category of change) provides warehouse to commercial @ Rs.15.0 million per acre and Industrial to warehouse / CFS or viz a viz 10% of total prevailing rate of PDC + difference of rate in PDC charged for the next category to which change required.

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that the management allotted a plot of 30 acres on lease to M/s National Logistic Cell (NLC) for the purpose of setting up container freight station, warehouse, scanner and weighbridge on 06.03.2006. M/s NLC sold/transferred plot in favour of M/s Ismail Resin Pvt. Ltd & M/s Ismail Industries Limited 15 acres of the plot each for manufacturing purposes on 14.04.2021.

Audit observed following irregularities in the allotment process;

1. Change of category from warehouse to industry was not the part of any approvals / BRs or Land Allotment Policy.
2. Change of category fees amounting to Rs 120.0 million was not received from the allottee till-date, recoverable before the issuance of allotment letters.
3. To favour the party, management passed Resolution No. 36/dated 22.03.2021 wherein Board resolved to approve the change of category of plots from warehouse to Industry, subject to concurrence of Ministry of Law and justice, to the effect that it does not tantamount to a change in master plan.
4. On single day i.e. 11.06.2021, the case was put up by Asstt: Manager (Survey) then Manager Estate, Director IM, DG (P&D) and Chairman, all in one go, approved the case, and showing extreme favour in the whole process. This was done without even seeking the opinion of the Ministry of Law and Justice.

5. Without receiving the bifurcation fees, though it is mentioned in the noting side of the approvals file, survey was conducted and no feasibility study in respect of bifurcation of single plot of 30 acres into 15 acres was conducted.
6. No legal opinion was sought as no signature on the noting side of the legal was found in file.
7. NOC from SEPA and CIE was not obtained.

Audit is of the view that the allottees were extended undue favour and were allowed the transfer of rights of the 30 acres of the plot by mutation into 15 acre each without following the appropriate procedures of the transfer of plots as per land allotment policy.

The matter was reported to the management in June, 2021. The management in its reply dated January 17, 2022 apprised that there are no need to obtain NoCs from SEPA & CIE as these NOC's are required in change of category but the instant case no change of category been executed /done and stated that the Bifurcation fee is received. The reply of the management is not tenable as it allowed the transfer of rights of the 30 acres of the plot by bifurcating into 15 acre each without following the appropriate procedures of the transfer of plots as per land allotment policy. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

12.4.4.12 Irregular award of maintenance contract – Rs. 80.000 million

Rule 26 (1) and (2) of PPRA, 2004 states that a procuring agency, keeping in view the nature of the procurement, shall subject the bid to a bid validity period and bids shall be valid for the period of time specified in the bidding document. Furthermore, Article 14.1 of the Bidding Documents states that the validity of bid is 90 days.

Clause 5 of Conditions of Contract states that within 14 days from the date of receipt of engineer's notice to commence which shall be issued within 14 days after signing of Contract Agreement.

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that the management awarded the annual contract of running civil work

of maintenance of building and offices to M/s Indusmens Corporation at an amount of Rs.80.000 million. The contractor was required to enter into contract within 14 days from the date of issuance of Letter of Intent (LOI) i.e. by 07.05.2019 and to furnish a Performance Bank Guarantee with all risk policy and workmen compensation Policy. However, the contractor entered into formal agreement after a period of almost three months on 01.08.2019. Moreover, the bid validity period had expired and the consultant issued the commencement of letter to the contractor on November 01, 2019 against the requisite date i.e. August 01, 2019.

Audit is of the view that the management extended undue favour to the contractor as the contractor not only failed to sign the agreement within specified period and the bid amount was also not forfeited.

The matter was reported to the management in June, 2021. The management in its reply dated January 17, 2022 stated that to avoid prolong process of re-tendering and keeping in view the resource mobilization of Contractor, extension was agreed and contract was signed of 01.08.2019. The reply of the management is not tenable as the contractor not only failed to sign the agreement within specified period but also violated the subject rules and regulations. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

12.4.4.13 Un-due favour extended to allottee on unauthorized construction and non-recovery of penalty - Rs.71.999 million

Clause viii of Terms and conditions of the PQA Allotment Policy provides that construction / installation shall only be undertaken after getting approval of the drawing / plan in writing on payment of normal fee.

Clause xiii of Terms and conditions of the PQA Allotment Policy provides that any deviation (s) found in the construction from approved drawings at any stage shall be removed / demolished at your own risk and cost for which purpose unhindered access shall be provided. Further the allottee shall be liable to pay penalties at the following rates till unauthorized structures are removed:

Twenty (20%) Peripheral Development Charges (PDC) per sq. meter per annum plus annual land rent at the prevalent rate(s) at the time on covered area of unauthorized construction receivable as penalty.

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed the management allotted a plot measuring 02 acres, on lease to M/s Razziq International Pvt. Ltd for the purpose of setting warehouse on 22.07.2005. On August 21, 2009, allottee was directed to stop un-authorized construction on plots. The management allowed conversion of plot from warehouse to commercial purposes which includes offices, banks and display centres. However, the allottee constructed the Conference Center, Canteen and Guest / Rest house in clear violation of the terms and conditions of the allotment policy and without approval of revised building construction plan. Furthermore, Director IM issued letter regarding unauthorized residential accommodation in plot and directed to avoid this practice but, neither the penalty was imposed nor unauthorized construction was demolished by the management till date.

Audit is of the view that the management extended undue favor to the allottee by allowing him to construct the 5 star Canteen and not imposing the penalty amounting to Rs. 71.999 million.

The matter was reported to the management in June 2021. The management in its reply dated January 17, 2022 stated that M/s. Razziq International had deposited Rs. 30.000 million. The reply of the management is not tenable as no evidence of recovery amount along with other details was provided. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

12.4.4.14 Undue favors to the consultant – Rs. 63.690 million

Clause 1.7 of General Conditions of the Contract provides, “unless specified in the Special Conditions (SC), the Consultants, sub-Consultants and their personnel shall pay such taxes, duties, fees and other impositions as may be levied under the Applicable Law, the amount of which is deemed to have been included in the Contract Price.”

Clause 47.1 of condition of contract states that “...maximum of 10% of contract price be imposed as Liquidity Damages (LD).

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that the management hired M/s HR Wallingford and M/s Techno-Consultant International Pvt. Ltd (joint venture) for the consultancy services of feasibility study for deepening, widening & straightening of the existing navigational channel, commissioning of alternate inner navigation channel and supervision of capital dredging work at Port Qasim amounting to Rs.262.105 million. However, the management extended undue favor to the Consultant as detailed below:

S. No.	Description	Amount (Rs. in million)	Remarks
1.	Sindh Sales Tax (SST)	34.073	Paid SST by PQA on behalf of Consultant by revising the agreement clause.
2.	Liquidity Damages (LD)	29.617	Non-imposition of 10% LD charges on non-completion of work within time.
Total		63.690	

Audit is of the view that the management extended undue favour to the consultants amounting of Rs.63.690 million which is held irregular and unjustified.

The matter was reported to the management in June, 2021.

- a) The management in its reply dated January 17, 2022 stated that the Audit mistakenly referred Clause-7 of General Conditions instead of RFP Clause-7 of Special Conditions and the Consultants had also obtained Stay Order from Sindh High Court against imposition of SST on consultancy services. The reply of the management is not tenable. The management revised the contract agreement and added the clause wherein it took the responsibility to pay SST on behalf of the consultants including 13% SST million causing a loss of Rs. 34.0737 million.
- b) The management in its reply dated January 17, 2022 apprised that the standard contract agreement for lump sum consultancy services was used. In such contract there is no provision of LD charges, whereas Audit quoted clause 47.1 of condition of contract which is not applicable to the

instant case. Therefore, no LD was imposed. The reply of the management is not tenable as it extended undue favour to the consultant by not imposing liquidated damages charges maximum up-to 10% of the contract price amounting to Rs. 29.617 million who failed to complete the work within stipulated time. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

(DP No. 272 & 270)

12.4.4.15 Non-recovery of various dues - Rs. 58.143 million

As per the clause of Indenture of Lease “ the lessee shall from time to time and at all times during the said terms pay and discharge all rates taxes duties charges assessment and outgoing whatsoever which are now or may at any time hereafter be assessed charged levied or imposed upon the Lessee and an apportioned part of any such moneys together with a penalty calculated as compound interest thereon at one percent per annum above the Commercial bank rate at the time the payment falls due (with three monthly rests) from Lessee.

Terms and conditions of the Policy states that if any PQA dues / payments (whether legally demanded or not) are is not received within du time as per terms of allotment, a mark up at the rate of 3.5% per annum above treasury bills as per change and when approved by PQA Board will be charged.

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that dues amounting to Rs.58.142 million were outstanding for electricity and Right of Way (ROW) charges against various clients. Annex-54.

Audit is of the view that the management s failed to ensure recovery of outstanding amount which shows poor recovery mechanism and weak financial management.

The matter was reported to the management in June, 2021.

- a) The management in its reply dated January 17, 2022 informed that out of 10 customers, 08 have either deposited some amount or in partial. However, evidence was not shared with the Audit.

- b) The management in its reply informed that the case file forwarded to Legal Department to take legal action as per rules and regulation for recovery of outstanding dues on account of Right of Way of the product pipe line of plot No. 1 & 2 SWIZ. The management acknowledged the stance of the audit however failed to recover the penalty amount. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends prompt recovery besides fixing of responsibility on the person(s) at fault.

(DP No. 481 & 484)

12.4.4.16 Irregular award of contract of cleaning & sweeping - Rs. 53.936 million

Rule 31 of PPRA, 2004 states that no bidder shall be allowed to alter or modify his bid after the bids have been opened. However, the procuring agency may seek and accept clarifications to the bid that do not change the substance of the bid. (2) Any request for clarification in the bid, made by the procuring agency shall invariably be in writing. The response to such request shall also be in writing. Further rule 44 states that a procurement contract shall come into force where the procuring agency requires signing of a written contract, from the date on which the signatures of both the procuring agency and the successful bidder are affixed to the written contract. Such affixing of signatures shall take place within a reasonable time.

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that the management awarded the annual contract of cleaning and sweeping in PQA offices areas and housing complex to M/s Elite Services amounting to Rs.30.820 million (Rs.2.568 million per month) on 06.12.2018. Moreover, it was noticed that the contract was extended for further nine months at same terms and conditions. Scrutiny of the record revealed that the Financial Committee used a blanco (correction pen) to over-write and change the scheduled prices quoted by the contractor. The following discrepancies were also observed in the process of award of contract:

1. Rates in the Bill of Quantity schedule were over-written by using blanco and new rates were written. No “amount in words” was written in the BoQ Schedule by the bidder.

2. The actual total quoted cost despite cuttings was calculated to Rs. 2.602 million and the financial committee calculated the quoted cost to Rs. 2.568 million with a registered difference of Rs. 34,446.
3. Payments to the contractor were made on account of cleaning and sweeping at PQA offices and Complex from the Budget Head “Water Conservancy”.
4. The agreement was signed on 08.01.2019 for the period of one year whereas effective date of the commencement of the contract was made as 06.12.2018. Due to this, contractor was paid an amounting to Rs 1.284 million of the difference period of the contract agreement. i.e. (15 days) as excess payment.
5. The contract was extended for the total period of nine months on quarterly basis. The first extension was given from 16.12.2019 to 15.03.2020 on January 02, 2020, the second extension was made from 16.03.2020 to 15.06.2020 on March 16, 2020 and the third one was given from 16.06.2020 till finalization of the new contract on June 25, 2020.

Audit is of the view that the management extended undue favour to the contractor and changed the actual quoted prices. Besides, no application from either side to amend the quoted prices was found in the file. Excess payment for the period of 15 days and 75% extension in the contract may be justified.

The matter was reported to the management in June, 2021. The management in its reply dated January 17, 2022 stated that the hiring of contractor took some time due to Covid-19 and other unavoidable circumstances. On provision, time to time extension was granted to meet the required Cleaning & Sweeping Services till finalization of the new contract. The reply of the management is not tenable as it changed the actual quoted prices. Excess payment for the period of 15 days and 75% extension in the contract was not justified. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends that an inquiry into the matter may be carried out and responsibility may be fixed on person (s) at fault.

12.4.4.17 Loss due to short revenue collection under Wharfage charges - Rs. 43.030 million

Rule (4) (3) of Corporate Governance Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters.

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that the management received short revenue against the Wharfage charges from M/s Huaneng Huyun, M/s Engro Elengy and M/s Pakistan Gasport terminal. There was huge difference in Cargo quantities and revenue recorded amounting to Rs. 43.031 million. The detail of the same is given as under:

Rs. in million					
Terminal	Quantity as per Cargo A	Quantity as per Revenue B	Difference in Quantity C	Approved rate (Rs) D	Approx. Value (Wharfage) E(C*D)
Huaneng Fuyun (3&4)	1,842,402	907,811	934,591 (M.Ton)	34/MT	31.810
Engro Elengy Terminal	10,088,202	10,032,580	55,622 (C.Met)	87/C.MT	4.839
Pakistan Gasport Terminal	5,414,378	5,341,015	73,363 (C.Met)	87/C.MT	6.382
Total					43.031

Audit is of the view that due to financial mismanagement and weak controls, the management sustained a loss of Rs. 43.031 million.

The matter was reported to the management in June, 2021. The management in its reply dated January 17, 2022 stated that the wharfage was received as per gazette / tariff and PQA did not sustain any loss in respect of wharfage charges. The reply of management is not tenable because there was clear difference in quantities as per Cargo and Revenue reports of PQA. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

12.4.4.18 Loss in royalty income – Rs. 40.723 million

As per Implementation Agreement with the terminal, the operators are supposed to made payment of royalty at the rate of USD 2.375 and 1.90 / CBM to M/s Engro Elengy Terminal and M/s Pakistan Gasport Ltd respectively.

During audit of Port Qasim Authority (PQA) for the year 2019-20, audit observed variation between the survey report of the Cargo Department and the system generated report of Revenue Department regarding the royalty income collection. Details are as under:

Terminal	Quantity as per Cargo Dept. (cu. meters) A	Quantity as per Revenue Dept. (cu. meters) B	Difference in Quantity (cu.m) C	Approved rate of Royalty D	Loss of Royalty (Rs. in million) E=(C*D*Rs.150)
Engro Elengy Terminal	10,088,202	10,032,580	55,622	2.375/USD	19.815
Pak Gasport Terminal	5,414,378	5,341,015	73,363	1.90/USD	20.908
Total					40.723

Audit is of the view that revenue department recorded lower cargo quantities as compared to the cargo department reports which resulted in loss of royalty income amounting to Rs.40.723 million.

The matter was reported to the management in June, 2021. The management in its reply dated January 17, 2022 stated that the PQA has received Royalty in accordance with the Implementation Agreement and there is no shortfall. The reply of management is not tenable because there was clear difference in quantities as per Cargo and Revenue reports of PQA. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

12.4.4.19 Irregular appointment of Manager Finance – Rs. 38.164 million

Section 4 Schedule IV Serial No.30 of PQA Employees Regulations 2003 (Drafted) provides that Academic Qualification required for the post of Manager Finance-BPS 19, is ACMA/MBA (Finance).

Section 4 Schedule IV Serial No. 09 and Sr. 30 of PQA Employees Regulations 2003 (Drafted) provides that Academic Qualification required for the post of Deputy General Manager/ Director -BPS 20, is ACMA/CA/MBA (Finance).

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that the management appointed Mr. Muhammad Asim Sauleh in BPS-19. The management conducted the inquiry and found discrepancies/irregularities in the appointment such as the incumbent was CA (Inter) on his initial appointment in BS-19. Subsequently the incumbent was appointed in BS-20 as Director Finance without advertisement.

Audit is of the view that the management failed to take action against the incumbent on his irregular appointment. Thus, payments amounting to Rs.38.164 million made are also held irregular and unauthorized.

The matter was reported to the management in June, 2021. The management in its reply dated January 17, 2022 stated that the officer has filed CP No. D-219-2017 and obtained stay order from the High Court of Sindh, Karachi and the next hearing of the case is fixed on 19.10.2021. The reply of the management is not tenable as it failed to pursue the case vigorously and even unable to take efforts to vacate the stay order till now. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

12.4.4.20 Irregular procurement of spare part - Rs. 29.380 million

As per terms and condition of Purchase Order, “items will be supplied within 90 days after the receipt of supply order. No part supply will be accepted and supply will be made in one lot/full quantity.”

Rule 4 of PPRA, 2004 states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that PQA invited tender for the procurement of “Azimuth Thruster” a spare part for its tug boat M.T Kadiro, on 14-05-2019. M/s Continental Enterprises submitted required bid documents which was compared with the quotation offered by KS&EW, a year ago. Other irregularities were also which are as under:

- i. Rates were not taken from market as mentioned by Chairman.
- ii. Original Equipment Manufacturer (OEM) was not directly contacted or asked to provide the spare part.
- iii. Liquidity damages were not imposed.
- iv. Supply was allowed in parts, and equipment was received after 08 months of the deadline.

Audit is of the view that the management extended undue favor to the supplier and procured a costly part without considering rules and regulations which is held irregular and unjustified.

The matter was reported to the management in June, 2021. The management in its reply dated January 17, 2022 informed that M/s KS&EW submitted spare parts list of Azimuth Thruster received from OEM, based on Standard / Generalized requirement for 05 yearly routine maintenance of Azimuth Thruster. The reply of the management is not tenable as in the presence of so many irregularities and violations, this procurement is irregular and needs clarification from the management. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

12.4.4.21 Illegal encroachment of plots – Rs. 27.984 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Board shall exercise its powers and carry out its fiduciary duties

with a sense of objective judgment and independence in the best interest of the company.

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that 80 plots measuring 300 sq. yards each, worth Rs.27.984 million were encroached. However, the management has failed to remove the illegal encroachments to-date.

Audit is of the view that despite a large-scale anti-encroachment drive carried out in the city, the management adopted a laid-back approach towards the issue.

The matter was reported to the management in June, 2021. The management in its reply dated January 17, 2022 stated that the PQA is a commercial Port, holds no powers like Civil Administration, Police and other Law enforcement agencies. The eviction of encroachers could only be done with the help of Civil Administration, for which consistent efforts are being made till to date. The reply of the management is not convincing as almost 10 years have been passed to encroachment and still the plots could not be vacated. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends that the management should make expeditious efforts to get the land vacated without any further delay.

12.4.4.22 Unjustified regularization of 09 contractual officers/officials – Rs. 26.837 million

Clause 05 of the advertisement published for appointment on two years contract basis (extendable) provides that, “No claim whatsoever shall be entertained for regularization of contract appointment, notwithstanding provisions contained in PQA Employees Services Regulations.”

The PQA Board BR. No 39/2019 dated 26.11.2019 inter alia approved that future appointments be made on contract basis, and the salary pay and allowances of contract and regular employees has to be same, based on actuarial basis; i.e. including the terminal benefits and all the relevant allowances. 'The appointment on contract be made for a two years, extendable from time to time up-to the age of superannuation and regulation No. 21 & 62 i.e.(21-A) be deleted from the PQA Employees Services Regulations, 2011.

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that the management appointed 09 officers/officials in Grades 15 to 19 in Operations Division on two years contract basis (extendable) during the period 2017. Upon expiration of the two year period, their service contracts were extended for one year till June 2020. Resultantly, the Board approved the regularization of services of all 09 contractual employees with immediate effect, taking exception to the policy directives under BR No. 39/2019 dated 26.11.2019. The regularization was made subject to unconditional withdrawal of the petition.

Audit is of the view that the management extended deliberate undue favour under the pretext of the court case and the regularization was done despite clear terms and conditions of the appointment letters and advertisement clauses.

The matter was reported to the management in June, 2021. The management in its reply dated January 17, 2022 informed that the PQA Board authorized Chairman to regularize the services of nine (09) contract employees with immediate effect on standard terms and conditions being competent Authority and the CP No. 1932/2019 filed by the above employees in the High Court was withdrawn by them. The reply of the management is not tenable as the same does not serve the purpose and unable to justify the stance of the audit observation. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

12.4.4.23 Non-finalization of annual accounts

Section 10 (I) Public Sector Companies (Corporate Governance) Rule, 2013 provides that every Public Sector company shall, within one month of close of first, second, and third quarter of its year of account, prepare a profit and loss account for, and balance sheet as at the end of, that quarter, whether audited or otherwise, for the board approval. Annual report including annual financial statements shall be placed on the public sector company's website.

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that the annual accounts have not been prepared / finalized since the year 2011-12 till date.

Audit is of the view that the management failed to fulfill its basic responsibility to submit the position and status of the company's affairs to the stakeholders.

The matter was reported to the management in June 2021. The management in its reply dated January 17, 2022 informed that Statutory Audit till June 2016 has been approved by PQA Board and further appointed auditors for the preparation of remaining year's annual accounts. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

12.4.4.24 Irregular appointment of Assistant Manager Programmer

As per the Port Qasim Authority (Employees) Service Regulations-2003 part III that initial recruitment to posts in basic pay scale-17 to 19 shall be made by appointing authority on the recommendation of the Departmental Selection committee along with required qualification and experience mentioned in schedule IV of Employees Service Regulation.

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that Mr. Muhammed Naveed Ashraf disqualified for the post of System Analyst, BPS-18. Afterwards, he was appointed on the post of Assistant Manager Programmer in BPS 17 without any recruitment procedure. The incumbent was well short of the required experience for BS 17.

Audit is of the view that the management appointed the person who was already rejected for one post and appointed on the post as Assistant Manager Programmer for which neither the assessment was conducted nor the post was advertised.

The matter was reported to the management in June, 2021. The management in its reply dated January 17, 2022 informed that on the recommendations of DG (Admin), Chairman being Competent Authority approved the above proposal. The reply of the management is not tenable as it appointed that person who was already rejected for one post and appointed in BPS-17 for which neither the assessment was conducted nor the post was

advertised. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

12.4.4.25 Irregular appointment of officers

PQA Employees Regulations 2003 (Drafted) provides that Qualification of the post of Executive Engineer (Civil)-BPS 17, is At least 2nd class Bachelor's degree in Civil Engineering having age of Minimum 21 years to 30 years.

Advertisement was floated for the post of Deputy Manager HRM BS-17 on 01.12.2009. Qualification of the post of was at least 2nd class Master Degree HRM, with maximum age limit of 30 years.

PQA Employees Regulations 2003 (Drafted) provides that Qualification of the post of manager Transport-BPS 19, is at least 2nd Master's degree in transport Management/MBA having 12 years' experience in relevant field in a Govt./ Semi Govt/ Large commercial organization of repute.

During audit of Port Qasim Authority (PQA) for the year 2019-20, it was observed that management appointed following officers in violation of rules/criteria as detailed below:

S. #	Employee Name	Designation	Remarks
1	Raj Kumar	Executive Engineer (Civil)-BPS 17	Over age by 5 years
2	Aijaz Ali Rizvi	Deputy Manager HRM BS-17	Over age by 15 months
3	Nouman Bashir Khan	Manger Transport BS-19	Appointed without relevant qualification, post qualification experience.
4	Jamil Ajmal	Manager Revenue Finance	Appointed with short of experience and age

Audit is of the view that the management extended undue favour and appointed the incumbent on contract basis in violation of rules/criteria.

The matter was reported to the management in June, 2021.

- a) The management in its reply dated January 17, 2022 stated that the advertisement for the said post was published in print media duly approved

by the Chairman PQA mentioning the age limit as 25-35 years which was equally applicable for all the interested candidates. At the time of advertisement the officer was under the age of 35 years. The reply of the management is not tenable as it appointed the Executive Engineer (Civil)-BPS 17 on contract basis in violation of the PQA Services Regulations 2003.

- b) The management in its reply dated January 17, 2022 confirmed that the incumbent was one year and three months over aged against the required age limit of 30 years, however, that was considered under the last clause of submission of application method as define in the advertisement dated 01.12.2019. The reply of the management is not tenable as it appointed Deputy Manager in BPS 17 in violation of the PQA Services Employees Rules & Regulations. Besides, citing the clause of advertisement published in 2019 is not related with the subject case.
- c) The management in its reply dated January 17, 2022 informed that the inquiry committee investigated the matter and rendered its report which is under process for formal inquiry. The reply of the management is not tenable as the observation was issued in 2015 and till now the matter is under inquiry and no formal inquiry has been initiated, showing the casual attitude towards the matter.
- d) The management in its reply dated January 17, 2022 stated that at the time of his appointment in PQA, the officer completed the qualification of CMA, possessed five (05) years of working experience in different organizations and no age limit was mentioned in the advertisement. The reply of the management is not tenable as it appointed the incumbent who neither fulfilled the required experience as per PQA recruitment rules. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

(DP No. 496,498, 497 &501)

12.4.4.26 Non-production of record

Clause 14(3) of Auditor General of Pakistan Ordinance, 2001 which states, “Any person or authority hindering the audit functions of the Auditor General regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Discipline Rules, applicable to such person”. Furthermore, the National Assembly Secretariat issued instructions of the Public Accounts Committee to all the Principal Accounting Officers, Ministries

/Divisions/Heads of Departments vide OM No.F-10(1)/2000/2004-PAC dated Jun 03, 2004, “Make available all information/record to Audit as and when required by them. Otherwise disciplinary action will be initiated against person(s) responsible for the delay under Section-14(2) of the Auditor General’s Ordinance No. XXIII of 2001.”

During audit of Port Qasim Authority (PQA) for the year 2019-20, various requisitions and reminders were issued to the management for provision of record. However, management failed to provide valuable record to audit. Annex-55.

Audit is of the view that due to concealment of record, audit was unable to ascertain transparency of transactions whereas chances of mis-use of public funds cannot be ruled out.

The matter was reported to the management in June, 2021. The management in its reply dated January 17, 2022 stated that the relevant record was submitted to the government auditors along with updated status of the degree verification and detailed status of degree verification through Director (Internal Audit). The reply of the management is not tenable as the subject requisite record was not provided till close of Audit. DAC meeting was held on January 17, 2022, but para was not discussed.

Audit recommends investigation of the matter with a view to fix responsibility on the person(s) at fault.

Chapter-13

Ministry of National Food Security and Research

Overview

The Ministry of National Food Security & Research is mainly responsible for policy formulation, economic coordination and planning in respect of food grain and agriculture. It also includes procurement of food grains, fertilizer, import price stabilization of agriculture produce, international liaison, and economic studies for framing agricultural policies.

Aims & Objectives

A Food Secure Pakistan. To ensure a modern and efficient food production and distribution system that can best contribute towards food security and nutrition, in terms of availability, access, utilization and stability.

Governing Laws and Policies

- Rules of Business

Audit Profile of Ministry of National Food Security and Research

(Rs. in million)					
S. No.	Description	Total	Audited	Expenditure audited FY 2020-21	Revenue /Receipts audited FY 2020-21
1	Formations	3	2	866.469	911.723
2	Assignment Accounts (excluding FAP)				-
3	Authorities /Autonomous Bodies etc. under the PAO	3	2	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations amounting to Rs. 2,070.849* million were raised as a result of this audit. This amount also includes recoverable of Rs. 206.394 million as pointed out by the audit. Summary of the audit observation classified by nature is as under:

Overview of the Audit Observations

Sr. No.	Classification	Amount (Rs. in million)
1	Non-Production of record	16.893
2	Reported cases of fraud, embezzlement and misappropriation	8.946
3	Irregularities:	
A	HR/Employees related irregularities	28.37
B	Procurement related irregularities	63.143
C	Management of accounts with Commercial Banks	51.279
4	Value for money and services delivery issues	527.611
5	Others	1,374.607

* Expenditure pertaining to previous years are included

13.1 Pakistan Agricultural Storage and Services Corporation Limited

13.1.1 Introduction

Pakistan Agricultural Storage and Services Corporation Limited (PASSCO) was incorporated on August 31, 1973 as a non-listed public limited company. It is involved in the implementation of the Federal Government's policy of support price program of food grains, equitable distribution of food commodities and maintenance of their reserve stock.

The objectives of the Corporation are to purchase, acquire, sell, supply, market, distribute, exchange, and dispose of, import, export and store agricultural commodities. The Corporation is under the administrative control of Ministry of National Food Security and Research.

13.1.2 Comments on Audited Accounts

13.1.2.1 The working results of the Corporation for the year ended March 31, 2021 as compared to the previous years are as under:

	(Rs. in million)				
	2020-21	% Inc / (Dec)	2019-20	% Inc / (Dec)	2018-19
Sales	68,763.47	22.62	56,079.88	75	31,978.97
Cost of sales	69,017.50	19.37	57,819.90	50	38,651.32
Gross (loss)/ profit	(254.03)	(85.40)	(1,740.02)	(74)	(6,672.34)
Allowance for incidentals	10,368.10	12.01	9,256.54	227	2,832.46
Profit/ (loss) after allowance for incidentals	10,114.07	34.56	7,516.52	-	(3,839.87)
Operating expenses	(4,165.96)	150.89	(1,660.46)	-13	(1,913.16)
Administrative and general expenses of HO	505.73	(2.88)	520.74	8	480.6
Administrative and general expenses of Field Offices	808.89	(15.36)	955.7	-3	987.29
Cost differential	4,564.75	(69.24)	14,840.63	-20	18,607.34
Other income	507.63	48.96	340.78	40	243.3
Other expense	0		134.87	-	-
Profit from operations	15,705.85	(19.15)	19,426.15	67	11,629.69
Finance cost	5,767.30	(55.00)	12,817.36	32	9,686.25
Profit/ (Loss) before tax	3,938.55	(40.40)	6,608.79	240	1,943.44
Taxation	3.52	(99.41)	592.57	69	351.18
Profit/ (Loss) for the year	3,942.06	(34.48)	6,016.23	278	1,592.26
Accumulated Profit	14,647.62	2.39	14,305.56	73	8,289.33

(Source: Annual Audited Accounts)

The sales of the corporation increased by 22% from Rs. 56,079.882 million during 2019-20 to Rs. 68,763.468 million in 2020-21 but the operating profit decreased by 34.48% from Rs. 6,016.23 million during 2019-20 to Rs. 3,942.06 million in 2020-21 respectively. The reason(s) for unusual relation between sales and profit for the year needs to be explained.

13.1.2.2 The receivable from Government of Pakistan decreased to Rs. 42.827 billion from Rs. 45.762 billion. The non-payment of outstanding amounts by government timely caused high borrowing and PASSCO had / has to pay huge financial cost to the banks. Efforts need be made to take up the matter at appropriate level to solve the issue of outstanding balance of Rs. 42.827 billion.

13.1.2.3 As per note 14 an amount of Rs. 60.458 million in 2020-21 as compared to Rs. 65.735 million in 2019-20 was outstanding on account of recoveries imposed due to shortages of stock identified in the field. Although the

percentage of shortage has reduced by 5% however, this shows weak internal control of the corporation that needs to be improved besides recovery.

13.1.2.4 As per note 27 under head office administrative & general expenses, there were advances written off valuing Rs. 42.945 million in 2020-21 was appearing, complete details alongwith justification/approvals etc. may be provided.

13.1.2.5 As per note 29, other income of the corporation increased from Rs. 340.777 million to Rs. 507.628 million during the year 2019-20 & 2020-21 respectively. This includes markup on special saving and deposit account which was decreased by Rs. 73.490 million i.e. 31.26%: Rs. 161.616 million (year 2020-21) as compared to Rs. 235.106 million (years 2019-20). The nature of account was special saving and deposit accounts, the utilization /approval of these savings needs justification.

13.1.2.6 Operating expenses increased from Rs. 1,660.460 million to Rs. 4,165.964 million during 2020 & 2021 respectively, registering increase of 151% then of previous year, the abnormal increase in operating expenses was mainly due to gunny/polypropylene bags consumed which is Rs. 3,840.863 million in year 2021 while comparing with previous year which was Rs. 1,414.678 million i.e. registering increase of 171%. Whereas, other logistic arrangement of wheat handling was remained in normal increase in percentage. The expenditure incurred on gunny/polypropylene bags needs to be justified with reference to wheat target assigned and actual wheat handled during the year under review.

13.1.2.7 The Economic Coordination Committee (ECC) of Cabinet assigned wheat procurement targets of 1,100,000 and 1,800,000 m. ton for Wheat Crop 2019 and 2020 respectively to PASSCO. Due to poor procurement planning and non-achievement of targets during Crop 2019 and 2020 by PASSCO, Government has to import wheat from Russia on Government to Government basis by expending precious foreign exchange.

13.1.2.8 The details of less achievement of targets is as under:

Crop year	Target (M. Ton)	Achievement (M. Ton)	% of achievement	Less achievement (M. Ton)
2019	1,100,000	679,414	62%	420,586

2020	1,800,000	1,178,376	65%	621,624
Total	2,900,000	1,857,790		1,042,210

The management was required to make efforts for the achievement of wheat procurement targets of Crop 2019 and 2020 but same were not achieved due to routine efforts by the PASSCO field staff which necessitated import of wheat by Government of the Pakistan to stabilize the local market.

13.1.2.9 As per Note No. 29, finance cost of Rs. 155.119 million was paid on account of commission on purchase of wheat excluding bank charges. The payment of commission needs justification.

13.1.2.10 As per Note 36.5, the Gearing Ratio is commonly used by financial analysts to understand the overall capital structure of the company, in PASSCO gearing ratio is decreased from 80% to 74% i.e. Rs. 77,235.519 million in 2020-21 as compared to Rs. 72,877.812 million in 2019-20. The higher the ratio, the higher the chances of default. Hence, it needs to be reduce to for better capital management.

13.1.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
1988-89	11	09	02	297, 300	82
1989-90	07	05	02	318, 319	71
1990-91	07	05	02	233, 237	71
1991-92	07	06	01	222	86
1992-93	14	12	02	121, 122	86
1993-94	06	04	02	100, 102	67
1995-96	15	12	03	105, 106, 108	80
1996-97	15	12	03	118, 122, 123	80
1997-98	05	04	01	98	80
1999-00	04	03	01	141	75
2002-03	04	02	02	82.1, 82.3	50
2008-09	23	17	06	83, 84, 86, 87, 90, 91	74
2009-10	12	10	02	81, 82	83
2010-11	16	13	03	8.1.2.7, 8.1.4.1, 8.1.4.2	81
2013-14	11	0	11	11.1.1,11.1.2.1,11.1.2.2,11.1.2.3,11.1.3,11.1.4.1,11.1.4.2,11.1.4.3,11.1.4.4,11.1.4.5,11.1.4.6	0
2014-15	37	23	14	13.1.2.3, 13.1.2.12, 13.1.2.14, 13.1.2.15, 13.1.3, 13.1.4.4, 13.1.4.5, 13.1.4.6, 13.1.4.8, 13.1.4.12, 13.1.4.13, 13.1.4.14, 13.1.4.15, 13.1.4.18	62
2015-16	27	13	14	12.1.2.3, 12.1.2.6, 12.1.3, 12.1.4.1, 12.1.4.2, 12.1.4.3, 12.1.4.4, 12.1.4.7, 12.1.4.9, 12.1.4.10, 12.1.4.11, 12.1.4.13, 12.1.4.15, 12.1.4.17	48
2017-18	17	09	08	16.1.2.1, 16.1.2.2, 16.1.2.3, 16.1.2.4, 16.1.2.5, 16.1.3, 16.1.4.2, 16.1.4.11	53
2018-19	15	05	10	13.1.2.1, 13.1.2.2, 13.1.2.3, 13.1.2.4, 13.1.3, 13.1.4.1, 13.1.4.4, 13.1.4.5, 13.1.4.6, 13.1.4.7	33
Total	253	164	89		65

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

13.2 Pakistan Tobacco Board

13.2.1 Introduction

Pakistan Tobacco Board Peshawar came into existence in 1968 as a semi-autonomous body under the control of Ministry of Commerce. The principal activities of the Board is to regulate, control and promote the export of tobacco and related produce and to the grading standards, to undertake and assist research connected with tobacco industry, impart training in tobacco testing and generally to take measures in the interest of tobacco industry. It renders assistance for the development of new tobacco growing areas and establishment of model farms, to organize and assist special research connected with tobacco cultivation and generally to render assistance for improving tobacco production and to collect statistics on any matter relating to tobacco and tobacco industry.

13.2.2 Comments on Audited Accounts

13.2.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts of the organization for the year 2020-21 till December 31, 2021.

Audit recommends that the annual audited accounts for the year 2020-21 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

13.2.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No	% of compliance
2003-04	04	02	02	18 & 18.1, 18.2	50
2005-06	04	03	01	26	75
2007-08	05	04	01	17	80
2009-10	08	04	04	27, 28, 30, 33	50
2010-11	16	0	16	2.5.1, 2.5.2, 2.5.2.1, 2.5.2.2, 2.5.2.3, 2.5.2.4, 2.5.2.5, 2.5.2.6, 2.5.2.7, 2.5.2.8, 2.5.2.9, 2.5.2.10, 2.5.2.11, 2.5.2.12, 2.5.3, 2.5.4.1	0
2013-14	11	03	08	4.6.2.1, 4.6.3, 4.6.4.1, 4.6.4.2, 4.6.4.3, 4.6.4.5, 4.6.4.7, 4.6.4.8	27
2016-17	16	01	15	3.6.2, 3.6.2.1, 3.6.2.3, 3.6.3, 3.6.4.1, 3.6.4.2, 3.6.4.3, 3.6.4.4, 3.6.4.5, 3.6.4.6, 3.6.4.7, 3.6.4.8, 3.6.4.9, 3.6.4.10, 3.6.4.11,	6
2017-18	07	06	01	4.5.3	86
2018-19	09	06	03	4.6.3, 4.6.4.2, 4.6.4.3	67
Total	80	29	51		36

Overall compliance of PAC directives was very poor which needs immediate attention of PAO.

13.2.4 Audit Paras

13.2.4.1 Loss due to less collection of cess from tobacco companies – Rs. 149.26 million

As per Section (9) of PTB Ordinance and in accordance with SRO. 8(1)/98 dated January, 7, 1998 “cess on tobacco consumed by a tobacco company in process of cigarette manufacture shall be paid to the Pakistan Tobacco Board”.

During the audit of Pakistan Tobacco Board (PTB), Peshawar for the years 2019-20 and 2020-21, it was observed that as per stock verification reports prepared by Statistical Section of PTB, the M/s Philip Morris (Pak) Limited and M/s Pakistan Tobacco Company consumed 95.26 million Kgs tobacco during the year 2019-20 & 2020-21 but the said companies paid cess @ Rs. 4.64 per kg on quantity of 63.09 million Kgs during the said period. Thus, Board suffered a loss

of Rs. 149.26 million approx. (less quantity 32.17 million kg x Rs. 4.64 per kg) due to less receipt of cess. Furthermore, record regarding consumed quantity of tobacco for the three months i.e. April 2021 to June 2021 was not provided to audit.

Audit was of the view that management should compare quantity consumed with the stock verification report of companies to avoid loss.

Management in its reply dated Sep 01, 2021 stated that the quantity consumed on which cess paid to PTB cannot be reconciled with the quantity purchased/consumed as per stock verification report due to the reasons that (i) as per stock verification report 15% to 20% of wastages is also included in the quantity purchased during making of cigarettes; (2) the export quota, which is exempted from the cess is also included in quantity purchased as per stock verification report. After deducting of the same from the quantity purchased as per stock verification report, a reconciled statement will be made in case of any deficiency in cess received.

Reply of the management is not convincing as there is no provision of rule for exemption against wastage of tobacco. Further management did not verify the consumption of the tobacco at the time of verification of stock.

No DAC meeting was arranged till finalization of this report.

Audit requires to recover the cess from the companies and to make the loss good.

Para-1 (PTB), 2019-21

13.2.4.2 Loss on account of non-collection of cess rights - Rs. 54.385 million

As per Clause-3 (b) in case of dishonor of cheques, the PTB reserves the right to initiate legal action (under section 489-F, PPC) against the contractor and cancel the agreement with immediate effect.

During the audit of Pakistan Tobacco Board (PTB), Peshawar for the years 2019-20 and 2020-21, it was observed that a contract of Rs. 11.200 million for Cess Collection of Baluchistan Province was awarded to Mr. Sami Ullah through auction on January 29, 2020 for the period Feb 02, 2020 to Feb 01, 2021. The contractor paid 25% of total contractual amount Rs. 2.800 million plus Rs.

0.28 million at the time of contract and provided three postdated cheques of three installments of Rs. 8.400 million. First installment cheque was presented in Bank but the same was declared dishonored due to non-availability of amount. At this time management neither took legal action against the contractor nor registered FIR. Meanwhile, the contractor got status quo order for the next period instead of payment of Rs. 8.40 million of cess of own period due to negligence of the management for the year 2020-21. Status quo order was to be vacated in Feb 04, 2021 but management failed to vacate the check-posts and hand over to new contractor up to May 25, 2021 about four months. Thus, management suffered revenue loss of Rs. 3.640 million (Rs. 11.200 million/12-months = Rs. 0.933 million x 3.9 months).

Furthermore, a contract valuing of Rs. 56.500 million of Cess Collection Rights of Punjab Region-I was awarded to Mr. Muhammad Aslam through auction on Dec 9, 2019 for the period January 01, 2020 to Dec 31, 2020. The contractor paid 25% of total contractual amount Rs. 14.125 million at the time of contract and provided three postdated cheques of three installments of Rs. 42.345 million. The first installment of Rs. 14.125 million was due on March 01, 2020 and presented the cheque in Bank but the same was declared dishonored due to non-availability of amount. The contractors stated that due to Covid-19 situation, they are not in a position to pay installments. The 2nd and 3rd installments cheques were also dishonored. Management neither took legal action against the contractor nor registered FIR.

Audit was of the view that due to negligence of the management regarding non-taking timely action against the contractor an amount of Rs. 54.385 million (Rs. 8.400 + Rs. 3.640 + Rs. 42.345) could not be recovered from the contractor.

Management in its reply dated Sep 01, 2021 stated that PTB issued many letters to the contractors for depositing the outstanding amount but they failed. PTB has already approached police department for registration an FIR on July 30, 2021 against the contractors. Further, Muhammad Aslam, Contractor for Punjab Region-I (2020) filed Civil Revision No. 551/2021 in the Lahore High Court Multan Bench, Multan on May 31, 2021 against PTB. The case is pending before the Lahore High Court, Multan Bench. Reply of the management is not

convincing as the management failed to take legal action as per contract and granted undue benefit to the contractors.

No DAC meeting was arranged till finalization of this report.

Audit requires to investigate the reasons for not taking legal action i.e. FIR and suit against contractors, fix responsibility on the person (s) at fault and make the loss good under intimation to audit.

Para-2 (PTB), 2019-21

13.2.4.3 Loss due to non-payment of cess on import quantity of tobacco - Rs. 17.901 million

In accordance with SRO. 8(1)/98 dated January 7, 1998, “cess on tobacco consumed by a tobacco company in process of cigarette manufacture shall be paid to the Pakistan Tobacco Board”.

During the audit of Pakistan Tobacco Board (PTB), Peshawar for the years 2019-20 and 2020-21, it was observed that M/s Philip Morris (Pak) Limited and M/s Pakistan Tobacco Company imported Tobacco having quantity of 1.470 million Kg and 2.388 million kg during the year 2019-20 and 2020-21 (upto March 2021) respectively and did not pay cess on import quantity. Thus, Board suffered a loss of Rs. 17.901 million (total 3.858 million kg x Rs. 4.64 per kg cess). Furthermore, record regarding import of Tobacco for three months from April 2021 to June 2021 was not provided to audit.

Audit was of the view that management should charge the cess on imported quantity as the same was consumed for the manufacturing of cigarettes as per referred rule.

Management in its reply dated Sep 01, 2021 stated that cess is levied on tobacco produced in Pakistan as per PTB Ordinance while import of tobacco is not taxable under the ordinance. Reply of the management is not acceptable as the PTB received cess on consumption of tobacco not on production as per referred rule.

No DAC meeting was arranged till finalization of this report.

Audit requires to recover the cess on import quantity under intimation to audit.

13.2.4.4 Loss due to payment of cess to Federal Board of Revenue instead of PTB - Rs. 11.21 million

In accordance with SRO. 8(1)/98 dated January 7, 1998 cess on tobacco consumed by a tobacco company in process of cigarette manufacture shall be paid to the Pakistan Tobacco Board.

During the audit of Pakistan Tobacco Board (PTB), Peshawar for the years 2019-20 and 2020-21, it was observed that M/s Pakistan Tobacco Company (PTC) paid 95% cess to the PTB and 5% to Federal Excise Department on account of cost of collection. As the cess was collected by the Board instead of Federal Excise department w.e.f October 08, 1978 and all the other companies are also being paid 100% cess to the PTB. Thus, the payment of cess amounting to Rs. 11.21 million to the Federal Excise Department by PTC is unjustified and put the loss to the Board to that extent.

Audit was of the view that management should collect 100% cess from the company to avoid loss.

Management in its reply dated Sep 01, 2021 stated that PTB has already requested so many times to FBR to refund 5% cess collection charges to PTB but the FBR did not respond till date. Further, PTB has repeatedly directed M/s Pakistan Tobacco Company (PTC) for payment of 100% cess to PTB. Reply of the management is not convincing as the management was required to receive 100% payment of cess.

No DAC meeting was arranged till finalization of this report.

Audit requires to collect 100% cess from the company and make the loss good. Fix the responsibility on the person (s) at fault.

Para-4 (PTB), 2019-21

13.2.4.5 Irregular posting of the officers against the un-sanctioned posts and paid salaries - Rs. 18.060 million

As per Rule-7 (1) of Pakistan Tobacco Board (Service) Rules, 1985, the BoD may create or abolish any post in Basic Pay Scale 16 and above.

During the audit of Pakistan Tobacco Board (PTB), Peshawar for the years 2019-20 & 2020-21, it was observed that MD posted the officers in the area against un-sanctioned posts. Details is as under:-

S. #	Designation	B S	Post Sanctioned and available at	Post Transfer red at	Date of Posting	Description	Payment of gross Salary Upto July 2021
1	Deputy Director (Development)	18	Head Office, Peshawar	Zonal Office Lahore	26.11.2018	Incumbent of the post Mr. Mohsin Hussain transferred to Zonal Office, Lahore on temporary basis	5,149,120
2	Statistical Officer (Research)	17	Head Office, Peshawar	Mandi Bahuddin Area	18.09.2015	Currently Mr. Muhammad Abbas, SOR is performing duty as ADO, M.B.Din area	10,987,660
3	Assistant Research Officer	17	i. TRS, Mardan 1 ii. TRSS, Kunjah 1	TRSS Okara	16.12.2020	Currently Mr. M.Ubaid Ullah Aleem, ADO, Performing duty as ARO at TRSS Okara. while 1 Post is vacant at TRS, Mardan and other at TRSS, Kunjah	654,577
4	Assistant Entomologist	17	TRS, Mardan	Mianwali Area	29.12.2020	Currently Mr. Sajawal Niaz, performing duty as ADO, Mianwali area	634,347
5	Chemist	18	RS., Mansehra	Dadu	01.03.2021	There is no post and office at Dadu further no production of tobacco in this area.	634,565
Total							18,060,269

The above details shown that most of the posts were sanctioned for the specific purpose at Research Stations but management transferred the officers in the field areas where no post was sanctioned. Thus, the posting and transfer against the un-sanctioned post by MD is held irregular in audit. Furthermore, the officers at Sr. Nos. 4 & 5 are posted at irrelevant and non-operational area (There is no office and production area).

Audit was of the view that management did not observe the sanctioned strength and requirement while posting the officers.

Management in its reply dated Sep 01, 2021 stated that after promotion of various officers from BPS-17 to BPS-18 some posts fill vacant against which officers were required to be appointed/posted in the interest of the Board and Tobacco Crop. Therefore, Pakistan Tobacco Board posted/transferred them as stop gap-arrangement so that work of the Board may not suffer. Under PTB

service rule-17 “every employee shall be liable to transfer or posting anywhere within Pakistan subject to the orders of the Chairman”.

Reply of the management is not convincing as employees are promoted only against sanctioned posts not for gap arrangements and MD was not authorized as per rule mentioned above.

No DAC meeting was arranged till finalization of this report.

Audit requires fixing the responsibility on the person (s) at fault regarding posting of officers against un-sanctioned posts without approval of the BoD.

Para-5 (PTB), 2019-21

13.2.4.6 Loss due to collection of cess by contractor instead of PTB - Rs. 27.593 million

In accordance with SRO. 8(1)/98 dated January 7, 1998 cess on tobacco consumed by a tobacco company in process of cigarette manufacture shall be paid to the Pakistan Tobacco Board.

During the audit of Pakistan Tobacco Board (PTB), Peshawar for the years 2019-20 and 2020-21, it was observed that M/s Philip Morris (Pak) Limited submitting monthly consumption reports to the PTB for the payment of cess. The consumption reports shown that cess on quantity 3,981,272-Kgs of tobacco was paid to contractor. The payment of cess to the contractor was discussed with the management and they informed that the contractor collect the cess from the company at the time of purchase. Thus, Board suffered loss of Rs. 18.473 million due to payment of cess to contractor instead of PTB as detailed below:-

Name of Company	Quantity of import of Tobacco (Kg)			Rate of cess (Rs.)	Cess not received (Rs.)
	2019-20	2020-21	Total		
Philip Morris (Pak) Limited	1,572,232	2,409,040	3,981,272	4.64	18,473,102

Furthermore, PTC vide its consumption report for the month of Jan 2020 to March 2020, informed the PTB that they have also paid cess amounting to Rs. 9.12 million to collection contractor (Haji Zabta Khan) on green leaf purchase.

Audit was of the view that as per ordinance, PTB is authorized to collect the cess from the companies on consumption of Tobacco. Further, collection contractor was not authorized to collect the cess from the companies who involved in manufacturing of cigarette.

The matter was reported to management but no reply was received.

No DAC meeting was arranged till finalization of this report.

Audit requires to explain the reason regarding non-collection of cess, fix the responsibility on the person (s) at fault and recover the Cess from Companies.

Para-6 (PTB), 2019-21

13.2.4.7 Irregular collection of cess on export of tobacco – Rs. 40.078 million

As per clause-6(a) of Ordinance No. 1 of 1968 of Pakistan Tobacco Board, function of the Board shall be to promote the export of tobacco. Further, as per Notification of Ministry of Commerce dated August 23, 2004, Federal Government exempted cess on tobacco exported in the form of tobacco leaf stems and tobacco products imposed under section-9 of PTB Ordinance, 1968 (I of 1968).

During the audit of Pakistan Tobacco Board (PTB), Peshawar for the years 2019-20 and 2020-21, it was observed that management issued export permit of tobacco and its products to different companies and received cess amounting to Rs. 40.078 million on account of 11,470,725 kg export tobacco quantity during said period.

Management of the companies in different times informed the PTB that exports of tobacco is exempted from the cess as per referred rule but we paid the cess under protest.

Audit was of the view that PTB was established to promote the exports and federal government also exempted the cess on export of tobacco. Receipt of cess on export was against the rules and caused discourage of export, thus held irregular in audit.

Management in its reply dated Sep 01, 2021 stated that under section-17 and 18 of PTB Ordinance the Federal Government may, after consultation with the Board, by notification in the official Gazette, fix for each year the allotment

of tobacco and tobacco products and shall distribute the export allotment so fixed in such manner as it may deem fit. Every person shall export the full amount of his share of the export allotment during the year to which the allotment relates.

Reply of the management is not correct as the Ordinance did not restrict to export tobacco.

No DAC meeting was arranged till finalization of this report.

Audit requires to explain the reasons regarding receipt of cess on exports, investigate the reasons of collection of cess and fix the responsibility on the person (s) at fault.

Para-7 (PTB), 2019-21

13.2.4.8 Wasteful expenditures on pay & allowances of Farm Manager posted at non-operational Tobacco Model Farm Pishin - Rs. 4.035 million

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

During audit of Pakistan Tobacco Board (PTB) Peshawar for the years 2019-20 & 2020-21, it was observed that project “establishment of model form at Pishin” was approved by the Departmental Working Party (DDWP) in their meeting held on Nov 21, 2009. Land for the project was acquired in 2011 while the establishment of model form is still under process. However, management posted (Farm Manager, BS-18) at tobacco model form Pishin which is not yet established and paid salary of Rs. 4.035 million from July 07, 2018 to June 30, 2021.

Audit was of the view that the posted of officer against non-operational farm was unjustified and payment of pay & allowances Rs. 4.035 million had gone wasted.

Management in its reply dated Sep 01, 2021 stated that the establishment of Farm at Pishin will provide permanent office accommodation to the staff of Pakistan Tobacco Board, promote the cultivation of tobacco in the area on the scientific lines, increase of tobacco cultivation caused more cess and revenue. Research findings related to tobacco at the Farm will benefit the local farmers. Tobacco traders and tobacco growers of Baluchistan demanded establishment of the TMF, Pishin for the sustainability of tobacco crop.

Reply of the management is not correct as land was acquired in 2011 but farm was not established despite lapsed of ten years and payment of salary to the offices has gone wasted.

No DAC meeting was arranged till finalization of this report.

Audit requires to investigate the reasons regarding non-establishment of farm despite elapsing of ten years & wastage of resources thereof and fix responsibility on the person (s) at fault.

Para-9 (PTB), 2019-21

13.2.4.9 Loss of interest due to investment of surplus funds at lower interest rate - Rs. 49.329 million

As per agenda item regarding investment of surplus fund in the 154th meeting held on August 08, 2018, management of PTB informed the Board that steep fall in the interest rates over the past few years on one hand and the risks factor involved in parking money in private banks on the other, has forced PTB to explore other avenues of investment which are more secure and are not less profitable than the TDRs offered by schedule banks.

As per Para-3 (b) of OM No.F.4 (1)/2002-BR.II dated July 2, 2003 of Finance Division, the process of selection of bank (s) should be transparent. Therefore, prior to placing deposits with a bank under this new policy, and in case the total working balances exceed Rs. 10 million, the selection of the bank(s) as well as the terms of deposit will be approved by the concerned Board of Directors/Governing Body on the basis of competitive bids from at least three independent banks.

During audit of Pakistan Tobacco Board Peshawar for the years 2019-20 and 2020-21, it was observed that the management PTB invested surplus funds of

Rs. 1,523 million in Pakistan Investment Bonds (PIBs) through National Bank of Pakistan, Hayatabad Branch, Peshawar at a profit rate of 8% to 12% per annum on different dates without any competition or compare with other banks during the period 2018-19 & 2019-20. On the other hand, an organization of Government of Khyber Pakhtunkhwa namely Forest Development Corporation (FDC), Peshawar invested its funds of Rs. 200 to 233 million in Zarai Taraqati Bank, Hayatabad Peshawar at profit rate of 13.51% to 13.70% per annum during the period. Thus, management suffered interest loss of Rs. 49.329 million due to investment at lower rates.

Audit was of the view that management did not bother to invite the quotations from the banks before investment.

The matter was reported to management but no reply was received.

No DAC meeting was arranged till finalization of this report.

Audit requires to explain the reason of investment of surplus funds at lower rate resulted into loss to the board and fix responsibility thereof.

Para-10 (PTB), 2019-21

13.2.4.10 Loss due to non-pursuing the case of tax exemption and payment of tax on profit despite having exemption - Rs. 63.976 million

According to Para-23 of GFR Vol-I, every government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Govt. through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence. Further, as per exemption certificates issued on August 08, 2018 by FBR for the period July 2018 to July 2019, PTB is exempted from Tax under section 151 and 236P of Income Ordinance 2001.

During audit of Pakistan Tobacco Board (PTB) Peshawar for the years 2019-20 & 2020-21, it was observed that management of PTB availed the tax exemption upto June 30, 2019 on profit received on investment but management did not pursue the case regarding tax exemption on investment for the years 2019-20 & 2020-21 and paid tax of Rs. 56.203 million on profit of Rs. 370.303 million.

Further, PTB invested its funds Rs. 500 million at Khushali Bank Limited on August 23, 2017 which were matured on August 23, 2018. The Khushali Bank was deducted income tax on profit of Rs. 7.773 million despite given exemption certificate by PTB.

Audit was of the view that management should collect of tax on profit of exemption period and pursue the case regarding exemption of tax on profit.

Management in its reply dated Sep 01, 2021 stated that PTB was applied for tax exemption certificate under section 151 of the income tax ordinance 2001 that Tax shall not be deducted from PTB on profit on investment but the same was rejected by the FBR authority w.e.f July 01, 2019 to June 30, 2020 and onward. Further, Khushali Bank Ltd. deducted the tax from PTB under section 151 because tax exemption certificate was issued by FBR to PTB on 31st Aug, 2018.

Reply of the management is not correct as the PTB availed tax exemption till June 2019. The deduction of tax after June 2019 is unjustified which shows non-pursuance of exemption case with FBR authorities.

No DAC meeting was arranged till finalization of this report.

Audit requires to intimate the reasons regarding non-pursuing the case for tax returned and exemption and Fix responsibility on the persons at fault.

Para-11 (PTB), 2019-21

13.2.4.11 Non-payment of dues by the tobacco companies to growers - Rs. 144.393 million

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

During audit of Pakistan Tobacco Board (PTB), Peshawar for the years 2019-20 and 2020-21, it was observed that certain companies purchased tobacco from the growers amounting to Rs. 144.393 million but they did not pay the dues

to the growers. Growers lodged complaints in Prime Minister Portal complaint Cell and various forums as well as approached to the management of Board for not payment of dues by the companies i.e. M/s International Tobacco Supplier, M/s Maneri Tobacco Company, M/s Indus Tobacco Company and M/s Malik Tobacco Company. In case of M/s International Tobacco Supplier and M/s Maneri Tobacco Company, management sought advice from its law consultant as these companies are not declared quota for purchase of tobacco as per rules and they did not come under the purview of Board as per law.

In response of advice, Law consultant vide its letter dated July 30, 2019, opined that non-payment of dues by purchasers to growers will indirectly affect tobacco production and is to be considered, therefore, PTB is bound to protect the right of the tobacco growers. Management did not take any legal action against the companies to resolve the issue.

Audit was of the view that PTB should have been perused the matters and efforts for early recovery from the defaulters and save the growers from loss.

Management in its reply dated Sep 01, 2021 stated that execution of agreements by tobacco companies is mandatory under rule 4 of Tobacco Marketing Control Rules 2016. The tobacco companies are discouraged to purchase from non-agreement holders. The tobacco growers are also directed through open announcement in daily newspaper for their agreements with those companies who have declared requirements. Majority of the affected growers had not executed agreements with this company and sold their tobacco on their mutual understanding. Keeping in view rule 4 and 21 of Marketing Control Rules 2016, PTB is not under obligation to interfere in such transaction proceeded without execution of agreements.

Reply of the management is not convincing as the PTB is established to regulate and promote the production of tobacco, the question of non-interference is not correct and there is no need to marketing rules in this plea.

No DAC meeting was arranged till finalization of this report.

Audit requires investigating the matter at higher level and fixing the responsibility thereof besides recovering the dues of growers.

Para-12 (PTB), 2019-21

13.2.4.12 Loss to the Board and government exchequer due to fraudulent purchase of tobacco - Rs. 8.946 million

As per Section 9 of Pakistan Tobacco Board Ordinance 1968, the Board levy and collect cess on tobacco produced in Pakistan at such rate as the Federal Government may, by notification in the official Gazette, specify in this behalf, and proceeds of the cess.

As per Section-236x of income tax Ordinance 2001, Pakistan Tobacco Board or its contractors, at the time of collecting cess on tobacco, directly or indirectly, shall collect advance tax at the rate of five percent of the purchase value of tobacco from every person purchasing tobacco including manufacturers of cigarettes

During the audit of Pakistan Tobacco Board (PTB), Peshawar for the years 2019-20 and 2020-21, it was observed that Deputy Commissioner, Swabi informed the PTB that M/s International Tobacco Supplier and M/s Maneri Tobacco Company purchased the tobacco for Rs. 120 million from the growers but they did not pay the dues to growers. The affected growers also approached to PTB for recovery of dues. Management did not take any legal action for collection of cess and advance tax on purchase of tobacco as per rules. Thus, Board suffered loss of Rs. 2.946 million on account of cess and Government exchequer was put to loss of Rs. 6.00 million on account of 5% income tax due to fraudulent purchase of tobacco as detailed below:-

(Rs. in million)						
Sr.#	Company / Purchaser Name	Period of purchase	Amount of Purchase of Tobacco	Qty Purchased (Kgs)	Cess on purchase of Tobacco @ Rs. 4.64/kg	Advance Tax amount @ 5% on purchase
1.	M/s International Tobacco Supplier & M/s Maneri Tobacco Company	2018-19	120.000	634,921	2.946	6.00

Audit is of the view that management should claim the cess and advance tax from the companies who purchased tobacco illegally.

The matter was reported to management but no reply was received.

No DAC meeting was arranged till finalization of this report.

Audit requires to explain the reason regarding non-collection of cess and income tax and fix the responsibility on the person (s) at fault. Recover the cess amount from Companies under intimation to Audit.

Para-13 (PTB), 2019-21

13.2.4.13 Non performing of functions by the Board and non-rationalization & restructuring of Board despite changing in business activities

As per Section-6 of Ordinance 1968 of PTB, the Board shall perform functions; (a) to regulate, control and promote the export of tobacco and tobacco products and to fix grading standard, (b) to undertake and assist research connected with tobacco industry, impart training in tobacco testing and generally to take measures in the interest of the tobacco industry and (c) to render assistance for the development of new tobacco growing areas and establishment of model farms, to organize and assist special research connected with tobacco cultivation and general to render assistance for improving tobacco production.

During audit of Pakistan Tobacco Board (PTB) Peshawar for the year 2019-20 & 2020-21, it was observed that management failed to perform its functions as detailed below:

- a) To regulate, control and promote the export of tobacco and tobacco products.
- b) To undertake and assist research connected with tobacco industry, impart training in tobacco testing and generally to take measures in the interest of the tobacco industry
- c) To render assistance for the development of new tobacco growing areas and establishment of model farms, to organize and assist special research connected with tobacco cultivation and general to render assistance for improving tobacco production.

Further, with the passage of time a number of tasks were given to the Board i.e. collection of cess from the companies in 1978 vide Notification SRO 1204(I)/78 dated October 8, 1978, start marketing activities in 2016 vide Tobacco Marketing Control Rules 2016, and having huge surplus amount more than 1.5 billion for investment purpose.

The sanctioned strength of the Board shown that management retained most of the employees to perform the functions of research and promotion of the cultivation which were declined marginally. On the other side, for the purpose of cess collection, marketing and investment activities there was no specialized staff hired or created posts by the Board as mostly revenue is generated through these activities. Due to posting of irrelevant staff on said activities, Board suffered revenue loss on annual basis.

Audit was of the view that research and promotion of cultivation activities were reducing abnormally but a number of staff retained without need. Therefore, management should rationalize and restructure the strength of the Board as per activities to avoid wastage of resources of the Board. For this purpose management should carry out a HR study by HR professionals.

Management in its reply dated Sep 01, 2021 stated that Pakistan Tobacco Board has directed to carry out market research and explore avenues to enhance export of tobacco and its products from the country, upgraded its laboratories at Tobacco Research Station, Mardan. PTB management, in collaboration with stakeholders, has introduced tobacco cultivation in new areas i.e. Mianwali Area and Sialkot area in Punjab. Bajaur area and Swat area in Khyber Pakhtunkhwa. Further, PTB has created some isolated posts to cater to increase workload and addition in scope of functions of the Board.

Reply of the management is not convincing as the cultivation of land is showing decreasing trend, no facility provided to exporter regarding exploring of new markets and charge the cess on exports despite exemption. The production of model farm is less than average production. For the restructuring purpose, management should expedite the efforts.

No DAC meeting was arranged till finalization of this report.

Audit requires to restructure the Board as per activities performed to reduce wastage and take necessary actions to enhance the production and export of tobacco.

Para-14 (PTB), 2019-21

13.2.4.14 Undue benefit to the contractor to collect the collection on previous year crop - Rs. 12.547 million

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

During the audit of Pakistan Tobacco Board (PTB), Peshawar for the years 2019-20 and 2020-21, it was observed that agreement was executed with M/s Khaksar Traders C/o Zabta Khan on June 28, 2019 regarding cess collection rights of Crop 2019 of Khyber Pakhtunkhwa. Meanwhile, management issued permit to different companies for export of tobacco (Qty 2,704,178-Kg of Crop-2018) during the year 2019-20. The permit was issued with the condition to pay cess on the said quantity. As the tobacco was pertaining to the crop 2018, the cess will be collected by the PTB if required but the said contractor receipt Rs. 12.547 million from companies who had no rights to collect the cess of crop-2018.

Audit was of the view that contractor received cess from the companies on export quantity was illegal and undue favour was granted to contractor to receive cess.

Management in its reply dated Sep 01, 2021 stated that exporters are required to fully utilize their export allotment quota during the crop season for which the said quota has been allotted. The cess collection on export of tobacco from previous years has been implemented to discourage unscrupulous elements who use to obtained export allotment quota but would not export tobacco to evade cess by restricting tobacco export allotment to a specific crop season. Pakistan Tobacco Board is also working on amendments in collection of cess rules 1968 to also accommodate these exporters who export tobacco from previous crop season.

Reply of the management is not convincing as the management should exempt the export from cess or itself collect the cess from companies of previous crops.

No DAC meeting was arranged till finalization of this report.

Audit requires to explain the reasons regarding payment of cess to Contractor instead of PTB and investigate the reasons of collection of cess by contractor. Fix the responsibility on the person (s) at fault.

Para-16 (PTB), 2019-21

13.2.4.15 Revenue loss due to non-utilization of land of Model Farm Buner - Rs. 2.851 million

As per Section-6 (c) of Ordinance 1968 of PTB, the Board shall perform function to render assistance for the development of new tobacco growing areas and establishment of model farms, to organize and assist special research connected with tobacco cultivation and general to render assistance for improving tobacco production.

During the audit of Pakistan Tobacco Board (PTB), Peshawar for the years 2019-20 & 2020-21, it was observed that management established model farm consisted of 16-Acre and 12-Marlas at Buner in 2010 with the explanations that this area is very suitable for tobacco crop. Management did not utilize the six to seven acre land since long resultantly management suffered revenue loss of Rs. 2.851 million.

Year	Area Acquired (Acre)	Area Cultivated (Acre)	Less Cultivated (Acre)	Annual Income as per production of Farm (Per acre) (Rs.)	Loss due to non-cultivation of Land (Rs.)
1	2	3	4 (2-3)	5	6 (4 * 5)
2015-16	16	10	6	79,656	477,936
2016-17	16	9	7	83,028	581,196
2017-18	16	10	6	110,048	660,288
2018-19	16	10	6	98,822	592,932
2019-20	16	9.50	6.50	82,904	538,876
Total					2,851,234

The above table shows that management failed to produce the average production in the model farm despite having all the resources which needs justification with full facts and figures.

Management in its reply dated Sep 01, 2021 stated that it is not possible to cultivate crop on mountainous area. At the time of purchase the Committee has to purchase the land including mountains for the construction of office building, meeting hall, laboratory, mosque, guest house, colony etc. So when civil work will start, that land will be utilized. The management has tried to best utilize the available resources.

Reply of the management is not correct as the land was not acquired for colony; the land was acquired only for model farming. Management failed to utilize the land despite lapse of eleven years.

No DAC meeting was arranged till finalization of this report.

Audit requires to investigate the matter regarding non-utilization of land of model farm and fix the responsibility.

Para-17 (PTB), 2019-21

13.2.4.16 Non-convening of Board meetings in compliance of PTB Ordinance

As per Para-3 of S.R.O. 323(I)/85 dated 08-04-1985, Section-31 of the PTB Ordinance, 1968 (PTB Bye-Laws 1985), “the meetings of the Board shall be held at least thrice in a year on the date, time and place fixed by the Chairman.

During audit of Pakistan Tobacco Board (PTB) Peshawar for the year 2019-20 & 2020-21, it was observed that only three meetings of Board were convened. Detail is given hereunder:-

Sr.#	BOD's meeting No.	Meeting Held on
1.	156 th BOD meeting	21.01.2020
2.	157 th BOD meeting	23.06.2020
3.	158 th BOD meeting	14.12.2020

The above tabulated detail shows that PTB management did not comply with the provisions of PTB Ordinance regarding convening of PTB Board meetings i.e. three Board meeting each year. Only two BOD meetings were convened during 2019-20 and one meeting was held in 2020-21.

Thus due to non-compliance of provisions of PTB's own Ordinance regarding convening of BOD's meeting, policy matters remain pended for a long period.

Management in its reply dated Sep 01, 2021 stated that Meetings of Board of Directors are convened on need basis. Whenever sufficient number of agenda items are available on which decision of the BoD is required then a meeting of BoD is convened. It is further stated that the current BoD was constituted vide Ministry of Commerce Notification dated 27th September, 2019, therefore the two years terms of the current BoD shall expire on 26th September 2021. Four meetings have been conducted since the constitution of the current BoD. It is further stated that the post of Chairman remained vacant w.e.f. Dec 27, 2020 to May 25, 2021 due to which BoD meeting was not convened during the period.

Reply of the management is not convincing as the BoD was notified in Sep 2019 then the meeting should be scheduled as per Ordinance.

No DAC meeting was arranged till finalization of this report.

Audit requires to made compliance of provisions of PTB Ordinance in true spirit.

Para-18 (PTB), 2019-21

13.2.4.17 Overstatement of assets by irregular booking of operating expenditures under current assets - Rs. 4.302 million

As per accounting treatment, property taxes, which is an overhead cost and should be included as an operating expense.

During the audit of Pakistan Tobacco Board (PTB), Peshawar for the years 2019-20 and 2020-21, it was observed that management paid property tax of Rs. 4.302 million for the financial period 1993-94 to 2010-11 of Head Office property situated at Hayatabad. These expenses booked under the head Land (current assets) and overstated the current assets for such amount.

Audit was of the view that property tax should be expensed out but the management of the Board booked under current asset by Rs. 4.302 million in the financial statement.

Management in its reply dated Sep 01, 2021 stated that expenditure of Rs. 4.302 million has been taken by the M/s Zahid Jamil & Co, Chartered Accountants of PTB and recorded it as a fixed assets during their audited period

for the year 2017-18 and enhanced the value of the land. The matter of operating expenditure will be provided to the current auditors of PTB (M/s PKF F.R.A.N.T.S) for their views and further clarifications.

Reply of the management is not correct as the property tax is an operating expenditure and does not capitalize.

No DAC meeting was arranged till finalization of this report.

Audit requires to explain the reasons regarding booking of expenses under the head of assets with full facts and figures.

Para-19 (PTB), 2019-21

13.2.4.18 Understatement of assets due to non-revaluation of land - Rs. 800.00 million

As per International Accounting Standard of 16.7, items of property, plant and equipment should be recognized as assets when it is probable that future economic benefits associated with the asset will follow to the entity and the cost of the assets can be measured reliably.

During the audit of Pakistan Tobacco Board (PTB), Peshawar for the years 2019-20 and 2020-21, it was observed that management acquired land for Head Office Peshawar, for Tobacco Research Stations at Mardan, Mansehra, Gujrat & Okara, for Zonal Office Lahore and for model farms at Buner, Pishin and Jampur. Most of the land was purchased during the years 1978 to 1986 and the land was recognized in the Financial Statements upto June 2020 on the purchase price at the time of purchase. Now, the price of land was enhanced about ten times, thus the assets are shown in the financial statement understated by Rs. 800.00 million.

Audit is of the view that management should re-evaluate the assets and shown the fair value of the assets in the Financial Statement which will depict true picture.

The matter was reported to the management but no reply was received.

No DAC meeting was arranged till finalization of this report.

Audit requires to explain the reasons regarding recognition of land as assets without fair value and take necessary action for revaluation of land.

Para-22 (PTB), 2019-21

13.2.4.19 Less production of Tobacco despite incurring huge expenses - Rs. 20.577 million

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

During the audit of Pakistan Tobacco Board (PTB), Peshawar for the years 2019-20 & 2020-21, it was observed that management established model farm at Buner with the justifications that this area is very suitable for tobacco crop but the production of the model farm is less than average production as determined own bulletin 2019-20. Detail is as under:

Details of Tobacco Production						Expenditures over the Income (Rs.)
Year	Area Cultivated (Acre)	Qty Produced of Tobacco (Kgs)	Per Acre Qty produced Tobacco (Kgs)	Average Qty produced of Tobacco per acre in this area* (Kgs)	Less Qty Produced of Tobacco in Model Farm Buner (Kgs)	
1	2	3	4 (3/2)	5	6 (5-4)	
2015-16	5	3,043	609	999	390	2,930,188
2016-17	5	3,276	655	985	330	2,425,388
2017-18	5	4,310	862	1,133	271	3,801,150
2018-19	5	3,671	734	1,110	376	5,277,238
2019-20	5	2,358	472	1,032	560	6,143,526
						20,577,490

*Source: Pakistan Bureau of Statistics and published in Bulletin 2019-20 of PTB

Audit is of the view that the management failed to produce even the average production in the model farm despite deploying of all the resources and incurred huge expenses and did not take interest in best utilization of farms which needs justification with full facts and figures.

Management in its reply dated Sep 01, 2021 stated that the soil texture of Tobacco Model Farm Ambela Buner is rocky and sandy in nature and the

development of soil is time taking process. PTB management has added extrusive soil and Farm Yard Manure over the period of time that has increased the yield of tobacco. Most of land of TMF, Buner is Barani and dependent on rain fed Irrigation. Farm Manger and staff is not only looking after the TMF, Buner but also performing duties in tobacco growing area of Buner to facilitate the growers' community and therefore they are playing their role is revenue generation. Therefore expense on staff pays is justifiable.

Reply of the management is not acceptable as the land was acquired as suitable in 2011. Moreover, after lapse of ten years the production of farm did not achieve average production of the area.

No DAC meeting was arranged till finalization of this report.

Audit requires to investigate the matter regarding less production of tobacco at model farm despite deploying all resources and fix the responsibility after inquire the matter regarding less production.

Para-24 (PTB), 2019-21

13.2.4.20 Loss due to award of contract of cess collection rights without proper assessment of tobacco production - Rs. 44.60 million

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

During the audit of Pakistan Tobacco Board (PTB), Peshawar for the years 2019-20 and 2020-21, it was observed that management published a notice in newspapers for auction of cess rights for tobacco "crop 2020" on April 29, 2020. Auction was carried out on May 14, 2020 in the supervision of the Cess Auction Committee and highest auction was offered by Khyber Group of Companies C/o Naveen Ahmad Khan of Rs. 90 million. The auction committee unanimously decided to reject the bids on the basis that the offered bids are much below the last year's contract amount and decided to re-advertise the cess contract. Auction was re-advertised on May 16, 2020 and auction was held on

June 02, 2020 but no one participated in this auction. Auction was advertised again on June 04, 2020 and auction was held on June 17, 2020 and highest auction was offered by M/s Khyber Group of Companies C/o Naveen Ahmad Khan of Rs. 100.50 million.

The production of “Crop 2020 showing increasing trend and the demand of the companies also increasing from the previous year but management auctioned cess collection rights of Tobacco production of Khyber Pakhtunkhwa Province for the Crop 2020 at lower rates. Thus, management suffered a loss of Rs. 44.60 million (145.10 – 100.50) due to sale of rights at lower rate. Detail is given below:

(Rs. in million)

YEAR	FCV (M.Kg)	WP (M.Kg)	Burley (M.Kg)	Total (M.Kg)	Requirement of Companies on which PTB received cess (M.Kg)	Procurement by Companies	Rights of Cess Sold to Contractor (M.Kg)	Cess Rate Per Kg (Rs.)	Rights of cess to be sold	PTB sold Rights of Cess
1	2	3	4	5 (2+3+4)	6	7	8 (5-6)	9	10 (8*9)	11
2019-20	68.28	3.02	0.08	71.38	37.97	50.31	33.41	4.64	155.02	145.10
2020-21	73.52	3.50	-	77.01	42.00	64.50	35.01	4.64	162.45	100.50

Audit was of the view that management did not bother to assess production of the tobacco demand of the companies before awarding of contract which needs to be investigated.

Management in its reply dated Sep 01, 2021 stated that before holding open auction for award of cess collection contract, the Cess Auction Committee regularly holds pre-auction meeting in which the committee makes assessment of the probable reserve price for that year’s cess collection contract on the basis of current cess rates. The cess auction committee assessed the reserve price of 2020-21 cess collection contract of Khyber Pakhtunkhwa. It is further stated that the out of total demand of 54.453 million kgs for 2020 crop export demand was 16.636 million kgs which was exempt from cess. Increase in crop of 5.30 million kgs in 2020 has been offset by 6.2 million kgs export exemption and 4 million kgs increased quota of cigarette manufacturing companies. The cess collection contractor for 2020 had actually much less amount of cess-liable tobacco as compared to 2019 contractor.

Reply of the management is not correct as the contractor received cess of Rs. 104.40 million (64.50 Mkg - 42.00 Mkg=22.5 Mkg * Rs. 4.64/kg) from companies only who procured excess tobacco from their requirement and received Rs. 17.750 million on exported quantity excess than quota except the other purchased activities.

No DAC meeting was arranged till finalization of this report.

Audit requires to constitute a higher level committee to investigate the losses being sustained by the Board and fix the responsibility on the person (s) at fault.

Para-26 (PTB), 2019-21

13.2.4.21 Loss due to poor performance towards collection of cess - Rs. 197.91 million

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

During the audit of Pakistan Tobacco Board (PTB), Peshawar for the years 2019-20 and 2020-21, it was noted that management collected cess from cigarette manufacturing companies directly on tobacco consumption and for collection of the cess from the dealers, agent, purchasers etc. auctioned the rights of the cess to private contractor. During analysis of five years' cess collection data, it revealed that collection of cess decrease every year abnormally which shows lack of interest of the management in collection of cess due to which management suffered huge losses every year. Details is as under:

(Rs. in million)						
Years	Total Production (Million Kg)	Cess Collected			Total Cess to be collected	Profit/ (Loss)
		From Companies	Through Contractors	Total Collection		
1	2	3	4	5 (3+4)	6	7 (5-6)
2016-17	100.015	85.22	193.03	278.25	271.57	6.68

2017-18	106.777	155.57	142.69	298.26	327.93	(29.67)
2018-19	104.355	172.80	152.07	324.88	358.70	(33.82)
2019-20	113.657	119.68	237.45	357.13	420.46	(63.34)
2020-21	114.769	132.93	224.30	357.23	434.99	(77.76)
Total	539.573	666.2	949.54	1,615.75	1,813.65	(197.91)

The above table shows that in 2016-17 management collected the cess more than estimation and afterwards the management received cess less than estimation from 2017-18 to 2020-21 abnormally. Thus, management suffered huge losses of Rs. 197.91 million.

Audit was of the view that management failed to collect cess and difference of less receipt of cess increased due to poor management.

Matter was reported to the management but no reply was received.

No DAC meeting was arranged till finalization of this report.

Audit requires to constitute a higher level committee to investigate the losses being sustained by the Board and fix the responsibility on the person (s) at fault.

Para-27 (PTB), 2019-21

13.3 Livestock and Dairy Development Board

13.3.1 Introduction

Livestock and Dairy Development Board (the company) was incorporated in Pakistan as a Guarantee Limited Company on October 27, 2005 and is registered under Section 42 of the repealed Companies Ordinance, 1984 as a non-profit organization. The company's registered office is located at Ex-Milk Plant Building, Gate No. 2, National Agriculture Research Centre, Main Park Road, Islamabad. The principal activity of the company is to promote and facilitate livestock development (including dairy, meat poultry and allied areas) in Pakistan.

13.3.2 Comments on Audited Accounts

13.3.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts of the organization for the year 2018-19 to 2020-21 till December 31, 2021.

Audit recommends that the annual audited accounts for the year 2018-19 to 2020-21 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

13.3.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of Compliance
2010-11	06	05	01	16.2.2.4	83
2014-15	09	06	03	13.2.3, 13.2.4.1, 13.2.4.6	67
2015-16	05	01	04	12.2.2.1, 12.2.2.2, 12.2.2.3, 12.2.2.5	20
Total	20	12	8		60

Overall compliance of PAC directives was poor which needs immediate attention of PAO.

13.3.4 Audit Paras

13.3.4.1 Non-performance evaluation of members of the Board including Chairman and CEO

Non-formulation of Board Committees

As per rule 8(1) of Public Sector Companies (Corporate Governance) Rules, 2013, the performance evaluation of the members of the Board including the Chairman and the Chief Executive shall be undertaken for which the Board shall establish a process, based on specified criteria, and the Chairman of the Board shall take ownership of such an evaluation. The Committees shall also carry out their evaluation on an annual basis. Further, as Per Rule 12(1&2) of Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall set up Audit Committee, Risk Management Committee, HR Committee, Procurement Committee and Nomination Committee. The Board Committees shall be chaired by non-executive directors and the majority of their members shall be independent.

During the audit of Livestock Dairy Development Board, Islamabad for the years 2015-16 to 2019-20, it was observed that neither the Board established any process based on specified criteria for evaluation of performance of the members of the Board including Chairman and CEO nor any such performance evaluation was made. The management was requested to provide the criteria framed by Board for evaluation of the members of the Board but the same was not made available. Thus, due to no performance evaluation of the members of the Board including Chairman and CEO, the effectiveness of the operations of the Company could not be evaluated. When demanded the minutes of meeting of the above said Board Committees, the management contended that no such Committees were framed by the Board.

Audit holds the view that the Corporate Governance Rules-2013 were not implemented by the LDDDB and the affairs of the LDDDB were being managed without following any prescribed procedure.

The matter was pointed out to the management on 24.09.2021. The management in its reply dated 02.02.2022 stated that the affairs of LDDDB were run as private organization by the then Chairman, CEO and Private members.

They were of view that there is no need of such kind of evaluation. Moreover, Corporate Governance Rules, 2013 were not fully implemented. Afterwards, the committees as required by the Corporate Governance Rules were framed.

The reply is not convincing as the implementation of the Corporate Governance Rules was necessary. The performance evaluation of the Board should be made in order to strengthen the organization's business.

No DAC meeting was arranged till finalization of this report.

Audit recommends to set up process based on specified criteria for performance evaluation of members of the Board including Chairman and CEO immediately and the Board Committees may be established for smooth working of the LDDB.

Para-1 (LDDB), 2015-20

13.3.4.2 Irregular payment to Provincial Governments without release of proportionate funds and adjustment vouchers – Rs. 248.842 million

According per umbrella PC-1 pertaining to Project namely “Prime Minister’s Initiative for save the Calf”, the Project Management Unit (PMU) established at LDDB, Islamabad will be responsible for overall project implementation throughout the country in coordination with Provincial PMUs, proportionate release of funds to the project authorities, Project monitoring medium term and final, provision of written material for training and awareness and Media campaign for public awareness and project activities. The PMU will also be meant for the projects namely “Calf Feedlot Fattening in Pakistan” and “Prime Minister’s Initiative for Backyard Poultry” executed by LDDB. The funds allocated to the provinces will be released by the Ministry of National Food Security and Research in proportion to the funds released by the respective Provincial Government on quarterly basis and on submission of release letter of the respective province.

During the audit of Livestock and Dairy Development Board (LDDB), Islamabad for the years 2015-16 to 2019-20, it was observed that the management initiated three projects namely “Prime Minister’s Initiative for Save the Calf”, “Calf Feedlot Fattening in Pakistan” and “Prime Minister’s Initiative for Backyard Poultry” from July 2019 for the development of Live Stock. As per

Projects' frame work, the LDDDB had to make 20% payment to provincial authorities and remaining 80% was to be borne by the concerned province to complete the project. The LDDDB management made payment of Rs. 248.842 million (Rs. 125.554 million, Rs. 83.642 million and Rs. 39.646 million respectively) during 2019-20 to provincial authorities for the said projects without obtaining evidence regarding prior release of proportionate funds by the respective provinces. Further, the management did not obtain adjustments from concerned provincial authorities to ascertain that the said amount was incurred for the purpose for which the same was paid.

Thus, in the absence of requisite evidences, the payment of Rs. 248.842 million was held irregular.

The matter was pointed out to the management on 24.09.2021. The management in its reply dated 02.02.2022 stated that achievements/operations of the provinces and regions are received on monthly basis to FPMU. All data of project beneficiaries received from provinces and regions is updated in PMES system. Provinces and regions submit adjustments of funds for the purpose for which the said amount was paid.

The reply was not tenable as the management failed to provide any documentary evidence regarding release of proportionate funds by the respective province for this project.

No DAC meeting was arranged till finalization of this report.

Audit recommends to fix responsibility on the person(s) at fault for. Besides, the evidences regarding release of proportionate funds from respective province and adjustment vouchers / certificate against the said payments be obtained and shared with Audit.

Para-2 & 14 (LDDDB), 2015-20

13.3.4.3 Non-finalization of annual accounts / financial statement for the year 2019-20

According to section 223(1&2) of Companies Act, 2017 the Board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the

incorporation of the company and in any other case since the proceeding financial statement made up to the date of close of financial year adopted by the company. The financial statement must be laid within a period of one hundred and twenty days following the close of financial year of a company. Further as per Rule 10 of Corporate Governance Rules 2013, every Public Sector Company shall, within one month of the close of first, second and third quarter of its year of account, prepare a profit and loss account for, and balance sheet as at the end of, that quarter, whether audited or otherwise, for the Board's approval.

During audit of LDDDB for the years 2015-16 to 2019-20 it was observed that the management failed to finalize its annual accounts for the year 2019-20, which is clear violation of above mentioned rules.

Audit is of the view that management was required to finalize its accounts timely so that true and fair picture of the state of affairs of the company comes to the knowledge of the stakeholders.

Non-finalization of annual accounts resulted in non-compliance of statutory requirements and failure to depict true picture of the affairs of the Company to the stakeholders.

The matter was pointed out to the management on 24.09.2021. The management in its reply dated 02.02.2022 stated that the BoD has to be re-constituted. The accounts will be presented on its agenda once the formulation of BoD is done.

The reply was not tenable as the management failed to finalize the annual accounts during the time prescribed in rules. Due to non-finalization of accounts, the transparency of financial business could not be ensured.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons regarding non-finalization of account within the scheduled time and fix the responsibility on the person at fault.

Para-3 (LDDDB), 2015-20

13.3.4.4 Loss due to investment in TDRs at lower rates – Rs. 1.950 million

According to Rule-38 of PP Rules-2004, the bidder with the most advantageous bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity.

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

As per Finance Division OM No.F.4 (1)/2002-BR.II Islamabad, dated 2nd July, 2003 public sector enterprises and local/autonomous bodies can deposit their working balances required for their operations with any public or private bank subject to the condition that for the sake of the safety and security of deposits, the bank/financial institutions taking a deposit should have a minimum “A” rating (long-term) as appearing on the web-site of the State Bank of Pakistan.

During the audit of Livestock and Dairy Development Board (LDDDB), Islamabad for the years 2015-16 to 2019-20, it was revealed that the management made investment in shape of TDRs of Rs. 150.00 million @ 12.80% per annum in National Bank of Pakistan and Rs. 76.00 million @ 14.10% per annum in Silk Bank for one year period w.e.f. October 17, 2019 and October 23, 2019 respectively. The record revealed that the management collected comparative interest rates from different banks. The Silk Bank offered highest interest rate of 14.10% per annum. Thus, the management should have invested the whole amount in Silk Bank but contrary to that, an amount of Rs. 150.00 million was invested in National Bank of Pakistan at less rate i.e. 1.30% (i.e. 14.10%-12.80%) by obtaining approval from Audit and Risk Management Committee in its meeting held on October 14, 2019. Audit demanded the approval of minutes of meeting of the said Committee but the same were not provided being the approval from BOD was not obtained. Thus, due to investment of funds at lesser rate without approval of BOD, the organization sustained loss on account of interest income of Rs. 1.950 million (i.e. Rs. 150,000,000 x 1.30/100).

The matter was pointed out to the management on 24.09.2021. The management in its reply dated 02.02.2022 stated that the investment of funds was made with the approval of BoD committee i.e. Audit and Risk Management Committee.

The reply is not convincing as the funds should have been invested in a bank which offered highest interest rate but the same was not done which resulted into loss.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter and fix the responsibility on the person(s) at fault and the loss may be made good from the person(s) held responsible.

Para-4 (LDDDB), 2015-20

13.3.4.5 Inconsistent working by project authorities resulted into surrender of funds – Rs. 80.859 million

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

During the audit of Livestock and Dairy Development Board (LDDDB), for the years 2015-16 to 2019-20, it was revealed that the federal government released funds of Rs. 350.00 million during 2019-20 for three projects i.e. "Prime Minister's Initiative for Save the Calf", "Calf Feedlot Fattening in Pakistan" and "Prime Minister's Initiative for Backyard Poultry" out of which unutilized funds of Rs. 80.859 million (i.e. 23.10% of the funds released) were surrendered by management.

Audit is of the view that the management should have performed project activities vigorously by keeping in view the availability of funds but the same was not done which led to surrender of funds.

The matter was pointed out to the management on 24.09.2021. The management in its reply dated 02.02.2022 stated that late administrative approval delayed appointment of PMU staff. Further, no demand for 4th Quarter was received from Gilgit–Baltistan, KP and ICT regions due to Covid situation and non-issuance of NOC for purchase of vehicles, less demand in Stationery, printing and publication, TA/DA and advertisement etc. resulted in surrender of funds.

The reply was not convincing as the funds were surrendered due to non-working on core operations of the project.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter of non-utilization of funds and fix the responsibility on the person(s) at fault. Further, the updated progress of the projects towards completion and utilization of funds may be shared with audit.

Para-5 (LDDDB), 2015-20

13.3.4.6 Irregular payments to farmers due to non-provision of record regarding criteria for selection of farmers - Rs. 16.893 million

According to clause-6(3) of PC-I titled “Milk & Meat Supply Chain Improvement & Support to Livestock Production in Federally Administrated Areas” in order to enhance the meat production and motivate the livestock farming community, 300 feedlot fattening farms of large and small animals will be established under the targeted areas and financial support of Rs. 1,500 per beef animal and Rs. 500 per mutton animal will be provided to the farmers. Out of 300 farms, 200 farms will be small beef farms with 10-40 calves on each farm and 100 small mutton farms with 20-50 growing male sheep and goats on each farm.

According to clause-6(C), of PC-1 titled “Development of Yak at High Altitude Areas of Pakistan (GB)” the operational support to the feedlot fattening farms will be provided @ Rs. 2,000 lump sum amount per yak for operational cost of fattening which includes feed concentrates and marketing in a transparent manner in local market.

During audit of LDDDB for the years 2015-16 to 2019-20, it was observed that a PC-I of Rs. 58.44 million of Camping Milk & Meat Supply Chain

Improvement in federally administrated areas was approved with the objectives to plan, promote, facilitate and coordinate accelerated development of and investment in the livestock, poultry and dairy sectors, to promote and facilitate marketing of livestock and its products and to undertake capacity building of all stakeholders. The farmers who had fundamental requirements like shed, fodder availability, capacity to invest for purchase of animals, agriculture land, water etc. had to be involved in this activity. The record relating to selection of farmers for the said project was called for, but the same was not produced. Audit examined the cash book of the said project which revealed that an amount of Rs. 9.561 million was paid to various farmers to enhance the meat production and motivate the livestock farming community.

Further, it was also observed that a PC-I valuing Rs. 59.500 million of Development of Yak at High Altitude Areas of Pakistan (GB) was approved during the year 2016-17. The PC-1 was revised by DDWP on 16.04.2018. The Finance Division released funds of Rs. 54.00 million for execution of the Project during 2017-18, 2018-19 and 2019-20. The record relating to selection of farmers for the said project was called for, but the same was not produced. Audit examined the cash book of the said project which revealed that an amount of Rs. 7.332 million was released to various farmers to achieve the said objectives.

In the absence of record pertaining to the selection of farmers, Audit was unable to verify the authenticity and transparency of disbursement of Rs. 16.893 million (Rs. 9.561 m + Rs. 7.332 m respectively of said projects) to genuine farmers or otherwise. Thus, payment of Rs. 16.893 million was held irregular in Audit.

The matter was pointed out to the management on 24.09.2021. The management in its reply dated 02.02.2022 stated that selection of farmers was made in true letter and spirit as mentioned in PC-I.

The reply was not convincing as documentary evidence regarding selection process of farmers was not produced to audit.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter and fix responsibility on the person at fault. Besides, relevant record may be produced to Audit for verification.

Para-6 & 7 (LDDDB), 2015-2

13.3.4.7 Non-inclusion of project assets in books of accounts - Rs. 6.329 million

According to clause Operation and Maintenance of PC-I of Project Titled “Milk & Meat Supply Chain Improvement & Support to Livestock Production in Federally Administrated Areas”, after completion of project all activities will be taken to non-development side. Staff will be absorbed to expand the capacity of LDDDB alongwith assets. Models developed during the project tenure will continue expansion through seeking further funding from Government and donor agencies for next phases and new programs.

During audit of LDDDB for the years 2015-16 to 2019-20, it was observed that a Project Titled “Milk & Meat Supply Chain Improvement & Support to Livestock Production in Federally Administrated Areas” was started during 2016-17 to facilitate the farmers and to enhance the meat production as well as supply of milk in Federally Administrated Areas. For this purpose, the management procured and distributed various equipment among the farmers. It was also observed that certain items were also procured for LDDDB Head Office and the expenditure charged to the Project. Audit is of the view that the project has since been completed and the assets/various equipment given to farmers as well as LDDDB were required to be taken in annual accounts but in this case, neither the assets valuing Rs. 6.329 million were taken in account nor received back from farmers which is violation of the above PC-I clause.

The matter was pointed out to the management on 24.09.2021. The management in its reply dated 02.02.2022 stated that the assets were handed over to the farmers as per PC-I obligations. The same have been taken on the LDDDB books of Accounts and will be re-stated in next audit.

The reply was not convincing as these assets are lying without any accountability so far and chances of mis-utilization are very higher.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons for not taking the assets in annual accounts and non-return of assets from farmers. Besides, the needful may be done under intimation to Audit.

Para-8 (LDDDB), 2015-20

13.3.4.8 Re-appropriation of funds resulting into irregular expenditure – Rs. 1.750 million

As per Rule-12 of GFR, a Controlling officer must see not only that the total expenditure is kept within the limits of the authorized appropriation but also that the funds allotted to spending units are expended in the public interest and upon objects for which the money was provided.

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

During the audit of Livestock and Dairy Development Board (LDDDB), Islamabad for the years 2015-16 to 2019-20, it was observed that the Federal Government released funds of Rs. 1.5 million for renovation of office building of the project namely “Prime Minister’s Initiative for Save the Calf”. The management, however, incurred Rs. 3.250 million for renovation work by re-appropriation of funds of Rs. 1.750 million from other heads with the approval of CEO. Audit holds that CEO was not authorized to re-appropriate funds and re-appropriation of funds could be done with the approval of BOD or from the authority who approved the PC-I.

Un-authorized re-appropriation resulted into irregular expenditure.

The matter was pointed out to the management on 24.09.2021. The management in its reply dated 02.02.2022 stated that as per administrative approval of the project, CEO is competent for financial and administrative matter of project. Hence, the re-appropriation was made by AGPR with the direction of CEO.

The reply was not convincing as there was no provision in PC-I regarding re-appropriation of funds. To re-appropriate the funds, the management should take the matter with the Planning Commission.

No DAC meeting was arranged till finalization of this report.

Audit recommends that irregularity may be regularized from the competent forum.

Para-9 (LDDb), 2015-20

13.3.4.9 Undue favour in award of contract - Rs. 2.652 million

According to Rule 10 of PPRA Rules, 2004, specifications shall allow the widest possible competition and shall not favour any single contractor or supplier nor put others at a disadvantage.

During audit of LDDDB for the years 2015-16 to 2019-20, it was observed that a tender for the supply of Milk Cooling Tank (500 Ltr) with 7 KVA Generator was floated in daily Jang and The News on 10th January 2017 to be opened on 26th January 2017. In response, 05 (five) firms / contractors participated in the tendering and M/s FMG Supplies (Private) Limited being lowest was finalized and purchase order was issued on 10th February 2020. During bidding, the supplier had quoted to provide generator of Devo, China. During scrutiny of record it was noted that the supplier provided Milk Cooling Tank (500Ltr) with 7KVA Generator of Pakistan Origin instead of Model Devo, China and the same was accepted. This resulted into undue favor to the bidder for irregular award of procurement contract.

Audit holds that the required accessories should have been accepted as per specifications offered by the supplier during bidding process which was not done and undue favour was extended to the supplier.

The matter was pointed out to the management on 24.09.2021. The management in its reply dated 02.02.2022 stated that all procedures were adopted according to the PPRA Rules. Contract was granted as per rules and codal formalities were adopted.

The reply is irrelevant as the issue of non-supply of generators as per approved specification is not addressed.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the reasons regarding deficiency in specifications, fix the responsibility on the person at fault.

Para-12 (LDDDB), 2015-20

13.3.4.10 Payment of honorarium to project's personnel without any fruitful progress of the projects – Rs. 1.400 million

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

During the audit of Livestock and Dairy Development Board (LDDDB), Islamabad for the years 2015-16 to 2019-20, it was revealed that the management initiated a project namely "Prime Minister's Initiative for Save the Calf" and Milk & Meat Supply Chain Improvement. The management paid Rs. 1.400 million to Project's Personnel as honorarium without recognizing any identical work performed by them.

The project was at initial stage and any result oriented targets was not achieved. The basis for payment of honorarium i.e. any identical work performed by project's personnel was demanded from management but the same was not provided. Further, the said payment was made without approval of BOD.

Audit is of the view that the management should have made payment of honorarium with prior approval of BOD keeping in view the progress of the project as well as of the employees but the same was not done.

The matter was pointed out to the management on 24.09.2021. The management in its reply dated 02.02.2022 stated that the Prime Minister Projects for livestock revamping was prepared by a few LDDDB staff who worked beyond their capacity. They worked during off days and after office hours to complete these projects within the time frame. The cash award/honorarium was awarded to these staff to encourage and recognize their efforts in this regard with the approval of CEO.

The reply was not convincing as the project was at initial stage and admirable achievement of the project was not obtained.

No DAC meeting was arranged till finalization of this report.

Audit recommends to fix responsibility on the person(s) at fault for payment of honorarium without observing the codal formalities and payment made may be recovered.

Para-18 (LDDDB), 2015-20

13.3.4.11 Irregular appointment of Monitoring & Evaluation Officers due to short and irrelevant experience – Rs. 4.875 million

According to PC-I of project namely “Prime Minister Initiative for Save the Calf”, the candidates having MSc (Livestock Production)/Post Graduate Master Degree in Monitoring & Evaluation along with 5-10 years’ relevant experience in development projects were eligible for the Post of Monitoring & Evaluation Officer.

During the audit of Livestock and Dairy Development Board (LDDDB), Islamabad for the years 2015-16 to 2019-20, it was observed that the management appointed four Monitoring & Evaluation Officers on monthly salary of Rs. 125,000 each w.e.f. September 01, 2020 against the posts of project namely “Prime Minister Initiative for Save the Calf”. The record revealed the experience possessed by the officer was ranging from 1 to 3.5 years as against five years as required in PC-I. Further, the experience possessed by these officers was of irrelevant field rather than in development projects. The experience certificates were not get verified from ex-employers. Thus, it is evident that the officers were not eligible for appointment even for shortlisting as the candidates having more experience were available in the list of candidates applied for the post. The whole scenario indicates that the management granted undue favor to the officers by violating the merit. Thus, the appointment of the officers and payment of Salary Rs. 4.875 million was held irregular in audit.

Audit is of the view that the management should have shortlisted the candidates on merit and made appointment of the candidates having required experience of relevant field but the same was not done.

The matter was pointed out to the management on 24.09.2021. The management in its reply dated 02.02.2022 stated that the Monitoring and Evaluation Officers were recruited as per criteria given in PC-1 and advertisement for the post.

The reply was not convincing as the experience of the candidates was short and irrelevant. The appointment was made against the experience requirement mentioned in PC-I.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter and fix responsibility on the person(s) at fault and the officers may be terminated otherwise appointment may be regularized from Establishment Division.

Para-20, 21, 22, & 23 (LDDDB), 2015-20

13.3.4.12 Non-receipt of birds' proceeds paid by farmers from Federal Administrative Regions – Rs. 28.598 million

According to Clause-10(c) of PC-1 pertaining to Project namely “Prime Minister’s Initiative for Backyard Poultry”, the PMU will set up a separate PLA bank account for the purpose of sale of birds proceeds at Islamabad or one in each region (AJK, GB). Regional departments will deposit the share of farmers in the said account which will be returned to the regional department for production or procurement for the next cycle and so on.

During the audit of Livestock and Dairy Development Board (LDDDB), Islamabad for the years 2015-16 to 2019-20, it was revealed that the management released 30% share i.e. Rs. 68.427 million to ICT, AJK and GB regions for the purchase and distribution of birds during 2019-20 and 2020-21 under Prime Minister’s Initiative for Backyard Poultry Project. The 70% share of said amount i.e. Rs. 47.899 million paid by farmers on account of sale proceed of these birds should have been deposited by these regions in PLA bank account of LDDDB/project. Contrary to that, these regions deposited only Rs. 19.301 million and balance amount of Rs. 28.598 million was not transferred in PLA account. Due to non-receipt of said amount, the PMU was not in a position to release the said amount for next cycle which affected the operational activities of the project.

Audit is of the view that the management should make efforts for early receipt of birds proceeds from these regions, however, no efforts were made in this regard.

The matter was pointed out to the management on 24.09.2021. The management in its reply dated 02.02.2022 stated that Federal Administrative

regions have deposited the beneficiary share of bird cost to LDDDB's PLA Account.

The reply was not convincing as documentary evidence regarding deposit of said amount by the concerned was not shared with audit.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter and fix the responsibility on the person(s) at fault and the birds sale proceed received from farmers may be obtained from federal regions to make the project operational.

Para-26 (LDDDB), 2015-20

13.3.4.13 Loss due to irregular award of contract extending favor to contractor - Rs. 1.575 million

According to Rule 40 of PPRA Rules-2004 there shall be no negotiations with the bidder having submitted the lowest evaluated bid or with any other bidder. Further, rule 10 (i) of GFR provides that 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 do in respect of expenditure of his own money. The canons of financial propriety suggest that the expenditure may be incurred prudently and in accordance with the best business practices.

During audit of LDDDB for the years 2015-16 to 2019-20, it was observed that an amount of Rs. 3.097 million was paid to M/s Usman Enterprises on account of renovation work in existing building of LDDDB. The original tender file was demanded but the same was not produced and stated that the file was misplaced and inquiry has been conducted. However the duplicate file of the work was produced which revealed that tender for renovation work in existing building to the tune of Rs. 5.000 million was floated in daily Jinnah and Pakistan Observer Rawalpindi / Islamabad on 3rd February 2020 and tender was opened on 17th February 2020. In response, 11 firms / contractors participated in the tendering. M/s NIHAG Construction Company quoted bid of Rs. 2.775 million and stood lowest. The rates quoted by the bidder were considered in-appropriate as the material cost was too high to carry out the said work, hence committee rejected the bid. The committee further considered four firms / contractors the rates of which were below 5.00 million ignoring the others 06 without assigning

any reason. The work was awarded to M/s Usman Enterprises at a tender cost of Rs. 4.350 million. Audit is of the view that work order should have been awarded to M/s NIHAG Construction Company being 1st lowest but it was not done and LDDDB sustained loss of Rs. 1.575 million (4.350-2.775). Audit holds that award of contract to selected contractor was not only irregular but also uneconomical.

The matter was pointed out to the management on 24.09.2021. The management in its reply dated 02.02.2022 stated that the tender was awarded to the 2nd lowest bidder due to the non-serious issue of the 1st lowest bidder. As compare to the markets rates the rates quoted by the M/s NIHAG Construction Company was much lesser. The committee interviewed the representative of 1st lowest bidder for the reason and he could not satisfy the committee. Further, the company failed to provide documents according to BoQs. Keeping in view the above reasons, the committee preferred 2nd lowest bidder for award of contract.

The reply was not convincing as there was no provision in PP rules for acceptance of 2nd bidder. In case of any confusion, the management should scrap the tender in order to ensure transparency.

No DAC meeting was arranged till finalization of this report.

Audit recommends to investigate the matter regarding irregular award of work, fix the responsibility on the person at fault, and non-provision of original tender document of contract.

Para-29 (LDDDB), 2015-20

Chapter-14

Ministry of Planning, Development and Special Initiatives

Overview

To manage Pakistan's socio-economic development in a strategic and sustainable manner"

Aims & Objectives

Designing and implementing methodology for leadership for planning social and economic development. Development economic programmes designed to achieve competitiveness and leadership for national economy.

Establishing and implementing an approach to strengthen partnership with public agencies private sector and other stakeholder. Coordinating efforts to formulate and achieve development objectives plan and objective to ensure efficiency in performance.

Developing the planning and implementation capabilities of public entities, to facilitate their roles in formulating and implementing plans and strategies.

Governing Laws and Policies

- Rule of Business 1973
- Economic Development Policy of Federal Govt.

Audit Profile of Ministry of Planning, Development and Special Initiatives

(Rs. in million)

S. No.	Description	Total	Audited	Expenditure audited FY 2020-21	Revenue /Receipts audited FY 2020-21
1	Formations	2	1	43,107.901	52,630.229
2	Assignment Accounts (excluding FAP)	-	-	-	-
3	Authorities /Autonomous Bodies etc. under the PAO	1	1	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations amounting to Rs. 2,312.473 million were raised as a result of this audit. This amount also includes recoverable of Rs. 1,333.530 million as pointed out by the audit. Summary of the audit observation classified by nature is as under:

Overview of the Audit Observations

Sr. No.	Classification	Amount (Rs. in million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities:	
A	HR/Employees related irregularities	-
B	Procurement related irregularities	772.818
C	Management of accounts with Commercial Banks	-
4	Value for money and services delivery issues	-
5	Others	1,539.655

14.1 National Logistics Cell

14.1.1 Introduction

National Logistic Cell (NLC) was established by the Government of Pakistan vide Notification No. 120/19/78-Min dated August 12, 1978 with main objective of providing uninterrupted logistic facilities in the country. NLC is also engaged in construction activities, infrastructure rehabilitation, and development sector, Management of Dry Ports & Border Terminals, Technical Institutes and Express Freight Train Service, toll collection and other engineering related activities. It is an attached department of Ministry of Planning, Development & Reform of Government of Pakistan.

The main objectives are as under:-

- Transportation of commodities from one location to other by all available means.
- Hiring/maintenance of storage facilities.
- Carrying out construction of roads and other engineering projects
- Building of truck bodies and chassis of various makes.
- Revenue generation through toll collection.
- Management of Dry Ports and Border Terminals.
- Express Freight Train Service.

14.1.2 Comments on Audited Accounts:

14.1.2.1 The working results of the NLC for the year 2020-21 as compared to the previous years are as follows:

	2020-21	% Inc/ (Dec)	2019-20	%Inc /(Dec)	2018-19
Revenue	47,389.082	60.71	28,947.458	(0.81)	29,130.071
Operating Costs	41,762.370	49.72	27,892.950	0.35	26,543.123
Gross Profit	5,626.712	433.58	1,054.508	(12.708)	2,586.948
Administrative expenses	1,345.531	45.58	924.225	30.381	947.088
Other operating Income	5,241.147	268.88	1,420.822	46.850	1,014.869
Operating profit	9,279.994	652.33	1,233.485	(5.311)	2,654.729
Finance costs	19.574	20.67	16.221	(65.209)	46.544
Net Profit	9,260.420	660.76	1,217.264	(4.243)	2,608.185
Current Assets	49,104,740		40,439,560		
Current Liabilities	29,637,896		24,418,571		
Current Ratio	1.65		1.65		

(Source: - Annual Audited Accounts)

Revenue of the organization increased by 60.71% during the year 2020-21. However, revenue from different sources has been decreased i.e. rental income from freight trains by 4.65%, dry ports by 5.74%, technical institutes by 8.44% and marine services by 12.55% as compared to previous years. The management needs to explain the reasons of declining trend of revenue.

14.1.2.2 Long term loans to wholly owned subsidiary NLC Developer (Pvt.) Ltd amounting to Rs. 1,377.004 million is outstanding since February, 2008. Furthermore, timing of recovery of loan is uncertain. Audit recommends to expedite early recovery of loan from NLC Developer (Pvt.) Ltd and justify the reason for long outstanding loan.

14.1.2.3 Long term advances and deposits include Mobilization advance to Enshaa NLC Development (Pvt.) Ltd. amounting to Rs. 198.718 million which is outstanding since long. Furthermore, whole amount of loan has been considered doubtful and notes to the financial statements are silent about reasons for considering the loan as doubtful. The matter need to be justified.

14.1.2.4 Trade debts amounting to Rs. 101.254 million have been written off for the year ended 30th June, 2020-21. Notes to the accounts are silent about the

reasons for write off. Moreover, the management failed to recover their debts from clients. Early recovery of trade debts is stressed upon the management, besides requiring detailed break up of trade debts along with aging and justification of writing off of trade debts.

14.1.2.5 Current ratio for the year 2020-21 is 1.65 times whereas; standard current ratio which is considered safer is 2 times. Furthermore, networking capital is negative amounting to Rs. 19.466 million. Audit recommends to justify the reason for lower current ratio than that of specified standard.

14.1.2.6 Net loss from aviation worth Rs. 11.437 million is shown in the financial statements. Audit requires to justify the reasons of huge loss recognized in financial statements.

14.1.2.7 Retention money worth Rs. 5,576.444 million is receivable against projects completed but not technically and financially closed. The poor execution of civil works lead to blockade of huge funds since long. Early recovery of retention money is stressed upon the management.

14.1.3 Compliance of PAC Directives:

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
1988-89	11	10	01	541	91
1989-90	23	19	04	635,640,648,650	83
1990-91	05	03	02	491,494	60
1991-92	08	07	01	458	88
1993-94	14	09	05	234,235,238,240,243	64
1994-95	11	09	02	257,264	82
1995-96	06	05	01	232	83
1999-00	11	10	01	235	91
2001-02	03	02	01	213	67
2005-06	15	13	02	212,214	87
2006-07	08	07	01	178	88
2007-08	04	01	03	154.2,154.3,155	25
2008-09	08	06	02	202, 207	75
2013-14	08	01	07	14.1.1 & 14.1.2.1, 14.1.4.1, 14.1.4.2, 14.1.4.3,14.1.3, 14.1.4.4	12.5
2016-17	25	07	18	14.1.3, 14.1.4.1, 14.1.4.2, 14.1.4.3, 14.1.4.5, 14.1.4.7, 14.1.4.8, 14.1.4.11, 14.1.4.12, 14.1.4.13, 14.1.4.14, 14.1.4.15, 14.1.4.16, 14.1.4.17, 14.1.4.18, 14.1.4.19, 14.1.4.20, 14.1.4.21	28
2019-20	24	0	24	13.1.2.1, 13.1.2.2, 13.1.2.3, 13.1.2.4, 13.1.2.5, 13.1.2.6, 13.1.2.7, 13.1.2.8, 13.1.2.9, 13.1.3, 13.1.4.1, 13.1.4.2, 13.1.4.3, 13.1.4.4, 13.1.4.5, 13.1.4.6, 13.1.4.7, 13.1.4.8, 13.1.4.9, 13.1.4.10, 13.1.4.11, 13.1.4.12, 13.1.4.13, 13.1.4.14	0
Total	184	109	75		59

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

14.1.4 Audit Paras

14.1.4.1 Irregular hiring of consultancy firms - Rs. 14.69 million

Loss due to award of contract at higher rates - Rs. 6.39 million

As per Rule-12 (2) of PPRA Rules-2004, all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation.

The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

During audit of National Logistic Cell (NLC) Rawalpindi for the year 2020-21, it was observed that the management awarded the consultancy work to M/s Colliers for Rs. 8.475 million and Rs. 6.215 million to conduct feasibility study for Highest and best use of Sultanabad & KNB at Karachi lands respectively.

Following observations were noted in award of these contracts:

- i. Tender for hiring of consultancy firms was not advertised through press in violation of PPRA.
- ii. M/s National Management Consultants (Pvt) Ltd was lowest for Sultanabad with cost of Rs. 4.5 million and for KNB with cost of Rs. 3.8 million. However, the lowest quoted firm was rejected and contract was awarded to M/s Collier International (pvt) Ltd at higher rates of Rs. 8.475 million for Sultanabad and Rs. 6.215 million for KNB.

Thus, due to non-publishing the advertisement in press for hiring consultancy services in violation of PPRA rules, award of contracts worth Rs. 14.69 million was held irregular and NLC sustained loss of Rs. 6.39 million due to ignoring 1st lowest and awarding contract to 2nd lowest bidder.

In DAC meeting held on 03.02.2022, the management apprised that committee about the methods adopted for hiring of consultant in detail.

DAC directed the management of NLC to verify the procedure of procurement adopted from audit. The audit will ensure that the procedure which was adopted by the management was completed with due diligence along with Board proceedings.

Audit recommends to investigate the matter at higher level and fix the responsibility on the person (s) at fault.

Para-2 (NLC, 2020-21)

14.1.4.2 Loss due to purchase of locomotive spares at higher rates - Rs. 7.992 million
Non-recovery of liquidated damages Rs. 8.189 million

In accordance with Rule-4 of the PPRA “a procuring agency while making any procurement shall ensure that the procurement is made in a fair and transparent manner, the object of procurement brings value for money to the procuring agency and the procurement process is efficient and economical.

During audit of National Logistic Cell (NLC) Rawalpindi (HQ) for the year 2020-21, it was observed that the management published tender for the purchase of locomotive spares on August 21, 2018 for overhauling which were scheduled in July 2019. In response of this, four firms participated in the tender. As per evaluation of the bids, all the four firms were declared lowest in different spares as detailed below:

S. No.	Name of Firm	Quality/Country of Origin of Parts	No. of Parts/Rates Quoted	No. of Parts Quoted with Low Rates	Amount (USD)
1.	Spirit Industries	OEM Print/USA	203	58	156,137.41
2.	Min Tin Corporation	OEM Print/USA	207	66	131,524.27
3.	Aziks Cosmopolitan	OEM Print/Canada	212	31	55,519.48
4.	Progress Rail	OEM Print/USA	215	70	175,134.23
Total				225	518,315.39

Management of NLC rejected the bids of M/s Progressive Rail on Jan 2019 who was declared lowest in 70 items on the plea that the time of delivery was quoted 7-9 months but the spares are required in 3-4 months as the repair and maintenance is required in June 2019. The management awarded orders to the above first three firms for USD 567,772.27 to supply the spares in 3-4 months after opening of LC. As per record, M/s Min Tin Corporation completed supply in June 2021 i.e. 21 Months after the opening of LC in September 2019. Audit observed that the object of timely receiving of the spares was not achieved. Due to rejection of M/s Progressive Rail’s bid, the spares were procured from other firms at higher rates and paid excess amount of Rs. 7.992 million (567,772.27 – 518,315.39 = US\$ 49,456.88). It is also necessary to mention here that management did not impose any penalty on the firms due to late supply of locomotive spares. Thus, management suffered loss of Rs. 7.992 million due to rejection of bid of M/s Progressive Rail.

Audit is of the view that management rejected the bid of M/s Progressive Rail despite the fact that sufficient time for repair and maintenance was available. On the other hand, other firms also failed to supply the spares in stipulated time which showed that management did not require spares in 3-4 months. Liquidated damages @ 10% amounting to Rs. 518,315 x 0.10 = \$ 51,832 = 51,832 x 158 = 8,189,456 was also not recovered from the suppliers for late delivery of the spares.

In DAC meeting held on 03.02.2022, the management apprised that M/s Progress Rail was rejected due to non-given delivery time as per requirement of NLC. Further, they did not impose LD to the suppliers due to Covid-19 and late issuance of Foreign Exchange.

DAC directed the management of NLC to verify the procedure of procurement adopted from audit. The audit will ensure that the procedure which was adopted by the management was completed with due diligence along with Board proceedings

Audits recommends for compliance of DAC directives.

Para-5 (NLC, 2020-21)

14.1.4.3 Loss due to shortage of crude oil during transportation- Rs. 14.077 million

As per clause 5.3 of transportation agreement between Oil & Gas Development Company Limited (OGDCL) and National Logistic Cell (NLC), in case of abnormal losses in transit, including accidents, and deterioration in quality or contamination attributable to NLC, NLC shall indemnify OGDCL to the extent of such loss. The quantity so lost may be determined by field inquiry committee of OGDCL and NLC representatives. OGDCL will deduct the amount of such losses from NLC's transportation bill for that period. OGDCL's claims on account of shortage will be accepted by operating Unit/Group of NLC.

During audit of National Logistic Cell (NLC), Logistic Support, Karachi for the year 2020-21, it was observed that the management transported crude oil by own bowzers. During unloading of bowzers at different refineries, quantity of 1,732.14 barrels crude oil of Rs. 14.077 million found short which was neither billed to OGDCL nor recovered from the responsible.

Audit is of the view that management should recover the shortage of crude oil from the personnel held responsible.

In DAC meeting held on 03.02.2022, the management apprised that necessary action for recoveries is in process and will be finalized in due course.

DAC directed to recover the amount of shortage of crude oil at the earliest.

Audits recommends for compliance of DAC directives.

Para-28 (NLC, 2020-21)

14.1.4.4 Irregular award of works - Rs. 203.551 million

As per clause 12 of PPRA 2004, "Procurements over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the authority from time to time".

During audit of NLC for the year 2012-21 it was observed that the management have obtained 05 No quotation and the work for improvement of gray structure (Officer Living Accommodation) NLC Jamrud Fort was awarded to

M/s Rasool Khan & Brother Construction being lowest on 11.09.2020 with amount of Rs. 3.091 million. Further management of PMU (GB) awarded a contract to

M/s Safdar Jalalabad titled "Construction of NLC Office/Residency in 10 Kanal at Sakwar Gilgit at a cost of Rs. 200.460 million.

Audit observed that the management obtained quotation instead of publishing the procurement opportunities in newspapers in violation of PPRA Rules. Moreover in both the contracts, the work was started before the receipts of quotations from the prospective bidders. This shows that award of work was pre-planned.

In DAC meeting held on 03.02.2022, the management informed that contract was advertised in news paper. 03 x firms participated and contract was awarded to lowest bidder.

DAC directed to verify the record relating to advertisement of works after

receipts of quotations.

Audits recommends for compliance of DAC directives.

Para-54 & 75 (NLC, 2020-21)

14.1.4.5 Non-achievement of targets despite granting of Mobilization Advance on - Rs. 501.06 million
Non-deduction of income tax - Rs. 30.946 million

According to rule 2.10 and 4.1(a)(4) of SOP on financial policies of NLC the mobilization advance will not be given for contracts of less than contract value of Rs. 400 million. According to contract agreement signed between Pakistan Housing Authority and NLC vide dated: February, 2020 no clause regarding mobilization advance to contractor was included in the agreement. Para 11 of Project Management Guidelines issued by Planning Commission in August 2008 provides the specific actions required by the Project Directors and sponsoring Ministries/Divisions in the project planning & management of Public Sector Development Projects. Sub-para II (18) states that every activity should be time based and chased rigorously. According to Income Ordinance 2001, Section 153 payment for execution of contracts by companies 7% income tax will be withheld at the time of payment.

During audit of NLC Baluchistan, for the year 2020-21, it was observed that the NLC management signed MOU with M/s Hajvairy Associates (Pvt.) on 21.09.2020 to tune of Rs. 2,947.587 million for construction of Passenger Terminal building area, walkways and sheds and Terminal Parking at Border Crossing Facility Chaman and another MOU signed with M/s Hajvairy Associates (Pvt.) on 25.11.2020 to tune of Rs. 1,123.819 million for construction of PHA Foundation Housing Scheme Kuchlak package-III. In this connection the following observations have been raised.

- The MOU was signed with M/s Hajvairy on 21.09.2020 and work was to be completed in 36 month from date of start, the mobilization advance Rs. 442.086 million was given on 17.11.2020 but even after lapse of 07 month the 1st running bill amounting to Rs. 59.326 million which shows that only 2% of total work has been executed. The contractor was required to complete the work as per work plan. This indicated that despite receiving Mobilization Advance and lapse of more than half of the contract period the contractor showed negligible progress.
- The income tax under above ordinance income tax on mobilization advance was required to be deducted from contractor, but in this case

income tax to tune of Rs. 30.947 million on was not deducted, which may be made from contractor.

- The management granted mobilization advance Rs. 58.974 million to M/s. Hajvairy Associates whereas, NLC did not receive any mobilization advance from client i.e. PHA.
- MOU with M/s Hajvairy Associates for construction of Naya Pakistan Housing Scheme Kuchlak Package-III was not converted into contract agreement despite lapse of one year.

In view of the position, undue favour was extended to sub-contractor i.e. M/s. Hajvairy Associates in both works by granting mobilization advance against the provisions of contract Rs. 58.974 million and Rs. 442.086 million and no steps were taken to improve contractor's performance.

In DAC meeting held on 03.02.2022 the management informed that payment of mobilization advance was made as per NLC SOP after approval of CFA. Moreover, advance was granted against bank guarantee.

DAC directed to produce all relevant record including bank guarantee for verification by audit.

Audits recommends for compliance of DAC directives.

Para-84 & 85 (NLC, 2020-21)

14.1.4.6 Overpayment due to non-deduction of available earth - Rs. 527.160 million

As per Standing Operating Procedure (SOP) 1/2017, "Operation of Engineering Projects agreement for sublet works Part-II clause 1.1 states that these specifications and conditions will be back to back and will read in conjunction with the contract agreement of NLC with client".

As per Item 108.4.1 (i) of NHA General Specifications, 1995, measurement of "Formation of Embankment from borrows" shall be made as under:

(Formation from Borrow = Total Embankment Quantity (minus) Roadway excavation Quantity (minus) structural excavation Quantity).

During audit of NLC for the year 2020-21, it was noted that an agreement

regarding “China Pakistan Economic Corridor (CEPC), Western Route, Construction of Hakla (M-I) to Yarik (D.I Khan) Motorway, Package-I (Yarik to Rehmani Khel) (55 KM) signed between National Highway Authority (Employer) and M/s. National Logistic Cell (NLC) on 18.08.2016. The item 108a “formation of embankment from road excavation” and 108c “formation of embankment from borrow excavation” earth work was awarded to 13 Nos contractors but the quantity of excavation material as per above specification was not deducted from the payment of contractors. Further noted that the client department NHA has already deducted the same item from NLC vide IPC No.15, whereas this practice was not adopted by NLC from sublet contractors. This resulted into an overpayment of Rs. 527.160 million. Audit maintains that the overpayment was due to weak financial controls and contract administration.

In DAC meeting held on 03.02.2022 the management informed that at the start material of road was declared unsuitable by the client and accordingly upto IPC- 3 payment was made by the client. Later on said material declared suitable and NHA deducted amount from IPC-4. However, in compensation client revised the rate of item108a from 176 per cubic meter to 288 per cubic meter and loss was made good.

DAC directed to verify the record from audit.

Audits recommends for compliance of DAC directives.

Para-58 (NLC, 2020-21)

14.1.4.7 Overpayment due to less receipt - Rs. 505.451 million

As per SOP (a) Payment up to 70% will be made to the sub-contractors upon vetting of work done included in check request by consultant engineer through running bills (Running Account Receipt-RAR) after affecting recoveries mentioned in succeeding paragraphs. (b) Remaining 30% payment against work done will be released after receipt from client.

During audit of NLC PD KPK, for the year 2020-21, it was observed that NLC management awarded a contract of CPEC-Pkg-1 dated January, 2018 valuing Rs. 559.632 million to M/s MGM JV Changezi Builders for construction of road from Rehmani Khel to Yarik CPEC Pkg-I from Rd 04+450 to 09+000.

However, it was observed that items No.108a (cutting), of earth work of various RD as mentioned in the enclosed statement of said work was sublet and awarded to 35 Nos. contractors. Further, the management paid an amount of Rs. 1,438.183 million to contractors for a total quantity of 7,502,875.35 cum of item 108c. On the other hand, total receipt of said item from client department was Rs.932.732 million which shows that the management overpaid Rs. 505.451 million (i.e. Rs. 1,438.183 million (-) 932.732 million) to sub-contractors.

Audit is of the view that an amount Rs. 932.732 million was received up to IPC-15 against the item No.108c to NLC from client whereas payment made to sub-contractor against the said item of Rs. 1,438.183 million which is against the provision of SOP as well as contract clause.

In DAC meeting held on 03.02.2022 the management informed that overpayment was made to subcontractors due to non-deduction of available earth i.e. suitable roadway excavation material.

DAC directed the management to verify the record from audit.

Audits recommends for compliance of DAC directives.

Para-59 (NLC, 2020-21)

14.1.4.8 Overpayment on account of difference in dollar rate - Rs. 244.282 million

According to Rule-10(i) and (ii) of GFR Vol-I regarding standards of financial propriety 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. The expenditure should not be prima facie more than the occasion demands.

During audit of NLC PD Baluchistan for the year 2020-21 it was noted that the management sublet the work "Providing, Laying and testing of pipe from Mangi Dam site to Terminal point at Quetta (Mangi Dam and Water Conveyance System) on 18.03.2018 to M/s. J.S Enterprises for an estimated cost of Rs. 1,757.892 million with completion period of 36 Months.

It was observed that management paid Rs. 244.281million to contractor on account of difference in rate of dollar, whereas on the other hand huge amount

of Rs. 1149.133 million was paid as secured advances (Annex-56). Hence, Audit hold that a huge amount paid to contractor in advance as well as contractor imported most of material from 04.07.2018 to 17.06.2019 the overpayment of Rs. 244.282 million made to contractor on account of dollar difference stands overpayment (Annex-57).

Audit is of the view that overpayment on account of foreign currency difference stand irregular which may either be justified or to recover the same from contractor.

In DAC meeting held on 03.02.2022 the management informed that dollar difference was paid as per clauses of the contract.

DAC directed to verify the record from audit.

Audits recommends for compliance of DAC directives.

Para-79 (NLC, 2020-21)

14.1.4.9 Irregular payment of escalation - Rs. 15.751 million

According to Rule-10(i) and (ii) of GFR Vol-I regarding standards of financial propriety 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. The expenditure should not be prima facie more than the occasion demands.

During audit of NLC PD Balochistan for the year 2020-21 it was noted that the work “Construction Of Mangi Dam and Water Conveyance System Package – IIA providing laying and testing of pipeline from Mangi Dam Site to terminal point” at Quetta awarded to NLC for Rs. 2,576.978 million. The management sublet the work “Providing, Laying and testing of pipe from Mangi Dam site to Terminal point at Quetta (Mangi Dam and Water Conveyance System) on 18.03.2018 to M/s. JS Enterprises for an estimated cost of Rs. 1,757.892 million with completion period of 36 Months and remaining scope of work (General requirement and Civil work) sublet to others sub-contractor.

It was observed that management received amount of Rs. 38.969 million on account of escalation from client department on variables factors i.e. HSD, Cement, Steel and labour. The management deducted their 13% share Rs. 5.066

million and remaining amount of Rs. 15.751 million paid to M/s. J.S Enterprises as detail below:

Description	Escalation from client Rs.	NLC Share Rs.	EPC withheld 30%	Escalation paid to J.S Enterprises Rs.
EPC – I	13,105,871	1,703,763	3,420,632	7,981,475
EPC – II	25,863,603	3,362,268	6,570,400	7,769,459
Total	38,969,474	5,066,031	9,991,032	15,750,934

Audit is of the view that the scope of work of M/s. J.S Enterprises is only Providing, Laying and testing of pipe from Mangi Dam site to Terminal point at Quetta (Mangi Dam and Water Conveyance System), no such material i.e. HSD, Cement, Steel was used/utilized in his scope of work, hence payment of escalation is held irregular/un-justified.

In DAC meeting held on 03.02.2022 the management informed that escalation was worked out on certain basic factors and applied to the whole work done in accordance with the guidelines of PEC.

DAC directed to verify the record from audit.

Audits recommends for compliance of DAC directives.

Para-80 (NLC, 2020-21)

14.1.4.10 Non-deduction of PST - Rs. 10.628 million

As per Second Schedule Taxable Services Section-3 of Punjab Sales Tax on Services act 2012, construction services and services provided by contractors of building (including water supply, gas supply and sanitary works), roads, bridges, electrical and mechanical works (including air conditioning), horticultural works, multi discipline works (including turnkey projects) and other works at the rate of 5% without input tax adjustment in respect of Government civil works.

During audit of National Logistic Cell Project Directorate (Centre), Lahore for the year 2020-21 it was observed that the management paid Rs. 212.558 million to 41 sub-contractors working on different projects and non-deducted the Rs. 10.628 million on account of 5% PST as per above quoted rule detail as given below:

S. #	Name of Project	No. of Contractors	Amount Paid to Contractors Rs.	5% PST (Rs.)
1	Kashir Underpass Faisalabad	3	31,238,819	1,561,941
2	DHA Gujranwala	2	802,000	40,100
3	Samma Dinga Road Gujrat	1	104,750,000	5,237,500
4	U/G Electrical Works DHA Bhawalpur	2	9,398,000	469,900
5	DHA Golf Community Multan	33	66,369,555	3,318,475
Total		41	212,558,374	10,627,916

Audit is of the view that as per rules, it was the sole responsibility of the management to deduct the tax at the time of payment but this was not done. Thus due to non-deduction of PST from the sub-contractors, Government sustained a loss of Rs. 10.628 million.

In DAC meeting held on 03.02.2022 the management informed that no PST effect was included in BOQ by the Client therefore no deduction was made from sub-contractors bills.

DAC directed to recover PST from sub contract and record may be verified from audit.

Audits recommends for compliance of DAC directives.

Para-98 (NLC, 2020-21)

14.1.4.11 Irregular award of contracts beyond the financial limit - Rs. 222.306 million

Pakistan Engineering Council while issuing license to the contractor for carrying out construction/ engineering works, fixed/ prescribed financial limit for each contractor to carry out work during the licensed period.

During audit of NLC PD KPK, for the year 2020-21, it was observed that MOU dated 07.10.2016 was signed with M/s Cornerstone Builders and management awarded a contract of CPEC-Pkg-1 from RD 26+760 to 31+260 valuing Rs.104.762 million vide agreement No. CEPEC-Pkg-1/04/2019/PDK dated 25.04.2019. The management further extended quantities from RD 27+000 to 31+500 and total work of Rs. 222.306 million given to contractor for execution.

However it was observed that M/s Cornerstone Builders were allowed

upto 25.00 million to construct/operate engineering works as per PEC license No. 61486, valid upto December, 2016. The management awarded contract valuing Rs. 222.306 million to contractor which was beyond their limit of PEC upto Rs. 25.00 million. Audit is of the view that the management did not bother to see the license of PEC before award of work to contractor. This resulted into irregular and unauthorized award of work for Rs. 222.306 million.

In DAC meeting held on 03.02.2022 the management informed that at the time of award of contract subcontractor was in category C-6. He was asked to revise registration from PEC. Accordingly contractor revised his registration in category-C2 from PEC in 2018.

DAC directed to submit revise reply with full justification.

Audits recommends for compliance of DAC directives.

Para-61 (NLC, 2020-21)

14.2 Pakistan Institute of Development Economics

14.2.1 Introduction

Pakistan Institute of Development Economics (PIDE) was established in 1957 by the Government of Pakistan and initially was registered under Societies Registration Act XXI of 1860.

In 1964 it was re-established as Pakistan Institute of Development Economics under the administrative control of Ministry of Education and Information vide S.R.O. 370 (K) 64 dated May 01, 1964.

Pakistan Institute of Development Economics (PIDE) has been contributing towards research and teaching in the field of development economics and its associated fields. In 2010 PIDE was declared as body corporate and degree awarding status was given through PIDE Act -2010.

Main objectives of the Institute are:

- i. To function as an agency for conducting and promoting research, surveys, seminars, conferences, experiments and demonstrations in the field of Development Economics, Islamic Economics, Economic demography and related social disciplines.
- ii. To provide facilities for training in economics and economic demographic analysis and research techniques.
- iii. Arrange to publish papers studies and such other works as are completed at the Institute or are prepared in collaboration with it or which are otherwise of substantial value to the work of the Institute.
- iv. To disseminate information and extend advice to the government and other agencies based on original research in economics and related disciplines.

14.2.2 Comments on Audited Accounts:

14.2.2.1 The working results of the Board for the year 2020-21 as compared to previous years are as under:

(Rs. in million)

	2020-21	% Inc/ (Dec)	2019-20
Revenue:			
Restricted			
Grant for PhD	5.00	(37.50)	8.00
Grant of COVID-19	0.189		0
Grant for HEC need based scholarship	3.162		0
Amortization of deferred grant	2.031	22.50	1.658
	10.383	7.51	9.658
General			
Government grants	332.897	12.05	297.109
Student fee	36.660	(33.47)	55.107
Other income and recoveries	12.165	(60.85)	31.069
	381.722	(0.41)	383.286
Total income	392.106	(0.21)	392.945
Expenditure:			
Restricted expenditure	10.383	7.51	9.658
General			
Employee related expenses	223.745	0.70	222.195
Project Pre-investment analysis	10.868	(30.02)	15.530
Operating Expenses	30.950	(30.71)	44.669
Employee retirement benefits	112.809	17.40	96.087
Total expenditures	390.323	(0.53)	392.420
Surplus of income over expenditure	1.783	239.62	0.525

Source: Annual Audited Accounts

14.2.2.2 According to PIDE Act, 2010 the Institute was declared as body corporate, however, student fee decreased to Rs. 36.660 million as on June 30th 2021 from Rs. 55.107 million as on June 30th 2020. The abnormal decrease in student fee needs to be justified.

14.2.2.3 Other income of the Institute decreased to Rs. 12.165 million as on June 30th 2021 from Rs.31.069 million as on June 30th 2020. The abnormal decrease in other income needs to be explained.

14.2.2.4 Grant for HEC need based scholarship remained nil during the year 2019-20 and a sum of Rs. 3.162 million was received during the year 2020-21. The inconsistency in receipt of HEC grant reflects the management failure to

manage the HEC scholarships. The balance of HEC indigenous scholarships payable stood Rs. 10.490 million as on June 30, 2021.

14.2.2.5 The management received grant related to COVID-19 amounting to Rs. 30.149 million during the year 2019-21. However, only a sum of Rs. 0.189 million was expended during the year 2020-21. Complete detail of COVID grant may be provided.

14.2.3 Compliance of PAC Directives:

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
2013-14	08	05	03	14.2.2.2, 14.2.4.1, 14.2.4.3	63
Total	08	05	03		63

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

Chapter-15

Thematic Audit (15.1)

1 Thematic Audit on the role of State Life Insurance Corporation (SLIC) in overall country's Life Insurance Sector

1.1 Introduction

The life insurance industry in Pakistan is relatively small compared to its peers in the region as the sector penetration and density remains very modest. Factually, the ratio between Gross Premium Written (GPW) of Life Insurance to nominal GDP of Pakistan was only 0.51% as compared to 3.06% of India. Resultantly, life insurance penetration continues to rate amongst the lowest in the region and the world.

Since its inception, State Life Insurance Corporation (SLIC) of Pakistan is smoothly striving towards its objective of making life insurance available to large section of the society by extending it to common man. As on December, 2020 the total number of policies enforced under individual life were 5.75 million and number of lives covered under group life insurance were 3.78 million, and number of lives covered under health insurance were 83.78 million.

Market share of SLIC, being public sector insurance company, was 100% prior to 1992. But with new private entrants after 1992, its market share kept declining to 52% in 2020. Hence, the assessment of performance, market share and sustainability thereof by public sector company, SLIC, was the need of the hour.

1.2 Background

The insurance industry in Pakistan had been affected by nationalization measures in 1972 that perpetuated a limited and segmented insurance sector in the years ahead. Only a state-owned insurance company i.e. State Life Insurance Corporation (SLIC) was operating on a monopoly basis which made no real effort in harnessing the depth and strength of the insurance market in Pakistan. In

fact, even after financial liberalization in 1991, which allowed introduction of private domestic and foreign life insurance companies in Pakistan, the state owned corporation continued to dominate the life insurance sector. Additionally, the mushroom growth of small-sized domestic private non-life insurers with limited professional expertise restricted the development of the non-life insurance sector in the country. However, from 2001 onwards, the insurance sector saw a consistent improvement in terms of structure and growth. Currently, there are nine life insurance companies providing services in Pakistan. State Life Insurance Corporation is the only state owned insurance company in the life insurance industry. The remaining eight companies in the industry are private players out of whom two operate within the Takaful segment (Islamic mode of Insurance) and the other six in conventional segment. Market share of State Life Insurance Corporation was 100% prior to 1992. But with new private entrants, its market share had declined to 52.4% in 2020.

Since 1992 with new entrants in Life insurance industry, competition kept getting stronger. There is inverse relation between the competition among competitors and the market share of a company in the industry. As per universal marketing practice, Porter's five forces is a robust tool to analyze the competitive environment within the industry. Under Porter's five forces model, following five factors are considered:

1. Level of rivalry amongst current competitors.
2. Threat of new entrants to the industry
3. The bargaining power of customers
4. The bargaining power of suppliers
5. The threat of substitute products or services

After applying and analyzing these factors as per Porter's Five Forces model, it was concluded that life insurance industry of Pakistan is becoming very competitive over the years due to following reasons:

1.2.1 The rivalry amongst current competitors in the insurance industry is high

Increasing competition and growing strength of other insurers can have an ultimate impact on the business and is a core influencer in the marketing

strategies of products and services. There is very little product differentiation in life insurance industry of Pakistan, as product creation is primarily driven by external risks. The price of insurance products is also regulated with the capping on maximum management expenses the insurer can factor in its product prices, so the most opportune and return maximizing way for life insurers in Pakistan is to differentiate themselves through the quality of services provided to policyholder.

1.2.2 The threat of new entrants to the industry is medium.

New entrants in the life insurance industry, is challenging for small and medium sized investors due to the strict and increasing capital requirements by the regulator. Rigorous Regulatory compliance, technical operations and lack of skilled HR serves as barrier to entry. Moreover, customer retention and effective distribution channels of the existing companies make it difficult for the new entrants to compete with such high standards.

1.2.3 The bargaining power of customers is high

Customers force in this tool is crucial due to the wide availability of coverage in Conventional and Takaful business at competitive lower prices. Customer influence can be a force to be reckoned with in insurer industry due to availability of multiple alternatives for procuring products and services. In such insurance market, customers have the power and can demand lower prices or higher product quality from insurers, with online aggregators and the emergence of social media, today's individual policyholders are a force. With instantaneous awareness of coverages, pricing, and services, modern buyers demand more personalized attention and care for the premiums paid. To meet these expectations, insurers need to build user-friendly workflows for customer-facing processes, including underwriting, policy administration, and claims to increase customer retention.

1.2.4 The bargaining power of suppliers/insurers is medium

Agents and brokers have historically leveraged the ability to influence policyholder choices into placing business with specific insurers. However, with insurers increasingly leveraging front-end tools to reach potential customers directly, the bargaining power of distributors is diminishing. Reinsurers also play a big role in supporting insurance organizations for distributing risk and reducing

capital constraints. An abundance of capacity in the reinsurance market can increase competition and lower rates, ultimately creating profitability pressure on the insurance market.

1.2.5 The threat of substitute products or services is high

Substitute products and services place competitive pressure on the insurer. Threat of substitution is high due to lack of product differentiation.

1.3 Establishing the Audit Theme

1.3.1 Reasons of selection

Market share of SLIC, being public sector insurance company, was 100% prior to 1992. But with new private entrants after 1992, its market share kept declining to 52% in 2020. Following are the reasons behind selection of this audit theme.

- Growing competition in life insurance industry of Pakistan.
- Declining market share of State Life Insurance in insurance industry.
- Role of public sector insurance company (SLIC) in achievement of Sustainable Development Goals (SDGs) of Pakistan through expanding the life and health insurance cover to a larger proportion of the population.
- Enormous opportunities in life insurance market and sizable potential for current and future growth.
- Comparison of SLIC with its competitors and with industry as a whole.
- Non-adaptation of new and dynamic trends in insurance industry by State Life Insurance.
- Lack of focus on revenue generation from Bancassurance.
- Poor Service delivery especially in areas of Underwriting and claim payment.
- Adherence to conventional way of doing business by State Life Insurance.
- Management's lack of focus on Information Technology.
- Non generation of revenue from Family Takaful business
- Non-utilization of digital distribution channels.

Considering all above factors, it is of pivotal importance to assess the contribution/market share of SLIC, being only public sector Company, by providing life & health insurance services to the public at large.

1.3.2 Purpose

Main purpose of conducting this thematic audit is to assess the market share and effectiveness of State Life Insurance Corporation, being only public sector Company, in overall life insurance sector of Pakistan. It will be particularly useful to following stake holders:

- Management of SLIC in their strategic decision making.
- Government Institutions and Ministry of Commerce for developing independent and objective assessments of process of governance and achievement of SDGs through ensuring basic life & health insurance needs to the general public of Pakistan.
- Government's regulatory authorities
- Securities Exchange Commission of Pakistan
- Insurance Association of Pakistan
- All life insurance companies
- Shareholders and investors
- Employees & Policy holders
- General public at large

1.3.3 Scope

The scope of this thematic audit is limited to following audit areas:

1. Share of Public sector insurance company (i.e. SLIC) in insurance sector.
2. Comparative analysis of business model of SLIC and major private insurance companies.
3. Effectiveness of service delivery of Public Sector Insurance Corporation.

2 Legal frame work governing the theme

The Auditor General of Pakistan (AGP) conducts audits subject to Article 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 condition of Service) Ordinance 2001. The thematic audit of State Life Insurance Corporation (SLIC), Ministry of Commerce, was carried out accordingly.

Under the directions of Director General Commercial Audit & Evaluation, Karachi thematic audit of SLIC was conducted during September 2021 with a view to assess the Market share and effectiveness of State Life Insurance Corporation in overall life insurance sector of Pakistan.

Following are other rules and regulations governing the life insurance business in Pakistan:

- Insurance Ordinance, 2000
- Insurance Act, 2017
- Insurance Companies (Sound & Prudent Management) Regulations, 2012
- Companies Act, 2017
- Insurance Rules, 2017
- Micro Insurance Rules, 2014
- Code of Corporate Governance for Insurance Companies, 2016
- Anti Money laundering and counter financing of Terrorism (AML & CFT) Regulations.

3 Stakeholders and Governmental Organizations identified as directly/indirectly involved

State Life Insurance Corporation of Pakistan work under the guidance of Ministry of Commerce & Trade, Govt. of Pakistan. Insurance. It will be particularly useful to following stake holders:

- Management of SLIC in their strategic decision making.
- Government Institutions and Ministry of Commerce for developing independent and objective assessments of process of governance and achievement of SDGs through ensuring basic life & health insurance needs to the general public of Pakistan.
- Government's regulatory authorities
- Securities Exchange Commission of Pakistan
- Insurance Association of Pakistan
- All life insurance companies
- Shareholders and investors
- Employees & Policy holders
- Public at large.

4 Role of Important organizations

Role of following organizations in State Life Insurance Corporation is vital.

4.1 Ministry of Commerce

State Life Insurance Corporation is an attached department of Ministry of Commerce (MoC). Under the Rules of Business 1973, Commerce Division is assigned the function of Law of Insurance and regulation and control of Insurance companies. MoC is regularly monitoring the performance and involved in strategic decisions of SLIC.

4.2 Insurance Association of Pakistan

Insurance Association of Pakistan (IAP) is driven with the objective to promote, support and protect the status, common interest and welfare of companies carrying on the business of insurance and Takaful in Pakistan and in particular of those insurers who are members of the Association. The Association also acts on behalf of its members in any matter affecting their interest. IAP is unique in as much as it provides a professional platform to guide the members in technical matters related to the industry which is recognized both at national and international level.

IAP not only gathers all financial and market related data of Insurance industry of Pakistan but also analyse insurance business, norms and practices thereof and provides industry overview for the year.

4.3 Securities Exchange Commission of Pakistan

Securities Exchange Commission of Pakistan (SECP) has the mandate of supervision and regulation of insurance companies. It provides guidelines for registration of insurance companies and after completion of all pre-requisites of registration, registers the company. It regularly provides and updates regulations related to insurance business of Pakistan.

5 Funding Procedures and Sources

Funding procedures and sources of State Life Insurance Corporation is through issuance of equity shares. Issued, subscribed and paid up capital of SLIC consisted of 46 million of ordinary shares of Rs. 100 each, total amounting to Rs. 4,600 million at the end of the year 2020. During the year, 2020 the management had issued share capital of Rs. 300 million with the approval of Finance Division, Govt. of Pakistan.

SLIC is self-generating revenue organization. It generates revenue in the form of premium on insurance policies. Moreover, premiums received on insurance policies are reinvested in profitable and safe investments and it generates income thereof as well.

6 Field Audit Activity

6.1 Methodology

Thematic Audit was conducted after collection of related data from various sources (specifically mentioned under Reference section). In order to assess & evaluate market share of SLIC and other life insurance companies in industry sector, related data was collected from financial statements of life insurance companies, through issuance of requisitions to management and from websites of Insurance Association of Pakistan, PACRA, SECP, SBP etc. Moreover, data was also collected through interviews with senior management of SLIC.

After collecting all relevant data, it was statistically analyzed to assess the market share and effectiveness of SLIC in overall life insurance sector of Pakistan.

6.2 Key Audit findings

This thematic audit was conducted taking into account following areas.

1. Share of Public sector insurance company (i.e. SLIC) in insurance sector.
2. Comparative analysis of business model of SLIC and major private insurance companies.
3. Effectiveness of service delivery of Public Sector Insurance Corporation.

Key audit findings related to each audit area discussed in detail as follows:

6.2.1 Share of Public sector insurance company (i.e. SLIC) in insurance sector

TORs of this audit area includes:

- To assess the overall life insurance business and share of SLIC thereon.
- To evaluate the expenditure patterns.

- To check the gross premium and investment income as outputs.

6.2.1.1 Critical analysis of share of SLIC in overall life insurance business

Currently, there are 9 life insurance companies providing services in Pakistan. State Life Insurance Corporation is the only state owned insurance company in the life insurance industry. The remaining 8 companies in the industry are private players, out of whom 2 operate within the Takaful segment (Islamic mode of Insurance) and the other 6 in conventional segment.

Current breakup of market share in life insurance industry of Pakistan during year 2020 is as follows:

(Rs. in 000)		
Name of Company	Total market capitalization (Total Net premium)	Market share (%)
Adamjee Life Insurance	16,536,920	7.3
Askari Life	281,371	0.1
EFU Life	31,653,339	13.9
IGI Life	5,949,885	2.6
Jubilee Life	45,207,696	19.9
Pak Qatar Family Takaful	7,557,834	3.3
State Life Insurance	119,034,540	52.4
TPL Life	951,839	0.4
	227,173,424	100%

(Source: Insurance Association of Pakistan)

In order to assess overall life insurance business, market capitalization in terms of total net premium was considered and share of State Life Insurance Corporation over the last five years was observed as follows:

(Rs. in 000)					
Year	Total market capitalization (Total Net premium)	SLIC's share	Other private insurance co.	Market share of SLIC (%)	Market share of Pvt. Co. (%)
2020	227,173,424	119,034,540	108,138,884	52.4	47.6
2019	215,036,513	118,237,043	96,799,470	55.0	45.0
2018	211,627,157	115,238,177	96,388,980	54.5	45.5
2017	196,692,915	100,760,717	95,932,198	51.2	48.8
2016	169,062,450	89,727,686	79,334,764	53.1	46.9

(Source: Insurance Association of Pakistan)

Above data clearly showed that State Life Insurance Corporation, being only public sector company is the market leader and has 52.4% share in life

insurance sector of Pakistan in 2020. However, over the years the market share of SLIC is showing mixed variations, but particularly on declining trend. One of the main reasons for such decline is non-provision of services to an untapped area of Family Takaful business by SLIC, while on the other hand, other competitors are gradually securing full market share of Takaful business. Currently, Jubilee Life Insurance, being main competitor of SLIC, is the market leader of Family Takaful business in 2020. Current market share of Family Takaful business in year 2020 and SLIC share thereof over the years is tabulated as below:

Family Takaful Business

(Rs. in 000)

Year	Total market capitalization (Total Net contribution)	SLIC's share	Other private insurance co.	Market share of SLIC	Market share of Pvt. Co.
2020	29,027,469	0	29,027,469	0	100
2019	17,969,280	0	17,969,280	0	100
2018	15,716,794	0	15,716,794	0	100
2017	11,716,969	0	11,716,969	0	100

(Source: Insurance Association of Pakistan)

Market share of insurance companies in Family Takaful business in year 2020.

(Rs. in 000)

Insurer Name	Net Written Contribution	Market Share
Jubilee Life	11,172,030	38.5
Pak Qatar Family Takaful	7,557,834	26.0
EFU Life	5,296,981	18.2
Adamjee Life	3,005,850	10.4
State Life	0	0.0
Others	2,002,895	6.9

(Source: Insurance Association of Pakistan)

In order to analyze it further, the growth of SLIC was compared with the growth of life insurance sector over the last five years, results of which are as follows:

(Rs. in 000)

Year	Total market capitalization (Total Net premium) Rs. In 000	SLIC's share Rs. In 000	Growth of industry (%)	Growth of SLIC (%)
2020	227,173,424	119,034,540	5.6	0.7
2019	215,036,513	118,237,043	1.6	2.6
2018	211,627,157	115,238,177	7.6	14.4

2017	196,692,915	100,760,717	16.3	12.3
2016	169,062,450	89,727,686	11.1	12.2
2015	152,117,989	79,941,313		

(Source: Insurance Association of Pakistan)

It was observed that the growth of SLIC was declining since 2018. Moreover, the growth of SLIC during 2020 was 0.7%, which is abysmal as compared to 5.6% growth of Life Insurance sector, mainly owing to COVID-19 and untapped business of Family Takaful and Pension fund by SLIC.

6.2.1.2 Critical Analysis of the Expenditure Patterns

The success of any organization largely depends on how strategically cost is managed. Cost reduction certainly provides competitive advantage which is essential in competitive market like life insurance sector of Pakistan. Resultantly, it helps in increasing market share of the company. In order to evaluate expenditure patterns of SLIC, cost related data over the five years were observed and cost pattern is as follows:

Pattern of total cost to total net premium

(Rs in million)			
Year	Total Net Premium	Total Cost	Total cost to Net premium (%)
2020	119,035.0	89,666.7	75.3
2019	112,572.0	84,101.8	74.7
2018	112,123.0	85,650.4	76.4
2017	100,761.0	75,885.3	75.3
2016	89,821.0	65,522.6	72.9

(Source: Financial Statement of SLIC for year 2020)

Pattern of First year cost to first year premium

(Rs in million)			
Year	First Year Premium (Net)	First Year Cost	FY Cost to FY Premium
2020	14,019	7,045	50.3
2019	12,876	6,437	50.0
2018	18,918	12,699	67.1
2017	17,688	12,015	67.9
2016	17,036	11,422	67.0

(Source: Financial Statement of SLIC for year 2020)

Pattern of Acquisition cost to net premium

(Rs in million)

Year	Total Net Premium	Acquisition cost	Acquisition to Premium ratio (%)
2020	119,035	16,597	13.9
2019	112,572	16,502	14.7
2018	112,123	23,866	21.3
2017	100,761	21,405	21.2
2016	89,821	20,483	22.8

(Source: Financial Statement of SLIC for year 2020)

Above tables showed the ratios between relevant costs to premium. It was observed that the management's focus was on cost reduction over the years. Due to elimination of SM layer from distribution channel since 2018-19, acquisition cost & First Year cost was reduced significantly since then. Subsequently, total cost was also declined in 2019. However, an increasing trend of total cost to net premium in year 2020 was observed due to increase in insurance benefits to policy holders.

Pattern of Cash generation from underwriting activities to net premium

(Rs in million)

Year	Total Net Premium	Net Cash flow from underwriting activities	Cash flows from underwriting activities to net premium (%)
2020	119,035	30,462	25.6
2019	112,572	40,831	36.3
2018	112,123	27,063	24.1
2017	100,761	26,427	26.2
2016	89,821	23,606	26.3

(Source: Financial Statement of SLIC for year 2020)

It was observed from above table that cash generation from core business of the Corporation i.e. Underwriting activities, is on declining trend, resulting in management's in efficiency to generate cash from main business.

6.2.1.3 Analysis of the outcome i.e. gross premium and investment income

While investment returns from protection cum investment products also plays a key role, however, at times exogenous factors play an important role in influencing investment returns.

In order to evaluate gross premium and resultant investment income thereof, investment income to gross premium ratio was calculated for the last five years in order to have fair pattern, which is as follows:

Investment Income to Gross premium

(Rs. in million)

Year	Gross Premium	Net Investment Income	Investment Income to Gross premium ratio (%)
2020	119,415	87,207	73.0
2019	112,777	73,184	64.9
2018	112,357	69,819	62.1
2017	101,045	68,788	68.1
2016	90,074	63,722	70.7

(Source: Financial Statement of SLIC for year 2020)

It was observed that management has been investing optimally in profitable investment ventures as the investment income to Gross premium ratio has been on rising trend.

6.2.2 Comparative analysis of business model of SLIC and major private insurance companies

TORs of this audit area includes:

- Comparison of business model of public sector vs major private sector organizations
- Overall performance and market share of public sector insurance companies/organization
- To analyze the technical efficiency and cost efficiency of public sector and the private sector insurance companies.
- To assess implementation of financial reforms and changes in the structure of insurance companies.

6.2.2.1 Comparison of business model of public sector vs major private sector organizations

Business model of almost all life insurance business revolves around their primary activities which are Product & Service Development, Underwriting, Policy Administration, Asset & Investment Management, Claims Management, Marketing and Sales Distribution and Networking. There is very little product differentiation in life insurance industry of Pakistan, as product creation is primarily driven by external risks. Hence, in order to improve business model, the most feasible way for life insurers in Pakistan is to differentiate themselves through the quality of services provided to policy holder.

It was observed that management has been adhered to conventional and outdated way of doing business, whereas on the other hand its competitors were taking the most of the new technologies throughout every stage of business

model. Insurer's distinctiveness would win competition if distribution channels were efficient and digitally rich, including mobile application with chat box and services automation which help to build customer loyalty. However, no mobile application of SLIC was available on Google's Play Store, whereas its competitors like Jubilee Life Insurance, EFU Life Insurance etc has user friendly mobile applications.

6.2.2.2 Overall performance and market share of public sector insurance companies/organization

During year 2020, there are 9 life insurance companies providing services in Pakistan. State Life Insurance Corporation is the only state owned insurance company in the life insurance industry. The remaining 8 companies in the industry are private players out of whom 2 operate within the Takaful segment (Islamic mode of Insurance) and the other 6 in conventional segment.

Major competitors of SLIC are Jubilee Life Insurance Company Ltd, capturing 19.9% market share, and EFU Life Insurance capturing 13.9% market share. While SLIC is the market leader with 52.4% market share. Overall performance of SLIC with its major competitors and with industry as a whole was conducted during thematic audit, which is as follows:

S. #	Particulars	(Rs in 000)			
		SLIC	EFU	Jubilee	Industry
1.	First year Premium	14,059,221	6,254,519	5,697,917	32,611,659
2.	Renewal Premium	93,243,062	22,511,106	32,075,107	162,012,701
3.	Group Policies	12,112,348	3,160,100	8,461,037	28,902,752
4.	Net Premium	119,034,540	31,653,339	45,207,696	227,173,424
5.	Net claims	64,688,426	17,860,692	28,825,518	127,925,655
6.	Total Gross Acquisition cost	16,596,807	6,628,177	7,020,239	36,702,437
7.	Gross Admin cost	8,381,442	1,878,788	3,591,749	16,849,474
8.	Investment Income	88,588,998	20,836,629	11,501,702	130,150,298
9.	Profit/Loss before tax	5,926,610	2,527,233	4,070,024	12,316,499
10.	Profit after tax	4,206,341	1,784,150	2,884,381	8,543,066
11.	Share Holder's Equity	10,308,532	5,175,089	12,872,206	33,953,259
12.	Total Assets	1,202,297,706	154,479,936	190,422,123	1,652,209,523
13.	No. of employees	5,073	2,660	2,326	13,059

(Source: Insurance Association of Pakistan)

Financial Analysis

S#		SLIC	EFU	Jubilee	Industry
Profitability Ratios					
1.	Profit to Net Premium	4.98	7.98	9.00	5.42
2.	Return on Share Holder's Equity	57.49	48.83	31.62	36.27
3.	Net claims to Net Premium	54.34	56.43	63.76	56.31
Management Efficiency Ratios					
4.	Return on Total Assets	0.49	1.64	2.14	0.75
5.	Total Gross Acquisition cost to Net Premium	13.94	20.94	15.53	16.16
6.	Gross Admin cost to Net Premium	7.04	5.94	7.94	7.42
7.	Contribution of employees in Net premium	23,464.33	11,899.75	19,435.81	17,395.93
8.	Contribution of employees in profit	1,168.27	950.09	1,749.80	943.14
Solvency Ratio					
9.	Current Ratio	3.25	2.62	1.06	
Investment Ratios					
10.	EPS	97.78	17.81	33.05	

Financial performance in terms of profitability ratios and earnings of SLIC is satisfactory except for profit to net premium, which is around 5% which is significantly lower than its competitors and life insurance sector, attributing to increase in insurance benefits to policy holders and net change in insurance liabilities. Moreover, its competitors have also captured the business of Family Takaful and enjoying revenues thereof as well.

Overall, management efficiency ratios showed management's main focus on cost reduction as the costs are properly managed. Whereas, total assets are not being efficiently utilized by the management as the return on total assets of SLIC is not only lower than its major competitors but also than the life insurance sector.

SLIC is not facing any solvency problem. Long term solvency will not be a concern due to Government backing and huge total assets. On the other hand, short term solvency is also efficiently management as current ratio is significantly improved than its competitors as SLIC enjoys higher current assets than current liabilities having requiring no running finance from financial institutions.

Investment ratios of SLIC are overwhelmingly better than its competitors, as return on investments is outstanding due to the market presence since long and having strong backing of Government.

6.2.2.3 Analysis of the Technology and cost efficiency of public sector and the private sector insurance companies

Innovation through new technologies is a key driver of change in the financial sector and this has led to immeasurable efficiency gains. Advancement in technology also gives an edge to the insurers over its competitors by reaching out to the customers demand in real time acting as a catalyst in terms of growth. Currently, investment in Artificial Intelligence in underwriting process; with the data centered approach is also being looked upon by private life insurance companies. Whereas, SLIC has not been focusing on technical efficiency or technical edge. It was observed that the data of SLIC was not centralized resulting in prolonged delay in provisioning of information or data to audit or to its senior management for efficient strategic decision making. Moreover, Enterprise Resource Planning (ERP) System was bought by management to provide related customization, implementation, maintenance, and ongoing support services to the thirty-three (33) zones. However, same is not operational fully till date.

On the other hand, management's policies of cost reduction during last three years has resulted in cost efficient utilization of financial and human resources. Subsequently, total acquisition cost & administrative cost to net premium have been effectively managed by SLIC as shown in below table.

Cost efficiency	SLIC	EFU	Jubilee	Industry
Total Gross Acquisition cost to Net Premium (%)	13.94	20.94	15.53	16.16
Gross Admin cost to Net Premium (%)	7.04	5.94	7.94	7.42

6.2.2.4 Assessing implementation of financial reforms and changes in the structure of insurance companies

As the relationship between the insured and the insurer is of fiduciary nature and the gestation period for this business is high i.e. mostly 20 years, hence, the legal obligations with respect to regulator, government and other supporting Institutions become so critical for life insurance companies. Moreover, Government measures and introduction of stringent laws such as compliance with the requirements of FATF, AML, KYC resultantly enhanced regulatory affairs in the insurance industry and its clients which could lead to the

snowball effect on the insurance industry. It was observed that any violation of rules and regulations are being regularly monitored initially through internal audit of the SLIC and later on by External Auditors and DG- Commercial Audit and corrective measures are being taken.

With instantaneous awareness of coverage, pricing, and services, modern buyers demand more personalized attention and care for the premiums paid. To meet these expectations, insurers need to build user-friendly workflows for customer-facing processes, including underwriting, policy administration and claims to increase customer retention. However, management of SLIC is not conscious to the changing dynamics of the market where front to end support must be transformed with the help of internet and technology.

6.2.3 Effectiveness of service delivery of public sector insurance corporations

TORs of this audit area includes:

- To assess the effectiveness of service delivery in respect of underwriting and claim payment time.
- Initiatives of public sector organization in acquiring new trends and technologies in insurance processes.
- To determine real contributors of efficiency in public sector insurance.

6.2.3.1 To assess the effectiveness of service delivery in respect of underwriting and claim payment time

There is very little product differentiation in life insurance industry of Pakistan, as product creation is primarily driven by external risks. Hence, in order to improve business model, the most feasible way for life insurers in Pakistan is to differentiate themselves through the quality of services provided to policyholder.

It was observed that management of SLIC has been adhered to conventional and outdated way of doing business, whereas on the other hand it's competitors were taking the most of the new technologies throughout every stage of business model. Insurer's distinctiveness would win competition if distribution channels were efficient and digitally rich, including mobile application with chat box and services automation which help to build customer loyalty. However, no

mobile application was available on Google's Play Store, whereas its competitors like Jubilee Life Insurance, EFU Life Insurance etc., has user friendly mobile applications. Due to non-provision of satisfactory service delivery to policy holders, SLIC is not able to attract fresh policy holders and gradually losing its market share as evident from following table.

	Rs. in million			
	First Year Premium	Change (%)	Renewal Premium	Change (%)
2020	14,019	8.9	93,073	2.2
2019	12,876	(31.9)	91,087	5.9
2018	18,918	7.0	85,998	15.5
2017	17,688	3.8	74,462	11.6
2016	17,036	4.7	66,707	15.6
2015	16,271		57,729	

(Source: Financial Statement of SLIC for year 2020)

As first year premium equates the new policies issued to policy holders during the year. It is clearly evident from above table that the issuance of new policies by SLIC is on declining trend with a significant decline during 2019. Resultantly, decline in FY premium from Rs. 17,036 million in 2016 to Rs. 14,019 million in 2020 depicted the preference of target market/general public to its competitors rather than towards SLIC due to poor service delivery. As the competitors are capturing more market, hence the market share of SLIC was on declining trend.

As the renewal premium is a critical indicator of customer satisfaction, hence, the same situation is also evident from decline in renewal premium.

Moreover, a high ratio of surrender of policies by policy holders was observed. Additionally, policy holders are more intended to surrender their policies as soon as they are eligible to surrender i.e. 3rd year of policy which ultimately point towards the fact that SLIC loses the remaining premiums. Scrutinization of five years data of surrendered policies shows that 44% policies were surrendered in 3rd year of policy (after deposit of only 2 premiums), 39% were surrendered in 4th year of policy and 16% were surrendered in 5th year of policy in the year 2020.

Timely and efficient claims settlement is at the heart of the Company's business. In 2020, the SLIC paid Rs. 23,128.233 million on account of insurance

claims with a decrease of 25.9% from last year's payment. Moreover, outstanding claims piled up by 50.6 % from last year's as depicted in following table:

(Rs in 000)			
Particular	2020	2,019	Change (%)
Claim Payment	23,128,233	31,216,236	(25.9)
Reported Outstanding claims	34,878,925	23,153,121	50.6

In order to evaluate the efficiency of service delivery related to claim payment time, audit requisitioned related data which was not provided by management due to non-centralization of data and manual preparation of data. Moreover, net claim to net premium ratio of SLIC was even lower than its major competitors and from industry's average as well which is shown below:

Particulars	SLIC	EFU	Jubilee	Industry
Net claims to Net Premium ratio (%)	54.34	56.43	63.76	56.31

From all above information, poor service delivery in underwriting is depicted from declining trend of First Year premium and renewal premium along with high ratio of surrendering policies. Moreover, service delivery for claim payment is inefficient on account of piling up of reported outstanding claims, decrease in payment of claim and lower ratio of net claim to net premium respectively.

6.2.3.2 Initiatives of public sector organization in acquiring new trends and technologies in insurance processes

Innovation through new technologies is a key driver of change in the financial sector and this has led to immeasurable efficiency gains. Advancement in technology also gives an edge to the insurers over its competitors by reaching out to the customers demand in real time acting as a catalyst in terms of growth. Investment in Artificial Intelligence in underwriting process; with the data centered approach is also being looked upon.

Insurance penetration in Pakistan is currently at 0.95% which is one of the lowest in the world. An important reason for this minuscule penetration is lack of developed delivery channels in Pakistan, including a widespread lack of access to technology.

6.2.3.2.1 Bancassurance

Bancassurance is an alternate distribution channel to sell life insurance products through banks. This line of insurance business ensures wide range coverage at lesser cost than conventional distribution channel i.e. Direct Sales

Force. Moreover, during times of Pandemic COVID-19, Bancassurance was need of the hour due to lockdowns in the country. Though, SLIC has signed agreements with various banks under Bancassurance, yet business generation through Bancassurance is overwhelmingly lower than its major competitors as shown in following table:

	(Rs. in 000)		
	SLIC	Jubilee	EFU
Total Gross Premium	119,414,632	46,507,123	24,237,048
Premium generated through Bancassurance	1,806,654	29,965,939	11,285,110
Total Contribution of Bancassurance in Gross Premium (%)	1.51	64.43	46.56

It can be concluded that major competitors of SLIC are focusing on generation of business through Bancassurance, as it is cost efficient, through maintaining and improving relationships with banks. On the other hand, SLIC is mainly focusing on traditional and conventional distribution channel i.e. Direct Sales Force (DFS), being more costly than Bancassurance in terms agency commission. Hence, SLIC is losing the market by not focusing on this new way of doing business.

6.2.3.2.2 Family Takaful

Family Takaful Contract is an arrangement which rests on key Shariah principles of mutual co-operation, solidarity and well-being of community ad based on the principles of WakalaWaqaf Model. Under a Takaful arrangement, an individual comes together and contribute towards common objectives of protecting each other against financial losses by sharing the risk on the basis of mutual assistance.

It was observed that the management of SLIC obtained the license from SECP in August 2016 to act as window Takaful Operator. But the management has not started the business yet despite of incurring of huge expenditures of Rs. 193.564 million. On the other hand, its major competitors and other life insurance companies are generating huge revenues after launch of this new Shariah based product. Market share of SLIC since 2017 in Family Takaful business is as under:

Family Takaful Business

(Rs. in 000)

Year	Total market capitalization (Total Net contribution)	SLIC's share	Other private insurance co.	Market share of SLIC	Market share of Pvt. Co.
2020	29,027,469	0	29,027,469	0	100
2019	17,969,280	0	17,969,280	0	100
2018	15,716,794	0	15,716,794	0	100
2017	11,716,969	0	11,716,969	0	100

(Source: Insurance Association of Pakistan)

Market share of insurance companies in Family Takaful business in 2020

(Rs.in 000)

Insurer Name	Net Written Contribution	Market Share
Jubilee Life	11,172,030	38.5
Pak Qatar Family Takaful	7,557,834	26.0
EFU Life	5,296,981	18.2
Adamjee Life	3,005,850	10.4
State Life	0	0.0

(Source: Insurance Association of Pakistan)

It is clearly evident from the above table that during 2020, Jubilee Life Insurance and EFU Life Insurance, being major competitors of SLIC, have been successful in achieving 38.5 % & 18.2% market share of Family Takaful business, whereas SLIC has not generated any revenue from this untapped business.

6.2.3.2.3 Information Technology

Technology is the future and a possible solution to the changing dynamics of the market where front to end support must be transformed with the help of internet and technology. Smart and strategic investments in prior years in the Technology stemming around customer experiences and operational efficiencies could have placed the Company in a unique position to continue its operations efficiently and smoothly amidst COVID-19 lockdowns without any disruptions. However, it was observed that the Corporation entered into an agreement with SidatHyderMorshed Associates (Pvt) Ltd in 2010 to acquire an Enterprise Resource Planning (ERP) System and to provide related customization, implementation, maintenance, and ongoing support services to the thirty-three (33) zones. However, ERP solution is not fully implemented/adopted at State Life Insurance Corporation till date resulting in non-availability of centralized data at

Principal Office. On the other hand, major competitors of SLIC have adopted technologies such as Omnichannel, Contact Center and Customer Relationship Management (CRM) which greatly enabled them to engage with its customers and provide seamless services. Jubilee Insurance deployed state-of-the-art Security Information and Event Management (SIEM) solution on its IT Infrastructure in the year 2020, with the addition of latest upgraded version of Oracle E-Business Suite. Moreover, it continued to increase its online product offerings and presence to enable the masses to purchase Life and Health insurance from its mobile app and web portal.

6.2.3.2.4 Digital Distribution Channels

Insurer's distinctiveness would win competition if distribution channels were efficient and digitally rich, including mobile application with chat box and services automation which help to build customer loyalty. Further, customers can also able to connect with the Company through various channels such as Call Center, Interactive Voice Response (IVR), Short Message Service (SMS), Mobile App, and web portals for enquires and service requests related to their policies. However, it was observed that no mobile application of SLIC was available on Google's Play Store, whereas its competitors like Jubilee Life Insurance, EFU Life Insurance etc has user friendly mobile applications. Web portal of SLIC was not even updated. On the other hand, Jubilee Insurance possesses various strong distribution channels nationwide e.g., direct sales force, bancassurance and digital; each with its own unique nature.

Lack of digital distributions has resulted in inefficient service automation. Resultantly, due to absence of any technical competitive advantage and imprudent strategic planning while not aiming to enter low penetration markets with technological edge, has subsequently resulting in gradual decline in market share of SLIC.

6.2.3.2.5 Adoption of Anti-Money Laundering rules

On the regulatory front, introduction of certain stringent know-your-customer, anti-money laundering and other requirements emanating from compliance with Financial Action Task Force (FATF) requirements, also have an impact on customer confidence, hence writing new business and policy renewals

was a challenge. It was observed that SLIC was underwriting more than 50% of policies during last two months of the year i.e. November & December. During such short span of time, critical evaluation of such huge number of potential policy holders according to Know Your Customer (KYC) / AML rules & proper creditworthiness thereof by insurance agents is quite impossible. Hence, new AML rules are not being implemented and followed in letter and spirit.

6.2.3.3 To determine real contributors of efficiency in public sector insurance

Apparently, there was not any real contributor of efficiency in SLIC, being only public sector company in Pakistan. However, management's policies of cost reduction during last three years has resulted in cost efficient utilization of financial and human resources. Subsequently, total acquisition cost & administrative cost to net premium have been effectively managed by SLIC as shown in below table:

Cost efficiency	SLIC	EFU	Jubilee	Industry
Total Gross Acquisition cost to Net Premium (%)	13.94	20.94	15.53	16.16
Gross Admin cost to Net Premium (%)	7.04	5.94	7.94	7.42

7 Recommendations

In order to improve its market share in life insurance sector of Pakistan, the management of State Life Insurance Corporation (SLIC) must focus on following actions:

- Continue to expand business by focusing on increasing the outreach of its distribution channels offering products for all the socio-economic segments of the population and using technology as a key enabler.
- For Bancassurance: Proactively manage partnerships and relationships with all banks (large, medium, small) to fulfill business growth objectives, expand Referral and Direct Sales models, launch new products to penetrate in all customer segments, focus on branch productivity, case average and persistency.
- For Group Life: Enhance presence in all profitable segments of the corporate sector, offer tailored solutions as per need of the clients, focus on inclusive and mass-market insurance with an aim to increase the number of lives under the insurance social protection net.

- Distribution channels and their effective utilization will continue to be the primary driving force resulting in an increased insurance penetration and expansion of the financial protection safety net.
- Investment on Information Technology should be encouraged especially adopting new trends in technology as it will be one of the key aspects of the industry's strategy in future.
- Due to the long term nature of individual life products, the company must focus heavily on the customer journey, right from the pre-acquisition stage to claim payment. Regular interaction with customers is done via the sales staff, email, sms, phone calls, letters and social media. This interaction will help to understand and fulfill customer needs in a better way, improve persistency, create sales leads, help in upselling and repeat sales. For Bancassurance, the sales management and coordination teams interact on a daily basis with staff in bank branches, regional levels and head office levels to further our business objectives. For corporate clients, the marketing team engages regularly to manage the relationships and offer tailored solutions.

8 Conclusion

The life insurance industry in Pakistan is relatively small compared to its peers in the region as the sector penetration and density remains very modest. Factually, of Pakistan was only 0.51% as compared to Pakistan's life insurance penetration rate of 0.5% (the ratio between Gross Premium Written (GPW) of Life Insurance to nominal GDP) continues to rate amongst the lowest in the region (3.06% of India) and the world, highlighting the sizable potential for current and future growth.

Currently, there are nine life insurance companies providing services in Pakistan and State Life Insurance Corporation is the only state owned insurance company in the life insurance industry. Market share of State Life Insurance Corporation was 100% prior to 1992. But with new private entrants, its market share had declined to 52.4% in 2020. In order to assess and evaluate the decline in market share of SLIC, comparison of business model, expenditure patterns, technical efficiency, cost efficiency, service delivery and overall performance of SLIC in comparison with its major competitors i.e. Jubilee Life Insurance and EFU Life Insurance was analyzed thoroughly.

Decline in market share of State Life Insurance Corporation can be mainly attributed to the lack of focus of management on ever changing dynamics and new trends of the market and technology. Particularly, major factors damaging the overall performance of SLIC was technical inefficiencies, adherence to conventional way of doing business through Direct Sales Force (DSF), lack of proactive approach in maintaining and improving partnerships and relationships with all banks under Bancaassurance, non-generation of revenue from untapped Family Takaful business, imprudent decision making due to delayed information on back of non-centralization of data, failure to increase business through different distribution channels as compared to its competitors, inefficiency to create brand loyalty and brand equity through building and maintaining customer relationship.

However, the deteriorating situation can be controlled and improved if the management of State Life Insurance Corporation follow the recommendations proposed by Audit under Recommendation section in letter and spirit.

9 References

In order to assess and evaluate market share and effectiveness of State Life insurance Corporation (SLIC) in overall life insurance sector of Pakistan, the related data were collected from following sources:

- Through requisitions from management of State Life insurance Corporation.
- Financial statements/Annual reports of State Life insurance Corporation and its major competitors
- Chairman's review of various insurance companies.
- Director's report to the shareholders of State Life insurance Corporation and its major competitors
- Website of Insurance Associations of Pakistan (IAP).
- Research on insurance sector by Pakistan Credit Rating Agency Limited (PACRA)
- Website of State Bank of Pakistan (SBP)

Thematic Audit (15.2)

1 Thematic Audit of Corporate Governance in Pakistan International Airlines Corporation Limited

1.1 Introduction

The principal activity of the PIAC is to provide commercial air transportation, which includes passenger, cargo and postal carriage services. Other activities of the PIAC include provision of engineering and allied services. The head office of the Holding Company is situated at PIA Building, Jinnah International Airport, Karachi.

Functions of Pakistan International Airlines Corporation (PIAC) were provided in Section 4 of Pakistan International Airlines Corporation Act, 1956. Accordingly, the primary function of PIAC is to provide and further develop safe, efficient, adequate, economical and properly coordinated air-transport services, domestic as well as international, and the Corporation shall so exercise its powers as to secure that air-transport services are developed to the greatest possible advantage in the interest of the country.

This Thematic Audit is based on the Corporate Governance practices in Pakistan International Airline Corporation. This study will focus on the key governance structure and related issues of PIAC.

1.2 Background

Pakistan International Airlines Corporation Limited ("the Holding Company") was incorporated on January 10, 1955 under the Pakistan International Airlines Company Ordinance, 1955, which was subsequently repealed and replaced by the Pakistan International Airlines Company Act, 1956 (the Act). With effect from April 19, 2016, the Holding Company (previously the Corporation) has been converted from a statutory company into a public limited company by shares, through Act No. XV of 2016 'The Pakistan International Airlines Company (Conversion) Act, 2016' (the Conversion Act) approved by the Parliament of Pakistan. The Conversion Act has repealed the Pakistan International Company Act, 1956 and the Holding Company is now governed

under the Companies Act, 2017 (previously repealed Companies Ordinance, 1984). According to the Conversion Act, all assets, rights, license, privileges and benefits of which the Holding Company (previously the Corporation) was entitled were transferred to the Holding Company and the Holding Company has assumed all liabilities and obligations of the Holding Company (previously the Corporation). However, the management believes that in substance there is no change except for the legal status and application of provisions of the Companies Act, 2017 (previously repealed Companies Ordinance, 1984).

This study based on thematic basis explores historical trajectory, models, and introduction of CG in PIAC. This study also identifies reasons of governance issues such as chronic poor performance, bad governance, key decision-making lapses, flight delays, development of technical faults in aircrafts, maintenance of aircrafts, insufficient number of aircrafts in fleet, fuel-inefficient aircrafts, unsound human resource practices, favoritism in promotions, appointments, staff involvement in smuggling, long history of union-management conflicts and so on.

1.3 Establishing the Audit Theme

1.3.1 Reasons of selection

Aim of this study is to explore historical trajectory of corporate governance with reference to its introduction in Pakistan International Airlines. The corporation has experienced hard criticism due to its poor performance, corruption and inefficiency. Though corporation adopted corporate governance in 2002, however, it has consistently showed discouraging performance despite various equity injections and bailout packages.

The idea behind this study is to assess the role and impact of corporate governance in Pakistan International Airlines Company.

PIAC has always been hot topic with reference to its bad governance, management issues, conflicts, performance issues, problems with flight operations such as flight delays, HR issues, lack of sound practices of accountability, transparency, practices of corruption, financial irregularities, commissions, kick-backs, violations of procurement rules, because of these issues

Corporate Governance of PIACL has been selected for Thematic audit to ascertain the oversight and control of Board and higher management.

1.3.2 Purpose/Objectives

To finding the root cause and the dilemma of the downfall of state-owned airline and role of key decision makers.

PIAC, which once used to be benchmark for Qatar Airways, Emirates, Singapore and Sri Lanka airlines in the region but now is struggling with its own performance and is under hard criticism due to bad governance and poor performance. Because of bad governance, PIACL has chronic poor financial problems, operational performance, conflicts of union and management, favoritism and nepotism in human resource practices, overstaffing, employees involved in smuggling, having inadequate number of aircrafts in fleet, old age and fuel in-efficient aircrafts, almost swallowed by huge monthly, accumulated losses and liabilities, having industry's highest ever employees to aircraft ratio, blighted by corruption, inefficiency, unsound practices of transparency, accountability, mismanagement, miserable and unsatisfactory performance.

1.3.3 Scope

The scope of this thematic audit is limited to following audit areas:

- Appointment of BoD's CEO / Management
 - Selection criteria and process of appointment of BoD and its Sub-Committees to assess the principle of right person for the right job.
 - Selection criteria and process of appointment of CEO & other Management.
 - Review of Remuneration Policy of BoD/CEO/Management.
- Planning and Policy Making
 - BoD/CEO/Management performance in the light of assigned roles and responsibilities as per Corporate Governance Rules
 - To review policy making role of Board of Directors (BoD) & its effectiveness.
 - Execution / implementation and oversight
 - To review the implementation of BoD policies.
 - To ascertain controls & oversight of BoD.
 - Observance of Corporate Governance Rules.

- Number of BoD and its sub-committees' meetings to ascertain its sufficiency to take strategic decisions and their implementation.
- Examine overall observances of Corporate Governance Rules.
- Going Concern/Financial Sustainability
- Critical evaluation of performance of the company for the last five years to assess profitability and future growth prospects.
- To analyze timely intervention by BoD/government in case of deteriorating financial position of the organization.

2 Legal frame work governing the theme

The Auditor General of Pakistan (AGP) conducts audits subject to Article 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 condition of Service) Ordinance 2001. The thematic audit of Pakistan International Airlines Company Limited (PIACL), Ministry of Aviation, was carried out accordingly.

Under the directions of Director General Commercial Audit & Evaluation, Karachi thematic audit of PIACL was conducted during September 2021 with a view to assess the role of Corporate Governance practices in PIAC.

The binding principles applies in the Thematic audit of Corporate Governance of PIAC includes:

- Companies Act 2017
- Public Sector Companies Corporate Governance Rules 2013 amended up to 2019
- PIAC Act 1956/58, with latest amendments
- Civil Aviation Ordinance 1960
- Guidelines by Ministry of Aviation
- IATA Guidelines
- Securities and Exchange Commission of Pakistan Act 1997
- Regulations issued by Pakistan Stock Exchange
- Securities Act 2015
- Industry norms and best practices adopted by public sector and listed companies in Pakistan

3 Stakeholders and Government's Organizations identified as directly/indirectly involved

PIACL is governed by Ministry of Aviation under Government of Pakistan. Following are the major stakeholders:

- Government of Pakistan through Ministry of Defense and Aviation
- Civil Aviation Authority
- IATA
- Financial Institutions
- Securities Exchange Commission of Pakistan
- PIAC Employee Empowerment Trust
- CDC- Trustee National Investment Trust
- Various Public Sector Companies and Corporations
- Individual Shareholders and investors
- Employees & Policy holders
- Public at large.
- Creditors
- Employees

4 Role of Important organizations

Following public organization and institutions play a vital role in PIAC and its operations:

4.1 Ministry of Aviation

Being a key policy maker, Ministry of Aviation holds the key position amongst all important organization because of sole policy maker. This ministry has the key responsibility overlooking National Aviation Policy, current NAP 2019 is implemented. Its functions also extend to overseeing airport facilities, air traffic services and carriage of passengers and goods by air. The Ministry also administers implementation of the Aircraft Act, 1934, Aircraft Rules, 1937.

4.2 Pakistan Civil Aviation Authority

Functions of Pakistan Civil Aviation directly relates to PIAC includes, Aircraft registration, Airworthiness, Managing air transportation, Flight standards, Air navigation services, Airport services, etc.

5 Organizations Financials

Funding mechanism of PIAC has been derived initially from own sources through Equity Shares comprised of 4,998,895,608 ordinary shares of Rs 10 each, 931,028 shares issued for other consideration and 233,934,482 shares issued as bonus, and 1,499,999 shares of class B for Rs. 5 each, making total paid up capital to Rs. 52,345.110 million. On the other hand loan from financial institutions with the approval of GoP is an integral part of managing working capital requirements.

(Rs in million)				
Description	2020 (unconsolidated)	2019 (Consolidated)	2018 (Consolidated)	2017 (Consolidated)
Revenue	94,989.391	164,646.354	117,982.168	103,911.181
Loss for the year	36,642.811	56,036.735	66,659.564	50,983.821
Accumulated Losses in million	516,595.078	488,695.707	426,409.013	360,529.457
Fixed Assets	90,946.488	92,570.158	78,302.168	67,157.187
Current Assets	42,491.498	52,917.036	34,945.653	32,145.992
Current Liabilities	322,252.878	325,290.199	288,569.906	244,307.972
Long-Term Debts	222,960.679	207,050.576	150,970.165	121,096.089
Net Worth	(448,766.813)	(423,258.057)	(356,753.631)	(291,470.196)

(Source: Annual Accounts 2020)⁹

PIAC is self-revenue generating entity, the key revenue generating areas are:

- Passenger
- Cargo
- Excess baggage
- Charter services
- Engineering services
- Handling and related services
- Mail
- Cancellation of Tickets
- Expired tickets fare
- Flight Kitchen services
- Financial Institutions

⁹
(Source: Annual Accounts 2020)

6 Field Audit Activity

6.1 Methodology

The methodologies used for auditing were mix of qualitative and quantitative approaches keeping in view of the areas of focus. Review of record, examination of Board affairs and discussion with management along with analysis and comments on various policies of auditee was also the part of the audit methodology. Moreover, review of the following policies and rules and was also carried out:

- PIAC Act 1955
- Companies Act 2017
- Code of Corporate Governance Rules 2013 for Public Sector Enterprises
- Board Minutes
- Annual General Meeting proceedings
- Minutes of Board Sub-Committees meetings and their proceedings
- ToR's by AGP
- Guidelines by Ministry of Aviation
- CAA guidelines related to PIACL

6.2 Audit Analysis

6.2.1 Review of Internal Controls

During the Thematic Audit of PIAC Corporate Governance, Human Resource Policy approved by the Board defines the procedure regarding the appointment of Senior Management. However, several violations were observed and discussed in the Thematic Audit Report.

6.2.2 Critical Review

6.2.2.1 Board of Directors and its Sub-Committees

Audit analysed the following information for nomination of BoD Members provided by the Aviation Division.

S. #	Particulars¹⁰	No. of directors nominated by the F. Govt.
1	Marine Engineer	01
2	Corporate Sector Leader	07

¹⁰ Profiles mentioned in financial statements

3	Businessmen	10
4	Serving and Rtd. civil servants	19
5	Serving and Rtd. Servicemen (1 + 3)	05
6	Politicians	06
7	Bankers	06
8	PIAC's Pilots	02
9	Lawyer	01
10	Educationist	01
Total		58

It was observed by the audit that none of the members possessed aviation industry experience whereas, only 07 members had the corporate sector experience and 10 were businessmen. Further, the Govt. of Pakistan, enjoying the powers to nominate the members of BoD since 1956, has no criteria/rationale for nomination of the members of BoD. The members nominated by the Govt. of Pakistan did not have the sufficient professional experience related to aviation field to run the complex organization like PIAC.

Resultantly, the BoD so constituted during the period under review had lack of relevant knowledge and experience due to which the Board failed to provide proper direction to the management to achieve primary objectives of PIAC.

Due to nominations of BoD's members by the Govt. of Pakistan not having desired experience of the Aviation Industry, PIAC failed to achieve its objectives.

Management in its reply dated 29-12-2021 stated that there is no specific criteria including experience of aviation industry for Directors is mentioned in section 157-185 of Companies Act 2017. The reply of the management is not tenable because the Board failed to give proper direction to the management to achieve primary objectives of PIAC of attaining profitability and sustainability.

6.2.2.2 Ineffective working of Board Committees

PIAC Board of Directors formulated its various committees as detail given below:

S. #	Name of committee	Date of Establishment ¹¹	Number of meetings held
1.	Audit Committee	23.07.2002	70
2.	Human Resource & Corporate Governance Committee	27.05.2005	41
3.	Procurement Committee	09.05.2016	03
4.	Finance Committee (Renamed as Finance & Risk Management Committee in 2016)	15.01.2009	13
5.	Brand & Advertisement Committee Date of establishment of the committee not known to the management. (Renamed as Engineering Committee in 2017)	Hand over to Secretary PIAC in 2011	19
6.	Information Technology Steering Committee (Ceased to exist, last meeting was held on 13.10.2016)	01.11.2013	08
7.	Fleet Management Committee	23.01.2015	Nil
8.	Board Commercial, Operation & Engineering Committee	01.11.2019	Nil

According to Section 176, Proceedings of the board of the Companies Act 2017, the Board of Directors shall set up the following committees to support in performing of its functions efficiently, and for seeking assistance in the decision-making process, namely:

- Audit Committee for an efficient and effective internal and external financial reporting mechanism.
- Human Resources Committee to deal with all employee related matters including recruitment, training, remuneration, performance evaluation, succession planning, and measures for effective utilization of the employees of the Public Sector Company.
- Procurement Committee to ensure transparency in procurement transactions and in dealing with the suppliers.
- Risk Management Committee to effectively reviewing the risk function.
- Nomination Committee to identify, evaluate and recommend candidates for vacant positions, including casual vacancies, on the Board, including

¹¹ Details of meetings provided in Financial Statements

the candidates recommended by the Government for consideration of shareholders or in case of casual vacancy to the Board of Directors after examining their skills and characteristics that are needed in such candidates.

The audit was of the view that due to non-functioning of Fleet Management Committee, Board Commercial, Operation & Engineering Committee & Procurement Committee, the BoD was handicapped in performing its functions efficiently, and for seeking assistance in the decision making process from the fleet management committee of PIAC.

Management in its reply dated 29-12-2021 stated the Fleet committee was not a statutory committee. The reply of the management is not tenable because the referred committee was constituted on 23-01-2015 by the management incharge at that time to look after the fleet management operations, despite of constitution its non-functioning is question mark.

6.2.2.3 Non-Effectiveness of Board of Directors and its Committees

Audit has observed that the BoD could not perform effectively for the following reasons:

1. Financial Statements for the years 2015 to 2019 were delayed due to which timely facts & figures were not available to the stakeholders for decision making.

The management in its reply stated that due to eruption of industrial unrest across the organisation. In 2016 delay was due to conversion from corporation to Limited Company. In 2017 & 2018 delay was due to implementation of ERP and in 2019 delay was due to Covid-19. Management reply is not tenable as the reasons could not justify the delay.

2. Approval of Annual Budget for the years 2016 and 2019 was delayed.

The management in its reply again reasoned the eruption of industrial unrest and Board meeting could not be timely held.

3. The BoD failed to submit Report of Directors to the Federal Govt. as required under Section 17 of the PIAC Act, 1956, resultantly, the report

along with the financial statements could not be laid down before the National Assembly.

Management in its reply stated that the same were submitted to Federal Govt as and when approved and printed. Reply is again not tenable as key stakeholders were compromised with decision making on affairs of the company on real time basis.

4. Audit observed that most of the decisions of the BoD during last ten years were recorded without defining the specific timeframe for their implementations. Thereby, BoD could not monitor implementation of its decisions. Due to which either BoDs decisions could not be implemented or were delayed resulting utility got wasted.

The management in its reply stated that the suggestion is noted for future compliance however, the reply is not satisfactory because the damage caused by delay is irrecoverable.

5. Board's Committees failed to perform their function. HR Committee could not rationalize the Human Resource despite lapse of 08 years resultantly saving of Rs.2.500 billion could not be achieved. No meeting of Fleet Management Committee was held since its formulation on 23-01-2015. As per Corporate Governance Rules, the Risk Management Committee should have been formulated in August 2013. But the same was constituted in 2016 and till date the objective of the Committee could not be achieved. Similarly, constitution of the Procurement Committee was delayed as it was formulated in 2016 and not a single meeting was held.
6. The Govt. of Pakistan failed to carry out the performance evaluations of the BoD members, the Chairman and the CEO PIAC till date as required under Corporate Governance Rule.

Management in its reply stated that the required rationalization has recently been done, however the reply is not tenable because, audit highlighted this observation was raised almost 8 years ago, the consequences of delay in implementation is costly.

6.2.2.4 Poor attendance/monitoring of Secretary Finance in Board of Directors meetings

Secretary Finance of the Govt. of Pakistan is nominated to PIAC Board of Directors in his ex-officio capacity to play vital role in the decision making specifically in the following areas:

- a. Approval of the annual report of the Corporation, including the financial statements.
- b. Capital expenditure planning and control.
- c. Borrowing of moneys, handling of funds, assets, resources of the Corporation and its usage in economical, efficient and transparent manner.
- d. Ensuring compliance with the law and the Corporation's own procedures, rules & regulations relating to investments, procurement and acquisition or disposal of fixed assets.
- e. Write-off of bad or doubtful debts, advances and receivables.
- f. Determination and delegation of financial powers to the Executives.

Audit observed that 80 Board of Directors' meetings were held from 2008 to 2020. However, the Secretary Finance attended only 27 meetings (23%) whereas, out of total 114 meetings during 2008 to 2020, no meeting was attended by the Secretary Finance. The detail is as under:

S#	Name	Year	Total Meetings Held	Attended by Secretary Finance ¹²
1.	Dr. Waqar Masood Khan	2008	4	1
2.	Farrukh Qayyum	2008	2	2
3.	Dr. Waqar Masood Khan	2009	1	1
4.	Salman Siddique	2009	5	2
5.	Salman Siddique	2010	6	1
6.	Dr. Waqar Masood Khan	2010	1	1
7.	Dr. Waqar Masood Khan	2011	7	5
8.	Abdul Majid Rana	2012	9	2
9.	Abdul Majid Rana	2013	1	1
10.	Abdul Khaliq	2013	1	Nil
11.	Nasir Mahmood Khosa	2013	1	Nil
12.	Dr. Waqar Masood Khan	2013	5	5
13.	Dr. Waqar Masood Khan	2014	10	Nil
14.	Dr. Waqar Masood Khan	2015	9	Nil
15.	Dr. Waqar Masood Khan	2016	12	Nil
16.	Shahid Mehmood	2017	6	2
17.	Arif Ahmed Khan	2018	9	4
18.	Arif Ahmed Khan	2019	5	Nil
19.	Naveed Kamran Baloch	2019	7	Nil
20.	Naveed Kamran Baloch	2020	13	Nil
Total			114	27

The audit was of the view that due to poor attendance of the Secretary Finance, the matters decided by the BoD specifically in the areas as stated above were without contribution of the Secretary Finance and the purpose of the nomination could not be achieved.

The management in its reply stated that the matter of absence should be the cause of concern to the Federal Government, therefore the response may be obtained from Federal Govt and concerned ministry.

6.2.2.5 Ineffective role of the Chairmen (Board of Directors)

Audit observed that 13 Chairmen of the BoD were nominated by the Government of Pakistan during the period of 2008 to 2020 as detailed below:

¹² Attendance Sheets of meetings

S#	Name	Tenure			Profile ¹³
		From	To	Period (Months)	
1.	Mr. Zaffar A. Khan Chairman/MD	09.04.07	28.02.08	11	Corporate leader/Ex Chairman Engro/Trainer
2.	Mr. Kamran Rasool	28.02.08	06.05.08	02	Civil Servent/Secretary Defence
3.	Ch. Ahmed Mukhtar	06.05.08	05.02.11	33	Minister of Defence
		11.02.11	24.05.12	16	
4.	A.Marshal (R) Rao Qamar Suleman Chairman/CEO	25.05.12	18.09.12	04	Retired Chief of Air Staff
5.	Lt. Gen (Retd) Asif Yasin Malik Chairman/MD	23.10.12	03.07.13	08	Secretary Defence
6.	Mr. Aslam Khaliq	04.07.13	05.08.13	01	Corporate Leader
7.	Syed Muhammad Ali Gardezi	06.08.13	16.10.14	02	Civil Servent /Secretary Aviation
8.	Mr. Naseer N, S. Jaffer Chairman/CEO	17.10.14	04.02.16	15	Businessman
9.	Mr. Muhammad Irfan Elahi	12.02.16	18.04.16	02	Secretary Aviation
		21.12.16	03.06.17	05	
		04.06.17	Till date		
10.	Muhammad Azam Saigol	09.05.16	12.12.16	07	Businessman/Corporate Leader
11.	Nasser N S Jaffer (PIACL)	12.2.16	04.04.16	02	
12.	Muhammed Irfan Elahi (PIACL)	07.07.17	25.02.18	08	Secretary Aviation
13.	Aslam R. Khan (PIACL)	09.03.20	To date		Aviation Industry

Average tenure of PIAC Chairman was 11 months. Thus, due to frequent changes, no Chairman was able to perform effectively in governing the PIAC. Other issues were also observed by the audit as detailed below:

- Out of total 13 Chairmen, 10 were corporate leaders/ businessmen/ Secretary Defense/ Aviation/ retired Chief of Air Staff and their total tenure was 06 years. Whereas, Mr. Ahmed Mukhtar, Minister of Defense served as Chairman BoD for longest period of 04 years.
- Chairmen could not actively participate and provide their inputs in discussions on the matters brought before the BoD due to lack of Aviation Industry experience and their own full-time engagements.

¹³ Profile details provided in Financial Statements

- c. The Public Sector Companies (Corporate Governance) Rules, 2013 were implemented in August 2013 which state that the office of the Chairman shall be separate, and his responsibilities distinct, from those of the chief executive.

Total 10 Chairmen, 04 Chairmen also held the office of the CEO/MD PIAC. Due to which the BoD was influenced in ratifying the decisions of such MDs/CEOs who were also the Chairmen of the BoD. This anomaly should have been removed in the PIAC Act but the same could not be removed even on implementation of Corporate Governance Rules.

The audit was of the view that above position depicts that the Chairmen PIAC could not perform their function judiciously due to conflict of interest and lack of relevant experience.

Management in its reply stated in 2016 PIA was converted into public limited company by virtue of PIAC Conversion Act 2016. After this conversion in April 2016, both offices of Chairman and CEO were separated considering Rule 4 of Public Sector Companies Corporate Governance Rules 2013. However, the matter of tenure of top management may be referred to the Federal Government through Aviation Division. Reply of the management is not tenable because audit observed several violations even after the 2016.

Appointment of MD/CEO and Senior Management

6.2.2.6 Violation of Recruitment Rules in the appointment of MDs/CEOs

The Govt. of Pakistan Establishment Division vide its OM dated May 06, 2000 laid down the policy for contract appointments in autonomous/ semi autonomous bodies, corporation, public sector companies owned and managed by the Federal Govt. According to which contract appointment should be made only subject to fulfillment and observing the following conditions;

1. Where the nature of a particular job/vacant position requires contract appointment for a specific period, standing instructions should be issued by the Administrative Ministry/Division concerned, after consultation with the Chairman of Board of Directors specifying such post and the parameters covering appointment on contract basis against such posts.

2. Vacancies should be advertised in the leading national and regional newspapers.

Irregularities Found¹⁴:

1. During the period under review 08 MDs/CEOs of PIAC were appointed by the Govt. of Pakistan in violation of the prevailing rules and undue favor was extended to them.
2. The requirements of Public Sector Companies (Appointments of Chief Executives) Guidelines, 2015 were totally ignored by the BoD in appointment of one CEO.
3. The pay and allowances granted to MDs/CEOs of PIAC were in violation of the provisions of Ministry of Finance standing instructions regarding MP scale. Resultantly, PIAC suffered Loss of Rs.98.111 million due to Favouritism in fixing Pay & Allowances of MDs/CEOs of PIAC at exorbitant rates.

The management in its reply stated that since no observation having been made this para does not warrant a response. Reply of the management is not tenable since specific observations have been communicated to the management.

6.2.2.7 Irregularities/favoritism in appointments of DMDs/Chiefs/COO

1. Total 36 officers¹⁵ were appointed/promoted as DMDs/Chiefs/COO of PIAC during 2008 to 2017. Their cases were examined on test check basis and irregular appointments/promotions of 13 officers were pointed out.
2. It was observed that 08 officers were appointed / promoted without any sanctioned post.

Management in its reply stated that the matter may be referred to PIAC HR department. PIAC HR department did not respond to this para till finalization of this report.

6.2.2.8 Inconsistencies in incumbency of Managing Directors/CEOs

The detail of incumbency of the officers posted as MD/CEO PIAC during the period 2008 to 2020 is as under:

¹⁴ Recruitment files of relevant CEOs/MDs

¹⁵ Recruitment files of DMDs/Chiefs/COO

S#	Name of officer	Designation	From	To	Duration (months)
1.	Zafar Ahmad Khan	Chairman/MD	09.04.07	28.02.08	11
2.	Aslam R Khan	M.D	29.02.08	07.05.08	02
3.	Capt. AijazHaroon	M.D	07.05.08	10.02.11	14
4.	Capt. NadeemYousufzai	M.D	11.02.11	26.03.12	02
5.	RaoQamarSuleman	MD	29.03.12	24.05.12	04
		Chairman & CEO	25.05.12	18.09.12	01
6.	Capt. JunaidYounus	Acting M.D	18.09.12	23.10.12	01
		MD	24.10.12	17.07.14	21
7.	ShahnawazRehman	M.D	18.07.14	27.08.15	14
8.	Nasser N S Jafeer	Chairman & CEO	28.08.15	04.02.16	05
9.	IrfanElahi	Acting Chairman & CEO	12.02.16	18.04.16	02
10.	Hildenbrand Bernd	Acting CEO	09.05.16	20.04.17	11
11.	Nayyar Hayat	Acting CEO/CFO	21.04.17	05.09.17	04
12.	Musharraf Rasool Cyan	President/ CEO	05.09.17	03.09.18	11
13.	Arshad Malik	Acting CEO	26.10.18	25.04.19	6
14.	Arshad Malik	CEO	26.04.19	To date	
Total					109

It can be observed from the above table that 14 officers remained posted as MD/CEO PIAC during the period under review and the average duration of a CEO was 09 months.¹⁶ Thus, due to frequent changes of the Chief Executive Officers (CEOs), PIAC could not continue the long-term policies and projects to maximize the efficiency and output of the entity.

Management in its reply state that the matter may be referred to Federal Govt through aviation division being the competent authority in the matter.

6.2.2.9 Irregular approval/revision in prescribed Educational Qualification & Work Experience etc for appointment of the Managing Directors

Audit observed observed that approval/revision of the Job Descriptions for the post of Managing Director PIAC were not regular;¹⁷

1. As per above laid down policy, the responsibility for specifying the parameters and criteria for the appointment of MD PIAC rest with Administrative Ministry, which should be approved by the Federal Govt. However, the Administrative Ministry (Defense/Aviation) failed to

¹⁶ Data mentioned in Financial Statements

¹⁷ Personnel Files of MDs

prepare any parameter for the post of MD/CEO. Further, the criteria so developed by PIAC were not submitted to the Federal Govt. through the Administrative Ministry for approval. This shows failure on the part of the Federal Govt. to approve prescribed educational qualification and work experience for appointment of MD/CEO PIAC.

Management in its reply state that the matter may be referred to Federal Govt through aviation division being the competent authority in the matter.

6.2.2.10 Appointments/promotions of Directors/Chiefs/Advisor without any provision in HRB

- 1 Audit observed that 08 officers were posted as Directors/Chiefs during the period under scrutiny. At the time of their promotions as Director/Chief there was no provision of the vacancies in approved Human Resource Budget (HRB).¹⁸ The detail is as under:

S. #	P. No.	Name	Designation	Duration		Salary for the Period
				From	To	
1.	33095	Suhail Mustafa	Acting SVO / Director C&PL	09.5.07	10.06.08	2,384,939
2.	32721	Shahnawaz Rehman	Airline Coord.	17.08.12	01.11.12	1,335,156
3.	56797	Lt C(R) Mahmood Ahmad	Dir. Coord to Chairman	23.11.12	31.10.13	4,258,819
4.	66922	Avm Qasim Masood Khan	Adviser to Chairman	18.02.14	01.08.14	2,804,190
5.	32511	Anjum Amin Mirza	Director Training/ Accountability/ Pur & Commercial	27.02.14	30.11.14	4,845,402
6.	44264	Walter J. Bornshin	SA To Chairman	19.05.14	07.01.15	2,759,947
7.	67159	Avm Rana M. Imran	Adviser To Chairman	31.10.14	08.08.16	9,082,994
8.	64717	Nayyar Hayat	Chief, ERP	20.04.16	05.09.16	3,900,516
Total						31,371,963

Audit is of the view that the due to promotions/postings of the officers without any provision of HRB, the services of such officers could not be utilized properly as there were no approved job description of the posts by the BoD. All the officers were accommodated in irregular manner and Rs.31.372 million was paid to them on account of pay and allowances, which is irregular and unjustified.

Management in its reply stated that the matter may be referred to PIAC HR department. PIAC HR department did not respond to this para till finalization of this report.

¹⁸ PIAC Personal Policy Manual & Human Resource Budget (HRB).

Other Irregular appointments of Key Managerial Positions

6.2.2.11 Irregular appointments of CFO

1. In 344th BoD meeting held on November 26, 2012, Director, Human Resource & Administration submitted that as per Code of Corporate Governance, 2012 appointment, remuneration and terms and conditions of employment of the CFO, the Company Secretary and Head of Internal Audit of listed company shall be determined by the BoD. The Human Resource & Remuneration committee shall be responsible for recommending to the Board the selection, evaluation, compensation (including retirement benefits) of COO, CFO, Company Secretary and Head of Internal Audit.
2. Contrary to above rules, Mr. Aftab Ahmad, (P-66882) was appointed as CFO on contract basis on salary of Rs.1,200,000 per month vide appointment letter dated December 27, 2012.¹⁹ The appointment was made without recommendations of the Human Resource & Remuneration Committee. Matter was placed before the BoD in its 344thBoD meeting held on November 26, 2012 by the Director, Human Resource. The BoD waived-off the requirement of recommendations from HR& Remuneration Committee and approved the contractual appointment of Mr. Aftab Ahmad as CFO on contract for 3 years.
3. Audit is of the view that the BoD was not empowered to overrule the provisions of Code of Corporate Governance. Hence, the appointment was irregular and payment of Rs.43,200,000 from time to time it has been seen that recruitments rules and policies have been altered to suit any specific candidate.
4. It has been a known fact that the appointments of Managing Directors/CEOs were made in violation of above rules and provisions. From 2007 to date, PIAC has recruited/posted 14 CEO/M.D/Chairman, ranging from 2 months to 21 months period, which shows inconsistency at top level. Same pattern goes with the top management as well. Frequent changes of the Chief Executive Officers

¹⁹ 344th BoD meeting held on November 26, 2012 & personnel File of concerned CFO

(CEOs), PIAC could not continue the long-term policies and projects to maximize the efficiency and output of the entity.

The management in its reply stated that the observation belongs to 2012 where beyond the ambit of current audit activity. Reply is not tenable since the thematic audit was mandated to cover governance issues upto 2020.

6.2.2.12 Irregular absorption of Maj. Khurram Mushtaq as Manager Marketing and subsequent promotion as Director Marketing

A request was made by PIAC vide its letter dated November 11 & 21, 2003 to the Ministry of Defence for hiring services of officer from Armed Forces on deputation for In-House Monitoring and Investigation in the Marketing Department. Accordingly, Major Khuram Mushtaq was posted on secondment from Pakistan Army as Manager Marketing in March 25, 2004 for a period of 02 years. However, after lapse of only 11 months, on the request of PIAC, the officer was permanently absorbed in PIAC as Manager Marketing (Pay Group IX) on February 05, 2005 and subsequently promoted as Director Marketing. Following irregularities were observed in his permanent absorption in PIAC:²⁰

- a. According to the Establishment Division directives as quoted above, all the recruitment rules of PIAC should have been followed on his absorption in PIAC, but the same were not followed in the subject case. The post of Manager Marketing (In-House Monitoring and Investigation) did not exist in the sanctioned strength of PIAC (HRB) and he was not selected through the Selection Board.
- b. Request for his permanent absorption in PIAC was made by the management to the Ministry of Defense for in house monitoring control and investigations in the marketing department. Whereas, after his permanent absorption he was immediately posted as District Manager Sales Islamabad and was never assigned the specific job for which his services were acquired.
- c. He was promoted as General Manager just through Transfer letter No. 008/2011 dated 13-01-2011 (S# 1-iv) without any proper Promotion Board, seniority etc.

²⁰ Establishment Division OM. No. 1(28)71-D. II dated March 28, 1972 & personnel file

- d. Within one year of previous promotion as GM, he was again promoted Director Marketing in March 2013 without meeting criteria for promotion for the said post such as, Promotion Board, seniority etc.
- e. Since absorption of Major KhuramMushtaq in PIAC w.e.f. 2005 to 2017 four Show Cause Notices were issued to him, detail is as under:

Show Notice No.& date	Brief description	Remarks
DISCIP/60911/2013 dt. 26.02.13	While posting as Country Manager S. Arabia involved in tempering of invoices of SAR 5,416.	Status of Show Cause i.e. whether charges proved or otherwise not available in file
MK-02-2014-034 dt.14.02.14	As Director Marketing involved in appointment of M/s APB Travel & Tour as GSA Malaysia & Singapore in manner not suited to a National carrier.	Show Cause Notice was withdrawn through letter dt. 12.01.14. The letter seems to be suspicious as it did not contain any reason of withdrawal and was without mentioning any authority. Further, the date of withdrawal letter was 12.01.14 whereas Show Cause Notice was issued on 14.02.14
LA00-MK-11-2017-006 dt. 02.11.17	As Director Marketing involved in fraudulent issuance of tickets. Manage to reroute a flight originally bound to operate from Multan-Medina but rerouted Islamabad-Medina to extend undue favour/advantage to travel agents.	Not yet decided
LA00-MK-11-2017-007 dt. 02.11.17	As Director Marketing involved in executing GSA Scandinavia in irregular manner.	Not yet decided

All the above stated four Show Cause Notices were issued to the incumbent on charges of malpractices in financial matters. The officer was originally inducted for In-House Monitoring Control and Investigations in the marketing department, whereas he was allegedly involved in financial mismanagement.

Audit was of the view that the absorption and the promotion the officer was irregular and in contravention of rules. Therefore, his pay and allowances of

Rs. 25.800 million (Average salary Rs. 200,000/month x 129 Months) is also unjustified.

Management in its reply stated that the matter may be referred to PIAC HR department. PIAC HR department did not respond to this para till finalization of this report.

6.2.2.13 Irregular appointment of Director Finance

- 1 Audit observed that Mr. Faisal Imran Hussain Malik, P-64554 was appointed as Director Finance on regular basis vide offer letter dated December 14, 2009 at a total salary of Rs. 445,650 per month. The appointment of the incumbent was made without advertisement of the post in press therefore; the Director HR took up the matter in 323rd BoD meeting held on January 14, 2010 for relaxing the condition for press advertisement, which was approved by the Board. It is further added that copies of experience certificate(s) and documentary evidence for the professional training /courses as quoted above were not available in the file.
- 2 Audit is of the view that appointment was made without advertising the post in the newspapers which can't be waived of by BoD since every eligible candidate of Pakistan can contest for the appointment, thus right to equal opportunity was denied to the eligible candidates. Hence, the appointment of the officer was irregular and salary of Rs.8.404 million (Rs. 445,650 x 12 months) paid to him annually is unjustified.

The Govt. of Pakistan, Finance Division vide its OM No. F.3(7)-R.4/98 dated August 18, 1998 introduced salary package and perquisites for professionals appointed on contract basis against top Management Positions (MP) in the public sector organisations. Significant provisions of the above referred OM are as under;²¹

- a. The salary package and perquisites of MP-1 is meant for professional from the private sector proposed to be appointed on contract as Chief Executive in the public sector.
- b. The terms & conditions of professionals appointed from the private sector against top management position in the public sector may be

²¹ PIAC Recruitment policy & Personnel file

regulated/determined within the scope of salary and perquisite under reference.

The negotiated terms in each case may be submitted to the authority competent for formal approval. No other benefits of any kind would be admissible or may be considered for the contract appointments over and above those terms indicated in the perquisites packages under reference. The pay and allowances of the MDs/CEOs of PIAC were required to be regulated in accordance with guide lines as provided by Finance Division as quoted above. It was however, observed the instructions of the Finance Division were not observed in granting pay & allowances of the MDs/CEOs PIAC.

Management in its reply stated that the matter may be referred to PIAC HR department. PIAC HR department did not respond to this para till finalization of this report.

6.2.2.14 Non-appointment of permanent Chief Internal Auditor

In Annual Audited Accounts for the year 2016, 2019 & 2020 it was reported by the External Auditors that the Chief Internal Auditor was not fit and proper for the position which is Non-compliance of Public Sector Companies (Corporate Governance) Rules, 2013.

BoD in its meeting held on May 09, 2016 resolved that Mr. Jawed Mansha, General Manager to act as Internal Auditor of the Corporation for a period of three months. Board further resolved that management should take all necessary steps for appointment of Head of Internal Audit other than the incumbent within three months strictly in accordance with Companies Ordinance, 1984 and Public Sector Companies (Corporate Governance) Rules, 2013.²²

Accordingly, BoD in its meeting held on May 09, 2016 again directed to replace him. Till 2020 permanent CIA was not appointed.²³

Despite specific BoD directives, management failed to appoint Chief Internal auditor other than incumbent even after lapse of almost five years.

Audit was of the view that failure in compliance of the BoD directives

²²BoD meeting May 09, 2016&Personel File

²³External Auditor's remarks in Annual Audited Accounts

and repeated non-compliance of Public Sector Companies (Corporate Governance) Rules, 2013 shows undue favour by the management to the officer.

The management in its reply state that the matter may be referred to PIAC HR department.

6.2.2.15 Irregular appointment of Chief Operating Officer

The post of COO PIAC was advertised with the approval of the Govt. of Pakistan on March 15, 2017 and Mr. Zia Qadir Qureshi was selected on salary of Rs. 1.500 million per month. He assumed the charge of the post on July 14, 2017. As he was 60+ therefore, his case was submitted to the Prime Minister of Pakistan for being the competent authority for the appointment beyond the age of 60 years by the management through the Aviation Division vide letter No. ADC/241839/ 2017 dated September 11, 2017. The Secretary Aviation Division vide his DO letter dated March 18, 2018 informed to CEO PIAC that, the Prime Minister had approved the contract appointment of Mr. Zia Qadir Qureshi as Chief Operating Officer (COO) beyond 60 years age subject to Bi-annual performance review against approval and formulation of Key Performance Indicators (KPIs) within stipulated time.

The approval was accorded by the Prime Minister with the condition as stated above. It was observed that in the first instance the KPIs were not furnished by the incumbent in time despite repeated reminders by the Aviation Division. However, when KPIs were submitted to the Aviation Division, the same were not up to the requirement of the controlling Ministry as the same were lacking measureable targets.²⁴

It was observed that the officer did not submit the KPIs up to August 2018 despite repeated request by the Ministry. Hence his bi-annual performance review could not be conducted as per the approval granted by the Prime Minister. Audit observed that as the condition laid down by the Prime Minister was not fulfilled, therefore, his continuation of the job from July 2017 to August 2018 was irregular and the entire amount of Rs. 18.000 million paid to him on account of monthly salary was unjustified.

²⁴ KPIs & Reminders from management

Management in its reply accepted the audit point of view that incumbent did not satisfy the job requirement moreover, position of CIA was advertised in 2018 but process could not be completed due to ban on appointments.

6.2.2.16 Non-finalization of financial statements on due dates

The BoD of PIAC failed to lay annual audited accounts in AGM on the scheduled date during last three consecutive years. The detail is as under:

Year	Name of Report	Dates of lay in AGM ²⁵	
		Due Date	Laid on
2015	Annual Audited Accounts	30.04.16	28.10.16
2016	Annual Audited Accounts	30.04.17	12.10.17
2017	Annual Audited Accounts	30.04.18	24.08.19
2018	Annual Audited Accounts	30.04.19	21.12.19
2019	Annual Audited Accounts	30.04.20	15.05.20

Due to delays in approval of the accounts during last three years, there is negative impact on all the stakeholders of PIAC. On the one hand Govt. of Pakistan and executives were unable to take timely policy decisions and on the other hand, all shareholders, lost confidence in annual accounts due to delayed reporting of financial results.

Similarly, the BoD has also failed to approve Annual Capital and Revenue Budget of PIAC for the years 2016 -2018 on its due dates. The Annual Budget should have been approved by the BoD before start of the financial year i.e. first January of every year, Whereas the budgets for the years 2016 and 2017 were approved by the BoD on March 04, 2016 and March 14, 2017, respectively i.e. after near-close of the first quarter of the year.

Audit was of the view that the BoD failed to perform its statutory responsibility to present the audited accounts in AGM on the prescribed dates as required by regulators.

The management in its reply stated that due to eruption of industrial unrest across the organisation. In 2016 delay was due to conversion from corporation to Limited Company. In 2017 & 2018 delay was due to

²⁵ Annual General Meetings and annual audited accounts

implementation of ERP and in 2019 delay was due to Covid-19. The reply is not tenable as the Finance department failed to fulfill its responsibilities.

6.2.2.17 Non-circulation of Minutes of BoD meeting

Rule No. 6(3) of Corporate Governance Rules 2013 was not observed as the Minutes of the BoD meeting were not circulated within 14 days²⁶ of the meeting.

Management in its reply accepted the fact that some minutes were not circulated within the stipulated time and audit observation is noted for future compliance.

6.2.2.18 Attendance of Members in Extra Ordinary General Meeting

As per regulation 10(6), chapter III of Listed Companies (Code of Corporate Governance) Regulations 2019, that “All directors of a company shall attend its general meeting(s), (ordinary and extra ordinary) unless precluded from doing so due to any reasonable cause” it has been found from the minutes of EOGM²⁷ held on November 28, 2020 that only one Board member out of 11 attended the meeting, who was CEO, and also chaired the same meeting. This shows the involvement of Board in important matters. Management in its reply mentioned the instances in which Directors were not able to Extra Ordinary Meeting and audit observation is noted for future compliance.

6.2.2.19 Annual Orientation course for Directors

As per rule 11(3)/18 In order to acquaint the Board members with the wider scope of responsibilities concerning the use of public resources, to act in good faith and in the best interests of the Public Sector Company, at least one orientation course shall be arranged annually for the directors. In case of PIAC Board, none of the newly elected director underwent for the orientation course²⁸ as required by corporate governance rules.

²⁶ External Auditor remarks

²⁷ Extra Ordinary meeting minutes

²⁸ External Auditor remarks

6.2.2.20 Poor Performance by Board of Directors

The Govt. of Pakistan had the powers to nominate members of the BoD till April 2016. On conversion from a statutory Corporation into a public limited company w.e.f. April 19, 2016, members of the BoD were nominated as per provisions of the Companies Ordinance, 1984 now Companies Act 2017 and Public Sector Companies (Corporate Governance) Rules, 2013. Accordingly, as a public limited company, names of members of first Board were approved in PIACL 1st BoD meeting held on May 09, 2016.

Audit observed that the affairs of Board and its working is reflected from the performance²⁹ of company, and financial performance of PIAC is evident that how the company is handled by its Board. Negative equity of over 520 billion is alone a question mark on all Board members and persons affiliated with PIAC.

Management in its reply dated 22-12-2021 stated that the para contains brief composition of PIAC Board in the light of PIAC act 1956 and does not warrant a reply.

6.2.2.21 Finance and Risk Management Committee

According to the Public Sector Companies (Corporate Governance) Rules, 2013, the Risk Management Committee was to be formulated by the BoD in 2013.

The BoD of PIAC did not formulate its Risk Management Committee till 2016. The BoD in its 1st meeting held on May 09, 2016 renamed its existing Finance Committee with “Finance & Risk Management Committee”³⁰ with the direction that the Committee shall formulate significant Risk Management policies as follows:

- a. Reputation Risk
- b. Environment Risk
- c. Credit risk
- d. Liquidity risk
- e. Market risk:
 - i. Interest rate risk
 - ii. Commodity (jet fuel) price risk

²⁹ Annual Financial Statements

³⁰ Minutes of BoD meeting

iii. Currency risk

Audit further observed that since formulation of Finance & Risk Management Committee, only 03 meetings of the Committee were held and the Committee failed to formulate the relevant policies. The BoD in its 325th meeting held on April 29, 2010 directed the management to create a Risk Management Division headed by Chief Risk Officer (CRO) equivalent to General Manager, who shall report to the Managing Director. Board of Directors further directed that ToRs of the Division should be duly approved by the Audit Committee. No such Division was formulated by the management till close of audit despite lapse of 08 years.

Further, as per directives of the Board, in order to formalize corporate decision-making process, significant issues shall be placed for the recommendations of the Finance Committee before presenting it for decision of the Board, such as:

- a. Financial restructuring and reorganization plans
- b. Review of the strategic/long term business plans, cash flow projections & forecasts
- c. Acquisition / disposal of fixed assets including aircraft, lands & buildings
- d. Investments and disinvestment of financial assets
- e. Review of budgets including capital and overhead budgets
- f. Evaluation of risk management proposals
- g. Evaluation of project(s) feasibility studies
- h. Details of joint venture or collaboration agreements or agreements with distributors, agents, vendors etc.
- i. Recommendation of the Capital Expenditure beyond approved budget
- j. Write-off monetary assets and determination of a reasonable provision for doubtful amounts for all monetary assets including advances, receivables, trade debts and investments.
- k. Write-off inventories and other assets.

Further, audit observed that only 13 meetings of the Board Finance Committee were held during 2008 to 2017. Only one meeting was held in each year i.e. 2009, 2012, 2013, and 2016. No meeting was held in 2010 & 2018 (till August 2018). Eighty five (85) BoDs meetings were held during the same period.

In every BoD meeting, more than one matter relating to the portfolio of Finance Committee was discussed and resolved, which showed that majority of the Board's decisions were taken without recommendations of the Finance Committee and proper due diligence.

Audit was of the view that the area of risk management was totally ignored in PIAC and the BoD failed to either actively supervise its own sub-committees or get its orders implemented by establishment of Risk Management Division.

Management in its reply noted the fact raised regarding Finance Committee through observation and shall recommend Board to make it more robust. Whereas Risk management committee functions are carried out by various management functions, however observation on creation of Risk Management Division has been noted for further action.

6.2.2.22 Irregularities in appointments of MDs/CEOs

1. During the period under review 08 MDs/CEOs of PIAC were appointed by the Govt. of Pakistan in violation of the prevailing rules and undue favor³¹ was extended to them.
2. The requirements of Public Sector Companies (Appointments of Chief Executives) Guidelines, 2015 were totally ignored by the BoD in appointment of one CEO.
3. The pay and allowances granted to MDs/CEOs of PIAC³² were in violation of the provisions of Ministry of Finance standing instructions regarding MP scale. Resultantly, PIAC suffered Loss of Rs.98.111 million due to excess fixing of Pay & Allowances of MDs/CEOs of PIAC at exorbitant rates.

Management in its reply stated that Federal Government appoints MD/CEO before its conversion, and matter may be referred to Federal Government to decide.

6.2.2.23 BoD meeting Chairman not elected by Board members

³¹Personel& recruitment files

³² Pay Packages provided by Finance and HR

The Board of Directors as they have not elected a chairman after 48th BOD meeting³³ held during the year 2020 in contravention of Rule No. 4(4) of Corporate Governance Rules 2013 that states that

“The chairman of the Board shall be elected by the Board of Directors of the Public Sector Company. However, this provision shall not apply where chairman of the Board is appointed by the Government”.

Subsequent Board meetings were presided by adhoc chairman elected for each meeting. Management in its reply state that Chairman used to be elected by the Board of Directors in every meeting till the time permanent chairman of the Board was appointed by Federal Government.

6.3 Significant Audit Observation

6.3.1 Failure of Board’s HR committee to rationalize human resource resulting in excess expenditure

The PIAC Board’s HR Committee (HRC) in its 31st meeting held on November 18, 2014 approved its ToRs as under:

- a. Human Resource Management
- b. Organizational Development
- c. Corporate Governance
- d. Compensation and Benefits
- e. Industrial Relations
- f. Human Resource Budget

Human Resource Budget (HRB) showing PIAC’s department-wise sanctioned strength was approved by the Board of Directors in 2002. Subsequently, frequent changes were made in the approved HRB and nomenclature of most of the Departments was also changed through Admn Orders with the approval of the HRC. Resultantly, sprinkled information regarding overall HRB of PIAC was available. The matter of HR rationalization was discussed in 17th meeting of HRC³⁴ held on April 28, 2010. The management presented a preliminary study for the next 05 years with the following objectives:

³³ Relevant minutes of Board meeting

³⁴ HRC meeting 31st meeting 2014

- a. To replace general manpower with quality manpower without affecting the quality of work and productivity in phased program from year 2010 to 2015.
- b. Within the next 05 years, there would be reduction of 2500 employees and Rs. 2.500 billion (Approx) would be saved.

The HRC directed the management to prepare a thorough study of each department to pinpoint the areas where manpower can be curtailed through merger of functions and elimination of duplication of work in different department of the Corporation. The matter was again discussed in 18th & 19th HRC meetings held on August 04, 2010 & November 26, 2010 but directives issued by HRC in its 17th meeting were not complied. The HRC in its 20th meeting held on January 24, 2011 re-asserted its earlier directives to revise plan to be named as HR Rationalization Plan-2015 and the same should be developed and circulated to HR Committee members by February 28, 2011.

During the last quarter of 2020, the Company announced Voluntary Separation Scheme³⁵ for its permanent employees, as part of HR restructuring. Under the scheme, over 1,900 employees opted for voluntary separation. GoP sanctioned grant to pay off the amounts due to the outgoing employees and an assignment account has been opened in national bank of Pakistan. The desired results of the scheme to rationalize the human resource are yet to achieve.

Management in its reply state that the required rationalization has recently been done, however the reply is not tenable because, audit highlighted this observation was raised almost 8 years ago, the consequences of delay in implementation is costly.

6.3.2 Favours in fixing Pay & Allowances of MDs/CEOs of PIAC at exorbitant rates

The Govt. of Pakistan, Finance Division vide its OM No. F.3(7)-R.4/98 dated August 18, 1998 introduced salary package and perquisites for professionals appointed on contract basis against top Management Positions (MP) in the public sector organisations. Significant provisions of the above referred OM are as under;

³⁵Voluntary Separation Scheme (VSS) of 2020

1. The salary package and perquisites of MP-1 is meant for professional from the private sector proposed to be appointed³⁶ on contract as Chief Executive in the public sector.
2. The terms & conditions of professionals appointed from the private sector against top management position in the public sector may be regulated/determined within the scope of salary and perquisite under reference.
3. The negotiated terms in each case may be submitted to the authority competent for formal approval. No other benefits of any kind would be admissible or may be considered for the contract appointments over and above those terms indicated in the perquisites packages under reference.

The salary package of MP-1 as revised time to time by the Govt. of Pakistan, Finance Division is as under:

MP - I w.e.f.	Basic pay Minimum/ Maximum	House Rent Minimum/ Maximum	Utilities Minimum/ Maximum
18.08.1998	130,000/160,000	50,000/70,000	6,500/8,000
11.04.2007	195,000/240,000	75,000/105,000	9,750/12,000
01.01.2013	263,000/324,000	101,000/142,000	13,100/16,200
01.12.2016	289,300/355,300	101,000/142,000	13,100/16,200
14.07.2017	433,950/532,950	101,000/142,000	19,650/24,300

The pay and allowances of the MDs/CEOs of PIAC were required to be regulated in accordance with guide lines as provided by Finance Division as quoted above. It was however, observed the instructions of the Finance Division were not observed in granting pay & allowances of the MDs/CEOs PIAC as detailed below:

³⁶ MP scales issued by Federal Govt

S. #	Name of Officer	Pay Per Month	Allowances per month	Period in months	Total Irregular payment	Approving Authority	Remarks
1.	Capt. Aijaz Haroon	240,000	659,500	14	9,233,000	Govt. of Pakistan	Pay was sanctioned as per MP-I scale. Whereas, Allowances were granted in excess of MP-I Scale.
2.	Capt. Nadeem Yousuefzai	240,000	916,625	2	1,833,250	Govt. of Pakistan	--- do --
3.	Capt. Junaid Younus	240,000	992,000	22	21,824,000	Govt. of Pakistan	--- do --
4.	Shahnawaz Rehman	324,000	422,200	14	5,910,800	Govt. of Pakistan	--- do --
5.	Hildenbrand Bernd	1,999,998	1209,999	11	35,309,967	BoD PIAC	The Pay & Allowances were in gross violation of MP-I Scale.
6.	Musharraf Rasool	1,500,000	500,000	12	24,000,000	BoD PIAC	The Pay & Allowances were in gross violation of MP
7.	Arshad Malik						Record requested through Audit Requisition No. 02 dated 09-09-2021, but not provided
Total					98,111,017		

Audit is of the view that undue favour was extended to the above officers while fixing pay and allowances at exorbitant rates, causing unnecessary burden of Rs. 98.111 million on the Corporation.

Management in its reply state that the matter may be referred to Federal Govt. through aviation division.

6.3.3 Irregular appointment of General Manager and promotion as CFO

An advertisement was published on January 01, 2010 for appointment of General Manager-Budget & Financial monitoring with the required qualification of Chartered Accountants with minimum six years post qualification experience or ACCA/MBA/ACMA with minimum eight years post qualification experience. Mr. Nayyar Hayat having qualification of ACMA was appointed as General Manager, Budget & Financial Monitoring (PG-X) in March 2010.

As per directives of the Board of Directors in its 320th meeting held on June 27, 2009 for the induction of Chartered Accountants in PIAC, the Board's HR Committee in its 14th meeting held on July 23, 2009 approved appointments

of 12 Chartered Accountants at market based salary of Rs.75, 000 for Assistant Managers (PG-VII) and Rs. 125,000 for Managers (PG-VIII).

Audit observed:

- a. The Board's HR Committee approved appointments on the posts of Managers PG-VIII and Assistant Managers PG-VII, but the management advertised post of General Manager in PG-X.
- b. Required qualifications given in advertisement were in contravention from those approved by the Board's HR Committee. The Committee directed the management to induct Chartered Accountants, but the management advertised the post with additions of other qualifications such as MBA, ACMA. Therefore, the appointment of a person having qualification of ACMA was irregular.
- c. The officer lacked required experience. He had acquired certification of ACMA (Associate member of Institute of Cost and Management Accountant) on November 08, 2008. Therefore, at the time of his appointment in PIAC, he had only 01 year and 03 months post qualification experience against the required experience of 08 years.
- d. The officer misreported his date of ACMA in the prescribed application form. He reported that he became ACMA in the year 1999 whereas; the correct date was November 08, 2008. He deliberately, misreported the fact in order to fulfill the criteria of post qualification experience of 08 years.
- e. The Board's HR Committee had approved induction of 12 Chartered Accountants as Manager in PG-VIII with salary of Rs.125,000 and Assistant Manager in PG-VII with salary of Rs.75,000 per month respectively (Refer Minute-1 dated 24 March,2010), but the management inducted him in PG-X with salary of Rs. 202,500 (Rs.172,500 + Rs.30,000 qualification allowance).
- f. The officer remained without any assignment from July 2012 to January 2013. Further, in January 2016, the charge of CFO had been taken back from him due to issuance of Show Cause Notice dated 30 December 2015 by the SECP on the issue of PIAC's Employees Provident Fund. (The detail was called for by the audit during the special audit but not provided

by the management). He again remained without assignment from January 2016 to April 2016, which shows that he was not capable to perform key positions of Finance and Accounts.

- g. He was also served a Show Cause Notice on August 11, 2018 on the allegations of misreporting to the Audit regarding figures of the Govt. of Pakistan's support to PIAC during the period 2008 to 2017.

The above position indicates that the management extended undue favor to the officer in his appointment, promotion and postings on important positions. Hence, the appointment of above officer was irregular and the pay & allowances of Rs. 38.707 million for the period April 2010 to December 2017 was unjustified.

The management in its reply state that the matter may be referred to PIAC HR department

6.3.4 Irregular appointment of CFO-SBU on contract basis

The post of Chief Financial Officer, PIAC was advertised on February 12, 2014 and Chief Financial Officer –Strategic Business Unit (SBU) on contract basis on monthly salary of Rs. 900,000 per month for a period of two years as per approval of the BoD in its 356th meeting held on April 29, 2014.

As per policy guidelines for contract appointments in autonomous/semi-autonomous bodies/corporation, issued by Establishment Division vide its OM. No. 6/2/2000-R.3, dated May 06, 2000 the post should be advertised and selection be made through regularly constituted Selection Committee/Board. There was ban on recruitment process in Federal Ministries /Divisions /Autonomous Bodies / Corporations as circulated by the Cabinet Secretariat Establishment Division vide its OM No. 53/I/2013-SP, dated February 06, 2014. The BoD in its 323rd meeting held on January 14, 2010 directed the management that in future the Recruitment Policy of PIAC, as amended from time to time, should strictly be followed. In case any inevitably required deviation from the said Policy, the matter should be put up to Board only if recommended by the Board's HR Committee.

Following irregularities ³⁷were observed;

1. The appointment was made during ban period.
2. After advertisement for the appointment of the post of CFO PIAC on February 12, 2014, theBoD in its 356th meeting held on April 30, 2014 re-titled the position as Chief Financial Officer-Strategic Business Units (SBU) which was not advertised. Therefore, the appointment of the incumbent as CFO SBU was without advertisement of the post.
3. There was neither any provision of the post of CFO – SBU in the prevailing HRB nor any approved job description of CFO – SBU in the Personal Policy Manual of PIAC at the time of his appointment.
4. As the appointment CFO-PIA was not as per prevailing Recruitment Policy of PIAC therefore, it required recommendations of the Board HR Committee. Whereas, the BoD in its 356th meeting held on April 30, 2014 waived-off the conditions of the recommendations of the Board HR Committee Certified copies of degree/certificates/ experience certificates were not available in the record.
5. He was 60+ years at the time of appointment in PIAC and as per standing instructions of the Govt. of Pakistan; approval of the Prime Minister was required for the appointment beyond the age of 60 years. However, no approval of the Prime Minister was obtained by the management for his appointment.

The management in its reply state that the matter may be referred to PIAC HR department.

6.3.5 Excess payment due to irregular appointment of Deputy Managing Director

In PIAC, Mr. Salim Sayani (USA nationality holders) was appointed as Deputy Managing Director on July 17, 2009 on contract basis at the age of 56 years. The significant terms and conditions of his service agreement dated July 16, 2009 were as under:

³⁷ Appointment and personel file of the employee

- a. Contract shall be valid for two years extendable upto two additional terms from date of appointment as DMD of PIAC based at Dubai and positioned at PIAC Head Office, Karachi.
- b. Monthly salary USD 20,000, full medical coverage, five star hotel room for 03 months at Karachi and family accommodation at Dubai on PIAC's expense.
- c. The employee shall be entitled for annual increment by 7% of USD 20,000.

Establishment Division vide its OM dated May 06, 2000 laid down the policy³⁸ for the contract appointment in corporation and public sector companies owned and managed by the Federal Govt. According to which contract appointment should be made only subject to fulfillment the following conditions:

- a. Where the nature of a particular job/vacant position requires contract appointment for a specific period, standing instructions should be issued by the administrative Ministry/Division concerned, after consultation with the Chairman of Board of Directors specifying such post and the parameters covering appointment on contract basis against such posts.
- b. Vacancies should be advertised in the leading national and regional newspapers.

According to the Clause 34.01.04 of Personnel Policy Manual of PIAC, no person shall be recruited whose age is less than 18 years and more than 40 years at the time of recruitment.

Audit observed following irregularities;

- a. The vacancy was not advertised as required under the standing instructions as quoted above. The parameters for appointment on the post were not prepared by the BoD as per procedure quoted above. The incumbent was appointed without any recommendations of the Selection Board. He was over-aged at the time of appointment in PIAC.
- b. Appointing authority of the post was BoD however, he was appointed by the Managing Director on July 17, 2009 without prior approval of the BoD. Subsequently, case was submitted for ratification to BoD in its

³⁸Establishment Division vide its OM dated May 06, 2000

321st meeting held on August 20, 2009. Therein, the MD PIAC informed that after a due diligence, market survey made through headhunter, Mr. Salim Sayani was shortlisted. He was interviewed and cleared by Chairman PIAC/Minister for Defense, Federal Minister for Finance and MD PIAC. Audit was of the view that role of appointing authority i.e. BoD was completely ignored in the procedure adopted for appointment of the incumbent. Only Chairman BoD who was also Minister of Defense included in the interview panel that was not the full representation of the BoD. Chances of undue influence could not be ruled out.

- c. Board of Directors in the above stated meeting decided that, since appointment was made in consultation with the Minister Finance therefore, endorsement of the Federal Government for the appointment of Mr. Salim Sayani should be obtained. However, neither such endorsement was available in PIAC nor his personal file was produced to audit on the ground that the appointment of the employee was made in Dubai, therefore, personal file and other relevant record is not available in Karachi.
- d. Terms & conditions of appointment of the incumbent included the payment of salary at Dubai in USD. The BoD while ratifying his appointment also showed concern and observed that it is in violation of rules as his posting is at Karachi. Despite that the condition of the agreement was not changed and his monthly salary was paid in USD at Dubai which was irregular and burden on the foreign exchange.
- e. According to the Govt. of Pakistan, Finance Division OM No. F.3.(7) R-4/98 dated August 18, 1998, the pay package of MP-II scale was required to be granted by the management to Mr. Salim Sayani. However, pay package at exorbitant rate was allowed. Resultantly, excess payment of Rs. 86.720 million during the period September 2009 to May 2012 was made by PIAC to the incumbent as detail given below:

Monthly Permissible Packages Per MP-II Scale (Rs.)	Monthly Package Actually Paid		Per Month Difference (Rs.)	Total Service (Months)	Total Excess Payments (Rs.)
	(USD)	@ Rs.01= USD 90			
1	2	3	4=(3 - 1)	5	6 = (4 x 5)
218,020	31,621	2,845,890	2,627,870	33	86,719,710

- f. Services of the incumbent was acquired by PIAC at a huge package on the plea that PIAC needed services of highly skilled professional at market based salary who with his immense experience of aviation industry would immediate revive the financial health of PIAC. It was however, observed that services of Mr.Salim Sayani was terminated prematurely on July 07, 2012. This showed that the purpose of hiring of the officer at extremely high package was not achieved.
- g. After termination of services of Mr. Salim Sayani , an inquiry was conducted by a three members Board of officers of the Ministry of Defense (Administrative Ministry) headed by a Joint Secretary on irregular appointment of the officer. The Inquiry report dated December 26, 2012 clearly concluded that the appointment and salary, perks and benefits of Mr. Salim Sayani as DMD, PIAC was in violation of Govt. rules and regulations and Capt. Aijaz Haroonex - MD of PIAC was responsible for violation of the Govt. rules. Resultantly, a Show-Cause notice dated July 12, 2013 was served to Capt. Aijaz Haroonex - MD. However, neither any action was taken against the MD nor any recovery was made from any one.

Audit was of the view that Mr. Salim Sayani was appointed in irregular manner and clear favoritism was extended to him. The BoD was the competent authority for appointment of Deputy Managing Director but its powers were exercised by the irrelevant authorities and the BoD did not take any notice.

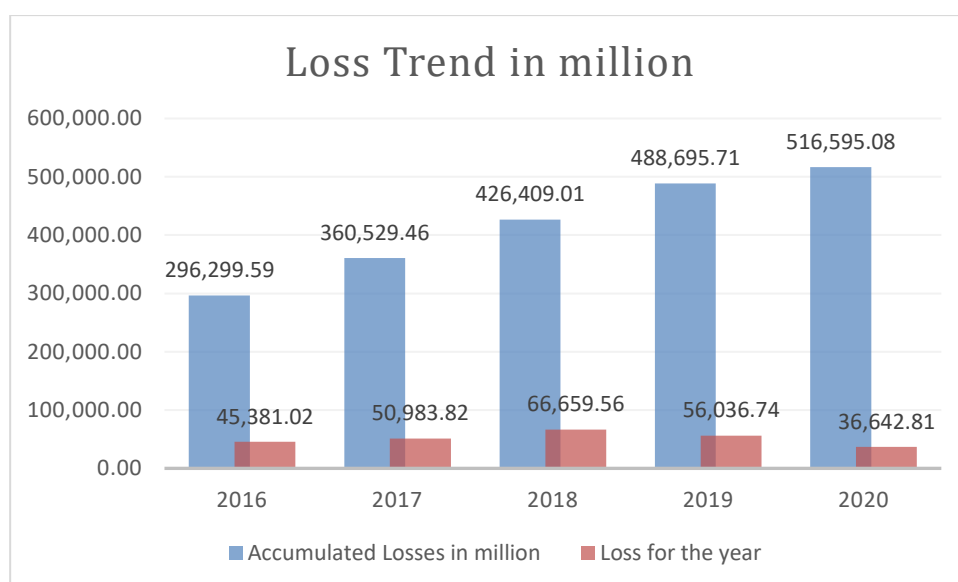
Management in its reply stated that the matter is already under investigation by FIA.

Going Concern/Financial Sustainability

6.3.6 Critical evaluation of performance of the company for the last five years to assess profitability and future growth prospects

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013, entails that the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

Corporation is being run on adhoc basis instead of framing a long term business survival plan. The accumulated losses along with long term and short term loans are piling up each year resultantly accumulated losses are rising. Under these circumstances one can-not declare any organization as a going concern.



The audit observed that the accumulated losses³⁹ of PIACL in 2016 were Rs. 296.299 billion, which till 2020 rose to Rs.516.595 billion, almost doubled. The company closed several routes during the years under review due to their

³⁹ Annual Financial Statements

uneconomical operations and low passenger load factor. Sector-wise analysis revealed that PIAC sustained operational loss on all its international as well as domestic sectors.

The audit is of the view that over the years, management failed to take steps to match the increase in costs with revenues, which resulted into closures of routes which were once productive and profitable route. Inefficiency of the management and leakage of revenue with the connivance of the PIAC management has brought upon this quagmire. The market share of PIAC has considerably decreased and passenger load was taken over by other airlines.

PIAC is unable to continue as a going concern without the support of the Government of Pakistan. It had accumulated losses of Rs.516 billion up to 31st December 2020.

The management in its reply informed that para has been referred to PIAC Finance department, but no reply was received till finalization of the Audit.

6.3.7 Key Financial Indicators of the Corporation

Section (4) sub-section (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

Top-line items of PIAC Financial Statements are deteriorating. Financing area has been growing at a rapid pace due to which corporation's profit is shrinking and losses are widening. PIAC has not been able to generate enough funds to pay finance costs / markups, the reasons for which it takes more loans only to repay principal payments and markups. The brief details are as under:

(Rs in million)							
Description	2020 (unconsolidated)	%Inc / (Dec)	2019 (Consolidated)	%Inc / (Dec)	2018 (Consolidated)	%Inc / (Dec)	2017 (Consolidated)
Revenue	94,989.391	(47.69)	164,646.354	39.55	117,982.168	13.54	103,911.181
Cost of Service	92,528.351	(39.13)	151,997.761	14.46	132,790.485	13.71	116,784.451
Long Term Financing	214,644.605	12.07	191,517.237	28.76	164,561.875	60.951	102,242.918
Short Term Finance	30,576.613	(3.17)	31,580.219	(8.32)	34,447.36	0.25	34,358.474
Finance Costs	29,724.512	(16.35)	35,537.349	74.33	21,108.003	33.74	15,781.979
Loss for the year	36,642.811	(34.61)	56,036.735	(19.96)	66,659.564	30.74	50,983.821

(Source: Annual Accounts 2020)⁴⁰

6.3.8 Irregular appointment of Helmut Bachhofner as Consultant

Establishment Division OM. No. 11-3/2001-III dated January 25, 2002 states regarding appointment of consultants in organizations under the administrative control of the Government as given below;

- As a first step, the client organization is required to ascertain as to whether or not the required expertise is available within the organization. In case the expertise is available in-house, reasons for not undertaking the assignment internally may be spelled out and detail justification including ToRs/specific tasks to be accomplished, anticipated benefits from the proposed assignment, approximate time required for accomplishment of the job and cost estimates etc.
- Consultancy should be widely advertised indicating the range of package including various facilities keeping in view of the nature of the job.
- The applications will be short listed and prioritized by an in-house committee of the client organization.
- For general budget funded consultancies, a selection board headed by the Secretary of the Division/Ministry concerned and including a representative each of Establishment Division and Finance Division will recommend a panel of at least three candidates in order of merit for consideration of the appointing authority. The selection board should also recommend the compensation package.

The management hired consultancy services for Engineering and Maintenance Department and signed agreement with Mr. Helmut Bachhofner (a German national) on October 14, 2016 for a period of 03 months from October, 2016 to January, 2017 @ USD15 ,000 per month. A change was made in the contract by adding the clause under which he was required to give plan for phasing out of A-310 aircraft. The detail of payment is as under:

S. #	Description	Amount (USD)
1	Consultancy charges @ 15,000 USD per month	45,000
2	Income Tax paid by PIAC	11,250
3	Hotel charges for stay in Pakistan	6,519
4	Travelling expenses	1,785
	Total	64,554

It was observed that the procedure as laid down by the Establishment Division⁴¹ as referred above was not followed in PIAC as no assessment was carried out that the required expertise were available in PIAC or not, the opportunity was not advertised, the consultancy services was awarded to Mr. Helmut Bachhofner without the recommendations of the selection board as referred above. Further, the consultant was involved in controversial sale of PIAC A-310 aircraft to the Museum in Germany which is under investigation. Thus the management failed to safeguard interest of PIAC.

Management in its reply state that the matter is already taken up by FIA and FIR has been lodged.

6.3.9 Board unable to observe corporate governance requirements in Related Party Transactions

Rule 9(1) of Corporate Governance Rules states that “The details of all related party transactions shall be placed before the audit committee of the Public Sector Company and upon recommendations of the audit committee, the same shall be placed before the Board for review and approval”.

During the audit it was observed that this key rule has not been observed as the Board has not established criteria for review and approval of a non-arm’s length transaction⁴² and recording proper justification for using such alternate pricing mechanism.

⁴¹Establishment Division OM. No. 11-3/2001-III and Appointment file of consultant.

⁴² Company Act 2107 and International Accounting Standards requirement

6.3.10 Board allowed availing dual monetary benefits to some employees

There are 35 officers who drew double monetary benefits having the qualification of CA/ACMA. Firstly, in 2003 management allowed a monetary benefit named Qualification Pay to those officers having CA/ACMA. Later on, an additional benefit under the head of Qualification Allowance as per Admin Order No.22-2015 dated 07.10.2015 was allowed for the same qualification. An accumulated amount of Rs. 85.5 million has been paid out by PIAC to these 35 officers on account of Qualification Allowance.

The management in its reply state that Finance department of PIAC will provide the relevant reply in this regard

6.3.11 Irregular appointment of Mr. Wasim Bari Salimi as Chief Legal advisor on contract basis

Ministry of Defence vide its OM dated June 26, 2013 communicated the decision of Govt. of Pakistan regarding imposition of ban on all recruitments in Federal Ministries/ Divisions/ Autonomous Bodies/ Corporations w.e.f. June 20, 2013. Further, as per policy guidelines for contract appointments in corporations etc, issued by Establishment Division vide its OM. No. 6/2/2000-R.3 dated May 06, 2000, the post should be advertised.

The BoD in its 323 meeting held on January 14, 2010 directed the management that in future the Recruitment Policy of PIAC, as amended from time to time, should strictly be followed. In case any inevitably required deviation from the said Policy, the matter should be put up to Board only, if recommended by the Board's HR Committee.

Mr. Wasim Bari Salimi, (P-67147) was appointed⁴³ as Chief Legal Officer on contract basis for a period of two years w.e.f. June 16, 2014, on a gross monthly salary of Rs. 2,588,961 at the age of 61+ years. The BoD in its 356th meeting held on April 29, 2014, waived off the conditions of the requirement of advertisement in press; routing through Board's HR Committee; and seeking PM approval as required for all contractual appointment beyond sixty years. The following irregularities were observed;

⁴³ Appointment file

- a. The Govt. of Pakistan had imposed ban on all recruitments as quoted above and the directives were also communicated to PIAC by the M/o Defense (Administrative Ministry) but the officer was appointed during the ban period in violation of the orders of the Govt. of Pakistan.
- b. The appointment was made without advertising the vacancy through press, in violation of Establishment Division OM dated May 06, 2000 as quoted above.
- c. The officer was more than 61 years of age at the time of appointment in PIAC, but approval of the Prime Minister as required under Cabinet Division DO letter No.4/1/84-RI dated April 08, 1985 for the appointment beyond the age of superannuation was not obtained. The BoD was not competent to relax the above rules.
- d. The appointment of the incumbent was in deviation of the PIAC Recruitment Policy and therefore, the case of appointment of the incumbent required recommendations of the Board's HR Committee. However, the BoD accorded its approval for the appointment without recommendations of the HR Committee.
- e. PIAC Board of Directors in its 356th meeting held on 29th & 30th April, 2014 also authorized management to include a severance clause whereby Mr. Wasim Bari Salimi shall be compensated for the remaining contractual term if the contractual agreement is terminated by PIAC except where the reason is of non-performance, disciplinary failure and / or moral turpitude. This was extra favour to the incumbent.

Audit was of the view that the appointment of the officer was irregular and the payment made the payment of Rs. 55.930 million during the period of April, 2014 to May, 2016 was unjustified.

Management in its reply state that the para pertains to HR and referred to them.

6.3.12 Irregular appointment of Director, Customer Care

According to the advertisement published in newspapers on April 29, 2016 for the post of Director, Customer Care the required qualification was Business Administration or higher degree in Management or Aviation Management or hotel Management. As per Job Specification for the post, desired

experience was 10 to 15 years in airline industry. Further, as per clause 34.01.04 of Personnel Policies Procedure Manual, no person shall be recruited whose age is less than 18 years and more than 40 years at the time of recruitment.

Contrary to above rules, Ms. Tabassum Abdul Qadir was appointed⁴⁴ to the post of Director, Customer Care vide appointment letter dated 06.09.2016 for 02 years with salary of Rs.1,000,000 per month and accommodation allowance of Rs. 200,000 per month. Subsequently she resigned on 05-01-2017.

Following irregularities were noticed:

- a. She was graduate and had degree of BA Economics.
- b. She had only 6 years' experience in aviation/airline.
- c. She was over-aged by three years.

Audit was of the view that the appointment of the incumbent was irregular and payment of Rs. 6.00 million was unjustified.

Management in its reply state that the para pertains to HR department.

6.3.13 Unauthorized appointment and promotion

As per Establishment Division letter No. 06/02/2000, the appointments on contract basis in Corporation, Public Sector Companies etc. should be made through advertisement in the leading Newspapers indicating prescribed Academic and Professional qualification, experience, age provincial/regional quotas etc and selection should be made through regularly constituted Selection Committee/ Board.

According to the Ministry of Defense (Aviation Division) letter No. 4-6/PIA-II/80 dated Oct 25, 1982, the induction / re-employment of armed forces officer can be made in PIAC through Ministry of Defense/Selection Board provided that they meet PIAC laid down/ prescribed educational, professional standards and age limits etc.

Contrary to above rules, Mr. Syed Ejaz Mazhar was appointed on Mar 19, 1996 in PG-VII in PIAC Airport Services Department (ASP) on the recommendations of Prime Minister's Secretariat without advertisement, selection board, Human Resource Budget (HRB), and other prescribed procedure

⁴⁴ Appointment file

for appointment. After one year, his services were terminated on Mar 27, 1997, due to above mentioned allegation; however, he was again allowed to join PIAC on Sep 10, 1997 without addressing the above allegations. Mr. Ejaz Mazhar was promoted from PG-VIII to PG-X within 4 years. He was again promoted as Director w.e.f. September 16, 2011, whereas, in accordance with the rules at least 05 years' service was required for each promotion.

Thus, appointment of Mr. Syed Ejaz Mazhar was irregular as all the codal formalities were ignored in his appointment and further he was granted unauthorized out of turn promotions. The payment made on account of pay and allowances of Rs. 76. 620 million was unjustified.

The management in its reply state that para pertains to HR and referred to them for response.

6.3.14 Irregular appointment and promotion

S# 34.01.11, Chapter 34 of PIAC Recruitment policy states that the vacancies shall be advertised through national / provincial / regional newspapers. S# 34.01.11, Chapter 34 states that unless the competent authority decides otherwise for reasons to be recorded in writing, all appointments to posts in the service of the Corporation shall be made by the competent authority on the recommendation of the Selection Board constituted by it for the purpose. According to Chapter 30 clause 30.01-PIAC Personnel Policy Manual, promotion shall be on the basis of merit and corporations requirements, against available approved permanent posts / vacancies only, in accordance with the requisite qualifications or specifications, as the competent authority may prescribe from time to time.

Contrary to above rules, Mrs. Ghazala Rashid (P. No.44307) was appointed⁴⁵ in PG-VI on 30.04.1983. The appointment criteria/ requirements of PIAC such as, available approved post, advertisement, quota system, selection board etc. were ignored in her appointment in violation of rules and regulations.

Further, her promotions from PG-VI to Management Special Grade (Director/ Executive Director) were made without promotion board, seniority list, available post, management courses in violation of PIAC promotion policy.

⁴⁵ Appointment and Personel file

As per investigation report submitted by the investigation committee she was found involved in misappropriation of funds at Airport hotel, while working as Executive Director, for which she was served a Show cause noticed on June 06, 2016, but she did not submit reply and present status of the disciplinary case was not available in the file. Subsequently, she was posted as Director in Al-Shifa Trust.

Audit was of the view that the management extended undue favour to the officer in appointment, promotion despite the fact that she was involved in misappropriation of funds at Airport hotel. Thus, her appointment and promotion was irregular and salary of Rs. 42.00 million (Avg salary Rs. 100,000 x 12 months x 35 years) was unjustified.

Management in its reply state that para pertain to HR and referred to them for response.

7 Departmental Responses

Departmental responses of each observation have been incorporated in each observation, however, to sum-up summary of responses is as under:

- Management showed its incapacity to respond to the paras where approvals of the federal government was involved and requested to refer the same to concerned ministry.
- Management instead of responding to the para requested to refer to some other departments of the PIACL like HR, Finance etc. ideally management should have got responses from the concerned departments of PIACL and should have furnished to audit.
- In some of the paras management contested the audit point of view because of change of policies and rules but the same was needed to be verified by audit.
- Moreover, in some paras management accepted audit point of view and noted for corrective action in the future.

8 Recommendations

Keeping in view of the observations/reviews made in this thematic audit recommends following suggestions/ corrective action:

- a. The nominations of the members of the BoD PIAC should be in accordance with the provisions of the Public Sector Companies (Corporate Governance) Rules, 2013.
- b. The members nominated by the Govt. of Pakistan in ex officio capacity should ensure their full participation in the BoD meetings in order to oversight management's decision making on behalf of GoP.
- c. The Board's Committees should be formulated with proper segregation of responsibilities to avoid conflict of interest as per best international practices and also in accordance with the Public Sector Companies (Corporate Governance) Rules, 2013 to support in BoD's working.
- d. The performance evaluations of the BoD members, the Chairman and the CEO PIAC should be conducted by the Govt. of Pakistan regularly for maintaining impartiality and fairness in best public and government interest.
- e. Appointments of MDs/CEOs and top executives of PIAC should be made purely on merit basis and in accordance with the prevailing rules & regulations and standing orders of the Govt. of Pakistan.
- f. Decisions of the Board should be implemented in its true spirit.
- g. Fit and appropriate criteria as mentioned in Public Sector Corporate Governance rules should be followed in selection/appointments.
- h. Financial Statements should be finalized and circulated among all Stakeholders within stipulated time for better decision making.

9 Conclusion

This study explored historical trajectory of Corporate Governance with reference to its introduction to PIACL, which once used to be benchmark for Qatar Airways, Emirates, Singapore and Sri Lanka airlines in the region but now is struggling with its own performance and is under hard criticism due to bad governance and poor performance. Because of bad governance, PIACL has chronic poor financial problems, operational performance, conflicts of union and management, favoritism and nepotism in human resource practices, overstaffing, employees involved in smuggling, having inadequate number of aircrafts in fleet, old age and fuel in-efficient aircrafts, almost swallowed by huge monthly,

accumulated losses and liabilities, having industry's highest ever employees to aircraft ratio, blighted by corruption, inefficiency, unsound practices of transparency, accountability, mismanagement, miserable and unsatisfactory performance.

If we thoroughly look into the issues being faced by PIACL we find those rooted to its bad governance and unsound CG practices like Board of Directors and its composition, non-formulation of criteria for nomination of BoD members, ineffective working of Board Committees, non-functioning of fleet management committee, ineffective Finance and Risk Management Committee, failure of Board's HR committee to rationalize human resource resulting in excess expenditure, ineffective role of the Chairmen (Board of Directors), violation of Recruitment Rules in the appointment of MDs/CEOs, irregularities/favoritism in appointments of MDs/CEOs, inconsistencies in incumbency of Managing Directors/CEOs, favoritism in fixing Pay & Allowances of MDs/CEOs of PIAC at exorbitant rates, unconstructive role of Board in reducing losses and making corporation debt free and equity reliance and adhoc appointments on key positions.

However, looking at the performance of PIACL, it is concluded that the even though the elements of Corporate Governance do exist in PIACL, but unfortunately the same are not being implemented in true spirit and needs further improvement in strict implementation of the same. CG norms are mentioned in policy papers only whereas there are various discrepancies implementing them as a result corporation is experiencing different chronic issues and not delivering expected performance. Sound CG practices increase performance, encourage managers and provide an environment to maximize operational efficiency productivity and growth of corporations. Moreover, sound CG practices confirm stakeholders' interest and reduce abuse of power such measure needs to ensure accountability by monitoring managers' behaviors and cost effectiveness.

10 References

In the assessment of Corporate Governance rules and practices in PIAC, related record was collected from Pakistan International Airlines Corporation Limited Head Office using the following sources:

- Through requisitions from the management of Pakistan International Airlines Corporation Limited.
- Pakistan International Airlines Corporation Limited Chairman's review report.
- Management' Profile
- Shareholding pattern of Pakistan International Airlines Corporation Limited
- Board meeting working papers.
- Review report issued to members on the statement of compliance with the Listed Companies Code of Corporate Governance regulations 2019 and Public Sector Companies (Corporate Governance Rules 2013)
- Meeting attendance register of various Board and Committees meetings.
- Director's report to the shareholders of Pakistan International Airlines Corporation Limited

Thematic Audit (15.3)

1 Thematic Audit of Corporate Governance in National Insurance Company Limited (NICL)

1.1 Introduction

Poor Corporate Governance (CG) may result in downfall of any organization therefore it became the major focus in achieving organizational goals and objectives. CG is considered a mechanism to control a company and take care of its stakeholders with defined rules and regulations aimed at transparency and integrity. Stakeholders include board of directors, management, shareholders, customers, employees.

This study is on thematic review which explores historical trajectory, models, and introduction of CG in NICL. It also identifies reasons of poor governance issues such as chronic bad performance/governance, key decision-making lapses, unsound human resource practices, favoritism in promotions & appointments, etc.

National Insurance Company Limited was incorporated in Pakistan on March 31, 2000 as an unquoted public limited company under the Companies Ordinance, 1984. With effect from January 01, 2001 the company took over all the assets and liabilities of former National Insurance Corporation (NIC) at book values under the National Insurance Corporation (Re-organization) Ordinance, 2000. Issued, subscribed and paid capital of NICL consists of 200 million ordinary shares @ Rs. 10/- per each. The Federal Government & Employees Empowerment Trust holds 88% & 12% shares respectively.

1.2 Background

National Insurance Corporation was established in 1976 with an initial paid up capital of Rs. 5 million for the sole purpose of insuring public properties. The corporation became the sole insurer of the public sector enterprises. This included properties owned by the government, autonomous bodies and organizations in which the Government of Pakistan had controlling financial interest. The National Insurance Corporation conducted its business on

commercial principles similar to private insurance companies transacting general insurance business.

In January 2001, The National Insurance Corporation has been converted into National Insurance Company Limited with effect from January 2001 to operate under the Insurance Ordinance 2000. National Insurance Company Limited was incorporated on 31st March and took over National Insurance Corporation with effect from January 01, 2002. The Government changed the legal status and raised its paid up capital from Rs 5 million to Rs 2 billion, thus making it the largest insurance company in Pakistan. The National Insurance Company Limited is 100% owned by Government of Pakistan (GOP) and working under the administrative control of Ministry of Commerce (MOC). The Government's decision to convert it from a Corporation into a limited company was based on the fact that the National Insurance Corporation had, over the years, developed a very strong financial base. A Company could make a more efficient use of this strength. The change in stature from a statutory corporation to a corporate body is aimed at running this organization on purely commercial lines. NICL has the potential to function like a multinational company and emerge as a role model for the insurance industry of Pakistan.

The Government has appointed a new Board of Directors, comprising of highly successful individuals from different walks of life. The management is actively considering and studying the legal implications of entering into the reinsurance market in competition with the International Reinsurers.

The principal business of National Insurance Company Limited is providing general insurance coverage to the State Owned Moveable and Immoveable Assets belonging to Federal & Provisional Government, Local Authorities and Statutory Corporations. Insurance coverage is being provided in the following areas:

- Fire and Property Damage
- Aviation Hull
- Marine Hull
- Marine Cargo
- Credit Risk and Surety ship
- Motor
- Liability

- Workers' Compensation
- Accident and Health
- Engineering / Mechanical

1.3 Establishing the Audit Theme

1.3.1 Reasons of selection

This study explored historical trajectory of Corporate Governance with reference to its introduction to NICL. If we thoroughly look into the issues being faced by NICL we find those rooted to its bad governance and unsound CG practices. However, looking at the performance of NICL with respect of CG, it was observed that generally corporate governance exists in NICL but sound practices are not followed. Whereas, there are various discrepancies implementing them as a result company is experiencing different chronic issues and not delivering expected performance.

1.3.2 Purpose

Main objective of exercising the thematic audit is to assess the effectiveness of the corporate Governance in the National Insurance Company Limited being public sector Company in the insurance sector. It will be useful to the following;

- Concerned Ministry in the decision making for nomination of board members
- Management of NICL for appointments at key level positions
- Board of NICL for developing significant policies and compliance the rules of applicable code of governance
- Ministry of Commerce for developing independent and objective assessments of process of governance and achievement of KPI
- Government's regulatory authorities

1.3.3 Scope

The Scope of the thematic study of Corporate Governance of National Insurance Company Limited (NICL) is as under;

- Appointment of BoD's CEO / Management
- Planning and Policy making
- Execution / implementation and oversight

- Observance of corporate governance rules
- Going Concern/Financial Sustainability

2 Legal Frame Work Governing the Theme

The Auditor General conducts audits subject to Article 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 condition of Service) Ordinance 2001. The thematic audit of National Insurance Company Limited (NICL), Ministry of Commerce, was carried out accordingly.

Under the directions of Director General Commercial Audit & Evaluation, Karachi thematic audit of NICL was conducted during September 2021 with a view to examine the effectiveness of corporate governance and allied issues.

Following are other rules and regulations governing at NICL:

- NIC Ordinance, 2000
- Public Sector Companies (Corporate Governance) Rules, 2013 amended up to 2019
- Code of Corporate Governance for Insurer, 2016
- Insurance Ordinance, 2000
- Insurance Companies (Sound and Prudent Management) Regulation, 2012
- Insurance Rules, 2017
- Companies Act, 2017
- SECP Rules & Regulations
- Guidelines / directives by the Ministry of Commerce

3 Stakeholders and Government's Organizations identified as directly/indirectly involved

National Insurance Company Limited works under the guidance of Ministry of Commerce & Trade, Govt. of Pakistan. It will be particularly useful to following stake holders:

- Ministry of Commerce in the decision making for nomination of board members
- Management of NICL for appointments at key level positions

- Board of NICL for developing significant policies and compliance the rules of applicable code of governance
- Ministry of Commerce for developing independent and objective assessment of process of governance and achievement of KPIs
- NICL Employees Empowerment Trust
- Security Exchange Commission of Pakistan
- Employees & policy holders
- All Public Organizations

4 Role of Important organizations

4.1 Ministry of Commerce

National Insurance Company Limited works under the administrative control of the Ministry of Commerce. Under the Rules of Business 1973, Commerce Division is assigned the function of Law of Insurance and regulation and control of Insurance companies. MoC is regularly monitoring the performance and involved in strategic decisions of NICL.

4.2 Securities Exchange Commission of Pakistan

Securities Exchange Commission of Pakistan (SECP) has the mandate of supervision and making rules / regulations for insurance companies. It provides guidelines for registration of insurance companies and after completion of all pre-requisites of registration, registers the company. It regularly provides and updates regulations related to insurance business of Pakistan.

4.3 Public Organization

As per section 166 of Insurance Ordinance 2000, all insurance business relating to any public property or any risk or liability appertaining to any public property, shall be placed with NICL only and shall not be placed with any other insurer. Following organizations and institutions play a vital role in NICL and its operations.

5 Funding Procedures and Sources

National Insurance Company Limited was incorporated in Pakistan on March 31, 2000 as an unquoted public limited company under the Companies Ordinance, 1984. With effect from January 01, 2001 the company took over all

the assets and liabilities of former National Insurance Corporation (NIC) at book values under the National Insurance Corporation (Re-organization) Ordinance, 2000. Issued, subscribed and paid capital of NICL consists of 200 million ordinary shares @ Rs. 10/- per each. The Federal Government & Employees Empowerment Trust holds 88% & 12% shares respectively.

NICL is self-generated revenue organization. It generates revenue on account of premium from the policy holders. Moreover, premiums are invested in profitable and safe investments and generated income from the Real estate. Moreover, organization is consistently paying dividend to the federation. The major revenue generated areas are:

- Earned premiums from the policyholder under the following segments of business:
 - Aviation
 - Marine
 - Engineering
 - Fire, accident
 - Motoretc
- R/I commission
- Earning from Investment
- Real estate income

6 Field Audit Activity

6.1 Methodology

The audit was conducted in accordance with the INTOSAI Auditing Standards as envisaged in Financial Audit Manual (FAM). The audit also included review of record and discussion with management along with analysis and comments on various auditee policies. Comprehensive study of Board affairs including CEO's and senior management were conducted including assessing their appointment / nomination along with prevailing rules, remuneration of board members' relevant knowledge of insurance sector and expertise to run the affairs of the company. Moreover, data was also gathered to observe the compliance of code of Corporate Governance Rules in Company.

6.2 Key Audit Findings

Thematic Audit was conducted by focusing on the following ToRs;

- Appointment of BoD's CEO / Management
- Planning and Policy making
- Execution / implementation and oversight
- Observance of corporate governance rules
- Going Concern/Financial Sustainability

6.2.1 Critical Review

6.2.1.1 Non-formulation of criteria for nomination of BoD Members

Audit observed that no criteria of the members of BoD have been laid down by the Federal Government / Ministry for the nomination of the board members of NICL. Therefore, mostly the members nominated did not have the professional experience⁴⁶ to run the function of NICL. The professional expertise of the board members is summarized below;

S#.	Particulars	No. of directors nominated by the Federal Govt.
1.	Barrister, Advocate	02
2.	Banker / Ex-Banker	03
3.	Businessmen	04
4.	Retired civil servants	04
5.	Serving Servicemen	10
6.	Professor	02 (01 never joined)
7.	Insurance sector	02
8.	Director's Profile N/A	01
9.	Politician	01
Total		29

Resultantly, the board so constituted during the periods 2010 to 2020 had lack of relevant knowledge and expertise in the insurance sector due to which the Board failed to give proper direction to the management to achieve objectives of NICL.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management informed that Insurance companies (sound and prudent management) regulations 2012 laid down the specialized criteria for CEOs and

⁴⁶ Board Members profile

Board members of insurance companies. The DAC directed the management to verify the factual position with Audit.

6.2.1.2 Conflict of interest in establishing of board sub-committee

Board committees were established by 99th meeting of the Board of Directors dated 13-08-2018 contrary to Rule xxxv-(C) of Code of corporate governance for insurers, 2016 which states that the members of the Claim Settlement Committee, other than the Chief Executive Officer, shall not be the members of the Underwriting Committee or the Reinsurance & Co-insurance Committee.

Mr. Tariq Jamil was appointed as Director at NICL board on 29th November, 2019 and he became the chairman of claim settlement committee and also member in the underwriting, reinsurance and co-insurance committee. Further, it also came to notice that General Manager (Operations) was also secretary / member of the claims and underwriting, reinsurance and co-insurance committees. Thus, Board of Director and General Manager (Operations) were nominated as member of Claim settlement and Underwriting Committee at same time which was conflict of interest⁴⁷ and clear-cut violation of the above-mentioned rule.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management informed that Mr. Tariq Jamil has never been nominated as member of underwriting reinsurance and coinsurance committee rather he was chairman of claim settlement committee. Moreover, GM operation was member of underwriting reinsurance coinsurance committee besides he was secretary to claim settlement committee. Being a secretary he was not mandated to take part in any decision making as member rather his job was to note down the minutes get its proper approval and circulate it.

The DAC directed the management to get the stated position verified from audit.

⁴⁷ Sub Committee meeting attendance

6.2.1.3 Inconsistencies in incumbency of CEOs

The detail of incumbency of the officers appointed & posted as CEO, NICL during the period 2010 to 2021 is as under:

S. #	Name of CEO	Designation	From	To	Duration (months)
1.	Tariq IqbalPuri	Acting CEO	22-Oct-10	08-Jul-12	21
2.	Tahir Raza Naqvi	Acting CEO	9-Jul-12	21-Jan-13	07
3.	Syed Mumtaz Ali Shah	Acting CEO	20-Mar-13	17-Jul-13	04
4.	Capt. M. JamilAkhtar Khan	CEO	20-Apr-16	13-Dec-17	20
5.	Syed Rafeo Bashir Shah	Acting CEO	27-Dec-17	26-Jul-19	19
6.	Syed Muhammad Tariq Huda	Acting CEO	8-Aug-19	18-May-20	09
7.	Syed Rafeo Bashir Shah	Acting CEO	4-Jun-20	27-Apr-21	11
Total months					91

It was observed from the above table that 08 officers remained posted as CEO NICL during the period under review and the average duration of a CEO was 12 months i.e. (91/7= 13).

However, company had managed the official affairs without regular / acting CEO for the period 18.07.2013 to 19.04.2016. However, ministry posted five government officers and one officer was appointed by NICL Board to look after the charge of CEO, NICL in different span of time. Thus, non-appointment of regular CEO's NICL and frequent changes⁴⁸, management could not focus in implementation of its core policies and operations.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management informed that Federal Government is empowered for appointment of CEO on recommendation of the Board. Management also agreed that none of the 07 CEOs completed 3 years. The DAC directed the management to verify the factual position with Audit.

6.2.1.4 Board of Directors - Its composition

The Board shall consists of executive and non-executive directors, including independent directors and those representing minority interests with the requisite range of skills, competence, knowledge, experience and approach. The

⁴⁸ CEO profile & list of CEO appointed

composition of the board consist atleast one-third of its total member as independent directors. The Federal Government appointed 29 members at the board of NICL during the period 2010 to 2020⁴⁹ out of which 17 were nominated as independent directors. The detail is at Annex-58.

6.2.1.5 Appointment of Chief Executive Officers by violating of Rules

The Chief Executive Officers of NICL were appointed/posted having irrelevant qualification and experience contrary to clause 3 of Insurance Companies (Sound and Prudent Management) Regulations, 2012 which states that in determining a person's competence and capability the following shall be considered for the post of Chief Executive Officer.

“such person must have a minimum educational qualification of a bachelor's degree or equivalent from an institution recognized by the Higher Education Commission of Pakistan or foreign qualification of equivalent level recognized by the Higher Education Commission of Pakistan, with at least 10 years experience out of which 5 years as Key Officer in the insurance industry; or (II) such person must (a) be an ACII or FCII, (b) be a Fellow of the Institute or Society of Actuaries or equivalent qualification as recognized by the Pakistan Society of Actuaries, (c) hold a masters degree in Insurance, Risk Management or Actuarial Science from a university recognized by the Higher Education Commission with at least 5 years experience as Key Officer in the insurance industry”.

However, detail of CEO qualifications are as under:

S.#	Name of CEO	Designation	From	To	Qualification
1.	Tariq Iqbal Puri	Acting CEO	22-Oct-10	08-Jul-12	Profile N/A
2.	Tahir Raza Naqvi	Acting CEO	9-Jul-12	21-Jan-13	-do-
3.	Syed Mumtaz Ali Shah	Acting CEO	20-Mar-13	17-Jul-13	M.A (Economics) M.A (English Literature)
4.	Syed Rafeo Bashir Shah	Acting CEO	27-Dec-17	26-Jul-19	Master (International Law & Economics)-Switzerland
5.	Syed Muhammad Tariq Huda	Acting CEO	8-Aug-19	18-May-20	M.B.B.S & L.L.B

⁴⁹ Board Members profile

Therefore, appointment / posting as acting CEO in NICL not only violated of the rules, but NICL could not prosper as it would have been if the qualified and experienced CEOs were placed⁵⁰.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management informed that the SECP approvals of all CEOs except Mr. Mumtaz Ali Shah have been given to the audit team, on which the Insurance Companies (Sound and Prudent Management) Regulations, 2012 apply. SECP has, while considering applications of Syed Rafeo Bashir Shah and Syed Muhammad Tariq Huda, passed a verdict that the approval of acting charge of CEO is not warranted. The SECP, by virtue of Regulation 2(2) and 2(3) of the Insurance Companies (Sound and Prudent Management) Regulations, 2012 has taken on the role to evaluate and approve the proposed CEOs and Directors. The DAC directed the management to verify the factual position with Audit.

6.2.1.6 Irregular / unjustified appointment of Company Secretary during ban period

The management advertised the post of Company Secretary in news paper dated 11th September, 2016. In response of that 12 candidates applied for the advertised post and amongst four out of twelve had been shortlisted. Finally, Mr. Farrukh Majeed Qureshi was selected as company secretary at monthly salary of Rs. 351,000/= along with other benefits and joined at NICL on 19th December, 2016.

As per Ministry of Commerce letter No. 1(14)/2013/NICL-Ins dated 2nd June, 2016; there was ban on appointment till finalization of HR rules and its approval from the Ministry⁵¹. Moreover, as per advertisement dated 11th September, 2016, the candidates must have at least five years of relevant experience of being engaged in or in managing financial and or corporate affairs functions of a company.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The

⁵⁰ CEO profile

⁵¹Ministry of Commerce letter No. 1(14)/2013/NICL-Ins

management informed that Ministry of Commerce, vide its letter dated June 2, 2016, directed to stop the appointment of CFO and Company Secretary, consequent upon meeting held on June 2, 2016, which was attended by the JS (Admin), SO (Insurance) and GM (HR) of NICL. On June 9, 2016, JS (Admin) issued a letter to the Establishment Division, with the approval of the Secretary Commerce, requesting the Establishment Division to grant NOC for another six months to enable NICL to complete the recruitment of CFO and Company Secretary. Vide letter dated June 22, 2016, the Establishment Division granted extension for another six months. Vide letter dated September 1, 2016, Ministry of Commerce forwarded the draft advertisement to the Establishment Division. SECP, vide its letter dated July 18, 2017, accorded its clearance w.r.t fitness as the Company Secretary of NICL in terms of the Public Sector Companies (Corporate Governance) Rules, 2013. With regards to the lucrativeness of the salary offered to Mr. Farrukh Majeed Qureshi upon appointment as the Company Secretary, it is stated that M/s. Jubilee General Insurance (one of the biggest non-life insurance companies in Pakistan) made an offer to Mr. Farrukh for appointment as its Company Secretary, whereby a monthly gross salary of Rs. 650,425 plus other benefits were offered. The DAC directed the management to get the stated position verified from audit.

6.2.1.7 Unauthorized promotion of employees by Acting CEO

The acting CEO Syed Rafeo Bashir Shah had promoted employees in the next higher grades⁵² in contravention of Commerce notification No. 3(27)/2016-Ins dated 4th June, 2020, the decisions regarding promotion, demotion, reinstatement, termination & alteration of the perks / privileges of employees shall not be taken by Acting CEO.

The details as tabulated below:

S. #	Name of Employees	Office order No.	Date of office order	Present position	Promoted to	Excess payment on account of salary as on 31.10.2021
1.	Muhammad Ali	318	16.10.2020	Chief Manager	General Manager	208,080
2.	Sahikh Abdul Qayyum	318	16.10.2020	Chief Manager	General Manager	208,080
3	Ali Raza Altaf	319	16.10.2020	Manager	Chief Manager	137,610
Grand Total						553,770

⁵² Ministry of Commerce notification No. 3(27)/2016-Ins

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management intimated that Syed Rafeo Bashir Shah was given the look after charge of the CEO NICL vide Ministry of Commerce Notification dated June 4, 2020. This look after charge was given for a period of three months or till the appointment of a regular CEO, wherever is earlier. It is stated that in the Notification of June 4, 2020, the Ministry had imposed a condition that the decisions regarding inter alia promotions of employees shall not be taken. After the expiry of three months, the Ministry of Commerce, vide Notification dated September 8, 2020, again gave the look after charge of the CEO NICL to Syed Rafeo Bashir Shah without imposing the condition regarding decisions on promotions of employees. However, the promotion of two Chief Managers to General Manager level was made vide Office Order dated October 16, 2020. The DAC directed the management to get the clarification from M/o Commerce as the Para is based on Ministry of Commerce Notification No.3(27)/2016-Ins, dated 4th June, 2020.

6.2.1.8 Ineffective Board of Directors

Audit has observed that the BoD could not perform effectively for the following reasons⁵³:

- a. The board has not developed a vision / mission statement and overall corporate strategies.
- b. The board did not appoint regular Chief Executive Officer from 22.10.2010 to 19.03.2013 and 14.12.2017 to 27.04.2021.
- c. Company runs the official affairs without regular / acting CEO for the period 18.07.2013 to 19.04.2016 whereas Board of NICL was installed by Ministry / Federal Government on March, 2015.
- d. Board misused his power by giving approval of Acting CEO to ED without ministry approval / notified.

⁵³ Board / Sub-committee minutes

- e. The Board members did not have the desired experience of insurance industry resultantly, the Board failed to give proper direction to the management policy making decisions.
- f. Orientation course(s) / training programs have not been arranged for directors to apprise them of their duties and responsibilities.
- g. Board remains failed to monitor and assess the performance of senior management on annual / half yearly / quarterly basis.
- h. Board did not fill casual vacancy of the board member within stipulated time period i.e. 90 days.
- i. Financial Statements for the years 2012 to 2020 were delayed due to which timely facts & figures were not available to the stakeholders for decision making.
- j. Annual Budget for the years 2010 to 2020 were not developed.
- k. Board failed to develop / formulate significant policies as required under the Code of Corporate Governance for Insurer 2016,
- l. Board unable to develop the sound internal control system.
- m. Board approved 10 policies during the period 2010 to 2021 without defining the specific timeframe for their implementation. Further, BoD could not oversight the implementation of their policy.
- n. Board / HR Committee could not update the HR Manual, non-developing Job description's employees and non-restructuring the cadre in the company,
- o. Board failed to ensure the existence of the management personnel in the board committee
- p. Numbers of Board's sub-Committees were held less than required number of meeting in a year.
- q. Board did not establish grievance department / functions and risk management system in the company.
- r. The Ministry failed to carry out the performance evaluations of the BoD members, Chairman and CEO till date as required under Corporate Governance Rules.
- s. Audit inspection reports by O/o D.G. Commercial Audit & Onsite Inspection Reports by SECP did not place before the Board or its sub-committee.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The

management intimated that mission statement is already there, board members held experience and qualifications as per the SECP insurance companies sound and prudent management regulations 2012. Orientation courses/training programs were arranged for directors at PICG. Board has established a performance appraisal system as per which the performance of all employees including the senior management is evaluated. K & M points are conflicting; point E & 1.2 backgrounds are conflicting. The DAC directed the management to get the stated position verified from audit.

6.2.1.9 Non-evaluation of the performance of Chairman / Members of the BoD and Chief Executives of NICL

The Federal Government / Ministry did not carry out the performance evaluation of members of the board, Chairman and Chief Executive Officer annually⁵⁴ in contravention of rule 8 of the Public Sector Companies (Corporate Governance) Rules, 2013 which states that the performance evaluation of members of the Board including the chairman and the chief executive shall be undertaken annually by the Government for which the Government shall enter into performance contract with each member of the Board at the time of his appointment. Hence, it was the responsibility of the federal Government and the board to develop mechanism for evaluating performance of the Board members, Chairman & CEO as per essence of the corporate governance.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management agreed with audit objection. The DAC directed the management to seek clarification on the issue from SECP being the regulator of insurance sector and share the outcome with Audit/Ministry.

7C.6.3.2.13 Unproductive role of board HR Committee

The HR committees did not perform an effective and efficient manner to handle the critical issues of the employees⁵⁵. A number of instances are as under;

- Failure to update HR Manual
- Not filled up positions at various department's head

⁵⁴ Board minutes

⁵⁵ HR records

- Fail to develop Job description
- In effective performance procedures
- Inefficient expertise in HR fields
- Not developed mechanism of succession planning
- Non-frequent training of the employees NICL
- No proper filling system adopted
- Non-availability of cadre wise sanctioned strength
- Significant delays in hiring procedure
- Hiring / appointment at key positions level without merit
- Board of Director approved sanctioned strength of 750 employees without mentioning the cadre wise breaks up.
- Rotation policy not adopted.

Thus, the committee did not perform fiduciary duties in order to update the HR manual and others relevant matters. This is a great concern which dire needs to address immediately so human resource of company get to be strengthened and they could deliver optimal result for the company.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The DAC directed the management to submit the revised reply and get verify the factual position with Audit.

The Audit recommends implementation of DAC directives

6.2.1.10 Board of Directors Sub-Committee and its effectiveness

Audit observed that meetings had held during the period was less than required number of meeting in a year⁵⁶. Details of the committee meetings held during 2016 to 2021 are as follow:

S. #	Names of Committees	2016	2017	2018	2019	2020	2021
1.	Underwriting, Reinsurance & Co. Insurance Committee	0	0	1	2	2	1
2.	Risk Management Committee / Risk Management & Compliance Committee	0	0	1	1	3	0
3.	Claim Settlement Committee	0	1	1	2	2	2
4.	Audit Committee	2	compliant	2	Compliant	Compliant	2
5.	Investment Committee	0	2	3	Compliant	Compliant	2

⁵⁶ Board sub-committee meetings

Thus, as per rule board committees should have held the four meeting in a year whereas record depicts that each committee failed to convene meetings as required except in occasional cases.

Rule 12(1) of the Public Sector Companies (Corporate Governance) Rules, 2013 the Board of Directors shall set up the following committees to support in performing of its functions efficiently, and for seeking assistance in the decision making process, namely:

- a. Audit Committee for an efficient and effective internal and external financial reporting mechanism.
- b. Human Resources Committee to deal with all employee related matters including recruitment, training, remuneration, performance evaluation, succession planning, and measures for effective utilization of the employees of the Public Sector Company.
- c. Procurement Committee to ensure transparency in procurement transactions and in dealing with the suppliers.
- d. Risk Management Committee to effectively review the risk function.
- e. Nomination Committee to identify, evaluate and recommend candidates for vacant positions, including casual vacancies, on the Board, including the candidates recommended by the Government for consideration of shareholders or in case of casual vacancy to the Board of Directors after examining their skills and characteristics that are needed in such candidates.

Further, Code of Corporate Governance for Insurers, 2016 of Clause (xliii) states that all committee (whether management committees or the board committees) shall meet at least once in every quarter.

However, the nomination Committee and Ethics, Human Resource & Remuneration Committee met on need basis and not on a quarterly basis. The proceedings of the meetings were not recorded and not kept at the company's head office. The Secretary didn't circulate minutes of meetings of the relevant committee to all members, directors and to the Chief Financial Officer in the stipulated time.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The

management agreed to the audit point of view to the extent of less meetings held but, further informed that meetings are called as per need bases whenever the deliberation of the pressing matter requiring board committees attention. The DAC observed that the Para is advisory in nature and directed the management to note the audit observation for future compliance.

Audit recommends implementation of DAC directives

6.2.1.11 Violation of rule due to pending Credit ratings

As per press release of JCR-VIS on March 21, 2012, JCR-VIS was suspended the Insurer Financial Strength (IFS) rating of M/s National Insurance Company Limited (NICL) with immediate effect due to non-submission of approved financial statements for the year 2010 & non-sharing of interim results for 2011 with JCR-VIS⁵⁷. Hence, credit rating of NICL has been suspended since 2012. Furthermore, financial statements of NICL upto year 2017 approved by the Board but no efforts have been made by the management to resume the rating from credit rating agencies.

The condition was a violation of Clause (Ixxii) of code of corporate governance for insurers, 2016 states that, as part of risk management system, an insurer shall get itself rated from a credit rating agency such as PACRA or JCR-VIS, and such rating shall act as a risk monitoring tool for the risk management function / department.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management informed that matter is under process and outcome will be shared with Audit as and when resolved. DAC directed the management to expedite the process and share with audit.

Audit recommends implementation of DAC directives.

⁵⁷ Accounts/Finance Department

6.2.1.12 Violation of rule due to non-preparation of statement of compliance

The company failed to prepare Audited Statement of Compliance with Code of Corporate Governance for Insurer, 2016 and Public Sector Companies (Corporate Governance) 2013 for the years 2018 to onward⁵⁸.

Hence, the board has fiduciary duty to approve annual audited accounts and compliance the rules of CCGI, 2016 & PSC (CG), 2013 in the true letter of spirit.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management agreed to the audit point of view. The DAC directed the management to take corrective measures.

6.2.1.13 Irregular / unjustified issued Cover Note to Policyholders beyond stipulated period defined in the Insurance Rules, 2017

The management issued cover note to the various insured, contrary to rule 58 of Insurance Rules, 2017 which stipulates that an insurer may issue a cover note prior to the receipt of premium, in order to enable the intending policyholder to review the details and scope of coverage being offered. Provided that the cover note should not be for a period exceeding seven days in the case of motor business and beyond thirty days in all other cases and must be replaced with an insurance policy before expiry of such cover note, subject to receipt of premium by the insurer.

Whereas, rules defines that cover note may be issued in case for review the details and scope of coverage being offered to insured by insurer. Contrary to the above rule, management accorded approval of cover note to the various insured was over and above time period defined in the rule⁵⁹. Details are as under:

⁵⁸ Annual Financial Statements

⁵⁹ Insurance Policies / Cover note issued

S#	Name of Client	Cover Note Period		Cover Note issued for No. of Days
		From	To	
1.	Pakistan State Oil Co. Ltd	01.01.2019	31.12.2019	365
		01.01.2020	31.12.2020	365
2.	Civil Aviation Authority	06.02.219	05.02.2020	365
3.	VIP flight Government of the Punjab	29.04.2019	28.04.2019	365
4.	National Logistic Cell	28.04.2019	27.04.2020	365
		28.04.2020	27.04.2021	365
5.	Government of Balochistan	15.06.2019	14.06.2020	365
6.	Government of KyberPakhtunkhwa	15.01.2020	14.01.2020	365
		15.05.2020	14.05.2021	365
7.	National Power Parks Management Company	08.05.2019	07.05.2020	365
8.	Quaid-e-Azam Thermal Power Pvt Ltd	20.05.2019	19.05.2020	365

Hence, management extended undue leverage to the policyholders by giving excess days of cover note as against period specified in the Insurance Rule, 2017. Therefore, management violated the rules by granted extra leverage in terms of days to the insured for paying premium of the insurance coverage.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The DAC directed the management to seek clarification from SECP on the issue and share the outcome with Audit/Ministry.

6.2.1.14 Non-compliance by Board for issuance of Director Report and Statement of compliance

The Board passed resolution in the AGM that “no directors’ report as well as the statements of compliance shall be issue against annual audited accounts for the years 2010 to 2014⁶⁰. As per regulation, it is punishable offense with imprisonment for a term to one year and with fine to one hundred thousand rupees. Detail of Annual General Meetings (AGM) was held for the approvals of the audited accounts are as under:

⁶⁰ Annual General Meetings / Financial Statements

S. #	No. of AGM	Date of AGM	Accounts approved for the year
1.	12	30.03.2017	2010 & 2011
2.	13	22.12.2017	2012
3.	14	22.12.2017	2013
4.	15	22.12.2017	2014

Thus, the BoD failed to perform its statutory responsibility to issue director report and statement of compliance on the approved audited annual accounts for the years 2010 to 2014.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management agreed to the audit point of view. The DAC observed that the Para is advisory in nature and directed the management to note the audit observation for future compliance.

6.2.1.15 Non-finalized of annual audited financial statements on due dates

The BoD of NICL failed to lay annual audited accounts in Annual General Meeting (AGM) on the scheduled date for the years 2012 to 2020⁶¹. Detail is as under:

⁶¹ Financial Statements / Accounts Department

Year	Name of Report	Dates of lay in AGM		AGM meeting No.	Delayed in days
		Due Date	Laid on		
2012	Annual Audited Accounts	30.04.2013	22.12.2017	13 th	1,696 days (4.8 years)
2013	Annual Audited Accounts	30.04.2014	22.12.2017	14 th	1,331 days (3.8 years)
2014	Annual Audited Accounts	30.04.2015	22.12.2017	15 th	966 days (2.8 years)
2015	Annual Audited Accounts	30.04.2016	30.12.2020	16 th	1,705 days (4.8 years)
2016	Annual Audited Accounts	30.04.2017	30.12.2020	17 th	1,340 days (3.8 years)
2017	Annual Audited Accounts	30.04.2018	30.12.2020	18 th	975 days (2.8 years)
2018	Annual Audited Accounts	30.04.2019	Not yet laid down	-	-
2019	Annual Audited Accounts	30.04.2020	Not yet laid down	-	-
2020	Annual Audited Accounts	30.04.2021	Not yet laid down	-	-

Therefore, BoD failed to perform its statutory responsibility to present the audited accounts in AGM and on the prescribed dates. According to the Section 223 of the Companies Act, 2017, the Board of every company must lay before the company in Annual General Meeting (AGM) its financial statements for the period up to the date of close of financial year adopted by the company. The financial statements must be laid within a period of one hundred and twenty days following the close of financial year of a company. Further, clause (xxvii) of Code of Corporate Governance for Insurers, 2016 states that, the insurer shall ensure that the annual audited financial statements are circulated not later than four months from the close of the financial year.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management agreed to the audit point of view. The DAC directed the management to expedite early finalization of annual audited accounts.

6.2.1.16 Non-preparation of quarterly unaudited financial statements

The management did not prepare quarterly unaudited financial statements⁶² and failed to explain when had been prepared of the last quarterly unaudited financial statement.

As per rule 10 of Public Sector Companies (Corporate Governance) 2013 which states that, Quarterly and Monthly Financial Statements and Annual Report: Every Public Sector Company shall, within one month of the close of first, second and third quarter of its year of account, prepare a profit and loss account for, and balance sheet as at the end of, that quarter, whether audited or otherwise, for the Board's approval. Further, Clause (xxv) of the Code of Corporate Governance for Insurers, 2016 "the quarterly unaudited financial statements of insurer shall be prepared and circulated along with Directors' Review Report on the affairs of the insurer for the quarter, which shall disclose the following:

- Status of Company's affairs;
- Business overview with summary of operational results;
- Reasons for incurring loss and a reasonable indication of future prospects of profit, if any;
- The amount of interim dividend declared by the directors;
- Any material information affecting the financial position of the insurer which has occurred between the end of the quarter and the date of report;
- Future outlook of the insurer."

Hence, the board has fiduciary duties to adhere the applicable rules in true spirit of letter.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management informed that currently no Board exists in NICL. The DAC directed the management to place the matter before forthcoming BoD and update all remaining financial statements up to end of 2022.

⁶² Accounts Department

6.2.1.17 Critical evaluation of performance of the company for the last ten (10) years to assess profitability and future growth prospects:

Financial Summary		(Un-Audited)	(Un-Audited)	(Un-Audited)	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited
S. No.	Income Statement	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
1	Net Premium Revenue	4,034	3,598	2,600	3,710	2,923	2,852	3,264	3,001	3,085	3,240	3,200	3,005
2	Net Claims	731	395	568	799	499	698	119	136	1,825	918	1,614	987
3	Loss ratio (claim/premium)	18%	11%	22%	21%	17%	24%	4%	5%	59%	28%	50%	33%
4	Management Expenses	937	987	542	722	760	836	846	898	1,107	661	786	452
5	Commission on R/I	454	292	88	85	40	98	99	69	67	44	52	64
6	Underwriting Profit	2,820	3,203	1,578	2,274	1,706	1,416	2,398	2,037	220	1,705	826	1,630
7	Investment Income	3,993	3,546	2,466	1,730	3,153	2,916	2,266	2,541	2,292	1,231	1,173	2,011
8	Rental Income	231	273	281	229	194	175	235	145	139	138	155	156
9	Profit after Tax	N/A	N/A	N/A	2,102	3,155	2,620	3,295	3,052	1,402	1,262	1,077	2,532
10	Earnings Per Share	N/A	N/A	N/A	10.51	15.78	13.10	16.48	13.26	15.06	7.01	5.39	12.66
11	Total Assets	N/A	N/A	N/A	49,428	50,560	44,850	42,683	39,074	37,301	31,073	28,437	26,808
12	Total Liabilities	N/A	N/A	N/A	21,100	21,626	18,979	19,498	18,213	19,437	13,414	12,117	11,080
13	General Reserve	N/A	N/A	N/A	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	5,900
14	Reserve for exceptional loss	N/A	N/A	N/A	6,100	6,100	6,100	6,100	6,100	6,100	6,100	6,100	5,600
15	Liability of net outstanding claims	N/A	N/A	N/A	7,343	5,720	3,922	3,381	3,421	3,697	2,595	2,809	1,788

The audit observed that profit after tax registered declining trend during the years 2010 to 2012 as compared to 2009. Whereas, management expense was drastically increased in the year 2010 and onward⁶³. Besides, underwriting profit marked down trend in the year 2010 & 2012 as compared to previous year 2009. Further, Investment income registered a declining momentum in the years 2010, 2011 & 2017. The Earning Per Share was of Rs 10.51 per share in the year 2017 whereas in the preceding year was Rs 15.78 per share which was decreased by 33.40%.

Total assets v/s total liabilities as on 2017 reflected that company financially is stable and there is no doubt about the company's ability to continue as a going concern.

The study also revealed that the board last increased in General Reserve in the year 2010. Further, loss ratio and liability of net outstanding claims have been increasing since 2010. In the year 2016 & 2017, the net outstanding claims were more than general reserve. Moreover, R/I commission declined in the year 2016 as compared to previous year 2015 which decreased by 59.18%.

The whole scenario depicts that without having board in the period of 2010 to 2012, the company's operational profit in that period was significantly declined and other expenses increased which dented out overall profitability of company. Further, director of the board before recommending any dividend in the period from 2015 to 2017 did not enhance the general reserve to meet out future

⁶³ Financial Statements / Finance Department

needs and offsetting future losses. The decisions reflected that the board had lack of professional expertise in the insurance sector and unaware to foresee the future in terms of betterment of the company.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management agreed to the audit point of view. The DAC directed the management to take corrective measures

6.2.2 Significance Audit Observation

6.2.2.1 Non-formulation of remuneration policy of CEO and senior management

Clause (xi) b of code of corporate governance for insurers, 2016 states that Remuneration policy for the directors and senior management / including (the Chief Executive Officer), key officers and others employees of the insurer. It shall also periodically review and adjust the remuneration policy in accordance with changes in the corporate strategies and the business environment.

Contrary to above board failed to develop remuneration policy of the CEO and senior management⁶⁴. The board approved CEO and senior management remuneration packages case to case basis. A number of occurrence as follows:

- Chief Executive Officer
- Chief Financial Officer
- Chief Internal Auditor
- Company Secretary
- Head of Compliance
- Head of Re-insurance

Thus, due to failing to develop remuneration policy, the board had to decide post wise remuneration package separately so that remuneration of NICL and demand of the candidates could meet out.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management informed that remuneration structure defined in the HR Manual.

⁶⁴ HR Department

However, formal remuneration policy does not exist. The DAC directed the management to share the pay structure of the company with Audit under intimation to this Ministry.

6.2.2.2 Irregular appointment of General Manager (Re-insurance)

The management advertised post of General Manager (Re-insurance) in newspapers. The two candidates were shortlisted for interview and on the recommendation of the Selection Committee, management appointed Mr. Muhammad Usman Ghanias General Manager-Reinsurance at monthly salary of Rs 270,350/- by adding up 07 additional increments in the basis pay and including others benefits⁶⁵.

As per advertisement for the post of General Manager (Re-insurance), the requirement was at least 10 years of experience in underwriting, reinsurance or claims department of an insurance company.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management stated that before appointed in NICL, incumbent served as Manager (Retrocession) in PRCL for almost two years. Before PRCL incumbent engaged with PNSC for more than 9 years where he was looking insurance matter of PNSC. DAC directed the management to get the stated position verified from Audit.

6.2.2.3 Irregular / Unjustified appointment of Head of Compliance

The management advertised the post of Head of Compliance in newspaper on dated 27.12.2020. Subsequently, six (06) candidates were shortlisted for interview and three (03) candidate were finalized whose ranks as below; Mr. Fahad Alam 1st, Mr. Bilal Ali Zafar 2nd & Ms. Maria Shaikh 3rd position. Being highest marks obtained, management offered pay & perks to 1st position candidate but he rejected management offered. Subsequently, management offered to 2nd position's candidate i.e. Mr. Bilal Ali Zafar. He accepted offer and appointed him as Chief Manager Compliance at monthly gross salary of Rs 171,226/- along with 200 liter & telephone charges Rs. 7,174 per month.

⁶⁵ Personnel file

As per advertisement the required Qualification / Experience was at least ACA / CFA / MBA in Accounting and Finance / LLM from HEC recognized University, having 10 years' with at least 5 years' experience in compliance⁶⁶.

Audit is of the view that the post was advertised Head of Compliance whereas the appointed of incumbent made at Chief Manager of Compliance. Further, documentary evidence proved that in the process of the selection, the qualification of incumbent was marked as MBA whereas he was M.A Eco. & Finance at Arts Faculty. Further, management extended undue favor to incumbent not only selection but also short listing of the candidates amongst other applicants. The required qualification was mismatch. It reflected that management deliberately exploited spirit of the open merit and neglected concept of the transparency to appoint incumbent as Chief Manager Compliance. Thus, appointment of incumbent as Chief Manager Compliance was manufactured and payment of pay and other emoluments of Rs 1.00 stand irregular / unjustified.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18th, 2022. The management stated that incumbent was offered lower grade i.e. Chief Manager with relevant qualification and experience. The DAC directed the management to submit the revised reply and get verify the factual position with Audit.

6.2.2.4 Non-appointment on the statutory position(s)

The board was unable to perform their fiduciary duties on account of filled the statutory positions in the best interest of the company as per requirement of the Code of Corporate Governance for Insurer, 2016⁶⁷. Detail of vacant positions as under:

S.#	Name of Position(s)
1.	Head of Underwriting
2.	Head of Claims
3.	Head of Risk Management

Hence, board should take concrete steps for compliance the CCGI, 2016 at the earliest.

⁶⁶ **Personnel file**

⁶⁷ **HR record**

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management agreed to the audit point of view. The DAC directed the management that efforts may be made for compliance of audit observation.

6.2.2.5 Non -formulation of insurance/reinsurance policies, SOPs, rules & regulations

The board failed to develop / formulate significant policies as mentioned below⁶⁸.

Clause (xi-b) of code of corporate governance for insurers, 2016 states the Board of Directors shall adopt a vision/mission statement and overall corporate strategy for the insurer and formulate significant policies; significant policies may include:

• Product development	• Procurement of goods & services
• Underwriting procedures	• Marketing
• Policy servicing	• Risk management
• Human resource management including preparation of succession plan	• Premium collection & recovery of receivable
• Acquisition/disposal of fixed assets	• Level of underwriting
• Determination of terms of credit and discount to customers	• Remuneration policy for the directors and the senior management
• Write off of bad/doubtful debts, advances & receivable	• Transactions or contracts with associated companies and related parties
• Re-insurance policy covering adequacy of class-wise reinsurance arrangements and maximum risk exposure limits in each class of insurance business	

Thus, non-formulation of policies were in non-compliance of clause xi-b of the CCGI-2016 and it is also difficult to run smooth function of the operations of the company without establishing significant policies.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management informed that some of the policies have already been approved by

⁶⁸ Company Secretary record

the BoD and remaining or rest with the BoD for approval. The DAC directed to get stated position verified from audit.

6.2.2.6 Non-segregation duties of reinsurance department

Marine & aviation's underwriting and claim functions were performed by reinsurance department resulting non-segregation of functions⁶⁹ contrary to Clause xiii of Code of Corporate Governance for Insurer, 2016 which stipulated that the board of director must establish a system of sound internal control, which is effectively implemented at all levels within the insurer. Further, the insurer in states policies and procedures such as requiring the separation of critical functions i.e. risk management, underwriting, investment, claims handling, internal audit and compliance with statutory rules and regulation.

Hence, the board failed to develop segregation of duties which reflected weak internal control. Therefore, board has responsible of ensuring compliance of the governance rules must strictly be followed.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management informed that matter has already been taken up with SECP. The DAC directed the management to pursue the matter with SECP and share the outcome with Audit/Ministry.

6.2.2.7 Non-filling casual vacancy of board member

The casual vacancy was arisen due to resign board member Syed Arshad Ali on 1st April, 2019. However, causal vacancy filled by appointment of Mr. Tariq Jamil on 29th November, 2019 as Director on NICL board⁷⁰. Detail is summarized below:

Name of outgoing director	Date of Resignation	Name of incoming director	Date of appointment	Stipulated time in days	Overdue in days
Syed Arshad Ali	01.04.2019	Mr. Tariq Jamil	29.11.2019	90 days	150 days

As a result, casual vacancy was filled after 150 days whereas this should have filled up within in 90 days in violation of Clause (viii) of code of corporate

⁶⁹ HR records

⁷⁰ Board meeting minutes

governance for insurers, 2016 which states that any casual vacancy in the Board of Directors of an insurer shall be filled up by the directors at the earliest but not later than 90 days from the date of occurrence of the casual vacancy

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management agreed to the audit point of view. The DAC observed that the Para is advisory in nature and directed the management to note the audit observation for future compliance.

6.2.2.8 Non-submission of management letter by external Auditor

The Board of Director(s) approved annual audited accounts for the years 2015, 2016 & 2017 without obtaining management letter (ML) whereas it was mandatory requirement to furnish ML by external auditor⁷¹ to the company's board not later than thirty days from the date of audit report.

Section 23 of sub section 8 states every Public Sector Company shall require external auditors to furnish a management letter to its Board not later than thirty days from the date of audit report. Code of Corporate Governance for Insurers, 2016 of Clause (Ixvii) states the insurer shall require external auditors to furnish a Management Letter to its Board of Directors not later than 45 days from the date of audit report.

Consequently, Board did not perform his duty on the true professional manner and violated the PSCCG, 2013 & CCGI, 2016 by not considering ML before signing of the annual audited accounts during the years under review.

The matter was reported to the management in November, 2021. The irregularity was discussed in DAC meeting held on January 18, 2022. The management agreed with the contention of audit being fact. The DAC directed the management to expedite the matter with external auditor under intimation to Audit/Ministry.

Audit recommends implementation of DAC directives.

7 Recommendations

⁷¹ Accounts Department

- a. Board members should be in accordance with provision of the Public Sector Companies (Corporate Governance) Rules, 2013 and Code of Governance for Insurer, 2016.
- b. The nominated members in the capacity of the ex-officio should adhere to the fit and proper criteria as prescribed by the code of Governance.
- c. The board committees should be formulated as per code of Governance
- d. Number of meetings should be held as per Code of Governance.
- e. Performance evaluation should be carried out by the board of members, Chairman and senior management.
- f. Appointment of the key level positions should be in accordance with the code of corporate governance.

8 Conclusion

The company has never been in losses ever since the year 2000. The company's operation and governance remained smooth until the year 2009, however, during the period between 2009 and 2010 due to certain decision taken by the then Board members as a collegiate, the company underwent a state of turmoil due to cases relating to purchase of properties. As a consequence, thereof, the company was functioning without a duly constituted Board of Directors for a significant period of time.

During 2010/2011 to 2015 the company largely functioned without Board of Directors. From the year 2013 for a period of six months board was appointed. Consequently, the audits of the company's accounts could not be carried out as it created backlog. The board was appointed by the end of the year 2015, which got the financial statements for the years 2010 to 2014 audited and approved. Subsequently, another board was appointed dated May 31, 2018 and approved the annual audited accounts 2015 to 2017.

This study explored historical trajectory of Corporate Governance with reference to its introduction to NICL. If we thoroughly look into the issues being faced by NICL, we find those rooted to its bad governance and unsound CG practices. However, looking at the performance of NICL. It is concluded that the norms of CG do exist in NICL but are not sound in practices. CG norms are mentioned in policy papers only whereas there are various discrepancies in its implementation. As a result, company is experiencing different chronic issues and is not delivering expected performance. Sound CG practices increase

performance, encourage managers and provide an environment to maximize operational efficiency productivity and growth of corporations. Moreover, sound CG practices confirm stakeholders' interest and reduce abuse of power and such measures need to ensure accountability by monitoring managers' behaviors and cost effectiveness.

Thematic Audit (15.4)

1. Thematic Audit of Corporate Governance in National Engineering Services Pakistan Private Limited (NESPAK)

1.1 Introduction

Existence and efficiency of Corporate Governance Rules (CGR) in Public Sector Companies (PSCs) refers to the practice of good governance in Companies owned by Government. Corporate Governance Rules were designed to regulate and manage the business of Government companies in an efficient and fair manner. Public sector companies account for huge percentage of GDP of Pakistan. They are key providers of current and future employment as well as the source of a large proportion of economic growth of Pakistan. It is hoped that this pioneering and practical initiative of Supreme Audit Institution (SAI) of Pakistan i.e. Auditor General of Pakistan (AGP) for conducting audit of these companies with the theme of “Existence and efficiency of Corporate Governance” will significantly boost rule of law and good corporate governance in State Owned Enterprises. Securities and Exchange Commission of Pakistan (“SECP”) is convinced that Corporate Governance can act as an efficient tool in promoting the growth and sustainability of companies registered in Pakistan. Governance is not only relevant for listed companies but Corporate Governance is important for all kinds of companies. Good corporate governance is particularly important to stakeholders of public sector companies. In most cases, such stakeholders have limited ability to sell their ownership stakes, and are therefore committed to staying with the company for the medium to long term. This increases their dependence on good governance. In an environment of mounting societal scrutiny towards the business world, even PSCs will have to devote attention towards fulfilling their corporate responsibilities towards their stakeholders.

Sub-Themes:

a. Appointment of BoD & CEO/ Management

Terms of Reference:

- Selection criteria and process of appointment of BoD and its sub-committees to assess the principal of right person for the right job.
- Selection criteria and process of appointment of CEO and other management.
- Review of remuneration policy of BoD/ CEO / Management.

b. Planning & Policy making

Terms of Reference:

- To review the role of BoD as strategic planner of the organization.
- To review policy making role of BoD and its effectiveness.

c. Execution/ Implementation and oversight

Terms of Reference:

- To review the implementation of BoD policies.
- To ascertain controls & oversight of BoD.

d. Observance of Corporate governance rules

Terms of Reference:

- Number of BoD and its sub-committee meetings to ascertain sufficiency to take strategic decisions and their implementation.
- Examine overall observances of Corporate Governance rules.
- BoD/ CEO/ Management performance in the light of assigned roles and responsibilities as per Corporate Governance Rules.

e. Going Concern/ Financial sustainability

Terms of Reference:

- Critical evaluation of performance of the Company for the last 5 years to assess profitability and future growth prospects.

- To analyse timely interventions by BoD/ Government in case of deterioration of organization.

1.2 Background

Corporate Governance Rules come into force in 2013 for strict compliance by the State-Owned Enterprises. Compliance of Corporate Governance Rules gained its importance when Public Accounts Committee of the National Assembly adopted the recommendations of its sub-committee in which it was recommended that within 3 months all directors of Public Sector Companies should sign off that they have read the Public Sector Companies Corporate Governance Rules 2013 and that they will comply with the guidelines provided. Furthermore, it also gained importance when State Owned Enterprises started with lofty ideas getting sick which resulted frequent mergers or closures due to liquidity and other issues and failed to serve the purposes of their institution.

National Engineering Services Pakistan (NESPAK) was established in 1973 as a private limited company by the Government of Pakistan. The objective of its creation was to create a pool of talented engineers, attain self-reliance in engineering consultancy and replace foreign consultants. The Company is managed by a Board of Directors comprising a Chairman, a Managing Director and 11 other Directors. The day-to-day functions of the Company are looked after by the Managing Director assisted by Vice Presidents and Division Heads. Various divisions headed by Vice Presidents/General Managers are broadly divided into project management and specialty groups. Currently NESPAK has total strength of over 4,100 employees. The total estimated turnover for the year 2019-2020 was Rs. 6.66 billion whereas the total cumulative cost of the projects undertaken by NESPAK is US \$ 316 billion. NESPAK currently employs 1,555 Professionals, 1429 Para Professionals and 1163 Support Staff making a total employee strength of 4147. NESPAK provides services in the fields of prefeasibility & feasibility studies, survey & ground investigations, planning & design, tender & contract documents, construction supervision & contract management and post-construction services.

1.3 Establishing the Audit Theme

1.3.1 Reasons of selection

The following criteria were employed by the audit team for selecting Existence and efficiency of Corporate Governance Rules (CGR) and Human Resource Management as audit themes:

- Issue being directly related to governance of Government institutions
- Proven area of governmental priorities
- An issue of public importance
- Being a current issue in the context of prevailing accountability environment in Pakistan
- A considerable audit impact is expected

To streamline the working of State-Owned Entities (SOEs) and streamline the policies under companies Act the necessity was felt to improve the system, procedure of the Government owned and controlled State-Owned Entities (SOEs) Corporate Governance rules were framed. As the Corporate Governance Rules were framed for sound and prudent management in State Owned Entities to carry out business with integrity, objectivity due care and professional skills appropriate to the nature and scale of its activities with fit and proper criteria. In the light of provisions of these rules and directives of Public Accounts Committee of the National Assembly the compliance of its implementation was necessary to be evaluated.

1.3.2 Objectives

Main objectives of this thematic audit were to examine whether or not proper systems were in place to comply with Corporate Governance Rules to ensure good governance by NESPAK management. Whether or not culture in NESPAK had evolved to follow due processes for implementation of Corporate Governance Rules. These main objectives of the thematic audit may be stipulated as:

- Effectiveness of Corporate Governance
- Compliance of Corporate Governance Rules was made by the entities.
- The entities have sufficient liquidity to meet its liabilities.

- There are prospects for sustainability and growth of the entity.
- The entity is competitive enough in the industry.

1.3.3 Scope

Scope of this audit was set in the light of audit objectives of thematic audit as mentioned above. Audit scope consisted of a comprehensive process of planning, data collection, data analysis, data organization and reporting. Record was reviewed, analyzed and group discussions were held with the management. Audit team visited the Head office and following were reviewed and analyzed.

- Existence of Corporate Governances
- Criteria for appointment of BoD
- Appointment of CEO and Management as per criteria.
- Right man for the right job
- Proper or otherwise placement of BoD
- Regular meetings of BoD and its Committees
- Performance evaluation of BoD by the Ministry
- Conflict of interest of BoD

2. Legal frame work governing the Theme

S. No.	Theme	Governance Framework and Policies
1	Existence and efficiency of Corporate Governance Rules (CGR)	• Corporate Governance Rules 2013 amended upto July, 2019 • Companies Act, 2017 • Orders of Federal Government • Memorandum & Articles of Association of NESPAK • BoD decisions and rules • Management letters

3. Stakeholders and governmental organizations identified as directly/indirectly involved

The stake holders directly or indirectly related to the theme are as under:

- 1) Ministry of Energy (Power Division)
- 2) Ministry of Finance
- 3) Securities & Exchange Commission of Pakistan (SECP)
- 4) Auditor General of Pakistan (AGP)
- 5) Pakistan Engineering Council (PEC)

- 6) Association of Consulting Engineers Pakistan
- 7) Lahore Chamber of Commerce and Industry
- 8) Funding Agencies including World Bank, Asian Development Bank, Islamic Development Bank, USAID etc.

4. Role of important organizations

Some of the above organizations are playing very important roles in achieving the objectives/targets and operation of the Corporation as detailed below:

4.1 Ministry of Energy (Power Division)

The Secretary to the Ministry of Energy (Power Division) being Principal Accounting Officer as well as Chairman BoD of NESPAK is responsible for its efficient administration, discipline and for the proper conduct of business due execution of the sanctioned policy and ensures that the funds controlled by him are spend in accordance with the rules.

4.2 Ministry of Finance

As described in Rules of Business, no Division shall, without previous consultation with the Finance Division, authorize the issue of any orders, other than orders in pursuance of any general or special delegation made by the Finance Division, which will affect directly or indirectly the finances of the Federation. Further the interpretations of financial rules and financial matters, where the rules of Corporation are silent, the finance division provides consultation.

4.3 Securities and Exchange Commission of Pakistan

SECP has investigative & enforcement powers to regulate corporate sector & Capital markets. It also supervises & regulates finance companies. It plays its role in supervision and regulation of non-banking finance companies. SECP also have an oversight of various external service providers to the corporate and financial sectors including chartered accountants, credit rating agencies, corporate secretaries, brokers, surveyors etc. It is mandated to develop a fair, efficient and transparent regulatory framework, based on international legal standards and best practices, for the protection of investors and mitigation of

systematic risk aimed at fostering growth of a robust corporate sector and broad-based capital market in Pakistan. NESPAK is governed by Corporate Governance Rules for which SECP is the regulating commission.

5. Organization's Financials

NESPAK generates its own revenue by providing engineering consultancy services within and outside Pakistan. Its source of funding is the indigenous business operations. Following is the detailed breakup of its financials as provided in the final accounts:

	Rupees in 000					
	2020 (Draft)	2,019	2,018	2,017	2,016	2,015
Assets						
Non-Current Assets						
Property and equipment	915,122	970,292	1,017,164	1,143,126	1,201,109	1,203,705
Intangible assets	1,173	3,822	6,249	7,180	5,378	7,871
Investment property	100,954	105,478	110,240	15,000	15,000	15,000
Investment in subsidiaries	2,960	2,960	2,977	2,977	6,388	5,315
Investment in associates	64,498	57,651	53,860	56,374	56,674	50,749
Long term loans and advances	26,549	43,789	33,167	34,112	1,159	6,559
Long term security deposits	6,200	6,533	6,713	33,940	46,863	32,475
Deferred tax asset-net	1,187,669	1,187,669	632,874	503,761	318,908	240,404
	2,305,125	2,378,194	1,863,244	1,796,470	1,651,479	1,562,078
Current Assets						
Stationary stores	8,030	9,244	12,540	7,239	11,499	5,465
Contract fee receivable	8,839,169	8,758,348	9,766,365	9,163,031	8,138,486	7,033,029
Loans and advances	263,994	213,550	273,068	209,970	154,099	41,811
Deposits and short-term prepayments	321,157	305,851	332,397	240,466	201,586	545,556
Interest accrued	14,141	5,974	16,132	7,612	2,855	4,153
Other receivables	3,246,343	2,698,594	2,079,318	1,564,248	791,272	207,007
Short term investments	1,005,261	806,377	813,563	1,042,752	1,338,203	1,251,500
Cash and bank balances	477,344	911,901	991,074	1,515,175	1,746,571	1,057,970
	14,175,439	13,709,839	14,284,457	13,750,493	12,384,571	10,146,491
	16,480,564	16,088,033	16,147,701	15,546,963	14,036,050	11,708,569
Equity and Liabilities						
Share Capital and Reserves						

Authorized Capital						
500,000 ordinary shares of Rs. 10 each	5,000	5,000	5,000	5,000	5,000	5,000
Issued, subscribed and paid-up capital	5,000	5,000	5,000	5,000	1,500	1,500
Revenue Reserves				11,101,809	10,497,294	9,351,843
General Reserves	11,557,516	11,557,516	11,314,799			
Accumulated Losses	(1,196,617)	(850,854)	(20,273)			
Total Equity	10,365,899	10,711,662	11,299,526	11,106,809	10,498,794	9,353,343
Non-Current Liabilities						
Employee retirement and other benefits	733,581	781,337	766,616	593,184	576,010	682,035
Liabilities against assets subject to finance lease				54	682	1,233
Current Liabilities						
Trade and other payables	4,504,901	3,678,925	2,970,050	3,388,356	2,375,519	1,211,196
Liabilities against assets subject to finance lease			54			
Contract Liabilities	522,879	288,955	476,303			
Dividend payable		50,000	50,000		100,000	4,500
Provision for taxation	353,304	577,154	585,152	458,560	485,245	456,262
	5,381,084	4,595,034	4,081,559	3,846,916	2,960,764	1,671,958
	6,114,665	5,376,371	4,848,175			
Contingencies and Commitments						
Total Equity and Liabilities	16,480,564	16,088,033	16,147,701	15,546,963	14,036,250	11,708,569

6. Field Audit Activity

6.1 Methodology

The Thematic Audit taken up during 2021-22 witnessed intensive application of desk audit techniques, which included examining permanent files, computer generated data and other relevant documents along with the compliance of policies and rules followed by the audit entities. Risk assessment was carried out by performing analytical procedures and reviewing internal controls. Desk audit review helped auditors in understanding the systems, procedures, internal controls and overall environment of the audited entity and identification of high-risk areas for further testing.

The evidence was primarily gathered by applying procedures like inquiries from the management; review of minutes of BoD meetings, monitoring reports, examination of payment vouchers; and collection, interpretation and analysis of primary, secondary and own sources data. Data was also collected through observation and interviews from the relevant officials. Physical inspection of selected sites was also carried out to verify the outputs and targets achieved.

The thematic audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs) as envisaged in Financial Audit Manual (FAM) of DAGP.

6.2 Audit Analysis

6.2.1 Review of Internal Controls

Internal controls can be defined as the ‘The policies, processes, tasks, behaviors and other aspects of an organization that taken together facilitate effective operation by enabling it to respond in an appropriate manner to significant business, operational, financial, compliance and other risks to achieve its objectives. This includes safeguarding of assets and ensuring that liabilities are identified and managed.

The audit team extensively studied and evaluated the internal controls in the audited entities so as to obtain an adequate understanding of the internal control systems. The objective was to identify the material and significant internal control weaknesses and report to management for taking corrective measures.

Major weaknesses of internal controls are summarized as under:

- Job roles and responsibilities were not clearly defined in most divisions especially Coordination Division and Human Resource Division.
- There was no proper segregation of duties among the staff members
- Lack of proper internal audit function
- Business plan were not well defined
- Weak monitoring and supervision mechanism
- Lack of coordination between different divisions

- Loose control over associate companies
- So specific rules were drafted for monitoring and control of overseas companies and investments.

Some specific instances depicting weaknesses and failures of internal controls are listed as under:

- The non-establishment of investment Management Unit in NESPAK led to the absence of in-house professional treasury management function and deprived NESPAK from the other possible better investment opportunities for investing the funds available for term deposits (TD) in local as well as foreign banks.
- No concrete policy for timely appointment of MD exists. Incumbent MD's 3-year tenure has expired and still new MD has not been appointed despite early advertisement rather incumbent has been granted an extension till the appointment of new MD which is clear evidence of weak internal control.
- Internal audit department was established recently which is still not fully functional so monitoring of financially transactions lacks vigilance.
- No proper policy for asset management is in place e.g., an MD house in DHA Lahore worth millions is lying vacant since years and still no arrangement has been finalized for its sale or utilization.
- No sanctioned strength of employees has been defined so overstaffing is evident in all divisions at all levels.
- Proper criteria for recruitment are yet not standardized and every time a different and tailor-made advertisement for similar posts is published to cater a specific employee.

6.2.2 Critical Review

This part of the audit findings covers a critical review of the legal framework, role and performance of organizations, policy matters and all other details along with impediments affecting performance of NESPAK and progress in achieving the targets related to the theme "Compliance of Corporate Governance Rules 2013".

6.2.2.1 Board Composition

NESPAK Board was reconstituted vide Ministry of Water & Power notification no. Ent 7(38)/2000-NESPAK-BOD dated June 21, 2017. Three Members were appointed as independent directors instead of four. Moreover, one of the directors did not meet the criteria of Independence. This is in clear violation of section 2(d) of Corporate Governance Rules, 2013 and the independence of board is compromised which impedes efficiency of decision making in NESPAK.

The breakup of BoD composition is given as follows:

Category	Names	Date of appointment
Independent Directors	Mr. Naeemuddin Khan, President & CEO, The Bank of Punjab.	21.06.2017
	Mr. Muhammad Irfan Akram, Ex-Vice President, Mobilink	21.06.2017
	Mr. Muhammad Nawaz Kasuri, Barrister at Law	21.06.2017
Executive Directors	Hassan Nasir Jamy	10.04.2017
Non-Executive Directors	Yousaf Naseem Khokhar (Chairman), Secretary - Ministry of Water & Power	21.06.2017
	Chairman, National Highway Authority	21.06.2017
	Chairman, Planning & Development Board/Additional Chief Secretary (Development), Government of the Punjab	21.06.2017
	Additional Chief Secretary (Development), Government of the Sindh	21.06.2017
	Additional Chief Secretary (Development), Government of Khyber Pakhtunkhwa	21.06.2017
	Additional Chief Secretary (Development), Government of the Balochistan	21.06.2017
	Additional Secretary (CF), Ministry of Finance, Government of Pakistan	21.06.2017
	Additional Secretary (Water), Ministry of Water & Power, Government of Pakistan.	21.06.2017

The matter has been pointed to the board and the Ministry of Water & Power for taking action for having at least one-third Independent Directors, so as

to comply with the requirement of CODE. In the 144th Board of Directors meeting held on 9th September 2017 matter was presented for taking action for having at least one-third Independent Directors, so as to comply with the requirement of CODE. Moreover, three letters in this regard have been written by the Managing Director NESPAK to Secretary Ministry of Energy (Chairman of NESPAK Board of Directors) dated 04 May 2018, 29 June 2018 & 14 November 2018 respectively. The Audit Committee was informed about the status of composition of the Board of Directors in reference to the Public Sector Companies (Corporate Governance) Rules, 2013. After some discussion and deliberation, the Audit Committee recommended that this item should be put before the Board of Directors of NESPAK, who would then advise on how to proceed forward. Such matters raise serious questions on the transparency of appointment of Directors and hence impedes the fair decision making by Directors appointed in such a manner.

6.2.2.2 Fitness of position for Directors

Only Eight (08) Directors in NESPAK have confirmed their directorships in different companies. Three reminders relating to service as a director on more than seven public sector companies and listed companies simultaneously have been written to NESPAK Board of Directors in this regard. Out of the eight (08), two (02) hold membership in more than seven public sector companies and listed companies. Furthermore, one (01) director has been transferred since confirmation of directorships in different companies. Audit Committee was informed about the requirement of the Public Sector Companies (Corporate Governance) Rules, 2013 which require each director to confirm “that none of them is serving as a director on more than seven public sector companies and listed companies simultaneously, except their subsidiaries.” The Audit Committee recommended that another reminder should be sent to the remaining Directors who have not replied earlier to comply with the legal requirements.

Moreover, as per directions by Chairman, Planning and Development Board Punjab, NESPAK officer visited the Securities and Exchange Commission of Pakistan’s (SECP) office Lahore, and met with the Deputy Director SECP, to get clarification of number of directorships held by ex-officio government officers. The SECP officials said that the Current Law shall prevail as published

and compliance of the same is mandatory, therefore any non-compliance by any organization or individual may be addressed at the earliest.

6.2.2.3 Timely approval of final accounts

NESPAK Board has neither approved the profit and loss account for, and balance sheet as at the end of, the first, second and third quarter of the year as well as the financial year end for current and previous financial years nor has placed the annual financial statements on the Company's website. Monthly accounts too were not prepared and circulated amongst the Board members.

6.2.2.4 Orientation courses for Board members

All the Board members are required to undergo an orientation course arranged by the Company to apprise them of the material developments and information as specified in the Rules. No such orientation program has been held since many years. Such negligence deprives the members of BoD from arising themselves of the material developments and state of the art information as required by CGR, 2013.

6.2.2.5 Procurement Committee

No Permanent procurement committee has been formed by Board. This non-compliance poses a potential risk in ensuring transparency in procurement transactions and in dealing with the suppliers.

6.2.2.6 Risk Management Committee

No Permanent Risk Management Committee has been formed by Board. This non-compliance renders risk function of the Company inefficient.

6.2.2.7 Nomination Committee

No Permanent Nomination Committee has been formed by Board to identify, evaluate and recommend candidates for vacant positions, including casual vacancies, on the Board, including the candidates recommended by the Government for consideration of shareholders or in case of casual vacancy to the Board of Directors after examining their skills and characteristics that are needed in such candidates. This non-compliance renders risk function of the Company inefficient.

6.2.2.8 Appointment of Company Secretary

No Company Secretary has been appointed by Board despite several interviews and Chief Financial Officer is performing duties of CFO as well as company secretary. This practice poses the important duties of CFO at stake making all the financial decision making, working and operations of company inefficient.

6.2.3 Significant Audit Observations

6.2.3.1 Non-compliance of Public Sector Companies (corporate governance) rules

As per Rule-24(1) of the Public Sector Companies (Corporate Governance) Rules, 2013, every Public Sector Company shall publish and circulate a statement along with its annual report to set out the status of its compliance with these rules, and shall also file with the Commission and the registrar concerned such statement along with its annual report.

During audit of the NESPAK for the years 2020-21, it was observed that the management failed to comply with the following provisions of the Public Sector Companies (Corporate Governance) Rules, 2013:

Sr. No.	Rules	Rule No.
1.	The Board shall have at least one-third of its total members as independent directors. The public sector company shall disclose in the annual report non-executive, executive and independent directors.	3(2)
2.	No person shall be elected or nominated as a director of more than five Public Sector Companies and listed companies simultaneously, except their subsidiaries.	3(5)
3.	The Board shall meet at least once, each quarter of a year, to ensure that it discharges its duties and obligations to shareholders and other stakeholders efficiently and effectively. In case of non-compliance, the same shall be reported to the Commission with reasons of non-compliance, within fourteen days of the end of the quarter in which the meeting should have been held.	6(1)
4.	An appropriate conflict of interest policy is developed and duly enforced. Such a policy shall clearly lay down circumstances or considerations when a person may be deemed to have actual or potential conflict of interest, and the procedure for disclosing such interest:	5(5) (b) (ii)
5.	The Board shall also develop and implement a policy on 'anticorruption' to minimize actual or perceived corruption in the company.	5(5) (b)

		(vi)
6.	Related party transactions. - (1) The details of all related party transactions shall be placed before the audit committee of the Public Sector Company and upon recommendations of the audit committee, the same shall be placed before the Board for review and approval. (..)	9
7.	Provided that Public Sector Companies which are listed on the exchange shall prepared half-yearly accounts within such time period and undertake limited scope review by the auditors as specified by the Commission from time to time.	10
8.	Orientation courses shall be held by a Public Sector Company, to enable directors to better comprehend the specific context in which it operates, including its operations and environment, awareness of Public Sector Company's values and standards of probity and accountability as well as their duties as directors.	11
9.	The Board shall set up the following committees to support it in performing its functions efficiently, and for seeking assistance in the decision-making process, namely...	12
10.	The Board shall appoint a chief financial officer, a company secretary and a chief internal auditor by whatever name called. The chief financial officer shall be responsible for ensuring that appropriate advice is given to the Board on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.	13&14
11.	Audit Committee. - (1) The Board shall establish an audit committee, whose members shall be financially literate and majority of them, including its chairman, shall be Independent Non-Executive Directors, subject to the provisions of sub-rule (2) of rule 12. Names of members of the audit committee shall be disclosed in each annual report of the Public Sector Company. (2) The chairman of the Board as well as the chief executive of the Public Sector Company shall not be a member of the audit committee (...)	21
12.	Internal Audit. -(1) There shall be an internal audit function in every Public Sector Company. The chief internal auditor, who is the head of the internal audit function in the Public Sector Company, shall be accountable to the audit committee and has unrestricted access to the audit committee (...)	22

Furthermore, it was also observed that the management of the company submitted this compliance to SECP as on 30.06.2019 only, whereas at the end of year 2020 and 2021 management failed to submit such compliance which was violation of above rule of Corporate Governance rules.

Audit is of the view that non-adherence to the rules & regulations are a serious lapse on the part of management which requires immediate corrective action.

The matter was reported to the management on Dec 02, 2021. Management in its reply dated Dec 30, 2021 informed that NESPAK has fully complied with some of the Rules as mentioned in the audit para. Further some of these observations are of procedural nature and synonymous with NESPAK because of their structure. Reply was not convincing as statements of compliance for the year 2019-20 and 2020-21 have not yet been submitted to the Commission and not provided to audit for verification.

Audit recommends to explain the reason(s) of non-compliance with the requirements of Public Sector Companies (Corporate Governance) Rules as on 30.06.2020 and 30.06.2021, explain reasons for non-compliance of above 12 rules pointed out in 2018-19 and its status in upcoming years, fix responsibility on the person (s) at fault and comply with the said rules under intimation to audit.

6.2.3.2 Non-compliance of Corporate Governance Rules, 2013 by not finalizing accounts for the year 2019-20 & 2020-21 & failure to upload the Annual Accounts for the year 2016-17 to 2020-21 on company's website

As per rule 10 of Corporate Governance Rules, every public sector company shall, within one month of the close of the first, second and third quarter of its year of account, prepare a profit and loss account for, and balance sheet as at the end of, that quarter, whether audited or otherwise, for the Board's approval. Annual report including financial statements shall be placed on the Public Sector Company's website.

According to the Section-223 (2) of the Companies Act 2017, the Financial Statement must be laid within a period of one hundred and twenty days following the close of financial year of a company.

During the audit of NESPAK for the years 2019-20 & 2020-21, it was observed that the management failed to finalize its annual accounts for the years 2019-20 & 2020-21. Moreover, the management was required to upload their

financial statements on Company's website but only uploaded the Financial Statements up to 2015-16 which was clear violation of above-mentioned rules.

Audit is of the view that annual accounts were not prepared timely due to lack of internal control of finance wing of the company depriving stake holders of true picture of the company.

The matter was reported to the management on Dec 02, 2021. Management in its reply dated Dec 30, 2021 informed that statutory audit of NESPAK for the year 2019-20 and 2020-21 is under process and will be finalized in January 2021 and May, 2022 respectively. Reply was not convincing as even the final accounts for the year 2019-20 are still not finalized and not provided to audit for verification. As regard to non-uploading of accounts, the management contented that they have now uploaded the accounts upto 2018-19 on company's website. Reply is not convincing as uptill close of audit, accounts/financial statements upto 2015-16 were uploaded and now after pointing out by audit management had uploaded the accounts upto 2018-19 only.

Audit recommends to explain the reasons for delay in finalization of annual accounts for the years 2019-20 & 2020-21, state reasons for failure to upload accounts since 2015-16 till close of audit and fix responsibility on the person(s) at fault.

6.2.3.3 Non-compliance of Corporate Governance Rules, 2013 by neglecting principle of probity and propriety resulting in poor performance of various divisions of NESPAK in acquiring new business

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

During audit of NESPAK for the year 2020-21, it was observed that NESPAK submitted 488 proposals out of which only 61 projects were awarded in

favour of NESPAK which is just 13% (Annex-59). During examination, it was further observed that in majority of the cases NESPAK technically qualified but due to higher financial cost their proposals were rejected and contracts were awarded to the competitors due to higher financial cost. It is evident that due to higher financial cost, the management of NESPAK failed to capture the major market share due to their huge setup and resultant higher fixed cost. Further, some main divisions (at Sr. 4-8-12) of NESPAK failed to secure any project whereas some divisions (at Sr. 1-7-14-15) earned nominal business despite spending huge amount on salaries and other overhead expenditure.

Further there were 402 ongoing projects in NESPAK during 2020-21, out of these 350 were the public sector projects and 27 were private sector projects within Pakistan (i.e. 8% of public sector projects), while NESPAK has 25 ongoing projects in foreign countries (i.e. 7% of public sector projects). It indicated that NESPAK's market share ranged from 7% to 8% in terms of winning of projects and has secured only 1.74% market fee from private sector projects in local consultancy business despite having state of art infrastructure, experienced human resources and goodwill, being a public sector company. This shows poor performance of different divisions of the company.

Audit is of the view that management should take steps to reduce their fixed cost and overhead charging rate so that they can win more projects not in the public sector but also in the private sector.

The matter was reported to the management on Dec 02, 2021. Management in its reply dated Dec 30, 2021 informed that overall result upto Sep, 2021 increased from 13% to 21% and will be further improved after receiving results of remaining proposals. Reply was not convincing as the progress is still not better with regard to percentage of previous years i.e. 20 to 30%. As regard to poor performance in respect of private and foreign projects management intimated that it was due to covid-19 pandemic. Reply was again not tenable as the progress with regard to private and foreign projects were also very poor in previous years when there was no covid-19 pandemic.

Audit recommends to investigate the matter for the continuous losses to the organization beside considerable reduction in the market share of NESPAK and take necessary steps for revival of the organization.

6.2.3.4 Non-compliance of Corporate Governance Rules, 2013 by not conducting physical verification of assets – Rs. 267.947 million

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

Auditor General of Pakistan vide letter No. 600/02/P&C/1-C/2014 (PF-II) dated August 19, 2016 issued instructions to all field offices to ensure proper maintenance of assets record during audit process of each entity.

During audit of the NESPAK for the years 2020-21, it was observed that the company had fixed assets worth Rs. 267.947 million (net value) as on 30.06.2019. In order to check the accuracy of amounts appeared in financial statement and physical existence of the assets, fixed assets register along with physical inventory checked by an independent body were demanded vide Requisition# 1 dated 06.09.2021. The same were not provided to audit despite several verbal requests. In the absence of which audit could not verify the balance amounts with physical inventory.

Audit was of the view that the management was required to ensure physical existence of the assets. In the absence of which existence of assets worth Rs. 267.947 million considered doubtful.

The matter was reported to the management on Dec 02, 2021. Management in its reply dated Dec 30, 2021 informed that physical verification for the year 2018-19 was undertaken by the external auditors M/s Ford Rhodes E&Y. Reply was not convincing as 100% physical verification of all assets are necessary to be undertaken and tallied with the figures appeared in final accounts.

Audit recommends to intimate reasons for non-compliance of Corporate Governance rules, fix responsibility and get the verification done at the earliest.

6.2.3.5 Non-compliance of Company's Act 2017 by purchasing computer software from a sole proprietor – Rs. 5.907 million

As per Section 196 (1) of Company Act 2017, no company whether incorporated in Pakistan or outside Pakistan which is carrying on business in Pakistan shall, without the approval of the commission, appoint any sole purchase, sale or distribution agent. Further as per section 196 (2), whoever contravenes any of the provisions of this section shall be punished with imprisonment for a term which may extend to two years or fine which may extend to one hundred thousand rupees, or with both, and if the person guilty of the offence is a company or other body corporate, every director, chief executive, or other officer, agent or partner thereof shall, unless he proves that the offence was committed without his knowledge or that he exercised all due diligence to prevent its commission, be deemed to be guilty of the offence.

Further as per clause 12 (2) all procurement opportunities over three million Pakistani rupees should be advertised on the Authority's websites as well as in other print media or newspaper having wide circulation. The advertisement in the newspaper shall principally appear in at least two national dailies, one in English and the other in Urdu.

During the audit of NESPAK for the year 2020-21, it was observed that the management of NESPAK (GT & G Division) procured computer software from Pakistan Resource Development Services Pvt. Ltd (a sole/principal proprietor of an international firm M/s ArcGIS) valuing Rs. 5.907 million vide JV # 3028 dated 07.06.2021. Record revealed that necessary approval from the Commission (SECP) was not obtained in violation of above section/rule of Company's Act 2017. Moreover, the management did not advertise the requirement on PPRA or authority's website in violation of clause 12(2) of PPRA on the pretext that M/s ArcGIS possesses 45 percent of worldwide GIS market and has/had top most programs for GIS mapping services. The contention was not held good in audit as the management itself decided to purchase software from single source. As per PPRA rules, management was required to advertise the requirement in media and technical and financial bids could have been demanded separately. After receiving the quotations/tenders, management was required to open technical bids

first and financial bids of technically successful bidders could be opened later to ensure open competition. It is pertinent to quote here that management of NESPAK (W&P Division) procured hardware and software relating to ArcGIS server from M/s LMKT Pvt. Ltd vide Jv#399 dated 05.04.2021 after calling open tenders and fulfilling other codal formalities. Thus, purchases of computer software was considered irregular.

Audit is of the view that procurement was made only to extend undue favour to a selected firm at the cost of public exchequer.

The matter was reported to the management on Dec 02, 2021. Management in its reply dated Dec 30, 2021 intimated that procurement was made according to the rule 42-c of PPRA rules i.e. only one manufacturer or supplier exists for the required procurement, Provided that the procuring agencies shall specify the appropriate fora, which may authorize procurement of propriety object after due diligence. Reply was not convincing as it was decided by the management of NESPAK itself and not by the appropriate fora which is normally i.e. PAO of the Ministry.

Audit recommends to investigate the reasons for violating the provisions of Company's Act and PPRA, fix responsibility on person(s) at fault and recover the amount from responsible person(s) along with penalty under intimation to audit.

6.2.3.6 Non-compliance of Corporate Governance Rules, 2013 by not recovering disputed receivables - Rs. 1,077.022 million

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

During audit of NESPAK for the year 2020-21, it was observed that the management entered into consultancy and supervision contracts with different

clients. It was, however, observed that consultancy charges were retained by the clients due to some disputes with NESPAK. A considerable period has been lapsed and the chances of the recovery of the said amount are remote. The concerned Project managers neither made efforts to remove the objections regarding defective order nor followed their clients for early recovery of NESPAK dues and resultantly the same become complete bad debts.

Audit is of the view that the organization sustained a loss of Rs. 1,077.022 million due to negligence and non-pursuing of the recovery by the concerned Project Managers as well as the heads of the department.

The matter was reported to the management on Dec 02, 2021. Management in its reply dated Dec 30, 2021 informed that these receivables are pending due to certain reasons such as non-allocation of funds by clients, non-approval of amendments to contracts, audit observations of clients/departments, overbilling and work performed without any agreement. Further they are pursuing the recovery cases vigorously through BoD and P&D, Government of Punjab etc. The reply was not convincing as most of recovery is dumped due to slackness of NESPAK's management, overbilling or work done before signing contracts/agreements with clients etc.

Audit recommends to investigate the matter and fix responsibility for the loss sustained by the organization. Besides, recover the loss from the person held responsible.

7. Conclusion

It is concluded that despite having a long history of corporate environment in NESPAK, the management has not been successful in implementing Corporate Governance Rules, 2013 in letter and spirit. Matters including formation of Board and relevant committees, appointment of company Directors, timely appointments on key posts like Managing Director, Company Secretary and Chief Internal Auditor need special attention. Many sections of Corporate Governance Rules, 2013 are either violated or bypassed by management. NESPAK needs interdivisional coordination which is hampering the efficient usage of human resources in the company. Absence of fund

management unit is depriving company of optimized profits from funds invested in different schemes of term deposits.

The thematic audit report is expected to assist the government in effective decision making related to Disaster Risk Reduction and efficient resource allocation in future, besides, strengthening the financial management practices and internal control in the spending entities dealing with DRR activities.

8. Departmental response

Management's response received and incorporated in the report.

9. Recommendations

It is recommended that:

- NESPAK management should govern the company affairs under the auspices of CGR, 2013 and Companies Act, 2017 being the supreme rules of Public Sector Companies.
- Appointment of Board of Directors should be made as per "Fit and Proper" criteria as given in CGR, 2013.
- Timely appointment of the senior management officers including Chief Executive Officer should be ensured.
- Compliance of Clause 223 of Companies Act 2017 should be ensured according to the provisions of the Companies Act.
- Performance Evaluation of BOD by the Ministry may be carried out.
- Performance of senior management may be monitored and assessed by the BOD.
- A permanent committee tasked with the timely recovery of receivables from Government departments may be formed who will coordinate with concerned departments and ministries to serve the purpose.
- Policies regarding anti-corruption, conflict of interest and work place harassment may be formulated and revised time to time.
- Orientation courses and training of board members may be arranged.
- Issues of going concern may be addressed in time.
- Compliance of directives/decisions of BOD and its committees may be ensured.

Thematic Audit (15.5)

1 Thematic Audit of Corporate Governance in State Owned Enterprises

1.1 Introduction

Utility Stores Corporation (Pvt.) Limited (“the Company”) was incorporated on September 3, 1971 as a private company under the Companies Act, 1913 (now the Companies Act, 2017). The Company has its registered office at Plot 2039-F-7, G/7 Blue Area Islamabad. The entity is comprised of its Head Office at Islamabad, and 09 Zonal Offices at Islamabad, Lahore, Gujrat, Multan, Sargodha, Karachi, Sukkur, Peshawar, Abbottabad and Quetta, headed by Zonal Managers and 64 Regional Offices are operating under the Zonal Managers throughout the country headed by Regional Managers to control the operational activities of 3,989 utility stores operating at union council level in the country. The company has its independent internal audit department headed by G.M Internal Audit. The head of internal audit department directly reports to the Managing Director USC.

The main objectives of the Corporation are to provide high grade hygienically fit genuine food and non-food items of daily use to the public and specifically to the poor segments of the society and also to act as price moderator in the market and deterrent to profiteering, hoarding etc.

For sound and prudent management, Public Sector Companies were bound to comply with Corporate Governances Rules 2013 at all times. The purposes of these rules were:-

- a) The business of the Public Sector Company is carried own with integrity, objectivity, due care and the professional skills appropriate to the nature and scale of its activities;
- b) Each director and chief executive officer by whatever name called, of the Public Section Company complies with the fit and proper criteria specified under these rules;

- c) The Public Section Company is directed and managed by a sufficient number of persons who are fit and proper persons to hold the positions which they hold; and
- d) The Public Section Company maintains adequate accounting and other records of its business.

1.2 Background

Corporate Governance Rules came into force in 2013 for strict compliance by the State Owned Enterprises. Compliance of Corporate Governance Rules gained its importance when Public Accounts Committee of the National Assembly adopted the recommendations of its sub-committee in which it was recommended that within 3 months all directors of Public Sectors Companies should sign off that they have read the Public Sector Companies Corporate Governance Rules 2013 and that they will comply with the guidelines provided. Furthermore it also gained importance when State Owned Enterprises started with lofty ideas getting sick which resulted frequent mergers or closures due to liquidity and other issues .and failed to serve the purposes of their institution.

1.3 Establishing the Audit Theme

1.3.1 Reasons for Selection

To uniform the working of State Owned Entities (SOEs) and streamline the policies under companies Act, the necessity was felt to improve the system, procedure of the Government owned and controlled State Owned Entities (SOEs) Corporate Governance rules were framed. As the Corporate Governances Rules were framed for sound and prudent management in State Owned Entities to carry out business with integrity, objectivity due care and professional skills appropriate to the nature and scale of its activities with fit and proper criteria. In the light of provisions of these rules and directives of Public Accounts Committee of the National Assembly the compliance of its implementation was necessary to be evaluated. Keeping in view the importance the topic was selected.

1.3.2 Objectives

The objectives of Audit were to examine whether there was a proper framework and whether due process was followed for the key stages during implementation of Corporate Governances Rules. The main objectives of the thematic audit are;

- i) Existence of mechanism of Corporate Governance in the entity
- ii) Effectiveness of Corporate Governance
- iii) Issues of Going Concern addressed in time of otherwise.
- iv) Entity has sufficient liquidity to meet its liabilities.
- v) There are prospects for sustainability and growth of the entity
- vi) The entity is competitive enough in the industry.

1.3.3 Scope

Thematic Audit for the year 2020-21 was primarily based upon the aforementioned Audit Objectives. The audit involved a comprehensive process of planning, data collection, data analysis, data organization and reporting. Record was reviewed, analyzed and group discussions were held with the management. Audit visited the Head office and following were reviewed and analyzed.

- i) Existence of Corporate Governances
- ii) BoD properly placed or otherwise
- iii) Criteria for appointment of BoD
- iv) Right man for the right job
- v) Regular meetings of BoD and its Committees
- vi) Performance evaluation of BoD by the Ministry
- vii) Conflict of interest of BoD
- viii) Appointment of CEO and Management as per criteria

2 Legal frame work governing the Theme

Utility Stores Corporation (Pvt.) Limited (“the Company”) was incorporated on September 3, 1971 as a private company under the Companies Act, 1913 (now the Companies Act, 2017). The Corporation is working under the control of Ministry of Industries and Production, Government of Pakistan. To achieve the objectives of the Corporation mentioned in the Memorandum of Association and performing the operational activities independent BOD was

constituted. For this, Companies Act, Public Sectors Companies Corporate Governance Rules, Memorandum and Article of Association, USC Service Rules and directives of Federal Government are applicable.

3 Stakeholders and governmental organizations identified as directly/indirectly involved

Following Stakeholders and governmental organizations are identified as directly/indirectly involved:

- i) Ministry of Industries & Production (Being Controlling Ministry).
- ii) Ministry of Finance
- iii) Ministry of Planning & Special Initiatives. (Planning Division).
- iv) Ministry of National Food Security & Research.
- v) Trading Corporation of Pakistan
- vi) Securities and Exchange Commission of Pakistan (SECP)

4 Role of Important Organizations

Some of the above organizations are playing very important roles in achieving the objectives/targets and operation of the Corporation as detailed below:

Ministry of Industries and Production

The Secretary to the Ministry of Industries and Production being Principal Accounting Officer of the Corporation is responsible for its efficient administration, discipline and for the proper conduct of business due execution of the sanctioned policy and ensures that the funds controlled by him are spend in accordance with the rules.

Ministry of Finance

As described in Rules of Business, no Division shall, without previous consultation with the Finance Division, authorize the issue of any orders, other than orders in pursuance of any general or special delegation made by the Finance Division, which will affect directly or indirectly the finances of the Federation. Further the interpretations of financial rules and financial matters, where the rules of Corporation are silent, the Finance Division provides

consultation. In addition, Finance Division provided funds for subsidies in financial crunch of Corporation.

Ministry of National Food Security & Research

The Ministry is playing role in economic coordination and planning in respect of food, economic planning and policy making in respect of agricultural commodities. Since 2019, Ministry is making arrangements for provision of wheat to USC through PASSCO.

Securities and Exchange Commission of Pakistan

SECP is a regulatory body of the companies registered under companies Act 2017 which was established for beneficial regulation and capital markets, superintendence and control of corporate entities and for matters connected therewith and incidental thereto: USC is also being regulated under this commission.

5 Organization's Financials

Financial Highlights

The source of funding of the Corporation was budgeted grants received from the Government and revenue from sales of commodities. The detail of grants received from Government during last Four years and expenditure there-against is given hereunder:

(Rs. in million)

		2020-21	2019-20	2018-19	2017-18	2016-17	2015-16
Sales	Million	92,774.48	47,160.367	9,589.32	26,416.50	53,619.49	48,593.95
Subsidy	Million	23,350.32	6,160.28	374.56	850.67	4,250.60	1,779.47
Net Sales	Million	116,124.80	53,320.80	9,963.88	27,267.17	57,870	50,373
Increase/(Decrease) in Sales Revenue	%	117.79	534.95	(63.70)	(50.73)	10.34	(13.43)
Other Revenue	Million	1,210.28	1,251.42	447.87	288	306	392
Profit/ (Loss) before Tax	Million	2,156.38	(716.36)	(5,918.76)	(4,710)	(2,837)	(2,604)
Profit/ (Loss) for the year	Million	714.82	(1,418.35)	(6,028.66)	(5,023.76)	(3,374.02)	(3,073.96)
Share Capital & Reserves	Million	1,003.66	288.83	(9,273.54)	(2,542.98)	2,424.25	6,013.47
Non- Current Liabilities	Million	7,384.94	7,606.07	3,483.14	2,365.14	2,292.14	2,147.96
Current Liabilities	Million	42,983.64	51,949.39	38,235.88	39,414.55	49,456.42	44,963.76
Total Equity &	Million	51,372.24	59,844.29	32,445.48	39,236.71	54,172.81	53,125.19

Liabilities							
Fixed Assets	Million	7,503.14	8,061.27	4,224.23	4,277.46	4,324.91	4,377.77
Long Term Deposits	Million	3.98	4.04	4.74	4.75	4.72	4.72
Current Assets	Million	43,864.14	51,777.53	28,215.95	34,954.50	49,843.18	48,742.69
Total Assets	Million	51,372.24	59,844.29	32,444.92	39,236.71	54,172.81	53,125.18
Profitability Ratios							
Gross Profit to sales	%	8.94	11.89	9.52	8.67	8.01	7.73
Other Income	%	1.04	2.35	4.49	1.06	0.53	0.78
Profit/(Loss) Before Taxation	%	1.86	(1.34)	(59.40)	(17.28)	(4.90)	(5.17)
Net Profit/(Loss) to sales	%	0.62	(2.66)	(60.51)	(18.42)	(5.83)	(6.10)
Expense Ratios							
% of S&D Expenses	%	7.28	13.89	68.89	25.31	12.65	12.78
% of Admin Expenses	%	(0.45)	0.89	4.39	1.57	0.71	0.81
% of Finance Cost	%	(0.39)	(1.19)	0.14	0.12	0.08	0.09
Liquidity Ratios							
Current Ratio	Times	1.02	1.00	0.74	0.89	1.01	1.08
Quick Ratio	Times	0.78	0.79	0.68	0.75	0.77	0.79
Cash to Current Liabilities	Times	0.17	0.34	0.07	0.04	0.14	0.10
Net Working Capital	Million	880.50	(171.86)	(10,019.93)	(4,460.06)	387	3,779
Investment Ratios							
Earnings/(Loss) Per Share Basic	Per Rupees	9.69	(19.23)	(81.72)	(68.10)	(45.74)	(41.67)
Earnings/ (Loss) Per Share Diluted	Per Rupees	5.86	(11.63)	(49.43)	(41.19)	(27.66)	(25.20)
Activity Ratios							
Inventory Turnover	Times	10.06	4.37	3.96	2.95	4.26	3.40
Average Age of Inventory	Days	36	84	92.25	123.62	85.67	107.34
Receivable Turnover	Times	5.09	2.57	0.49	1.08	2.03	1.81
Average Collection Period	Days	72	142	744.90	338	180	202
Payable Turnover	Times	2.62	1.26	0.24	1	1.07	1.03
Average Payment Period	Days	139	289	1,520.83	365	339	353
Capital Structure Ratios							
Debt to Total Asset	%	0.97	0.84	117.85	106.5	96	87

Note: figures pertain to for the year 2019-20 and 2020-21 are provisional

Liquidity Ratios:

Current Ration:

Above table shows that current ratio for the Corporation is 1:02, 1 and 0:74 for the last three years which showed increasing trend in current ratio even then it is very low because a current ratio of 2:1 is considered safe.

Quick Ratio:

Similarly Quick ratio for the Utility Stores Corporations is 0.78, 0.79 and 0.68 for the year 2020-21, 2019-20 and 2018-29 which is considered very low because the ideal liquidity ratio or the generally accepted 'norm' for liquidity ratio is '1'. Quick ratio evaluates the liquidity of a company by comparing its cash plus almost cash current assets with its entire current financial obligations.

Net Working Capital Ratio:

Net Working Capital Ratio is a measure of liquidity. It shows how much short-term resources the Corporation would have in continuing its operations if it had to settle all of its current liabilities. The net working capital is calculated by deducting all current liabilities from all current assets. Although net working capital of USC resulted in Rs. 880.50 million during 2020-21 as compared to negative amount of Rs. 171.86 and Rs. 10,019.93 million in 2019-19 and 2019-20 respectively yet more efforts are required to be made to improve the current ratio.

Liquidity ratios of the Utility Stores Corporation are less than '1' which are very low than industry average or ideal ratios. It means the corporation has lesser current assets to pay off current liabilities.

Performance analysis given in above table showed that the corporation earned profit of Rs. 714.82 million during the year 2020-21 (based on provisional figures) as compared to net loss of Rs. 1,418.35 million during with year 2019-20 with accumulated losses aggregating to Rs. 15,513.13 million upto 30.06.2020 Although the corporation succeeded to put itself into profit from continuous losses during 2020-21 yet the growth of the entity is still at stake unless to maintain its profitability in coming years.

6 Field Audit Activity.

6.1 Methodology

The audit methodology to achieve each audit objective set which will include Previous ARPSE , Audit Report of CAs, and other relevant file reviews, inquiries and interviews from the management, testing of provided data, vouching where necessary, inspections of selection institution sites and gathering of projects related data from outside source.

6.2 Audit Analysis

6.2.1 Review of Internal Control

As per provisions of Corporate Governance Rules some of the Internal Controls were necessary to be devised for sound and prudent management. According to Rule-5 of Corporate Governance Rules the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders but USC BoD failed to ensure compliance of the fundamental principles of probity and propriety; objectivity, integrity and honesty.

Further as per Rule 5(4) the Board did not ensure that adequate systems and control are in place for identification and redressal of grievances arising from unethical practices. In the absence of such control USC is suffering from heavy losses, frauds and misappropriation.

As per Rule -5(5) (c) (iii) The Board has ensured compliance with the law as well as the company's internal rules and procedures relating to Public Procurement, tender regulations, and purchasing and technical standards, when dealing with suppliers of goods and services. But, Board did not ensure compliance of such laws, internal rules and procedures which resulted irregularities/ discrepancies in procurement and tendering process.

According to Rule-11 (3) in order to acquaint the Board members with the wider scope of responsibilities concerning the use of public resources, to act in good faith and in the best interests of the Public Sector Company, at least one orientation course shall be arranged annually for the directors and the information i.e. Control environment and control activities, Key policies and procedures, Risk management and internal control framework and budgeting, planning and

performance evaluation systems etc. were to be provided in writing were to the members of the BOD. Management neither arranged such orientation course for the members which violation of the Corporate Governance Rules. Due to non-provisions of company profiles, non-holding of orientation course, the members of BoD could not be groomed due to which they remained unable to actively participate in the business of Corporation. In the absence of awareness the members of BoD remained unable to ensure internal controls in due spirit.

According to Rule-17 (e) after recognition their responsibility to establish and maintain sound system of internal control, which was regularly reviewed and monitored by BoD. Neither the internal control system was reviewed neither the BoD nor the report in this regard was submitted to the stakeholders.

According to Rule-21 (6) (i) (j) ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure should be adequate and effective but the same is not done. (Review of the Public Sector Company's statement on internal control systems prior to endorsement by the Board which was also done).

Board failed to appoint certified internal control auditor since January 2021 which also affected the work.

6.2.2 Critical Review and Significant Audit Observations

This part of the audit findings covers a critical review of the legal framework, role and performance of organizations, policy matters and all other details along with impediments affecting performance of USC and progress in achieving the targets related to the theme "Compliance of Corporate Governance Rules 2013".

6.2.2.1 Appointment and retention Company Secretary after superannuation

Non-Disclosure of foreign nationalities by USC officers

As per advertisement dated 29.01.2019 maximum age limit for the appointment of company Secretary was required 45 years (relaxable in case of highly qualified and experienced professionals).

As per Rule-6 of USC Service Rules 1992, the age of superannuation is sixty years. Further as per CSR-459 (e) an employee compulsory retired from service at the age of 60 years.

According Supreme Court of Pakistan in its judgment declared that persons with dual nationality could not retain important government positions as they should choose between a government job and a foreign nationality. The Court also ordered the federal and provincial governments to develop criteria and standards operating procedures requiring disclosure of the intent to seek such foreign nationalities and permanent residence permits and adopt methods to check such instances and enforce penalties for non-disclosure. Such criteria and standard operating procedures could possibly be incorporated into the existing efficiency and discipline rules/regulations etc. by way of amendment or be adopted independently.

During thematic audit of Utility Stores Corporation Islamabad, Mr. Hamid Usman was appointed as Company Secretary on 25th October 2019 for two year contract basis. At the time of appointment he was 58 years old whereas as per advertisement the required age limit was 45 years because his date of birth is 03.11.1961. According to date of birth, his date of superannuation is 02.11.2021. According to the above rules the officer was required to be compulsory retired from service on 02.11.2021 at the age of superannuation, instead of compulsory retiring the management extended his contract period for further one year w.e.f. 01.11.2021 which is clear violation of rules committed by the BoD.

According to orders of the Supreme Court of Pakistan, SoP was required to be developed requiring disclosure of the intent to seek such foreign nationalities and permanent residence permits and adopt methods to check such instances and enforce penalties for non-disclosure. But neither the management develops such SoP nor obtained disclosure of foreign nationalities from the officers of the Corporation.

The matter was reported to management on 02.12.2021. Management in its reply dated 03.02.2022 stated that a legal opinion has also sought from the Legal Advisor according to which the appointment of Brig Hamid Usman (Retd)

on contractual basis and its extension even after the age of superannuation by the Competent Authority is legal.

DAC meeting was held on 09.02.2022 but minutes were not received till finalization of report.

Audit recommends to probe into the matters for fixing responsibility and taking up corrective action.

6.2.2.2 Non-compliance of Companies Act due to non-finalization of financial statements of the Corporation

According to Section-223 (2) of the Companies Act the financial statements must be laid before BOD within a period of one hundred and twenty (120) days following the close of financial year of a company. Section-223(1) also states that the board of every company must lay before the company in annual general meeting its financial statements for the period made up to the date of close of financial year adopted by the company.

During thematic audit of Utility Stores Corporation It was observed that management of Utility Store Corporation failed to finalize and lay its annual accounts for the years 2019-2020 and 20-2021 before the BOD despite lapse of period ranging between 3 months to more than one year. Non-maintenance/ finalization and submission of annual accounts to the BoD was serious violation of the Companies Act.

Audit is of the view that in the absence of annual audited accounts the authenticity of transactions remained un-reliable and main objective i.e. information about the financial position, financial performance and cash flow could not be ascertained.

In the DAC meeting held on 09.02.2022, the management apprised the DAC that the Corporation is conducting its operation manually which takes time for collecting required data and information from the Zones, Regions, Warehouses and stores.

DAC directed the management that in order to avoid undue delay for finalization of accounts, make a yearly comprehensive plan and finalize the

financial statements for the years 2019-20 and 2020-21 at the earliest and share with audit for verification.

Audit recommends compliance of the directives of the DAC.

6.2.2.3 Violation of Corporate Governance Rules in constitution of BOD of Corporation

According to Rule-3 (2) of Corporate Governance Rules, 2013 the Board shall have at least one-third of its total members as independent directors. The Public Sector Company shall disclose in the annual report non-executive, executive and independent directors. Furthermore, according to Rule-3 (7) of Corporate Governance Rules, the appointing authorities, including the Government and other shareholders, shall apply the fit and proper criteria given in the Annexure in making nominations of the persons for election as Board members under the provisions of the Act:

During thematic audit of Utility Stores Corporation Islamabad it was observed that the Federal Government constituted new Board of Directors (BoD) vide Notification No. 6-4/2002-USC-II dated 18th January 2021. According to the above provisions of Corporate Governance Rules, at least one-third of its total members should be independent directors whereas, all the members of BoD consisted of Government office holders which was against the provisions of the Corporate Governance Rules.

Audit remained unable to check the fit and proper criteria in making nominations of the persons for election as Board members because management provided only notification regarding nomination of members of BoD issued by the Federal Government.

In the DAC meeting held on 09.02.2022, the management informed that Management apprised the DAC that the USC is 100% owned by the Government of Pakistan, therefore, under Section-164(1), of the Companies Act 2017, the Federal Government has authority to appoint the Directors of USC.

DAC directed the management to follow the CGR-2013, review the members of BoD and move a summary to Cabinet for hiring of new members of

board under the rule 3(2) of Corporate Governance Rules and progress share with Audit.

Audit recommends compliance of the directives of the DAC.

6.2.2.4 Un-authorized chairing the meetings of BOD by the Chairman

Rule 4 (4) of Corporate Governance Rules, 2017 states that the Chairman of the Board shall be elected by the Board of Directors of the Public Sector Company. However, this provision shall not apply where chairman of the Board disappointed by the Government

According to Para-2 of the Industries and Production Division Notification No.6-4/2002-USC-II dated 18th January 2021, Federal Government with approval of Cabinet appointed Secretary, (Industries and Production Division) Islamabad as Chairman of the Board of Directors of Utility Stores Corporation for a period of three (3) months or till the appointment of a new Chairman BoD whichever is earlier.

During thematic audit of Utility Stores Corporation Islamabad, it was noticed that according to the above notification of Government, after expiry of three months w.e.f. 18.01.2021, new Chairman was required to be appointed w.e.f. 17.04.2021 but the same was not done.

It is pertinent to mention here that the Chairman of BoD, chaired the under mentioned BoD meetings beyond the expiry of appointment period i.e. w.e.f. 17.04.2021 which was un-authorized.

S.#	Board meeting No.	Dated on which the meeting was held	Numbers of Agenda items Discussed
01	163 rd Board Meeting	10 th June, 2021	03
02	164 th Board Meeting	28 th July, 2021	09
03	165 th Board Meeting	12 th August, 2021	04
04	166 th Board Meeting	23 rd August, 2021	02
05	167 th Board Meeting	27 th September 2021	09

In the DAC meeting held on 09.02.2022, the management apprised the DAC that in light of Cabinet Decision, the appointment was made.

The DAC directed to the management that since Cabinet appointed the Chairman BoD for the period of three (3) months w.e.f 18.01.2021 or till the appointment of new Chairman BoD whichever is earlier and said period had come into end on 17.04.2021 therefore, for unauthorized period, move a

summary for regularization of previous period. Furthermore, a separate summary also move for appointment of new Chairman BoD.

Audit recommends compliance of the directives of the DAC.

6.2.2.5 Non-appointment of regular Chief Executive Officer/Managing Director of the Corporation

Non-development and succession planning of the Chief Executive resultantly USC accumulated losses increased to Rs. 15,513.13 million

According to Rule 2 (A) of the Corporate Governances Rules, 2013 for sound and prudent management of a Public Sector Company, the business of the company is carried on with integrity, objectivity, due care and the professional skills appropriate to the nature and scale of its activities and according to Section-3 USC Service Rules Managing Director was required to be appointed by the Federal Government. Furthermore according to Rule-5 (2) of the Corporate Governances Rules board is also responsible for development and succession planning of the chief executive.

During thematic audit of Utility Stores Corporation Islamabad, it was revealed that during the period from July 2016 till date, 11 officers were posted/appointed as Managing Directors of the Corporation. Record showed that out of 11 officers, 06 were posted on additional charge basis, whereas except one, none of the regular posted officers completed 02 years period. The details are given below:

S #	Name of MD	Tenure of Posting		Status of Posting/ appointment	Total Period
		From	To		
01	Mr. Waseem Mukhtar	20.07.2016	13.11.2017	Regular Posting	01 year & 04 months.
02	Mr. Mathar Niaz Rana	13.11.2017	23.02.2018	Regular Posting	03 months
03	Mr. Iftikhar Ali Shalwani	08.03.2018	05.04.18	Additional Charge	01 month
04	Mr. Habib Ur Rehman Gillani	16.04.2018	27.06.2018	Regular Posting	02 months
05	Mr. Iftikhar Ali Shalwani	02.07.2018	01.11.18	Additional Charge	04 months
06	Mr. Wajid Ali Khan	02.11.2018	04.12.2018	Additional Charge	01 month
07	Ch. Mushtaq Ahmed	07.12.2018	29.04.2019	Additional Charge	04-1/2 months
08	Mr. Naeem Jan	30.04.2019	02.05.2019	Additional Charge	02 days
09	Mr. Umer Habib Lodhi	03.05.2019	15.07.2021	Regular Appointment	2 years & 05 months
10	Mr. Riaz-ud-din	16.07.2021	31.08.2021	Additional Charge	1-1/2 month
11	Mr. Taha Aziz Magrabi	01.09.2021	Till date	Regular Appointment	Continue.

Audit is of the view that non-posting of regular Managing Directors of the Corporation was against the Corporate Governances rules which badly affected integrity, objectivity, due care and professional skills, appropriate to the nature and scale of activities of corporation. Furthermore, the impact of non-posting of regular Managing Director in the Corporation caused to increase accumulated losses in the last three years to the tune of Rs. 12,814.75 million with accumulated losses aggregating to Rs. 15,513.13 million upto June, 2020. The above facts proved that no succession plan was made and approved by the BoD.

In the DAC meeting held on 09.02.2022, the management apprised that due to randomly transfers/ postings of the Managing Directors no such arrangements could be made.

DAC directed the management to prepare succession planning and get it approved from BoD. DAC further directed the management to provide record to Audit for verification and further comments about the appointment of CEO/MD made through MoIP and Board approval.

Audit recommends compliance of the directives of the DAC.

6.2.2.6 Non-assessment and non-monitoring of the performance of members of the Board including Chairman by the Government and senior management by the Board

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

Furthermore, the Board shall monitor and assess the performance of senior management on a periodic basis, at least once a year, and hold them accountable for accomplishing objectives, goal and key performance indicators set for this purpose.

During thematic audit of Utility Stores Corporation Islamabad, it was noticed that the performance evaluation of members of the Board including the chairman and the chief executive was to be undertaken annually by the Government which was not done by the Government. Further the Board has not monitored and assessed the performance of senior management on annual/half – yearly/quarter basis.

Non-evaluation of performance of the Board and chairman by the government and non- monitoring the performance of senior management by the board is clear violation of Corporate Governance Rules which badly affected the accomplishing objectives, goal and key performance indicators set for this purpose.

In the DAC meeting held on 09.02.2022, the management apprised that with regard to performance evaluation of the Board including the Chairman and the Chief Executive is required to be undertaken by the Government. USC Service Rules are in process, which will be completed in due course of time for USC monitoring on performance of senior management and employee performance evaluation.

The DAC directed the management that as per rule 8 of Corporate Governance Rule 2013, prepare the performance evaluation of Board members including Chairman of every Board meeting. DAC further directed the

management to early finalize the USC Service rules, Prepare TOR and SOP and get it approved from BoD for monitoring of performance evaluation of Senior Management and share record with Audit for verification.

Audit recommends compliance of the directives of the DAC.

6.2.2.7 Inaction of Board of Directors on qualified opinions of external auditors

According to Rule-21(6) (C) (I to V) with the recommendation of Board, Audit Committee was required to review of quarterly, half-yearly and annually financial statements of Public Sector Company, prior to their approval by the board focusing on:.

- i) Major judgment areas:
- ii) Significant adjustments resulting from the audit
- iii) The going concern assumption;
- iv) Any changes in accounting policies and practices; and
- v) Compliance with applicable accounting standards.

During thematic audit of Utility Stores Corporation Islamabad, it was noticed that external auditors gave their qualified opinion on certain areas in the annual financial statements for the years 2017-18, 2018-19 and 2019-20, (Annex-60), but neither Audit Committee gave any recommendation for BOD of the Corporation nor BOD take any action in this regard which is violation of the Corporate Governance Rules.

In the DAC meeting held on 09.02.2022, the management informed that the annual audited accounts were discussed during Board Audit Committee meetings and recommendations of the Board Audit Committee along presented to the Board of Directors

DAC directed the management to follow up the recommendations of external auditor and review it with the Board Audit committee and then present it in BoD for consideration. Review of Audit Committee, BoD consideration and compliance to recommendation be shared with Audit for verification.

Audit recommends compliance of the directives of the DAC.

6.2.2.8 Non-formulation of significant policies of the Corporation by the BoD

According to Rule-7 (J) the Board of Directors of the Corporation was required to formulate significant policies of the Public Sector Company, which may include corporate social responsibility initiatives including, donations, charities, contributions and other payments of a similar nature. Rule-7 (m & n) further requires formulating significant policies regarding health, safety and environment and development of whistle-blowing policy and protection mechanism.

Furthermore, according to Rule- 5 (5)(b)(vi) the Board has developed and implemented a policy on anti-corruption to minimize actual or perceived corruption in the Company and conflict of interest policy.

During thematic audit of Utility Stores Corporation Islamabad it was revealed that Board of Directors of the Corporation did not formulate the above mentioned significant policies of the Corporation and according to the Code of Corporate Governance, following policies were also to be formulated which was not done by the Board:

- a. Governance of risks and internal control measures
- b. Human resource management including preparation of a succession plan
- c. Permissible fee for non-executive directors including independent directors
- d. Procurement of goods and services
- e. Communication policy and investors'/shareholders' relations
- f. Marketing
- g. Determination of terms of credit and discount to customers
- h. Write-off of bad/doubtful debts, advances and receivables
- i. Sale and lease of assets, undertaking, capital expenditure, planning and control
- j. Investments and disinvestment of funds
- k. Debt coverage
- l. Determination and delegation of financial powers
- m. Transactions or contracts with associated companies and related parties

- n. Environmental, social and governance including health and safety aspects in business strategies that promote sustainability. This includes but is not limited to Corporate Social Responsibility (CSR) initiatives and other philanthropic activities, donations / contributions to charities and other social causes; and
- o. Whistle blowing policy, by establishing a mechanism to receive, handle complaints in a fair and transparent manner while providing protection to the complainant against victimization.

Non-formulation of above policies is clear violation of the above provisions of the Corporate Governances Rules and work is being done on ad-hocism without intact of BOD.

In the DAC meeting held on 09.02.2022, the management apprised that the draft of policies will be completed shortly.

DAC directed the management that the policies of USC under rule 7 of Corporate Governing Rules be prepared at the earliest and get it approved from BoD by June, 2022 and share with Audit for verification.

Audit recommends compliance of the directives of the DAC.

6.2.2.9 Non-formulation of Committees by the Board of Directors

According to Rule-12 (1) of the Corporate Governance Rules, 2013 the Board shall set up the following committees to support it in performing its functions efficiently and for seeking assistance in the decision making process, namely:-

- (a) Audit committee, for an efficient and effective internal and external financial reporting mechanism.
- (b) Risk management committee, in case of Public Sector Companies either in the financial sector or those having assets of five billion rupees or more, to effectively review the risk function.
- (c) Human resources committee, to deal with all employee related matters including recruitment, training, remuneration, performance evaluation, succession planning, and measures for effective utilization of the employees of the Public Sector Company.

- (d) Procurement committee, to ensure transparency in procurement transactions and in dealing with the suppliers; and
- (e) Nomination committee, to identify, evaluate and recommend candidates for vacant positions, including casual vacancies, on the Board, including the candidates recommended by the Government for consideration of shareholders or in case of casual vacancy to the board of directors after examining their skills and characteristics that are needed in such candidates.

During thematic audit of Utility Stores Corporation Islamabad, it was observed that the Federal Government constituted new Board of Directors (BoD) vide Notification No.6-4/2002-USC-II dated 18th January 2021. According to the above provisions of Corporate Governance Rules, committees were required to be formulated by the BOD to perform its functions efficiently. Contrary to the above provisions, BOD formulated only two committees i.e. Human Resource & Nomination Committee and Audit Committee. Remaining three committees were not formulated despite lapse of period of more than 10 months which is against the provisions of Corporate Governance Rules and caused inefficient performance of the board and Corporation.

In the DAC meeting held on 09.02.2022, the management that due to less number of Directors only two Board Committees were reconstituted in 159th meeting of the Board of Directors held on 23rd January 2021. When Independent Directors are appointed, the remaining Board Committees will be reconstituted.

DAC directed the management that under rule 12 (1) of Corporate Governing Rules, formulate the BoD all committees at the earliest and compliance be share with Audit for verification.

Audit recommends compliance of the directives of the DAC.

6.2.2.10 Appointment of Chief Executive without following fit and proper criteria

According to Rule -12 of Corporate Governance Rules, the Board shall set up nomination committee to identify, evaluate and recommend candidates for vacant positions, including casual vacancies, on the Board, including the candidates recommended by the Government for consideration.

Further to determine whether a candidate proposed to be appointed as a chief executive of public sector company is fit and proper for the position, the following factors shall be taken into consideration:

- i) Competence and Capability
- ii) Probity, personal integrity and reputation-
- iii) Financial integrity.

In Para-3 of the said guideline the assessment of the above criteria shall have regard to the considerations was set out in details.

During thematic audit of Utility Store Corporation of Pakistan, Islamabad it was observed that the Chief Executives/Managing Directors were appointed without adopting the evaluation /assessment criteria described in the Public Sector Companies (Appointment of Chief Executive) Guidelines, 2015, and also in disregard to the above mentioned provisions of the Corporate Governance Rules. The assessment was done individually instead of through nomination committee and assessment criteria was determined by the management itself which was found not in line with Public Sector Companies (Appointment of Chief Executive) Guidelines, 2015. The assessment performas were found incomplete; some of the columns were left blank by the individual evaluators.

Audit is of the view that in above mentioned circumstance the process adopted for the evaluation/assessment was in disregard to the above provisions of rules.

The matter was reported to management on 02.12.2021. Management in its reply dated 03.02.2022 stated that during whole process none of any rule was violated and appointing process for the post of Managing Director USC was completed in accordance with the Public Sector Companies, (Appointment of Chief Executives) Guidelines 2015 and Corporate Governance Rules, 2013.

In the DAC meeting held on 09.02.2022, the DAC directed the management to check the criteria implementation and review the same by a committee and share the record with audit for verification. DAC further directed the management that in future also make assessment/evaluation of competence, personal & financial integrity of newly appointed Chief Executive Officer.

Audit recommends compliance of the directives of the DAC.

6.2.2.11 Non-implementation of decisions of the BoD & its sub-committees resulting into wasteful expenditure – Rs. 31.500 million

As per Clause-5 (a) of Public Sector Companies (Corporate Governance) Rules, 2017, the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders, in the following manner, namely:- (a) the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage. The principle shall be adhered to, especially with respect to the following, namely: - (i) handling of public funds, assets, resources and confidential information by directors, executives and employees; and (ii) claiming of expenses.

During thematic audit of Utility Stores Corporation (USC) Islamabad, it was observed that the Ministry of Industries and Production, Government of Pakistan constituted Board of Directors (BoD) under the provisions of company Memorandum and Articles of Association. The BoD and its sub-committee issued several directives to the management of USC but the management had not implemented the decisions of the BoD and its sub-committees as detailed below:

Year	Numbers of Meeting Held											
	BOD	HRC	HR&NC	RM&LC	F&IT	BDC	BAC	PQAC	BNC	BIC	Sub Com HR	Sub Com BOD
2013-14	03	03		-	-		01	-	-	-	-	-
2014-15	07	06	04	-	-		07	-	03	-	02	-
2015-16	08	03	01	02	04		04	01	02	-	02	-
2016-17	05	05	-	01	02	-	03	02	-	-		1
2017-18	04	-	-	01	01	-	-	01	01	-		-
2018-19	07	-	-	-	-	6	-	-	01	01		-
2019-20	06	-	-	-	-	3	-	-	-			-
2020-21	07	-	-	-	-	-	-	-	-			-
2021-22	03	-		-			-		-			-
	50	07	05	04	07	09	15	04	07	01	04	01

Management incurred an expenditure of Rs. 31.500 million on these BoD meetings which had gone waste due to non-compliance of the directives of BoD and its sub-committees as detailed in the attached statement.

Audit is of the view that working of the USC Board was not according to the provision of the Memorandum & Articles of Association, Public Sector Companies (Corporate Governance) Rules 2017. Furthermore, management was also not working in the light of Board or its sub-committee decisions. This also resulted into decline of company sales since 2014-15, which was a question mark upon the performance of the BoD.

It is also to be mentioned here that no regular meeting of the committees of the BoD was convened. Further the TORs of the committees were also not observed while holding the meetings of the committees.

The matter was reported to management on 02.12.2021. Management in its reply dated 03.02.2022 stated that many of the Board decisions were implemented by the Management and non-compliances of the Board decisions has been communicated to the Secretary Ministry of Industries & Production.

In the DAC meeting held on 09.02.2022, the management stated that many of the Board decisions were implemented by the Management.

DAC directed the management to develop mechanism for review of compliance of BoD recommendation/directives. Up-dated compliance status be shared with Audit for verification.

Audit recommends compliance of the directives of the DAC.

6.2.2.12 Appointment of Company Secretary in disregard to the powers and functions of the BoD resulted into payment of Rs. 10.086 million

As per rule 13 (1) (2) of Corporate Governance Rule 2017 the Board shall appoint a chief financial officer, a Company Secretary and a Chief Internal Auditor by whatever name called.(2) The appointment, remuneration and terms and conditions of employment of the chief financial officer, the company secretary and the chief internal auditor of Public

As per rule 14 (4) of corporate Governance rule 2017 states that No person shall be appointed as the company secretary of a Public Sector Company unless he is a:

- a. Member of a recognized body of professional accountants; or

- b. Member of a recognized body of corporate or chartered secretaries;
- c. Person holding a master degree in business administration or commerce or being a law graduate from a university recognized by the Higher Education Commission with at least five years relevant experience.

As per Establishment Division O.M. No. 10/4/60-E.XIII, dated 03.06.1961, the Ministry of Defence desired that they should be consulted in regard to the employment of released/retired military officers, in civil posts under the various Ministries/Divisions. Accordingly, it has been decided that whenever any Ministry/Division, or any authority under them propose to employ a released/retired military officer as a result of an application made to them direct (and not through the Ministry of Defence) the Ministry of Defence should be consulted by the Ministry/Division etc. concerned before such an officer is employed by them.

The USC management invited application for the post of Company Secretary for a period of two years contract on market based salary package. The advertisement was appeared in Daily “The NEWS” of 29.01.2019. The maximum age for the post was 45 years. In response, 43 applications were received out of which 13 candidates were shortlisted. However, only 6 candidates were called for interview. As per record, 4 candidates appeared in person for interview while the remaining two were interviewed through video link. As per minutes of HR Committee of Board of Directors dated 18.10.2019, only two Directors (Chairman Board of Directors and Managing Director) out of three were present for interview. As a result of interview, Brig. (R) Hamid Usman, having 58 years of age was selected for the position of Company Secretary. As per application submitted by the officer, his relevant experience as Co. Secretary was only 3.5 years. However, no documentary evidence of his qualification, previous service and experience was available on record produced to audit for verification. Further, the entries recorded by the MD in evaluation sheets of Mr. Naeem Rajput and Salman Ahmed were crossed and re-written thereby decreasing the scores. The evaluation sheets recorded by MD in respect of Mr. Naeem Aslam were also not available on record made available to Audit.

In view of the forgoing facts, Audit is of the view that the appointment of the Company Secretary was made without observing the required length of

relevant experience and by granting age relaxation was not transparent. Thus payment of Rs. 10.086 million was made from November 2019 to October 2021. Further, due to prior commitments of third Director; any other Director should have been nominated for interview.

The matter was reported to management on 02.12.2021. Management in its reply dated 03.02.2022 stated that minimum required experience was 10 year, whereas the officer having only 3.5 year experience and required age was 45 year, whereas the officer was 58 year and further no NOC from Ministry of Defense was taken and no relevant qualification & experience.

In the DAC meeting held on 09.02.2022, the Committee directed that documentary evidence and verification documents regarding previous service, qualification and experience certificates, NOC/ consultation of Ministry of Defense, age criteria for appointment of Company Secretary be share with audit for verification.

Audit recommends compliance of the directives of the DAC.

6.2.2.13 Misuse of powers by the BoD for enhancement of perks & privileges Rs. 4.920 million

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

As per Clause-62 Tax credit for investment in shares and insurance – (1) A resident person other than a company shall be entitled to a tax credit for a tax year either – (i) in respect of the cost of acquiring in the year new shares offered to the public by a public company listed on a stock exchange in Pakistan, provided the resident person is the original allottee of the shares or the shares are acquired from the privatization Commission of Pakistan.

During scrutiny of record it was observed that Brig. (R) Hamid Usman was issued job offer letter as Company Secretary vide No. 237-Estt/CS dated

25.10.2019 for a period of two years on contract basis extendable for a further period of two years. The pay was offered as Rs. 265,000 per month all-inclusive after negotiation. The officer was also granted 9 years age relaxation. The officer joined the service w.e.f. 01.11.2019.

The USC Board of Directors in its 154th meeting held on 30.12.2019 approved enhancement in market based salary package and officer was allowed to draw salary of Rs. 400,000 per month from the date of his joining. The officer was also allowed Rs. 70,000 per month in lieu of transport and Rs. 20,000 utilities. It was also decided that in future, fringe benefits increments, bonuses/honorarium and other allowances would be paid as per USC policy.

A scrutiny of record revealed that the BOD in its 118th meeting held on 04.06.2014 had approved maximum Rs. 250,000 (salary package) plus Rs. 65,000 (in lieu of vehicle & POL).

Audit holds the view that since the officer was appointed after negotiation on market based salary of Rs. 265,000 per month (all inclusive), the revision in salary package within two months of appointment of Company Secretary was not justified particularly when the officer could be offered salary upto maximum Rs. 315,000 per month as per salary package approved in 118th BoD meeting held on 04.06.2014.

The case prima facie depicts that undue favour was extended to the officer which resulted into extra payment of Rs. 4.920 million (Rs. 205,000 x 24 months from 01.11.2019 to 30.10.2021).

The record also revealed that the officer submitted a certificate dated 20.01.2020 issued by National Bank of Pakistan which indicated that the officer made an investment of Rs. 4.500 million in NBP Mahana Amdani Fund on 06.01.2020. The officer was given tax credit of Rs. 81,564 from Nov. 2019 to June 2020 on such investment.

Audit is of the view that investment in Mahana Amdani Fund does not qualify for tax credit under the income tax rules.

In the DAC meeting held on 09.02.2022, the management apprised that the BoD is fully competent to enhance the perks & privileges beyond the contract price.

DAC was not satisfied with the reply of management and directed to make inquiry at Ministry level.

Audit recommends compliance of the directives of the DAC.

6.2.2.14 Misuse of resources of the corporation by BoD in hiring of market based salaries despite adoption of government pay packages – Rs. 50.055 million

As per Clause-5 (a) of Public Sector Companies (Corporate Governance) Rules, 2017, the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders, in the following manner, namely:- (a) the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage. The principle shall be adhered to, especially with respect to the following, namely: - (i) handling of public funds, assets, resources and confidential information by directors, executives and employees; and (ii) claiming of expenses.

During thematic audit of Utility Stores Corporation (USC) for the year 2017-18 it was observed that Board of Directors in its 120th meeting held on August 21, 2014 approved the market based salary package for the following posts despite the fact that corporation had adopted the government pay packages w.e.f July 06, 1974 as detailed below:

S. No.	Position	Maximum package limit (Rs.)	In lieu of vehicle & petrol
1	Senior General Manager (Retail Business)	300,000	65,000
2	Senior General Manager (Commercial & Marketing)	300,000	65,000
3	Senior General Manager (HR-Training & Development)	250,000	65,000
4	Chief Financial Officer	400,000	75,000
5	Chief Internal Auditor	300,000	65,000
6	Company Secretary	250,000	65,000
7	General Manager (IT)	350,000	65,000
8	Manager (IT)	200,000	-
9	Assistant Manager (IT)	100,000	-

The approval of market based salary despite adoption of government pay scales was not justified as it creates disparity between officers / officials of the corporation and had negative effect on the morale of the employees. The management had made total payment of Rs. 50.055 million as detailed below:

S. No.	Position	Period	Salary @ (Rs.)	Total(Rs.)
1.	Chief Financial Officer	01.01.2015 to 30.06.2018	400,000	16,800,000
2.	Chief Internal Auditor	01.01.2015 to 31.01.2016	325,000	4,225,000
3.	Chief Operating Officer	01.01.2015 to 23.01.2018	365,000	13,505,000
4.	Company Secretary	01.01.2015 to 31.03.2016	265,000	3,975,000
5.	General Manager (IT)	01.01.2015 to 30.06.2018	275,000	11,550,000
	Total			50,055,000

Audit is of the view that management was required to fix the salary of above officers as per government pay scales but market based salaries were offered. Furthermore, management neither amended the HR Rules of the corporation nor obtained ex-post fact approval of the Finance Division through administrative ministry which was held irregular.

Matter was reported to the management on 11.11.2019 and in its reply dated 05.10.2020 they stated that the as per Memorandum of Articles & Association Section 108 (g) and Public Sector Companies Corporate Governance Rules Section 13, USC Board of Directors is Competent forum for appointment and fix their remuneration and terms & condition of their employment. Since the USC BoD has regularized the services as well as salaries of the intervening period and also resolved in 145th meeting held on 07.08.2018. The reply is not tenable as management neither amended the HR Rules nor obtained ex-post facto approval of the Finance Division.

In the DAC meeting held on 09.02.2022, the management appraised that BoD is competent forum for hiring of market-based salaries despite adoption of Government pay packages.

DAC was not satisfied with the reply of management and directed to refer the case to Establishment Division for seeking advice/guidance.

Audit recommends compliance of the directives of the DAC.

6.2.2.15 Exercise of powers by BoD beyond authorized competency resulting into unauthorized payment of Rs. 7.020 million

According to Rule-12 (3) of Corporate Governance Rules 2013, the Board shall concern itself with policy formulation and oversight and not the approval of individual transactions except which are of an extraordinary nature or involve materially large amount.

During thematic audit of Utility Stores Corporation Islamabad it was noticed that following appointments were made on market based salaries during the period mentioned against each.

S. #	Name and Designation	Date of appointment	Salary offered (Rs.)	Period of Contract	Period Extended with increase in salary	Excess payment upto 31.3.2021 (Rs.)
01	Mr. Shakeel Ahmad, GM IT	31.03.2015	275,000	05 years extendable subject of satisfactory performance.	Period extended for 3 years with from 31.3.20 increase in salary Rs. 350,000 + with facilities of Grad-20 + Rs.75,000 project Allowance	2,850,000
02	Mr. Hamood-ur-Rehman, CFO	31.03.2015	275,000	05 years extendable subject of satisfactory performance.	Period extended for 01 years from 31.03.20 with increase in salary Rs. 100,000 per month with facilities of Grad-20	1,200,000
03	Brig Hamid Usman, Company Secretary	25.10.19	265,000	02 years extendable subject of satisfactory performance.	Period extended for 3 years with increase in salary Rs. 400,000 + with facilities of Grade-20	2,970,000
04	Mr. Iftikhar Ahmed Aamer CFO	26.04.21	600,000	02 years Extendable subject of satisfactory performance.	Period extended for 01 years with allowing the facilities of Grad-20	Not provided

Detailed scrutiny of record showed that the pay package of CFO and Company Secretary was increased before expiry of contract period which lead to prove that BoD granted individual favour to both the officers instead of policy formulation.

In case of GM IT and Ex CFO contracts were extended by the board for further period as mentioned above with increase in salary which was also not in line with the provisions of Corporate Governance Rules which resulted excess payment of Rs. 7.020 million.

It is added that BOD in its 136th meeting granted Rs. 200,000 as USC Allowance and Rs. 50,000 as utility allowance to Managing Director of USC this also showed that personal/individual benefit was granted instead of policy formulation.

In the DAC meeting held on 09.02.2022, the management stated that the Board of Directors of USC is empowered to determine the terms and conditions of employees under Article-108(g) of the Articles of Association.

DAC was not satisfied with the reply of management and directed to review the reply under USC Service rules and share with Audit for verification.

Audit recommends compliance of the directives of the DAC.

6.2.2.16 Non-compliance of BoD directives for special audit report – Rs. 32.500 million

As per Clause-5 (a) of Public Sector Companies (Corporate Governance) Rules, 2017, the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders, in the following manner, namely:- (a) the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage. The principle shall be adhered to, especially with respect to the following, namely: - (i) handling of public funds, assets, resources and confidential information by directors, executives and employees; and (ii) claiming of expenses.

During thematic audit of Utility Stores Corporation (USC) for the year 2018-19 it was observed that management published tender in the leading newspapers on April 17, 2015 asking bids from big four audit firms for special investigation of old balances appearing in the USC books of accounts for stock in trade, trade debts, advances to employees and suppliers, insurance claims receivables, shortage receivables from store in-charges which needs detailed scrutiny and 100% verification. The financial bids were opened on May 07, 2015 and four Chartered Accountants firms participated in the tender. After due evaluation Board Audit Committee in its 8th meeting held on May 29, 2015 recommended the appointment of M/s M. Yousaf Adil Saleem & Co. (Deloitte) and Board of Directors in its 127 meeting held on June 01, 2015 approved the appointment of M/s M. Yousaf Adil Saleem & Co. (Deloitte). M/s Deloitte were assigned special assignment for three years to determine pilferage, shortages, embezzlements, damages, expiry etc., as per approved TORs at the fee of Rs. 32.500 million. M/s Deloitte in their letter dated November 8, 2016 raised some serious concerns regarding non-cooperation of USC staff. Therefore, the Board Audit Committee heard their grievances to elevate their concerns. The Chairman BoD informed the meeting that representatives of M/s Deloitte informed that the required ownership was not manifested as officers of USC were not cooperating. The consultant also informed that after a lot of meetings, the record was provided in a casual manner. The Chairman also informed that they had presented different mile stones, due to which assignment of special audit was being delayed. The audit demanded the subject special reports but same was not provided by the management hence appointment and continuation of the services of M/s Deloitte beyond three years was held irregular.

Audit was of the view that special investigation of old balances appearing in the USC books of accounts for stock in trade, trade debts, advances to employees and suppliers, insurance claims receivables, shortage receivables from store in-charges which needs detailed scrutiny and 100% verification was a time bound exercise and must be completed now but no timelines were observed and assignment was not completed yet.

In the DAC meeting held on 09.02.2022, the management stated that an inquiry committee in the case was made.

DAC directed the management that findings of inquiry report be implemented and shared with Audit for verification.

Audit recommends compliance of the directives of the DAC.

**6.2.2.17 Non-compliance of approved business plan for the year 2018-19
Non-preparation of business plan for the years 2019-20 & 2020-21**

According to Corporate Governance rule 7 (2) (a) 2017 states that The Board shall establish appropriate arrangements to ensure it has access to all relevant information, advice and resources necessary to enable it to carry out its role effectively. Significant issues shall be placed before the Board for its information and consideration, in order to formalize and strengthen the corporate decision making process. (2) For the purpose of sub-rule (1), significant issues shall, *inter-alia*, include the following, namely:- (a) annual business plans, cash flow projections, forecasts and long term plans; budgets including capital, manpower and expenditure budgets, along with variance analyses;

Automation

To control the shortages, damages, losses and to improve efficiency, productivity and customer service computerization of business and retail operations of the USC will be done by implementing an integrated ERP (Enterprise Resource Planning and Retail System).

Transformation with Control and Efficiency

IT implementation will bring controls in its operations and will bring organizational efficiency in terms of time, resource allocation, decision making, accessibility, availability of required items, uniqueness of SOP's, improved customer services and seamless reporting. IT will also protect Document/information security against fire, theft, illegal access or any other incident. IT Implementation will ensure that its financial, sales, inventory and operation reports are reliable.

ERP Implementation Will Reduce Operational Costs and Improve Efficiency

ERP is still not implemented

Bailout Package

- Rs. 1.2 billion, pending subsidy claim of USC.
- Rs. 5 billion, as bailout package for the operations of USC.

1.2 billion + 5.0 billion = 6.2 billion Rupees

30% = 1.86 billion, will immediately be paid to the major vendors to reduce the liabilities

15% = 0.93 billion, will be used to pay of liabilities of small vendors

30% = 1.86 billion, will be used to buy fresh inventory

15% = 0.93 billion, will be used for day to day buying/operations

10% = 0.62 billion, will be used for forward buying/pre Ramzan operations for Ramzan 2019.

The status of funds received and its utilization was not made available.

Merchandizing & Buying/Procurement

Partnership and Joint Ventures with vendors, producers and manufacturers to stabilize USC.

Restoration of supplies from all the vendors

The affordable Ghee/Oil Brand will be launched shortly. USC has negotiated with the top selling vendors of Ghee/Oil and initially these vendors are agreed to supply the stock once their;

- i) Overdue amount reduced.
- ii) Restoration of USC own brand items.
- iii) Increase in range of item, SKUs including fruits, vegetables, frozen foods & medicines etc.
- iv) Conversion of Vendors from Regular to Consignment basis, except multinational companies.
- v) USC is bound to procure under PPRA Rules which sometimes cause buying on higher rates.
- vi) Induction of new products having higher profit margins.
- vii) Launching of USC brand "Purified Drinking Water".

Store Operations/Training

- i) Top stores delivering 80% sales to be profitable with availability of stock all time.
- ii) To review the viability of existing stores and Regions for merger and shifting accordingly.
- iii) Rationalize the operational expenses.
- iv) Change of legal framework, USC Act-2018.
- v) Capacity building of Human Resource through trainings.
- vi) To achieve the breakeven level either by increasing the gross profit or annual sales.
- vii) To fill the vacuum of middle management.
- viii) To improve and update the USC policies of procurement, subsidy, Human Resource and other significant policies.
- ix) Hire purchase scheme for Government employees.
- x) Expansion of Franchise utility stores network.
- xi) Gist of Business strategy
- xii) Supply of 15 essential commodity (Atta, Ghee/oil, Rice, Pulses & Daily house hold) items at all the stores for the poor segment of the society.
- xiii) Timely payments to the vendors in future.
- xiv) Effective monitoring at Zonal/Regional level.
- xv) Use of better IT and digital technology will improve the efficiency.

Ultimate outcome

Win-win situation for all the stack holders

- Masses
- Employees
- Vendors
- Government

Benazir Income Support Program (BISP)

- i) Conversion of BISP to IRC (Insaaf Ration Card) and launching it through USC will be a win-win situation.
- ii) USC had already delivered the targeted subsidy for the poor segment in Khyber Pakhtunkhwa successfully.
- iii) USC has the capability to deliver the subsidy through its largest network in Pakistan in the following manners:

- iv) Targeted Subsidy: For selected segment of society i.e. Insaaf Cards in KPK
- v) Non-Targeted Subsidy: For general public i.e. Ramzan Relief Packages etc.
- vi) Nearly 39% of Pakistanis live in multi-dimensional poverty. Poverty in urban areas is 9.3% as compared to 54.6% in rural areas. USC is a basic provider of commodities to the poor segment of society at UC level.
- vii) Government spends around 100 billion annually on BISP.
- viii) Through implementation of IRC (Insaaf Ration Card), the USC will refund approximately Rs.20 billion per annum to the Government in shape of taxes.
- ix) The IRC will enable USC to sustain its present level of employment. Moreover, it will generate additional employment opportunities.
- x) The Government will gain political millage by implementing IRC.
- xi) USC will provide targeted subsidy to the IRC card holder, this will help the poor segment of the society to get the essential items on discounted rates.
- xii) It is proposed that Government fund being provided to registered people of BISP may be converted into food and other house hold items to be provided through USC outlets.
- xiii) This activity will increase the tax net of the Government.
- xiv) This will also help USC to come out from the losses into positive digits.
- xv) No additional cost will be made in this regard.
- xvi) The implementation status of the above items was not made available to audit.

BUSINESS PLAN 2019-20

No comprehensive business plan was prepared only the comparison of sale target and its achievements for the months of January 2019 to October 2019 was presented in the in the 153rd meeting of the BOD held on 07.11.2019. The Board deferred the subject matter and advised that subject matter will be discussed in presence of the Managing Director. No out-come shown to audit.

BUSINESS PLAN 2020-21.

No business plan was prepared and submitted in the BOD.

In the DAC meeting held on 09.02.2022, the Para was discussed in detail. After detailed deliberation, DAC directed the management to submit revised reply.

7 Conclusion

It is concluded that despite having a long history of corporation environment in USC, the management has not been successful in implementing Corporate Governance Rules, 2013 in letter and spirit. Matters including irregularity and malpractices in appointments, financial management, procurement, contract management and overstaffing in the Corporation need special attention, many sections of Corporate Governance Rules, 2013 were either violated nor bypassed by management. USC needs interdivisional coordination which is hampering the efficient usage of human resources in the corporation.

8 Departmental Responses

Departmental response has been incorporated.

9 Recommendations

It is recommended that:

- i) The management was required to comply with corporate governance rules in letter and spirit to run the affairs of the corporation.
- ii) Appointment of the senior management officers including Chief Executive Officer should be made according to fit and proper criteria.
- iii) Compliance of Clause 223 of Companies Act 2017 was to be made according to the provisions of the Companies Act.
- iv) Performance Evaluation of BOD by the Ministry may be carried out.
- v) Performance of senior management may be monitored and assessed by the BOD
- vi) Significant policies may be formulated.
- vii) Orientation courses and training of board members may be arranged.
- viii) Pay and perks of the senior management and members of the board may be reviewed and re fixed by adopting uniformity.
- ix) Issues of going concern may be addressed in time.
- x) Action may be taken on qualified report of the auditors by the board.
- xi) Compliance of directives/decisions of BOD and its committees may be ensured.

xii) Compliance of PAC directives may be ensured.

ANNEXURE

Annex-1

MFDAC Paras

The Directorates General, Commercial Audit and Evaluation on behalf of the Auditor-General of Pakistan, conducted the audit of Federal Government organizations which maintain their accounts on commercial pattern.

As a result of audit conducted during 2010-21, various types of financial irregularities and loss of public money etc. were detected and reported to the Ministries/Divisions and organizations concerned. The important irregularities/ loss and malpractices pertaining to various organizations have been printed in this report, while irregularities/ loss not considered worth reporting to the PAC as listed below were left for Departmental Accounts Committees. The same will be discussed with the respective Secretaries to the Ministries/Divisions by the Directorates General, Commercial Audit and Evaluation.

S.#	Title of Para	Rs. in million
	Aviation Division	
	Pakistan International Airlines	
1	Loss due to enhancement of rates of CIP lounge facility – Rs.20.128 million (USD 126,258)	20.128
2	Irregular expenditure on appointment of visiting specialist –Rs.5.280 million	5.280
3	Loss due to lesser price charged to defueled quantities – Rs.2.053 million	2.053
4	Loss due to re-accommodation of passengers on special flights – Rs.17.523 million	17.523
5	Loss due to irregular payment of allowances – Rs.18.032 million	18.032
6	Loss due to meal wastage and excess meal uplift than passenger travelled- Rs.6.676 million	6.676
7	Loss due refund of stamp duty tax (N9) - Rs.1.322 million	1.322
8	Loss due to non-installation of condenser coils - Rs.2.334 million	2.334
9	Loss due to ill-planning – Rs.11.060 million	11.060
10	Irregular expenditure incurred on construction of offices at Skardu Airport–Rs.14.500 million	14.500
11	Suspension of ATR Component Support Programme due to non-payment – Rs.14,499.05 million	14,499.05
12	Non-recovery against other receivables - Rs.16, 854.00 million	16, 854.00
13	Suspension of Boeing Component Support Programme– Rs.1,469.95 million	1,469.95
14	Abnormal increase in expenditure- Rs.1,381 million	1,381
15	Loss on account of penalties / fines and demurrage - Rs.582.41 million	582.41

16	Loss due to irregular award of contract by enhancing rates – Rs.6.929 million	6.929
17	Irregular award of contract to M/s. WWGC – Rs.3.630 million	3.630
18	Wasteful expenditure due to procurement of TMS machines – Rs.3.502 million	3.502
19	Non-deduction of risk & expenses due to default on delivery – Rs.1.265 million	1.265
20	Loss due to purchase of unnecessary spare parts at exorbitant rates on priority basis – Rs.10.075 million	10.075
21	Irregular extension of contract to M/s Filly Transport- Rs.29.614 million	29.614
22	Non-settlement of Discrepancy Reports – Rs.27.900 million	27.900
23	Unjustified payment against consumable spares- Rs.61.616 million	61.616
24	Non-payment of Principal & Markup to GoP- Rs.17,100 million	17,100
25	Irregular payment through dual monetary benefits – Rs.49.072 million	49.072
26	Loss due to payments on account of delay flights – Rs.2.33 million	2.33
27	Non-preparation of Consolidated Financial Statements for the year 2020	-
28	Imprudent Decision to take VSS Grant as Other Income - Rs.8,500.00 million	8,500.00
29	Irregular award of contract - Rs.752.000 million (US\$ 4.700 million)	752.000
30	Non-achievement of sales targets - Rs.1,785.22 million	1,785.22
31	Non-recovery of dues from Government Departments and other customers – Rs.31.701 million	31.701
32	Non-imposition of penalty due to uplifting of inferior meal - Rs.4.538 million	4.538
33	Blockage of fund due to un-credited cheques – Rs.31.361 million	31.361
34	Loss due to over estimation of 7,930,273 meals – Rs.872.330 million	872.330
35	Blockage of funds due to excess tendering – Rs.1,063.00 million	1,063.00
36	Excess uplift of 30,404 meals more than the actual consumption – Rs.3.558 million	3.558
37	Loss due to non-receipt of outstanding quantity of 1,630,000 Casserole without Lid - Rs.14.051 million	14.051
38	Irregular/ Extra tendering of Casserole without Lid Qty of 4,500,000 – Rs.34.425 million	34.425
39	Irregular procurement of Cutlery Pack 5x1 disposable without requirement – Rs.26.485 million	26.485
40	Loss due to non-renewal of previous agreement – Rs.3.31 million	3.31
41	Irregular splitting of contract to avoid sanction from higher authority – Rs.20.937 million	20.937
42	Irregular Award of In-Flight Catering Service to PIA at KUALA LUMPUR- Rs.252 million	252.00
43	Irregular Award of In-Flight Catering Service to PIA at Beijing (China) – Rs.174 million	174.00
44	Irregular Payment of allowances - Rs.177.429 million	177.429
45	Revenue losses due to low seats factor at KSA regions - Rs.89.450 million	89.450
46	Loss due to blockade of seats	-

47	Loss due to operating extra sessions - Rs.1,098.11 million	1,098.11
48	Loss of revenue due to mismanagement – Rs.112.313 million	112.313
49	Losses due to discounts on Ex-Europe routes –Rs. 20.048 million	20.048
50	Illegal appointment in violation of Supreme Court orders - Rs.48.750 million	48.750
51	No disciplinary action taken on unauthorized absence from duty	-
52	Irregular final settlement to dismissed employees- Rs.1.869 million	1.869
53	Non-recovery of excess flying allowance against Employees– Rs.4.335 million	4.335
54	Loss due to deploying extra work force – Rs.15.119 million	15.119
55	Loss due to aircraft damaged beyond economic repair	-
56	Continuation of service for eighteen years on fake / bogus degree / certificate	-
57	Irregular payment through dual monetary benefits – Rs.37.695 million	37.695
58	Irregular appointment of officer on contract basis –Rs.1.260 million	1.260
59	Irregular appointment of officer on contract basis –Rs.1.800 million	1.800
60	Loss due to wastage of meals - Rs.2.304 million	2.304
61	Loss due to delay of flights – Rs.489.862 million	489.862
62	Loss due to payment on account of delayed flights –Rs.58.052 million	58.052
63	Loss due to of delay of flights –Rs.25.185 million	25.185
64	Irregular/unjustified payment due to delay flights –Rs.5.000 million	5.000
65	Loss of aircraft due to negligence –Rs.932.800 million	932.800
66	Irregular procurement of medicines through pharmacopoeia –Rs.361.368 million	361.368
67	Non-reconciliation of budgeted and trial balance figures –Rs.348.300 million	348.300
68	Irregular award of outsource catering to PIA at Lahore airport – Rs.168.000 million	168.000
69	Loss due to non-dispatch of engine for repair to G.E facility –Rs.120.000 million (US\$.750,000)	120.000
70	Loss due to violation of Insurance ordinance –Rs.101.760 million	101.760
71	Favoritism of awarding of contract due to technically disqualified bidder –Rs.76.650 million	76.650
72	Irregular repair of auxiliary power units –Rs.72.830 million	72.830
73	Wasteful expenditure on behalf of hotel stays of crew members – Rs.63.754 million	63.754
74	Non-recovery of liquidated damages-Rs.63.372 million	63.372
75	Imprudent decision to operate high capacity plane for only 25 passengers –Rs.60.600 million	60.600
76	Loss due irregular flights –Rs.38.320 million	38.320
77	Overspending in excess of the allocated budget –Rs.38.043 million	38.043
78	Loss due to excess parking charges at Riyadh station –Rs.36.316 million	36.316
79	Loss due to excess of CO ₂ –Rs.3.659 million	3.659
80	Loss due to excess emission of CO ₂ –Rs.27.960 million	27.960
81	Loss due to extravagant spending on hotel stay at international station – Rs.25.378 million	25.378

82	Blockage of funds due to non-completion of project –Rs.21.257 million	21.257
83	Loss on account of missing passenger baggages –Rs.2.563 million	2.563
84	Loss on account of missing passenger baggages –Rs.18.503 million	18.503
85	Loss due to deploying extra workforce –Rs.15.119 million	15.119
86	Wasteful expenditure due to non-utilization space –Rs.15.725 million	15.725
87	Loss due to mis-management of award for cooking oil –Rs.10.677 million	10.677
88	Non-imposition of liquidated damages –Rs.4.308 million	4.308
	Skyrooms (Pvt.) Limited	
89	Loss due to less charged of electricity unit rate – Rs.2.961 million	2.961
90	Non-recovery of insurance claim – Rs.1.800 million	1.800
91	Violation of Insurance Ordinance, 2000 Rule due to company's asset not insured – Rs.45.20 million	45.20
92	Mis-Procurement from M/s Metro Pakistan – Rs.2.128 million	2.128
93	Loss due to lesser room rent charged by hotel management – Rs.1.186 million	1.186
94	Irregular procurement on cash basis – Rs.1.277 million	1.277
95	Not disclosed & hide the value of Scrape / obsolete & out of order items – Rs.2.00 million	2.00
96	Ineffectiveness of the Corporate Governance	-
	Ministry of Commerce & Textile	
	National Insurance Company Ltd.	
97	Poor performance of surveyors in finalization of claims - Rs.673.115 million	673.115
98	Unauthorized opening of foreign bank account at Paris caused loss of income – Rs.397.420 million	397.420
99	Irregular acceptance of claim - Rs.13.550 million	13.550
100	Absence of Insurance/Reinsurance Policies and SOPs	-
101	Payment of Business Interruption claim despite negligible variation in total production during downtime of plant– Rs.3.850 million	3.850
102	Irregular payment of Machinery Breakdown claim despite exclusions of the policy – Rs. 3.849 million	3.849
103	Irregular/unjustified procurement of vehicles – Rs.16.283 million	16.283
104	Loss due to retaining of premium – Rs.22.411 million (US\$ 140,067)	22.411
105	Un-authorized issuance / underwriting of Marine Cargo Policy – Rs.2.230 million	2.230
106	Irrational policy for disposed of allotted car to employees – Rs.1.618 million	1.618
107	Unjustified issuance of NOC – Rs.4,956.276 million (US\$ 31.771 million)	4,956.276
108	Outstanding payment of Insurance claims Rs. 1,051.093 million	1,051.093
	Pakistan Re-insurance Company Ltd.	
109	Non-formulation of procedures (SOP / procedure /policies) for critical functions	-
110	Irregular delegation of power of underwriting and claim settlement to same employee – Rs.1,377.808 million	1,377.808

111	Unjustified acceptance of high rate of commission to insurance companies – Rs. 557.819 million	557.819
112	Irregular premium and losses paid business without submission of premium and losses paid bordereaux – Rs.3,079.264 million	3,079.264
113	Violation of rule due to deficit in solvency requirement - Rs.394.354 million	394.354
114	Violation of SECP guidelines due to estimation of IBNR claim reserve Rs.687.99 million (facultative) and Rs.131.30 million	687.99
115	Recording of transactions on the basis of returns without supporting documents - Rs.14.429 billion	14,429.00
116	Loss due to holding zero market value shares - Rs.1.372 million	1.372
117	Violation of rule due to booking of insurance claims Rs.8.060 without receiving premium - Rs.23.557 million	23.557
118	Irregular deposit of funds -Rs. 2,798.00 million	2,798.00
119	Poor performance of surveyors in finalization of claims - Rs. 31.085million	31.085
120	Irregular payment of bonus to contract employees - Rs.1.863 million	1.863
121	Irregular re-appointment of Company Secretary	-
122	Violation of rule due to non-segregation of critical functions of risk management and underwriting	-
123	Violation of rule due to Election of Directors without EOGM in PRCL	-
124	Non-recovery from Adversity to the company due to non-filing of tax return - Rs.2,573 million	2,573
State Life Insurance Corporation		
125	Poor performance of legal departments - Rs.26.471 million	26.471
126	Embezzlement / misappropriation of funds through fake and bogus documents – Rs.1.443 million	1.443
127	Delay in payment of death claim on unjustified grounds – Rs.1.260 million	1.260
128	Negative Rental Income in Lahore based commercial State Life buildings – Rs.2.770 million	2.770
129	Unjustified delay in settlement of outstanding / unpaid insurance claims – Rs.563.687 million	563.687
130	Loss due to non-renting out of building space - Rs.1.257 million	1.257
131	Unjustified number of underwriters against number of policies issued - Rs.512.599 million	512.599
132	Irregular depositing of cash and cheque – Rs.154.543 million	154.543
133	Delay in termination of Sales Manager appointed on bogus degree - Rs.0.698 million	0.698
134	Intangible / reputation loss due to repudiation of insurance claims – Rs.8.828 million	8.828
135	Fraudulent adjustment of premium of insurance policies through fake receipts – Rs.2.724 million	2.724
136	Undecided legal cases in court of law - Rs.153.691 million approx	153.691
137	Non settlement of the different claims – Rs.443.917 million	443.917
138	Non-settlement of grievances of the policy holder resulted in imposition	1.00

	of SECP penalty- Rs 1.0 million	
139	Unusual high surrender amount in surrender policies – Rs 133.605 million	133.605
140	Non-compliances of Public Sector Companies Corporate Governance Rules	-
141	Irregular/unjustified procurement of Emigrant Insurance Certificate Books – Rs.3.499 million	3.499
142	Loss due to experience premium refund – Rs 3,972 million	3,972.00
143	Delayed appointment on key managerial positions	-
144	Irregular award of contract for sale of obsolete items – Rs.2.377 million	2.377
145	Irregular / unjustified procurement of Policy Covers & ADP Supplementary contracts - Rs.3.672 million	3.672
146	Irregular/Unjustified categorization of Area Managers - Rs.3,697 million	3,697.00
147	Irregular / unjustified procurement of printing items – Rs.11.590 million	11.590
148	Irregular/unjustified procurement of Courier Service – Rs.2.000 million	2.000
149	Non-operationalization of Takaful business despite huge expenditures providing competitive edge to competitors – Rs.193.564 million	193.564
150	Loss due to decrease in second year renewal premium income – Rs.3,600 million	3,600
151	Non-adjustment of security deposits – Rs.22.276 million	22.276
152	Loss due to encroachment of SLIC land – Rs. 3,354.967 million	3,354.967
153	Irregular Continuation of General Manager on Current Charge as Executive Director since 2014 – Rs.34.4 million	34.40
154	Non-formulation of the Human Resource (HR) Policy despite HR based Consultancy Reports	-
155	Decrease in Rental income - Rs.9.00 million	9.00
	Trading Corporation of Pakistan	
156	Delay in lodging of claims of on defaulter transporters - Rs.15.50 million	15.50
157	Non-finalization of import wheat – 1.5 million M.T	1.50
158	Wasteful expenditure on hiring of consultancy services from Karachi University in violation of rule- Rs.0.949 million	0.949
159	Misappropriation of 11,414 bags of urea causing loss of Rs 15.411 million	15.411
160	Shortage of wheat bags as reported by PASSCO	-
161	Wasteful expenditure on hiring BDO for Gap Assessment Report	-
162	Failed mechanism to compare prices internationally when finalizing tenders	-
163	Enlistment of pre-qualification of pre-shipment inspection agencies	-
164	Default by nine sugar mills lead to a loss of Rs.10,457 million	10,457
165	Flag protection for national shipping lines as mandated in Pakistani Merchant Marine Policy 2001	-
166	Loss due unjustified allowances- Rs. 10.518 million	10.518

167	BoD's ambiguous decision regarding Sanctioned working strength	-
168	Unjustified Disparity Allowances in addition to Deputation allowance – Rs.3.962 million	3.962
169	Loss due to unjustified payment of leave encashment	-
170	Unjustified regularization of employees	-
171	Loss due to non-payment of outstanding loans – Rs. 141,263.048 million	141,263.048
172	Non Preparation/ non hoisting of annual procurement plan on PPRA	-
173	Irregular recording of Contingent Liability on Behalf of Federal Government- Rs.11,470.360 million	-
	Pakistan Horticulture Development and Export Company	
174	Irregular wielding of power by BODs beyond their mandate	
	Ministry of Defence Production	
175	Irregular expenditure due to non-observing government rules on international exhibitions – Rs. 231.881 million	231.881
176	Loss due to overpayment / inadmissible payment of overtime - Rs. 3.14 million	3.14
177	Avoidable payment on account of demurrage charges and container detention charges – Rs. 2.174 million	2.174
178	Un-verified expenditure of civil work executed by complaint posts - Rs. 22.374 million	22.374
179	Irregular / non-transparent procurement in violation of PPRA Rules and undue favor to contractor in performance bond - Rs. 86.746 million	86.746
	Ministry of Energy (Power Division)	
	National Engineering Services Pakistan (Pvt.) Ltd.	
180	Non-compliance of Public Sector Companies (Corporate Governance) Rules	
181	Non-conducting of physical verification of assets – Rs. 267.947 million	267.947
182	Poor performance of various divisions of NESPAK in acquiring new business	
183	Irregular appointment of employees without test in-violation of Government's instructions - Rs. 4.194 million	4.197
184	Loss of consultancy fee due to work done without prior agreement - Rs. 13.168 million	13.168
185	Loss to the public exchequer due to non-utilization of Pakistan Postal Service - Rs. 4.001 million	4.001
186	Loss to the public exchequer due to non-utilization of internet services of NTC – Rs. 5.732 million	5.732
	Finance Division	
	House Building Finance Corporation	
187	Expected loss due to non-imitate of action against 0 payment customer Rs.66.530 million	66.530
188	Blockage of funds due to non-utilization & non-construction of plot - Rs.800.000 million	800.000
189	Loss due to non-utilization of vacant property/plots - Rs. 44.433 million	44.433
190	Loss due to non-issuance/ late issuance of recovery notices to the	5.307

	customers resulting into non-performance loan - Rs. 5.307 million	
191	Non-Settlement of Insurance claims with SLIC - Rs.4.63 million	4.63
192	Loss due to non-auctioning of mortgage property after publishing of demand notice and non-recovery of loan – Rs.4.198 million	4.198
193	Irregular/unjustified sanction of loan on fake signature and salary income – Rs.4.000 million	4.000
194	Loss due to non-auctioning of mortgage property after publishing of auction notice and non-recovery of loan – Rs.2.146 million	2.146
195	Over statement of targets Rs.54.183 million	54.183
196	Non-achievement of recovery targets Rs.20.71 million	20.71
197	Non-issuance of notices to customers on depositing of bounced cheques of Rs.12.708 million and non-imposition of penalty Rs 33,5000	12.708
198	Loss due to Non-Utilization/Non-development Penalty charges of Plot-Rs.2.17 million	2.17
199	Blockage of funds under execution file in Banking Court and its aging amounting-Rs.47.11 million	47.11
200	Blockage of funds due to under execution in High Court amounting - Rs.8.00 million	8.00
201	Blockage of funds due to under trial/un-decided legal suits in Banking Court - Rs.1.75 million	1.75
202	Unjustified disbursement of finance in violation of HBFC Rules - Rs.2.50 million	2.50
203	Mis-procurement in awarding of rental agreement- Rs.1.507 million	1.507
204	Loss due to writing off loans - Rs.303.955 million	303.955
205	Blockage of funds due to undecided legal suits in Banking court - Rs.7.181 million	7.181
206	Pending Court cases despite of Decree& auction stuck up - Rs.23.117 million	23.117
207	Outstanding loan against chronic defaulters/despite decreed issued by Banking Court – Rs.58.781 million	58.781
208	Illegally sold out mortgaged house by the borrower and non-recovery of amounting to Rs.4.908 million from chronic defaulter.	4.908
209	Undecided legal suits in Banking court - Rs. 27.103 million	27.103
210	Zero payment cases of chronic defaulters -Rs.6.731million	6.731
211	Discrimination in promoting employee(s)	-
212	Delivery of property documents to unauthorized person	-
213	Widow remission paid who was already a widow at the time of disbursement of loan	-
214	Loss due to failure to auction property since 1999 for Rs.25.949 million and lawyer's fee - Rs.1.395 million	1.395
215	Loss due to hiring of services of security Companies at higher rate - Rs.5.624 million	5.624
216	Non-Compliance in holding charge of Board of Director – Rs. 1.279 million	1.279
217	Irregular appointment of Managing Director	-
218	Additional charge of key posts leading to irregular payment of Rs. 1.00	1.00

	million	
219	Loss due to Excessive Salary - Rs.1.330 million	1.330
220	Profit commission earned from life insurance credited into income account -Rs.155.937 million	155.937
221	Negligence in safeguarding the assets of Pakistan Refugees Rehabilitation Finance Corporation (PRRFC) – Rs.35.00 million	35.00
222	Disorganized and open shelves Files Kept in Strong Room/branches Vulnerable to Misplacement or incident of fire	-
223	Non-collection of title documents (Sale deed/Sub lease) and lien despite disbursement of loan - Rs 82.393 million	82.393
	Pakistan Security Printing Corporation	
224	Wasteful expenditures incurred on Solar System at Parking Area Rs.7.351 million	7.351
225	Loss due to non-replacement of rejected store – Euro.11,592 equivalent to Pak - Rs.2.144 million	2.144
226	Loss due to mis-print signature of (Rs.20 note) – Rs.23.45 million	23.45
227	Irregular payment of fees to Govt. nominee’s members – Rs. 1.312 million	1.312
228	Miss-procurement of bank note inspection, marking, numbering and varnishing machine -Rs.1,654.073 million (Euro.8.789 million)	1,654.073
229	Loss of profit/ interest in long term investment in mutual funds due to imprudent decision of management Rs.293.39 million	293.39
230	Loss due to theft of 70 Notes of (Rs.5000) – Rs.0.350 million	0.350
231	Irregular / unjustified enhancement in price of paper - Rs.3.73 million	3.73
	State Bank of Pakistan	
232	Irregular investment by fund manager crossing limit of effective duration of portfolio – Rs.56,915.712 million (USD 338.784 million)	56,915.712
233	Blockade of fund due to non-utilization of Staff colony property - Rs.1,714.000 million	1,714.000
234	Irregular award of contract without budget allocation and beyond the delegated financial powers - Rs.27.882 million	27.882
235	Irregular award of Consultancy Services for I.T – Rs.27.882 million	27.882
236	Loss due to imposition of penalty owing to non-payment of outstanding dues – Rs.22.595 million	22.595
237	Abnormal increase of complaints against banks and non-submission of results of self-assessment by banks to SBP	-
238	Irregular award of contract of Intranet Wan Routers - Rs.78.146 million	78.146
239	Irregular award of contract of Patch Management Solution – Rs.24.385 million	24.385
240	Irregular award of contract of security services – Rs.14.178 million	14.178
241	Unjustified / undue favors to Deputy Director (OG-III) – Rs.17.03 million	17.03
242	Irrational payment of unjustified increase in Sukuks purchased under BaiMuajjal agreement – Rs. 2.092 billion	2,092.00
243	Management’s inconsistent decisions regarding utilization of the property	-
244	Loss due to non-construction of wall – Rs.176.131 million	176.131

245	Expected loss due to non-transferring of ownership in favor of Bank – Rs.1.001 billion	1,001.00
246	Illegal encroachment owing to management's unawareness of ownership of land – Rs.240.236 million	240.236
247	Non-monitoring of COVID-19 loans against its intended purpose- Rs.38.244 billion	38,244.00
248	Imprudent investment in interest free securities- Rs.891.609 billion	891,609.00
249	Irregular procurement of standard IP phones & Executive IP phone sets – Rs.1.064 million	1.064
250	Irregular award of contract for Chiller of 350-tr capacity - Rs 46.409 million	46.409
251	Non-obtaining of bid security at the time of opening of financial bids – Rs.3.40 million	3.40
252	Irregular/unjustified award of tenders to only one responsive bidders – Rs.38.43 million	38.43
253	Loss due to award of contract on higher rates – Rs.4.622 million	4.622
254	Non-seriousness of management towards Government related operations at National Bank of Pakistan	-
255	Loss due to less charging of rent of office Rs. – Rs.3.619 million	3.619
256	Non-performing of loan facility by a borrower – Rs.945.00 million	945.00
257	Irregular/ un-justified purchase of a new vehicle – Rs.4.025 million	4.025
258	Non determination of sanctioned strength / overstaffing - Rs.15.480 million	15.480
259	Blockade of fund due to non- utilization of land/plot/ property - Rs.358.00 million	358.00
Zarai Taraqiati Bank Limited		
260	Loss due to non-recovery of legal expenses from the defaulters – Rs. 132.539 million	132.539
261	Poor performance resulting to less collection of hajj applications	
262	Loss due to non-recovery of advances from dismissed / compulsory retired staff - Rs. 12.353 million	12.353
263	Unjustified expenditure incurred on terrorism insurance - Rs. 4.686 million Over expenditure of terrorism insurance on account of wrong calculations - Rs. 3.073 million	7.759
264	Irregular rental payment without execution of agreement - Rs. 70.366 million	70.366
265	Irregular expenditure on repair & maintenance of vehicles - Rs. 5.467 million	5.467
266	Loss due to non-imposition of penalty on late delivery – Rs. 5.692 million	5.692
267	Irregular expenditure due to purchase of vehicle in violation of DAC decision - Rs. 1.760 million	1.760
268	Non-conducting of Board and Sub-Committees meetings	
269	Irregular revision in terms & conditions and over payment of salary - Rs. 13.623 million	20.886

	Unjustified payment of end service benefit - Rs. 7.263 million	
270	Loss due to non-recovery of bank assets after dismissal from bank service - Rs. 18.452 million	18.452
271	Irregular hiring and payment of salaries to managerial staff – Rs. 32.617 million	32.617
	Ministry of Federal Education And Professional Training	
	NFC Institute of Engineering and Technological Training (Pvt.) Limited, Multan	
272	Non-completion of Senate Members and irregular composition of Syndicate Members in violation of NFC-IET Multan Act 2012 Non-convening of Senate and Sub Committee meetings as per statutory requirements Non-approval of budgets for the years 2018-19, 2019-20 & 2020-21 from Senate – Rs. 3,334.981 million	3,334.981
273	Avoidable expenditure on construction of parking plaza - Rs.70.714 million Irregular re-appropriation of funds without approval of Senate –Rs. 10.714 million	81.428
274	Non-constitution of Search Committee and Representation Committee statutorily required under NFC-IET Act 2012	
275	Permanent closure of B.Sc. (Energy System, Environment and Petroleum) Engineering Program due to deficiencies and weakness pointed out by teams of Pakistan Engineering Council (PEC) Revenue loss due to non-compliance of the PEC Accreditation Policy – Rs. 44.894 million Zero enrollment in session 2019 & 2020 against the enrollment target due to non-fulfillment of PEC requirement	44.894
276	Unjustified drop of lowest evaluated bidders for lab equipment of four departments and compromise of quality education - Rs. 133.020 million	133.020
	National Book Foundation	
277	Non-finalization of annual accounts/financial statements for the three years 2017 to 2020	
278	Non-surrender of unspent balance of grant to Government – Rs. 7.400 million	7.40
279	Misappropriation of funds – Rs. 0.819 million Irregular appointment of sales man and payment on account of pay & allowances – Rs. 2.424 million	3.243
280	Un-justified addition of discount in price of text books – Rs. 180.341 million	180.341
281	Loss of revenue due to delay in rent out of commercial building and charging the rent of lesser area from the client - Rs. 7.778 million	7.778
282	Wasteful expenditure on account of property tax Rs. 12.960 million and avoidable payment of Rs. 1.296 million	14.256
283	Blockage of funds due to unnecessary purchase/printing of books without assessing the demand – Rs. 14.021 million	14.021
284	Irregular expenditure on POL, Pay & Allowances against the provision of	2.302

	vehicles to NHLH Division – Rs. 2.302 million	
	National Endowment Scholarships For Talent (Nest)	
285	Irregular expenditure without issuance of proper notification for appointment of Acting CEO by the Establishment Division – Rs. 162.699 million	162.699
286	Non appointment of regular CEO of the NEST Company	
287	Loss of Rs. 393,006 due to less deduction of Income Tax from the employees	0.393
	Ministry of Industries & Production	
	Export Processing Zones Authority	
288	Non-depositing of presumptive tax in stipulated time - Rs.35.800 million (US\$ 223,753)	35.800
289	Poor performance of private attorneys - Rs.4.885 million	4.885
290	Non adjustment of embezzlement amount - Rs.640,000	0.640
291	Illegal exit of steel sheets from Karachi Export Processing Zone	-
292	Allegation for removal of goods on fake documents from Export Processing Zone	-
293	Allegation for illegal saving of duty and taxes by KEPZ units	-
294	Allegation for removal of goods from KEPZ to tariff area without payment of duty and taxes	-
295	Allegation for misuse of EPZA facilities by the investor of KEPZ and lodging FIR against investor - Rs.16.978 million	16.978
296	Allegation for fraudulent clearance of restricted imported goods Rs. 8.536 million and duty and taxes of Rs.9.330 million	9.330
297	Illegal export of fabric from industrial unit on same state of goods	-
298	Destroying of building due to non checking out of constructed buildings	-
	Karachi Tools, Dies & Moulds Centre	
299	Non determination of sanctioned strength	-
300	Non-provision of record of appointment of Chief Internal Auditor - Rs.6.004 million	6.004
301	Unjustified increase in salaries - Rs.2.977 million	2.977
	National Industrial Park & Development Company	
302	Violation of rule due to non-publishing of Director's remuneration in annual report and excessive expenditure on director's fees and meeting expense - Rs.3.504 million	3.504
303	Poor financial management due to dormant bank accounts with balance of Rs.5.285 million	5.285
	Pakistan Steel Mills	
304	Unjustified expenditure on Transport -Rs.33.437 million	33.437
305	Suspension of information system support	-
306	Non Existence of standard accounting and internal control system	-
307	Poor administrative and financial management of affairs in PSM	-
	Small and Medium Enterprises Development Authority	
308	Irregular appointment of Program Director having irrelevant experience	9.800

	by ignoring candidate ranked 1st in merit – Rs. 9.800 million	
	Utility Stores Corporation	
309	Incorrect reconciliation of flour account by RM Lahore South – Rs. 125.486 million	125.486
	Ministry of Information Technology And Telecommunication	
	Pakistan Software Export Board (Guarantee) Limited	
310	Under achievement of policy objectives and development targets assigned by the government	
311	Lapse of funds due to non-surrendering of anticipated savings – Rs. 36.901 million	36.901
312	Irregular appointment of officers in deviation of government instructions - Rs. 4.260 million	4.260
313	Loss to state due to non-participation in GITEX Technology week – Rs. 6.233 million	6.233
	Ministry of Information, Broadcasting And National History & Literary, Heritage Division	
	Pakistan Television Corporation Limited	
314	i-expected loss due to procurement of equipment out of terminated projects funds – Rs. 14.45 million ii- excess expenditure over and above the released budget – Rs. 1.822 million	16.272
315	Wasteful expenditure on civil work of a terminated project – Rs. 3.324 million	3.324
316	Loss due to execution of rent agreement with M/s Pak Telecom Mobile Limited, Islamabad – Rs. 2.925 million	2.925
317	Non-imposition of liquidated damages on defaulting contractor – Rs. 5.361 million	5.361
318	Wasteful expenditure on acquiring the services of head hunting firm M/s Career Pakistan – Rs. 4.350 million	4.350
319	Irregular appointment of anchor person MS Nadia Mirza on contract basis – Rs.7.470 million	7.470
320	Irregular continuation of move-over policy resulting in heavy financial burden - Rs. 43.454 million	43.454
321	Non-production of auditable record by PTV management	
	Ministry of Maritime Affairs	
	Gwadar Port Authority	
322	Irregular submission of Performance Guarantee / Bond – Rs.3.870 million	3.870
323	Loss due to irregular allotment of container repair shed – Rs.6.20 million	6.20
324	Irregular deputation Director Technical Rs.1.460 million	1.460
	Korangi Fisheries Harbour Authority	
325	Non-maintenance of fixed asset register & Physical verification of fixed assets -Rs.1,196.90 million	1,196.90
326	Loss of revenue due to unload of catch fish/non-auction of fish – Rs.45.214 million	45.214
327	Illegal & Irregular construction on Plot in violation of lease agreement	5.182

	and outstanding - Rs.5.182 million	
328	Irregular payment of Gratuity -Rs.28.00 million	28.00
329	Irregular & un-justified payment of mobile / telephone allowance - Rs.0.076 million	0.076
330	Loss of revenue (flat commission & berthing charges)/non-achievement of business targets - Rs.1.092 million	1.092
331	Irregular payment of grant of Disparity Reduction Allowance - Rs.11.895 million	11.895
332	Irregular /unjustified reimbursement of medical charges - Rs.3.960 million	3.960
333	Irregular/unjustified payment of overtime allowance - Rs.1.249 million	1.249
334	In-effective internal audit function & non-existence of Certified Internal Auditor	-
335	Irregular purchase of vehicle – Rs.0.85 million	0.85
	Pakistan National Shipping Corporation	
336	Irregular appointment of Manager Operations (SM) -Rs.8.00 million	8.00
337	Irregular appointment of Officers & Staff on contract basis against permanent seats - Rs.804.790 million	804.790
338	Irregular appointment of Deputy Manager (Planning) - Rs.11.927 million	11.927
339	Irregular/unjustified payment of salary and allowances to idle staff - Rs.24.807 million	24.807
340	Non-forfeiture of performance bond on non-completion of contract of consulting services -Rs.0.790 million	0.790
341	Irregular payment of legal charges -Rs.2.527 million	2.527
342	Irregular transfer of drivers' salary to officers' bank accounts -Rs.2.846 million	2.846
343	Irregular payment of performance bonus to officers - Rs.0.858 million	0.858
344	Non-evaluation of performance of Board of Directors	
345	Irregular assumption of dual charge as Chairman, Board of Directors by the incumbent Chairman, PNSC	-
	Port Qasim Authority	
346	Unjustified provision to Chartered Accountants on account of certification of Annual Accounts of PQA - Rs 19.238 million	19.238
347	Non-collection of penalties on account of unauthorized construction on plots – Rs.129.395 million	129.395
348	Operating loss incurred on hiring of Pilot Boat - Rs.26.528 million	26.528
349	Illegal allotment of additional land - Rs.10.000 million	10.000
350	Irregular/Un-authorized changes in PQA Master Plan	-
351	Un-due Favour extended to allottee M/s Habib Oil Mills on account of non-cancellation of plot resulting in loss of PDC charges – Rs.60.00 million	60.00
352	Loss due to poor contract management - Rs.51.878 million	51.878
353	Non-imposition of Liquidity Damages (LD) charges - Rs.2.40 million	2.40
354	Irregular engagement of advocates/Counsel resulted in unauthorized payment of fees – Rs.30.996 million	30.996

355	Irregular promotion of Manager Projects (BS-19)	-
	Ministry of National Food Security and Research	
	Livestock and Dairy Development Board	
356	Unnecessary establishment of PMU for three projects resulted extra burden on public exchequer on account of operation cost – Rs. 278.901 million Wasteful expenditure on account of PMU due to zero monitoring activities – Rs. 53.669 million	332.57
357	Irregular and un-justified appointment of Media Officer due to non-availability of degrees / experience certificates and subsequent unjustified attachment with ministry – Rs. 0.810 million	0.810
358	Preparation of defective PC-I due to inclusion of farmers' share in project cost borne by farmers – Rs. 1,006.84 million Wasteful administrative expenditure due to non-calculation of actual cost per unit of six birds – Rs. 197.131 million	1,203.971
359	Irregular payment of 20% Federal share to Provinces without receiving certificate from Provincial Project Coordinator and DG Livestock regarding distribution of birds to farmers – Rs. 29.979 million	29.979
	Ministry of Planning, Development And Special Initiatives	
	National Logistics Cell	
360	Loss to government exchequer due to non-payment of income tax on profit - Rs. 5,200.882 million	5,200.882
361	Irregular award of transportation of wheat contract without advertisement Rs. 2,464.482 million	2,464.482
362	Irregular award of contract for procurement of deformed steel to 2nd lowest bidder - Rs. 151.031 million	151.031
363	Irregular award of contracts for transportation of crude oil - Rs. 2,518.21 million	2,518.21
364	Non-recovery of locomotive rent from the Pakistan Railway - Rs. 686.62 million	686.62
365	Irregular procurement of vehicles for officers during ban period - Rs. 120.108 million	120.108
366	Non-payment of Share of profit to the Government by NLC being a Government Organization - Rs. 862.043 million	862.043
367	Irregular purchase of steel and cement for various works on piecemeal Rs. 387.546 million Loss due to purchase of steel at higher rate Rs.0.894 million	388.44
368	Loss due to execution of below specification of work of Rs. 171.871 million	171.871
369	Loss to Government due to non-deduction of DRP fund – Rs. 2.100 million	2.100
370	Irregular award of work to un-authorized contractors - Rs. 152.156 million	152.156
	Thematic Audit	
	National Insurance Company Limited	
371	Unauthorized promotion as Executive Director	-

372	Irregular / unjustified payment to Ex-CEO on account of terminal benefit	-
373	Unauthorized appointment of Acting CEO without approval of the Ministry / Federal Government	-
374	Irregular / unjustified appointment of Chief Financial Officer	-
375	Non-evaluation of the performance of senior management	-
376	Non-circulation of notices of the meeting within stipulated time	-
377	Board of Directors - Its composition	-

Annex-2

Non-submission of Audited Accounts

Annual audited accounts of Public Sector Enterprises for the year 2020-21, were required to be submitted to the Directorates General of Commercial Audit and Evaluation, Islamabad by December 31, 2021. Despite requests, the Organizations (listed below) failed to submit their annual audited accounts for the year(s) indicated against each by the prescribed date. While non-submission of audited accounts needs to be explained, efforts should be made for immediate finalization and submission thereof:

S#	Name of Ministry/Division/Organization	Year of Accounts
Aviation Division (Cabinet Secretariat)		
1.	Skyrooms (Pvt.) Limited	2017 to 2020
Cabinet Division		
2.	Printing Corporation of Pakistan (Pvt.) Limited	2019-20 & 2020-21
3.	Islamabad Employees Social Security Institution	2018-19 & 2020-21
4.	Pakistan Tourism Development Corporation	2020-21
5.	Associated Hotels of Pakistan Limited	2019-20 & 2020-21
6.	Pakistan Tours (Pvt.) Limited	2020-21
Ministry of Commerce & Textile		
7.	National Insurance Company Limited	2018 to 2020
8.	Pakistan Expo Centers (Pvt.) Limited	2020-21
9.	Pakistan Horticulture Development and Export Company (PHDEC)	2017-18 to 2020-21
Ministry of Defence Production		
10.	Karachi Shipyard & Engineering Works	2020-21
11.	Wah Nobel (Pvt.) Limited	2019-20 & 2021-21
Finance Division		
12.	House Building Finance Corporation	2020
13.	National Security Printing Corporation	2019-20 & 2020-21
14.	Kissan Support Services (Pvt.) Limited	2020
15.	SME Leasing Company	2018-19 to 2020-21
16.	Zarai Taraqati Bank Ltd.	2017 to 2020
17.	Pak China Investment Company	2018-19 & 2020-21
18.	Saudi Pak Agriculture and Investment Company	2018-19 & 2020-21
Ministry of Energy (Power Division)		
19.	National Engineering Services Pakistan (Pvt.) Ltd	2018-19 to 2020-21
Ministry of Federal Education and Professional Training		
20.	NFC Institute of Engineering & Fertilizer Research (Pvt.) Ltd. Faisalabad	2019-20, 2020-21
21.	National Book Foundation	2017-18 to 2020-21

22.	National Endowment Scholarships for Talent (NEST)	2019-20 & 2020-21
Ministry of Industries & Production		
23.	Export Processing Zones Authority	2010-11 to 2020-21
24.	Pakistan Industrial Development Corporation	2020-21
25.	Pakistan Industrial Development Corporation Medical Centre	2020-21
26.	Karachi Tools, Dies & Moulds Center	2020-21
27.	Pakistan Chemical & Energy Sector Skill Development Company	2018-19 & 2020-21
28.	Pakistan Gems & Jewellery Development Company	2020-21
29.	Pakistan Institute of Management	2012-13 to 2020-21
30.	Pakistan Steel Mills	2020-21
31.	Pakistan Steel Fabricating Company (Pvt.) Limited	2014-15 to 2020-21
32.	Furniture Pakistan (Pvt.) Limited	2019-20, 2020-21
33.	Industry Facilitation Centre (Pvt.) Limited	2017-18 to 2020-21
34.	National Fertilizer Marketing (Pvt.) Ltd.	2018-19 & 2019-20
35.	Pakistan Engineering Company Limited	2017-18 to 2020-21
36.	Pakistan Hunting and Sporting Arms Development Company	2019-20, 2020-21
37.	Small and Medium Enterprise Development Authority (SMEDA) & its allied projects.	2018-19 to 2020-21
38.	Utility Stores Corporation of Pakistan (Pvt.) Limited	2020-21
39.	Aik Hunar Aik Nagar (AHAN)	2017-18 to 2020-21
Ministry of Information, Broadcasting and National History & Literary, Heritage Division		
40.	Associated Press of Pakistan Corporation	2013-14 to 2020-21
41.	Pakistan Broadcasting Corporation	2019-20, 2020-21
42.	Pakistan Television Corporation Limited	2019-20, 2020-21
43.	Shalimar Recording and Broadcasting Company limited	2019-20, 2020-21
Ministry of Interior		
44.	National Database & Registration Authority (NADRA)	2020-21
Ministry of Maritime Affairs		
45.	Gwadar Port Authority	1986-87 to 2020-21
46.	Korangi Fisheries Harbour Authority	2015-16 & 2020-21
47.	Port Qasim Authority	2006-07 to 2020-21
Ministry of National Food Security And Research		
48.	Pakistan Tobacco Board	2020-21
49.	Livestock and Dairy Development Board	2018-19 to 2020-21
50.	Agribusiness Support Fund	2017-18 to 2020-21
Ministry of Housing & Works		
51.	Pakistan Environmental Planning & Architectural Consultant (Pvt.) Limited	2020-21
Ministry of Science and Technology		
52.	Pakistan Science Foundation	2017-18 to 2020-21
53.	STEDEC Technology Commercialization Corporation of Pakistan (Private) Limited	2020-21
54.	Pakistan Scientific & Technological Information Centre	2017-18 to 2020-21
55.	Pakistan Museum of Natural History	2017-18 to 2020-21

	Ministry of National Health Services Regulation and Coordination	
56.	National Institute of Health Biological Production Division	2018-19 to 2020-21
	Pakistan Institute for Parliamentary Services (PIPS)	
57.	Pakistan Institute for Parliamentary Services (PIPS)	2018-19 to 2020-21

Annex-3

Organizations under liquidation / closed

The under-mentioned Corporations/Units have closed their operational activities. In some cases decision about their privatization/liquidation has already been taken but implementation of the same was awaited.

S. No.	Name of Ministry/Division/Organization	Status/Remarks
AVIATION DIVISION (CABINET DIVISION)		
Pakistan International Airlines Corporation		
1	Midway House (Pvt.) Limited	Business closed since 2000; however, liquidation is still in process.
CABINET DIVISION		
Pakistan Tourism Development Corporation		
2	PTDC Motels South (Pvt.) Limited	Operational activities closed since 1990
3	Malam Jabba Resorts Limited	Operational activities closed since May 2008
4	Associated Hotel of Pakistan Limited	Operation closed since long
FINANCE DIVISION		
5	Agricultural Marketing and Storage (Pvt.) Ltd.	Under liquidation since 1993
6	Federal Bank for Co-operatives	Under liquidation since 2002
Pakistan Automobile Corporation Limited		
7	Pakistan Motorcar Company (Pvt.) Limited	Operation closed since 1992; however, liquidation is still in process.
8	Republic Motors (Pvt.) Limited	Operation closed since 1986; however, liquidation is still in process.
State Cement Corporation of Pakistan (Pvt.) Limited		
9	Associated Cement Limited, Rohri	Operation closed since 1998. The Company was placed under liquidation on June 28, 2005, which is still in process.

Annex-4

Recoveries made at the instance of Audit

During the year 2021-22, audit of the accounts for the year 2020-21 of Public Sector Enterprises of Federal Government was conducted and results thereof, pinpointing various types of financial irregularities and loss of public money, etc. were communicated to administrative Ministries / Divisions and Organizations concerned in the shape of Audit Inspection Reports and Audit Paras.

In certain cases, the concerned formations while accepting the loss / irregularities pointed out by Audit, made recoveries to the tune of Rs. 4806.136 million at the instance / pursuance of audit as detailed below:

S#	Name of Ministry/ Division/ organization	Brief Particulars of Recoveries	Amount recovered at the instance of audit
Cabinet Division			
1	PTDC	Non-recovery due to non-execution of proper agreement	0.300
2	PTDC	Non-deposit of CPF amount in to provident fund account	25.551
3	PTDC	Non-production of record regarding payments/advances without evidence	15.568
4	PTDC Motels North	Trade debtors (un-secured) increased to Rs.8.397 million as on June 30, 2007 from Rs.6.842 million in 2005-06, registering an increase of 23%. Efforts are required to be made to recover the outstanding dues.	8.397
Ministry of Commerce & Textile			
5	NICL	Non-recovery from M/s. Cosco - Rs. 3.10 million	3.10
6	NICL	Non-recovery from different tenants - Rs. 209.948	193.147
7	NICL	Loss due to non-enhancement of rent rate and non-recovery of rental income within specified period Rs. 29.666	56.736
8	SLIC	Fraudulent payment against fake policies Rs. 106.575	38.834
9	SLIC	Non-recovery of premium - Rs. 1,946.939 million	752.997
10	SLIC	Non-recovery of interest from policy holders - Rs. 349.639 million	31.942
11	TCP	Loss due to stealing of cables of iron gates from Pipri Godown Rs. 1.350 million	1.350
12	TCP	Loss due to penalty for construction of plot - Rs. 22.475 million	22.475
13	PHDEC	Misuse of public funds by Chief Executive Officer	4.458

Ministry of Defence Production			
14	KS&EW	Non-recovery of dues from customers - Rs. 838.441 million	316.588
15	KS&EW	Loss to KS&EW by imposing of LD Charges by Pakistan Navy - Rs. 84.859 million	84.859
16	Wah Brass Mills	Loss due to non-recovery of GST – Rs. 6.072 million	6.072
17	POFs Clothing Fy	Non-recovery of Risk Purchase amounting to Rs. 4.869.	4.869
18	POFs Director Export	Non-receipt of sale proceeds from Kenya – US \$ 140.637 (Pak. Rs. 14.837 million)	14.837
19	POFs Director Export	Blockade of Public fund due to supply of defective store to Govt. of Bangladesh – Rs. 41.022 million	41.022
20	POFs Sanjwal Fy	Blockade of fund due to non-conduct of PATLO Inspection – Rs. 15.706 million.	15.706
21	POFs Sanjwal Fy	Non-recovery of risk & cost amount Rs. 0.725 million.	0.725
22	Wah Industries Ltd.	Loss due to sale of defective ammunition Rs. 15.185 million.	15.185
Ministry of Industries & Production			
23	EPZA	Audit Comments on Accounts	8.997
24	EPZA	Audit Comments on Accounts	4.508
25	EPZA	Non-recovery of Annual Ground Rent (AGR) from various parties - US \$ 327,472	14.25
26	NIP	Audit Comments on Accounts	62.00
27	PIM	Non-recovery from various sundry debtors - Rs. 0.312	0.132
Finance Division			
28	ZTBL	Non-recovery of advances from ex-employee	0.38
29	ZTBL	Irregular disbursement of second loan to the defaulters and non-recovery of previous loans	0.319
30	ZTBL	Misappropriation of loans	1.058
31	SME Bank	Loss due to irregular investment	20.00
32	SME Bank	Included in long term advances as on December 31, 2004 was an amount of Rs.39.829 million receivable from ex-employees. Reasons for non-recovery either from ex-employees or from the sale of collaterals may be looked into.	5.679
33	SME Bank	Redemption of securities without recovery of bank dues	12.743
Ministry of Information & Broadcasting			
34	PTV	Long term loans included loan amounting to Rs. 47.35 million given to PTV Foundation. The loans were interest free and terms of payment have not been decided. There was chance of impairment loss for the amount as decision to wind up foundation was made by the BoDs. The corporation has made provision for doubtful receivables of Rs. 40 million. The reasons for non-deciding the terms	21.00

		of repayment may be explained. Steps need to be taken for recovery of loan from foundation.	
Ministry of Energy (Power Division)			
35	NESPAK	Loss due to provision of defective services resulted in non-receipt of consultancy cost	12.073
36	NESPAK	Unauthorized payment to Legal Advisor	1.00
37	NESPAK	Loss due to non-recovery of consultancy fee from clients	29.899
38	NESPAK	Loss due to non-receipt of consultancy fee from clients	37.793
Ministry of Maritime Affairs			
39	PNSC	Audit Comments on Accounts	1,782.00
40	PNSC	Non-recovery of freight charges from refineries - Rs. 306.667 million	281.346
41	PNSC	Non-recovery for rent charges from tenants - Rs. 15.64 million	9.04
42	PNSC	Loss due to transportation of furnace oil of wrong specification. Rs. 1,731.77 million	46.673
43	PNSC	Non-recovery of outstanding dues from various parties Rs. 715.454 million	715.454
44	PQA	Loss due to massive violation agreement of ECNEC. Rs. 24.76 million	24.76
45	PQA	Loss due to irregular capping of tariff Rs. 88.227 million	45.900
Ministry of Planning, Development & Special Initiatives			
46	PEPAC	Non-completion of consultancy projects resulting in non-recovery	14.414
			4,806.136

Annex-5

Losses Due to Poor Operational Performance

Year	Route	Frequency in Blk Hrs	Total Revenue (Rs)	Total Cost (Rs)	Losses (Rs)
2020	PAK-OSL-PAK	249.67	455,111,000	875,100,000	419,990,000
2020	PAK-PAR-PAK	435.40	990,526,000	1,739,632,000	749,106,000
2020	PAK-BCN-PAK	91.87	246,026,000	660,425,000	414,399,000
2020	PAK-CPH-PAK	224.02	427,440,000	725,332,000	297,892,000
2020	PAK-MXP-PAK	465.05	970,964,000	1,928,132,000	957,168,000
Total					2,838,555,000

Annexure of Losses on UK Routes

Year	Route	Frequency in Blk Hrs	Total Revenue (Rs)	Total Cost (Rs)	Losses (Rs)
2020	LHE-LON-LHE	219.80	1,594,280,000	2,834,260,000	1,239,980,000
2020	ISB-LON-ISB	425.05	2,662,640,000	5,325,550,000	2,662,910,000
2020	PAK-MAN-PAK	591.02	5,928,210,000	10,408,850,000	4,480,640,000
2020	PAK-BHX-PAK	961.42	1,859,200,000	3,420,140,000	1,560,940,000
2020	SKT-LON-SKT	196.82	244,190,000	573,830,000	329,640,000
Total					10,274,110,000

Annexure of Losses on Saudi Routes

Year	Station/City	Vacant Seats	Cost of vacant seats (Rs.)
April-2020	Dammam	411	20,550,000
April-2020	Jeddah	510	25,500,000
April-2020	Riyadh	868	43,400,000
Total		1789	89,450,000

Annexure of Losses on Gulf Routes

Route	Seat Factor	Loss in million
PAK-AUH-PAK	9%	183.41
KHI-DXB-KHI	10%	268.26
PEW-DXB-PEW	30%	188.30
KHE-DXB-KHI	27%	381.26
ISB-DXB-ISB	24%	1,062.85
MUX-DXB-MUX	35%	143.62
LHE-AUH-LHE	25%	670.68
ISB-AUH-ISB	29%	776.72
PAK-AAN-PAK	16%	204.68
PEW-AUH-PEW	23%	452.88
LHE-DXB-LHE	59%	823.07
Other Routes of Gulf	31%	1,215.17
Total Losses during 2020		6,370.90

Annexure of Losses on Domestic Routes

Domestic Route	Load Factor	Total Revenue in million	Total Cost in million	Loss (Rs. In million)
Primary	77.29%	5,888.51	7,009.55	1,121.04
Secondary	73.25%	2,577.87	3,133.92	556.05
ATR	76.82%	1,172.42	1,954.79	782.37
Total Domestic		9,638.8	12,098.26	2,459.46

Annexure of Losses on USA/Canada Routes

ROUTE	Revenue in million	Cost in million	Loss in million
PAK/USA/CANADA	7,002.738	12,016.101	5,013.363

Annex-6

Non-receipt of engines despite payments

Non-receipt -Engines						
S. #	Repair orders	Dispatch date	Serial No.	Owner	Aircraft	Amount
1	201803055	04-Apr-2018	PCE-ED0006	PIA	ATR	1000,000
2	201910087	07-Nov-2019	PCE-ED1507	PIA	ATR	1000,000
3	202002027	03-Mar-2020	PCE-ED0480	ACIA	ATR	1000,000
4	201909021	10-Oct-2019	575-819	GECAS	A320	6,000,000
5	201909022	10-Oct-2019	575-794	GECAS	A320	6,000,000
6	201909024	10-Oct-2019	577567	AERGO	A320	6,000,000
7	202007001	16-Jul-2020	697204	AERGO	A320	6,000,000
8	201905046	16-Jul-2019	906-279	PIA	B777	18,000,000
9	201905048	16-Jul-2019	900-406	AERCA P	B777	18,000,000
10	201905047	16-Jul-2019	900-440	PIA	B777	18,000,000
11	202001070	26-Feb-2020	900-464	AERCA P	B777	18,000,000
				Total (in US \$)		99,000,000
	Sub Total			Total PKR (@ Rs. 144.54)		14,309,460,000
	Non-receipt-Auxiliary Power Unit					
S. #	Repair orders	Dispatch date	Serial No.	Owner	Aircraft	Amount (in US \$)
1	202011030	20-Dec-2020	P-3497	AERGO	A320	305,000
2	202011003	16-Nov-2020	P-1566	PIA	B777	595,000
					Total (in US \$)	900,000
	Sub Total				Total PKR (@ Rs 159.0274)	143,124,650
	Total					14,452,584,650

Annex-7**Irregular and unauthorized expenditure on repair****Engines – Repair Abroad**

S. No.	REPAIR ORDERS	RO	VENDOR NAME	Description	Aircraft	Amount (US\$)
1	1905062	5/31/201	GE Engine Services	Engine	A320	7,579,714
2	905063	5/31/201	GE Engine Services	Engine	A320	7,061,880
3	2001030	1/8/202	MTU Maints Zhuhai	Engine	A320	6,860,000
	Total					21,501,594

APU-Repair Abroad

S.No.	REPAIR ORDERS	RO	VENDOR NAME	Description	Aircraft	Amount (US\$)
1	1901024	1/14/201	HAMILTON	(APU)	A320	359,891
2	1907078	7/31/201	HAMILTON	(APU)	A320	333,704
3	1904073	4/25/201	TIRBINEAERO REPAIR	(APU)	A320	452,700
4	1906009	6/19/201	TIRBINEAERO REPAIR	(APU)	A320	450,000
5	1907079	7/31/201	TIRBINEAERO REPAIR	(APU)	A320	450,000
6	1901050	1/23/201	HONEYWELL AS GMB	(APU)	B777	900,000
7	1903077	3/22/201	HONEYWELL AS GMB	(APU)	B777	847,157
8	1904074	4/25/201	HONEYWELL AS GMB	(APU)	B777	595,900
9	2011028	11/24/202	TURBINEAERO REPAIR	(APU)	A320	293,000
	Total					4,682,352
	GRAND TOTAL US \$					26,183,946
	GRAND TOTAL PKR(@ Rs 150.2016					3,932,870,583.51

Annex-8

Statement of Incomplete life of ATR Engines

S. #	R.O. Date	Part Number	Est. Life after Repair	Actual Life	Short Life	Per cycle cost (appx) (US\$)	Cost of Incomplete Life (US\$)
1	2/20/2017	PW127M	5000	4589	411	200	82,200.00
2	2/20/2017	PW127M	5000	4	4996	200	999,200.00
3	6/5/2017	PW127M	5000	2048	2952	200	91,600.00
4	6/5/2017	PW127M	5000	4036	964	200	192,800.00
5	9/5/2017	PW127E	5000	2894	2106	200	421,200.00
6	10/11/2017	PW127M	5000	2905	2095	200	419,000.00
7	10/11/2017	PW127M	5000	4448	552	200	110,400.00
8	10/26/2017	PW127M	5000	2470	2530	200	506,000.00
9	10/26/2017	PW127E	5000	1904	3096	200	619,200.00
10	3/29/2018	PW127M	5000	2870	2130	200	426,000.00
11	5/24/2018	PW127M	5000	1487	3513	200	702,600.00
12	9/4/2018	PW127M	5000	1039	3961	200	792,200.00
13	11/27/2018	PW127M	5000	3230	1770	200	354,000.00
14	11/27/2018	PW127M	5000	3169	1831	200	366,200.00
15	11/27/2018	PW127M	5000	1256	3744	200	748,800.00
16	2/22/2019	PW127M	5000	3303	1697	200	330,400.00
17	2/22/2019	PW127M	5000	4479	521	200	104,200.00
18	1/3/2020	3073453-01	5000	396	4604	200	920,800.00
		TOTAL US\$					8,694,600.00
		Total PKR (@ Rs 125.69)					1,092,824,274.00

Annex-9

Statement showing of non-recovery from customers

Number	Debtor/party name	Outstanding receivables amount	Current	3-12 months	1-3 years	More than 2 years
97044	NDC	3,250,311	-	-	3,250,311	-
97042	AWC	163,744,006	370,035,703	126,705,463	12,800	9,960
189056	K-ELECTRIC	18,010	7,530	10,480	-	-
301062	HI TAXILA CANTT.	20,337,124	-	-	1,559,921	18,777,203
97041	CMA (DP)RAWALPINDI	473,943,183	101,202,029	138,102,385	160,774,610	73,864,159
138056	M/s. Boeing	15,186,484	5,172,037	10,014,447	-	-
301057	BALUCHISTAN ENGINEERING	24,978	-	-	-	24,978
65033	AMF PAC	9,689,009	-	2,244,856	7,444,154	-
97043	SPD	437,463	-	-	437,463	-
189057	ALSONS	5,240	-	5,240	-	-
301061	PAK NAVY	2,607,200	-	-	2,527,200	80,000

105043	NEW II	4,430,822	-	-	1,431,274	2,999,548
138057	M/S CMA HIT	10,574,690	-	-	-	10,574,690
673061	MARITIME TECHNOLOGIES	2,412,254	469,165	1,943,089	-	-
301063	PAK ARMY	303,390	-	-	-	303,390
228852	FAUJI FERTILIZER	2,948	-	-	2,948	-
301060	OPTICS LABORITRIES	182,231	-	-	148,824	33,407
304057	PEC 8	325,457,092	-	-	-	325,457,092
301059	IOP	515,287	-	-	-	515,287
97045	M/S NEW –II	3,799,036	1,346,100	-	-	2,452,936
301058	MECH. N. TECH.	70,000	-	-	-	70,000
		1,036,990,758	145,232,564	279,025,960	177,589,504	435,142,731

Annex-10

Loss due to selling in lower RBDs & Inventory Mismanagement

Flight No. Dec 2018	Seats Sold in V, U, L	Seats Sold in All other RBDs	Avg Difference of lower and Higher RBD Fares in Rs	Avg Difference of lower and Higher RBD Fares (Rs) (2*4)
PK-798/782	1825	1835	65,000	118,625,000
Loss in Revenues on 02 flights in 3rdQtr due to selling in lower RBDs				

ANNEXURE FOR 454.738 million

Flight	Seats Occupied	Seats on lower RBDs U,V,L,I,O,N	Seats on Higher RBDs	Difference of Avg Fare Basis	Revenue Leakage (Rs), if 50% Sold on Higher RBDs
701	8,917	5,885	3,031	45,000	132,412,500
702	9,343	4,951	4,392	44,000	108,922,000
786	5,355	2,784	2,571	47,000	65,424,000
758	11,617	6040	5,577	49,000	147,980,000
Revenue Losses on 4 flights due to RBDs mismanagement					454,738,500

Annex-11

Statement showing of non-Adjustment of huge advances

Supp. Code	Supplier Name	Amount (PKR)
4469	Kidde Graviner Ltd	152,406.40
4469	Kidde Graviner Ltd	174,203.46
4469	Kidde Graviner Ltd	174,203.46
4469	Kidde Graviner Ltd	174,203.46
4469	Kidde Graviner Ltd	174,203.46
4469	Kidde Graviner Ltd	174,203.46
4474	North Atlantic Industries	271,759.75
46543	UTC Aerospace systems	49,315.07
46543	UTC Aerospace systems	228,554.00

46543	UTC Aerospace systems	1,517,145.42
46543	UTC Aerospace systems	486,744.84
46875	D. MARCHIORI Aircraft Ground Equipment	291,420.02
46885	MTI instruments, inc	55,573.57
46970	AEM LTD	267,823.52
4703	Sagem Avionics, Llc.	292,646.25
4714	Crane Hydro Air	89,336.37
4714	Crane Hydro Air	92,056.10
4714	Crane Hydro Air	92,056.10
4714	Crane Hydro Air	92,056.10
4714	Crane Hydro Air	92,056.10
4714	Crane Hydro Air	92,056.10
4714	Crane Hydro Air	92,056.10
4714	Crane Hydro Air	92,056.10
4714	Crane Hydro Air	92,056.10
4714	Crane Hydro Air	92,068.66
4714	Crane Hydro Air	92,068.66
4714	Crane Hydro Air	88,421.92
4735	Aeroflex Wichita, Inc	107,797.93
4735	Aeroflex Wichita, Inc	63,546.25
47772	EURAVIA ENGINEERING & SUPPLY CO. LTD	605,308.45
4790	St Aerospace Systems Pte Ltd.	471,642.62
4791	Triumph Thermal Systems, Inc.	52,719.15
4791	Triumph Thermal Systems, Inc.	527,191.50
4791	Triumph Thermal Systems, Inc.	524,447.00
4791	Triumph Thermal Systems, Inc.	526,975.00
4791	Triumph Thermal Systems, Inc.	526,975.00
4791	Triumph Thermal Systems, Inc.	52,697.50
4792	Vibro-Meter, Inc.	452,843.89
4796	Ws Technologies Inc.	79,694.97
48003	Skyways Technics	1,803,622.96
48003	Skyways Technics	1,803,622.96
4818	Rohde & Schwarz Emirates L.L.C	114,073.55
4844	Goodrich Corporation	212,692.75
4851	Messier Bugatti (Safran Group)	3,489,681.60
49154	Rockwell Collins South East Asia Pte Ltd	3,584,834.39
49154	Rockwell Collins South East Asia Pte Ltd	678,057.53
49156	Sherwood Avionics & Accessories d/b/a Sherwood Aviation	212,334.85
49156	Sherwood Avionics & Accessories d/b/a Sherwood Aviation	310,367.73
49156	Sherwood Avionics & Accessories d/b/a Sherwood Aviation	329,433.01
49156	Sherwood Avionics & Accessories d/b/a Sherwood Aviation	343,034.98
49156	Sherwood Avionics & Accessories d/b/a Sherwood Aviation	314,876.56
49156	Sherwood Avionics & Accessories d/b/a Sherwood Aviation	337,656.83
49156	Sherwood Avionics & Accessories d/b/a Sherwood Aviation	286,198.85
49228	MicrotecnicaS.R.l.	122,342.78

49357	Meggitt Aerospace Limited d/b/aMeggitt Control Systems Birmingham	2,861,790.91
49413	Tyco Electronics Corporation, a TE Connectivity Ltd. Company d/b/a Hartman Electrical Manufacturing	161,191.34
49413	Tyco Electronics Corporation, a TE Connectivity Ltd. Company d/b/a Hartman Electrical Manufacturing	58,718.74
49413	Tyco Electronics Corporation, a TE Connectivity Ltd. Company d/b/a Hartman Electrical Manufacturing	305,444.95
49413	Tyco Electronics Corporation, a TE Connectivity Ltd. Company d/b/a Hartman Electrical Manufacturing	159,712.09
4953	National Institute Of Standards And Technology.	471,851.10
5026	Artex Inc.,	49,055.81
50288	Camp Systems International Inc.	2,130,596.78
5074	Tel-Instrument Electronics Corp.	108,477.67
5094	Ge Aviation Systems	591,017.32
5106	Panasonic Avionics Corporation.	1,350,568.86
5106	Panasonic Avionics Corporation.	641,656.68
5106	Panasonic Avionics Corporation.	636,689.66
5106	Panasonic Avionics Corporation.	233,813.75
5106	Panasonic Avionics Corporation.	787,387.37
5106	Panasonic Avionics Corporation.	781,855.18
5106	Panasonic Avionics Corporation.	656,161.38
5106	Panasonic Avionics Corporation.	655,632.91
5106	Panasonic Avionics Corporation.	703,529.99
5106	Panasonic Avionics Corporation.	596,636.84
5106	Panasonic Avionics Corporation.	796,180.57
5106	Panasonic Avionics Corporation.	702,191.04
5106	Panasonic Avionics Corporation.	708,110.09
5106	Panasonic Avionics Corporation.	654,346.10
5106	Panasonic Avionics Corporation.	1,616,965.56
5106	Panasonic Avionics Corporation.	782,989.21
5106	Panasonic Avionics Corporation.	505,470.81
5199	Cobham Avionics	280,135.60
5199	Cobham Avionics	280,135.60
5236	Chromalloy France	1,272,617.49
5236	Chromalloy France	293,403.32
5236	Chromalloy France	245,481.47
5236	Chromalloy France	393,564.10
5326	Max Mro Services Private Limited	4,121,846.12
5367	Safran Landing Systems	3,271,359.00
5367	Safran Landing Systems	3,277,792.31
5367	Safran Landing Systems	3,327,636.34
5378	B/E Aeropsace	448,435.05
5385	Ge Sensing Druck Ltd.	120,510.20
5407	Aog Aviation Spares	299,923.24

5407	Aog Aviation Spares	304,956.32
5415	Elta France	219,735.79
5493	Hamilton Sundstrand - Customer Support Center- Maastricht	243,588.42
5493	Hamilton Sundstrand - Customer Support Center- Maastricht	265,973.03
5493	Hamilton Sundstrand - Customer Support Center- Maastricht	265,973.03
5493	Hamilton Sundstrand - Customer Support Center- Maastricht	1,705,619.05
5493	Hamilton Sundstrand - Customer Support Center- Maastricht	391,006.04
5493	Hamilton Sundstrand - Customer Support Center- Maastricht	17,583,249.95
5493	Hamilton Sundstrand - Customer Support Center- Maastricht	327,036.76
5821	Woodward Aircraft Engine Systems	3,700,861.34
5821	Woodward Aircraft Engine Systems	82,888.51
5821	Woodward Aircraft Engine Systems	1,104,369.81
5821	Woodward Aircraft Engine Systems	68,506.75
5821	Woodward Aircraft Engine Systems	68,178.11
5821	Woodward Aircraft Engine Systems	208,113.80
5889	Thales Avionics	531,869.23
5969	Avcom Avionics & Instruments	198,686.01
5969	Avcom Avionics & Instruments	198,686.01
5983	Pacific Scientific Aviation Services. (Meggitt)	317,361.85
5983	Pacific Scientific Aviation Services. (Meggitt)	646,148.93
6100	Thales Avionics Electrical Systems	1,871,748.94
6100	Thales Avionics Electrical Systems	300,446.77
6100	Thales Avionics Electrical Systems	532,102.84
6100	Thales Avionics Electrical Systems	532,102.84
6114	Express Caliberation Services	189,055.01
6114	Express Caliberation Services	94,309.80
6175	Goodrich AerospaceUK Ltd.	3,106,935.82
6251	IacobucciHf Aerospace Spa	678,180.38
6251	IacobucciHf Aerospace Spa	711,217.14
6251	IacobucciHf Aerospace Spa	408,302.71
6251	IacobucciHf Aerospace Spa	527,973.29
6386	Microtechnica	2,064,082.23
6386	Microtechnica	211,011.80
6386	Microtechnica	2,182,254.25
6386	Microtechnica	2,728,627.47
6386	Microtechnica	3,281,118.33
6386	Microtechnica	285,230.49
6386	Microtechnica	475,569.64
6440	Aero Systems Engineering, Inc.	1,693,001.75
6474	Airbus France	1,042,280.16
6474	Airbus France	516,183.35
6474	Airbus France	756,043.39
6501	Techno Commercial	4,077,680.31
6513	Kidde Gravinier	53,692.31
6514	L3 Communications Avionics Systems	657,131.30

6551	Kidde Aerospace	167,901.71
6551	Kidde Aerospace	167,901.71
6575	Rockwell Collins	944,085.97
6575	Rockwell Collins	289,758.52
6575	Rockwell Collins	185,064.20
6575	Rockwell Collins	202,231.19
6586	Meggitt (Uk) Ltd T/A	273,669.03
6596	Safran Cabin Germany GmbH	182,584.24
6623	Aviyan Aero	408,194.06
6623	Aviyan Aero	539,472.78
6623	Aviyan Aero	181,279.40
6623	Aviyan Aero	782,677.72
6628	Proponent	73,255.00
6640	Thales AVS France SAS	793,425.08
6655	Thales Avoinics Electrical Systems	609,620.52
6655	Thales Avoinics Electrical Systems	785,273.27
6655	Thales Avoinics Electrical Systems	820,457.40
6656	B/E Aerospace Inc	86,533.01
6670	Safran Landing Systems SLS	636,323.39
6670	Safran Landing Systems SLS	636,323.39
6671	Diehl Aerospace GmbH	650,632.80
6671	Diehl Aerospace GmbH	650,632.80
6673	AtrGieAvions De Transport	281,328.11
6673	AtrGieAvions De Transport	2,447,264.69
6673	AtrGieAvions De Transport	805,861.82
6673	AtrGieAvions De Transport	100,459.92
6687	Hamilton Sundstrand Worldwide	442,496.83
6687	Hamilton Sundstrand Worldwide	5,242,790.00
6687	Hamilton Sundstrand Worldwide	5,241,930.00
6687	Hamilton Sundstrand Worldwide	1,053,950.00
6700	Avtechtjee Inc.	537,609.69
6711	Technofan	699,906.46
	TOTAL (3 Years And More)	145,188,289.46
	TOTAL (1- 3 Years)	126,621,281.7
	TOTAL (1- 12 months)	103,864,539.17
	GRAND TOTAL	375,674,110.33

Annex-12

Deployment of officers/ staff over and above the approved HRB Lahore

S. No.	Department	Section	Approved HRB	Existing	Variance
1	Eng& Maintenance	Engineering	148	208	60
2	PTC	PTC, AIIAP-LHE	2	6	4
3	Flight Operation	Fire	6	11	5
4	Vigl. & Monitoring	Vigilance	0	5	5
5	HR & A	Legal	2	3	1
Total			158	233	75

MEDICAL CENTRE

S. No	Designation	Pay Group	Approved HRB	Existing	Excess
1	Pediatrician	VIII	0	1	1
2	Lab Asst	III	1	2	1
3	Lab Attendant	II	0	1	1
4	S r. Staff Nurse	VI	1	2	1
5	Medical Receptionist	IV	6	11	5
6	Sr. Dispenser /comp office	VI	0	2	2
	Total		8	19	11

Supply Chain Management

02 employees were posted in UK and USA on Local Pay Scale

MULTAN STATION-ANNEXURE ATTACHED FROM MAIN FOLDER (NAEEM)

WORKS DEPARTMENT

S. No.	Designation	Pay Group	Approved HRB	Existing	Variance
1	Billing Offr Elect	V	0	1	1
2	Billing Offr Gas & Water	V	0	1	1
3	Electrical Supervisor	IV	1	4	3
4	Water pump Mechanic	IV	2	4	2
5	Works Supr	IV	0	1	1
6	Electrician	III	4	9	5
7	DEO	III	0	1	1
8	Pump Operator	III	6	8	2
9	Billing Asstt.	III	0	2	2
10	Driver	III	0	1	1
11	HR Assistant	III	0	1	1
12	Electrical Helper	I to IV	2	7	5
Total			15	40	25

Passenger Handling Service Department

Total 436 employees were posted against sanctioned strength of 325 employees as per approved Human Resource Budget (HRB)

FLIGHT OPERATION

S. No.	Department	Pay Group	Approved HRB	Existing	Variance
1	Central Control	I/II/III/IV	0	5	5
2	Planning and Scheduling	VII	4	5	1
		III/IV	0	3	3
3	Flight Technical	I/II/III	7	11	4
Total			11	24	13

Annex-13**Statement showing of loss due to default by agents**

S.#	Station	Agent Name	Default Date	Default Amount (Rs)
Domestic				
1	Karachi	M/S CARGO AIDS	September, 2007	127,414,289
2	Lahore	M/S CARGO AIDS	September, 2007	87,183
3	Rawalpindi	M/S PAKISTAN FRT PLUS	March, 2010	694,122
4	Peshawar	TARIQ TRADERS	September, 2016	390,355
International				
5	New York	VETERAN TRANSPORT	March, 2011	210,556
Total				128,796,505

Parties with Difference	Amount
New Prime Intl	393,191
Union Travel	1,000,000
Regal Tours & Travel	4,835,695
Royal Kashmir Travel Psa	541,209
Total	6,770,095

Annex-14**Loss due to allowing discount in peak season**

(Rs. in million)			
Flight No.	Period 2020	Total Revenue	Discount @ 10%
701	Jan 15 to 31 Jan	204.249	20.40
702	Jan 15 to 31 Jan	209.190	20.90
709	Jan 15 to 31 Jan	67.557	6.75
710	Jan 15 to 31 Jan	58.541	5.85
757	Jan 15 to 31 Jan	83.899	8.40
758	Jan 15 to 31 Jan	78.455	7.84
777	Jan 15 to 31 Jan	25.927	2.59
778	Jan 15 to 31 Jan	10.20	1.01
785	Jan 15 to 31 Jan	11.966	1.20
786	Jan 15 to 31 Jan	85.867	8.58
787	Jan 15 to 31 Jan	21.673	2.17
788	Jan 15 to 31 Jan	16.680	1.70
Total			87.390

Annex-15**Non-recovery of Cost of Deportee****PHS****(Amount in Rs)**

Year	Total COD fine imposed	COD Fine recovered	COD Fine Outstanding
2019	50,950,237	32,241,004	18,709,233
2020	57,257,957	36,089,235	21,168,722
Total	108,208,194	68,330,239	39,877,955

Lahore Station

Year	Total fine imposed	Total COD	Total fine & COD	Amount recovered	Amount outstanding (Rs.)
2020	6,763,153	14,408,080	21,171,233	12,077,707	9,093,526

Revenue Management Department

Year (up-to)	COD charges Outstanding (Rs)
2019	17,945,807
2020	16,168,443
Total	34,114,250

Annex-16**Statement showing of loss due to short collection of fare and service charges on special flights**

Flight Number	Flight date	Sector	Financial loss (Rs)
8222	24-4-20	DXB LYP	13,627
894	11-4-20	ISB KUL	5,298
895	24-4-20	KUL KHI	20,972
8749	12-4-20	ISB CDG	120,680
751	8-4-20	ISB CPH	44,301
8751	11-4-20	ISB CPH	46,493
9751	9-4-20	ISB OSL	157,078
9787	7-8-20	KHI LHR	45,001
783	7-4-20	LHE YYZ	4,347,801
781	8-4-20	ISB YYZ	463,953
783	15-4-20	ISB YYZ	67,112
781	23-4-20	LHE YYZ	610,692
757	8-4-20	LHE LHR	664,109
785	9-4-20	LHE LHR	481,260
785	10-4-20	ISB LHR	112,258
785	11-4-20	ISB LHR	152,491
785	12-4-20	ISB LHR	83,998
701	7-4-20	ISB MAN	86,938
709	8-4-20	LHE MAN	559,468
701	9-4-20	ISB MAN	7,669
701	10-4-20	ISB MAN	35,713
709	10-4-20	LHE MAN	115,763
701	12-4-20	ISB MAN	67,381
Total Loss			8,310,056

Annex-17

Loss due to irrational procurement of dry fruits

		2019-2020			2020-2021			
	Islamabad station							
Description	QTY.	Rate (Rs)	Amount	QTY.	Rates (Rs)	Amount	Difference in Rs	
Almond (Whole) W/O Shell	1,300	1,497	1,946,100	1,495	2,194	3,280,030		
Pistachio (Whole) W/O Shell	300	2,994	898,200	345	3,749	1,293,405		
Raisin Cleaned	173	579	100167	199	649	129,151		
Cashew nuts	50	1,474	73,700	58	1,947	112,926		
Desiccated coconut powder	-	-	-	2,000	649	1,298,000		
Total	1,823		3,018,167	4,097		6,113,512		
	Karachi station							
Almond (Whole) W/O Shell	2,500	1,444	3,610,000	3,000	2,090	6,270,000		
Raisin Cleaned	--	-	-	1,000	840	840,000		
Walnut	-	-	-	500	1,440	720,000		
Total	2,500		3,610,000	4,500		7,830,000		
Grand Total							7,315,345	

Annex-18**Statement of fourteen employees/pilots having fake/bogus
/certificates/licenses****(Position as on 31-12-2020)**

S.#	Name of Employee	Case No.	Nature of Case	Status
1	AsadIlyas	Suit No. 2453 of 2015	Fake Intermediate Certificate	Pending /ongoing
2	Capt. (Rtd.) Jamsheed Ali Malik	C.P.No. D-1237 of 2016	Fake Intermediate Certificate	Pending /ongoing
3	FawazNaveed Khan	Suit No. 1783 of 2015	Fake Intermediate Certificate	Pending /ongoing
4	Muhammad Abbas	Civil Suit No. 18/2019	Forged B.Com Degree	Pending /ongoing
5	Capt. MianShahzad Aziz	Civil Suit No. C-4000/2019	Fake Degree	Pending /ongoing
6	SarmadRasheedRizvi	Civil Suit No. C-9100/2019	Fake Degree	Pending /ongoing
7	SabirurRehman	Civil Suit No. C-9104/2019	Fake Degree	Pending /ongoing
8	TurabBukhari	Civil Suit No. C-9922/2019	Fake Degree	Pending /ongoing
9	Capt. Uzar Khan and three others	W.P.No. 27359/2019	Fake Degree	Pending /ongoing
10	ArshadMehmood	CPLA No. ____/2019	Fake Degree	Pending /ongoing
11	Syed SaqlainAkhtar	WP No. 2040/2020	License issue/fake ATPL	Pending /ongoing

Annex-19

Detail showing of Non-production of auditable record

S.#	Req. #	Dated	Particulars / Items																										
1	01	01.11.2021	1 A copy of the Management Letter and its reply. 2 Management Account for the year. 3 List of Manual. 4 Copy of policies & SoPs. 5 Purchase / Procurement Manual. 6 Annual Procurement Plan 2020																										
2	02	01.11.2021	1 List of bank accounts along with authorized signatories 2 Bank reconciliation statements. 3 Cash Book and Petty Cash books during the year under review.																										
3	03	01.11.2021	1 Minutes of the board meetings along with working papers. (incomplete record) 2 Minutes of the meeting of Finance, Investment, Procurement / recruitment, Audit committees and any other(s) minutes of the meeting along with working papers. 3 Investment schedule during the year under review. 4 Details of investment made during the years under review in the following format: <table><tr><td>S. No .</td><td>Type of funds</td><td>Date of investment</td><td>Invested Amount</td><td>Rates Offered by banks</td><td>Name of banks who quoted rates</td><td>Credit Rating of Banks</td><td>Period of investment</td><td></td></tr><tr><td>1</td><td>2</td><td>3</td><td>4</td><td>6</td><td>7</td><td>8</td><td>10</td><td></td></tr></table>									S. No .	Type of funds	Date of investment	Invested Amount	Rates Offered by banks	Name of banks who quoted rates	Credit Rating of Banks	Period of investment		1	2	3	4	6	7	8	10	
S. No .	Type of funds	Date of investment	Invested Amount	Rates Offered by banks	Name of banks who quoted rates	Credit Rating of Banks	Period of investment																						
1	2	3	4	6	7	8	10																						
			1. Complete files pertaining to the invested fund during the years under review.																										
4	04	01.11.2021	1. Correspondence file for the appointment of External Auditors 2. Internal Audit Manual. 3. Internal audit Plan. 4. Internal Audit Reports 5. Asset register. (<i>incomplete record</i>) 6. Physical verification report of assets.																										
5	05	02.11.2021	1. Business Plan 2. List of software & ERP. 3. Complete Budget detailed file in respect of all information given relating to the capital / revenue expenditures to be incurred head wise/ grant wise 4. Complete budget file in respect of the capital expenditure head wise/ grant wise 5. Complete budget file in respect of the revenue expenditure head wise/ grant wise 6. Comparative statement budget vs actual during the year under review head wise/ grant wise.																										
6	06	02.11.2021	1. Detail of Pay package approved by the Board of Directors during the year under review. 2. Detail in respect of penalty whether minor or major imposed by any regulator and authority. 3. Complete file of the SECP related affairs along with correspondence and noting sides. 4. Complete file in respect of correspondence made with concerned ministry or other ministry / authorities. 5. Complete file in respect of correspondence made with PIACL.																										
7	07	02.11.2021	1. Minutes of the Nomination Committee along with working papers. 2. Minutes of the Ethics, Human Resource& Remuneration Committee along with working																										

			papers. 3. Detail of duties and withholding tax received, deducted, deposited (along with deposit period).												
8	08	02.11.2021	1. Copy of form-29 (particulars of Directors & Officers ...) submitted to SECP 2. Details of annual return of the Company submitted to SECP under section 130 of Companies Act, 2017 3. Copy of all returns & reports submitted to SECP & concerned ministry for the year 2020												
9	09	02.11.2021	1. Complete detail of bounced & dishonored cheques as on 31.12.2021 2. Complete detail of advance against supplier / vendor / contractor and employees 3. Month wise Sales Report. (incomplete record)												
10	10	03.11.2021	1. Complete file in respect of following contractors / consultant / vendor / supplier; <table border="1"><thead><tr><th>S. No</th><th>Description(s)</th></tr></thead><tbody><tr><td>1</td><td>Grant Thornton</td></tr><tr><td>2</td><td>United Human Resources</td></tr></tbody></table> 2. Detail of Sales target assigned business wise and actual performance.	S. No	Description(s)	1	Grant Thornton	2	United Human Resources						
S. No	Description(s)														
1	Grant Thornton														
2	United Human Resources														
11	11	03.11.2021	1. Complete detail of adjustment of advances to suppliers / contractors / vendors 2. Complete details of refund & forfeited cases.												
12	12	03.11.2021	1. Hotel Rooms Charges' Cost sheet. 2. Complete detail of debtors along with aging. (partial provided) 3. Cost sheet of the Food & Beverage Department. 4. Complete file in respect of planning of the Food & beverages department.												
13	13	04.11.2021	1. Minutes of the meeting of CPC along with working papers. (incomplete record) 2. Aging of Sales Tax payable of Rs. 51.383 million. 3. Complete file in respect of following contractor / vendor / supplier along with noting and correspondence portion; <table border="1"><thead><tr><th>S. No</th><th>Description(s)</th></tr></thead><tbody><tr><td>1</td><td>Atta Muhammad</td></tr><tr><td>2</td><td>M.Z Enterprises</td></tr><tr><td>3</td><td>Greaves Pakistan Limited</td></tr><tr><td>4</td><td>M.S Enterprises</td></tr><tr><td>5</td><td>Al-Maimoon Traders</td></tr></tbody></table>	S. No	Description(s)	1	Atta Muhammad	2	M.Z Enterprises	3	Greaves Pakistan Limited	4	M.S Enterprises	5	Al-Maimoon Traders
S. No	Description(s)														
1	Atta Muhammad														
2	M.Z Enterprises														
3	Greaves Pakistan Limited														
4	M.S Enterprises														
5	Al-Maimoon Traders														
14	15	05.11.2021	1. Daily, monthly, semi-annually and annually Food & Beverages consumption report. (incomplete record) 2. Daily, monthly, semi-annually and annually Food & Beverages wastage report. (incomplete record) 3. Total Asset, Liabilities, Sales (Net) & Expenditures.												
15	16	05.11.2021	1. Chemical Test report of the delivered items to SRL by contractor / supplier etc. 2. Annual quantities of each item (Food & Beverages Department). 3. Expired / damages / obsolete etc stock inventory report as on 31.12.2020.												
16	17	08.11.2021	1. A copy of all investigation reports which have been carried on the recommendation of the Board of Director since 2018. 2. Complete enquiry reports status of those employees who were deputed on SRL along with correspondence file. (incomplete record)												
17	18	08.11.2021	1. Feasibility Report of the hotel Rooms renovation.												
18	20	09.11.2021	1. Complete correspondence file with respect to FBR, Punjab Revenue Authority and any others authorities(s) / regulator(s). 2. Detail of Notice and Show Cause served by any institution(s) etc.												
19	22	09.11.2021	1. Reply of Show Cause Notice served by the FBR vide letter dated 25.09.2020.												

			2. Complete file of encashment of Performance bank guarantees (Encashed& withheld).
20	23	10.11.2021	1. Internal Audit Report on Skyrooms (Pvt.) Ltd. performed by CIA, PIACL with reference to Agenda point no. 6 of 72 nd SRL Board meeting. 2. Minutes of the meeting of the Employment Committee / Selection board along with working papers. 3. Minutes of meeting of the Stores Purchase Committee along with working papers. 4. Minutes of meeting of the Work Committee along with working papers. 5. Detail of declaration of stores & equipment as surplus, obsolete and scrap beyond economical repair. 6. Detail of write off stores & assets, unsettled accounts and cash since 2018. 7. Detail of wavier of penalties receivable under all agreement / contract. 8. Detail of penalties, fines and demurrages imposed under statutory law. 9. Detail of theft, fraud or negligence cases filed / reported and action taken by the management.
21	24	16.11.2021	1. Copy of letter no. AH/DGM-HR/Enq/2020 dated 15th April 2020 regarding Theft/missing of copper wire etc. at ex-Indian block-Airport hotel. 2. Copy of enquiry report with respect of theft/missing of copper wire etc. at Airport hotel.

Annex-20

Statement / List of prospective clients & expected business during year 2020

S. #	Name of the clients / projects	Nature of business	Expected premium (Rs. in millions)
1	M/s Neelum Jhelum Hydro Power Project	Power project	1,350
2	M/s UCH Gas compression Plant-OGDCL	Compression Plant	65
3	M/s BRTS & Pink buses	Buses	50
4	M/s Rawalpindi Waste Management & Co	Vehicles	02
5	M/s National Telecom Corporation	Building	04
6	M/s Pakistan Telecom Authority	Building / Vehicles	03
7	M/s KP Halal Food Authority	Building / Vehicles	02
8	M/s Pakistan Institute of Trade & Development Department	Building	02
9	M/s Engineering Development Board	Building / Vehicles	01
10	M/s Pakistan Railways Advisory	Vehicles	01
11	M/s Sanjwal Solar system	Solar System	01
12	M/s DaralKhwar Hydro (PEDO)	Hydro Power Project	33
13	M/s NLC (Sabzal Quetta Road Project)	Contractor All Risk	05
14	M/s ZaraiTaraqiati Bank	ATM / Cash	01
15	M/s Pakistan Metrological Department	Fixed Assets / vehicles	0.5
16	M/s Railway Carriage Factory	Project / fixed assets	02
17	M/s National Traffic Commission	Fixed Assets / vehicles	0.5
18	M/s National Highway Authority (M-1)	M 1 Project/ Fixed	20

		assets	
19	M/s State Bank of Pakistan	Non-Marine Business	39
20	M/s Pakistan Petroleum Limited	Marine & Non-Marine Business	405
21	M/s Sui Southern Gas Company Limited	Marine & Non-Marine Business	145
22	M/s Pakistan Atomic Energy Commission	Non-Marine Business	18
23	M/s The Institute of Chartered of Pakistan	Non-Marine Business	14
24	M/s Gawadar Port Authority	Non-Marine Business	14
25	M/s Pakistan State Oil	Marine Business	200
26	M/s Oil & Gas Company Limited	Marine Business	80
27	M/s People Steel Mill	Marine Business	20
28	M/s Punjab Information Technology (Arfa Kareem Tower)	Fire & Allied Peril	23
29	M/s LDA & Others Sponsors	Fire & Allied Perils	7.9
30	M/s Punjab Mass Transit (Orange Line Train)	Miscellaneous	200
31	M/s Punjab Health Department	Motor	3.2
32	M/s Dasu Dam	Contractor All Risk	125
33	M/s Mohmand Dam	Contractor All Risk	1000
34	M/s Live Stock & Diary Development Board	Cattle	4.9
35	M/s Punjab Mineral Company	Fire	0.5
Total			3,843

Annex-21

Statement showing of non-recovery of insurance premium

S. No	Insurance Company	Recoverable amount	Total
A	Local Insurance Companies		
1.	Business & Industrial Insurance Co. Ltd.	20,258,060	
2.	Crescent Star Insurance Co.	53,027,014	
3.	Dadabhoy Insurance company ltd.	4,868,161	
4.	Delta Insurance Co. Limited	28,711,446	
5.	Gulf Insurance Co.ltd	6,486,833	
6.	National General Insurance Co.	11,292,247	
7.	National Security Insurance Co.	20,782,406	
8.	PICIC Insurance Co. Ltd.	75,819,919	
9.	Progressive Insurance Co.Ltd	2,301,424	
10.	Raja Insurance Co.	3,681,390	
11.	Sterling Insurance Co. Ltd	5,623,996	
	Total		232,852,896
B	Foreign Resident Insurance Companies		
1.	CHUBB Insurance Pakistan Ltd.	1,689,674	
2.	Commercial Union	32,384,257	
3.	NORWITCH Union fire insurance Society	3,462,192	
	Total		37,536,123
C	Inactive Insurance Companies		
1.	Capital Insurance Company Ltd	1,597,695	
2.	Commerce insurance Co.Ltd	569,619	
3.	Eastern General	2,184,362	
4.	Equity Insurance Co.Ltd	620,389	
5.	Mercantile Fire & General	671,684	
	Total		5,643,749
D	Claim receivable		
1.	Afron Asian Insurance Services Ltd.	9,393,846	
2.	Al futtaimwillisco.LCC	41,890,902	
3.	AON Group Limited	385,020,348	
4.	Asian Re.	5,999,304	
5.	Carpenter Bowring Ltd.	1,189,382	
6.	CGNMB LLP	79,429,524	
7.	E.C.O reins.Pool	5,038,201	
8.	Fair Aviation Pool (MOROCCO)	4,616,450	
9.	MISR INS Company Ltd.	9,427,710	

10.	Partner Reinsurance Ltd.	2,781,068	
11.	SOCIET CENTRAL DE REASS (MOROCCO)	13,593,433	
12.	Swiss Reinsurance Co.	2,417,684	
13.	Trust International Ins Co.E.C	5,393,534	
D	Total		566,191,386
	Grand Total (A+B+C+D)		842,224,154

(Rs. in million)

S. No	Name of Company	Treaty Acceptance	Facultative Acceptance	Compulsory Acceptance	Facultative Retrocession	Compulsory Retrocession	Total Balance as on 31.12.20
1	M/s Alfalah Insurance	35.271	123.486	-	-	-	158.757
2	M/s Asia Ins	17.186	-	-	-	-	17.186
3	M/s Asian Mutual Ins	0.099	-	-	-	-	0.099
4	M/s Askari General Ins	87.151	93.850	-	0.221	-	181.222
5	Ms Atlas Insurance	46.728	-	9.741	0.000	-	56.470
6	M/s CapitalInsurance	1.091	0.502	-	-	0.177	1.770
7	M/s Co-operative Ins	0.382	-	-	-	-	0.382
8	M/s Pakistan General Ins	34.820	-	-	-	2.444	37.264
9	M/s Pakistan Mutual Ins	0.138	-	-	-	-	0.138
10	M/s Security General Ins	145.674	0.608	0.033	-	-	146.315
11	M/s Silver star Ins	-	-	0.781	-	0.000	0.781
12	M/s. United Ins Co	-	7.711	-	0.987	-	8.698
13	M/s Universal Ins	37.894	-	-	-	-	37.894
	Total	406.434	226.156	10.556	1.208	2.621	646.975

Annex-22**Statement of Non-reconciliation of erroneous reporting of receivable/payable balances****(Rs. in million)**

S. No	Name of Company	Treaty Acceptance	Facultative Acceptance	Compulsory Acceptance	Treaty Retrocession	Facultative Retrocession	Compulsory Retrocession	Total Balance as on 31.12.20
1	M/s Alfalah Insurance	35.271	123.486	-	-	-	-	158.757
2	M/s Asia Ins	17.186	(0.284)	-	-	-	-	16.901
3	M/s Asian Mutual Ins	0.099	-	-	-	-	-	0.099
4	M/s Askari General Ins	87.151	93.850	-	-	0.221	-	181.222
5	Ms Atlas Insurance	46.728	(0.451)	9.741	-	0.000	(3.732)	52.287
6	M/s CaptitalInsuracne	1.091	0.502	(0.173)	-	-	0.177	1.598
7	M/s Co-operative Ins	0.382	-	-	-	-	-	0.382
8	M/s Credit Insurance	-	-	-	-	-	-	0.000
9	M/s Pakistan General Ins	34.820	(0.017)	(8.000)	-	-	2.444	29.247
10	M/s Pakistan Mutual Ins	0.138	-	-	-	-	-	0.138
11	M/s Security General Ins	145.674	0.608	0.033	-	-	(0.001)	146.314
12	M/s Silver star Ins	(5.939)	-	0.781	-	-	0.000	(5.158)
13	M/s. United Ins Co	(28.957)	7.711	(5.201)	(0.217)	0.987	(0.696)	(26.373)
14	M/s Universal Ins	37.894	-	-	-	-	-	37.894
	Total	371.538	225.403	(2.818)	(0.217)	1.208	(1.808)	593.306

Annex-23

Statement showing of irregular issuance of insurance policies

Sr. #	Policyholder Name	No. of Policies	Total sum assured	Remarks
1	Moazam Ali	01	4,000,000	Proof of income is not available
2	Muhammad Amjad	01	7,500,000	Tax return is not available
3	Shahryar Shahid	01	13,300,000	-do-
4	Ahmad Mehboob	02	15,000,000	Huge difference of income & assets in tax return and financial questionnaire.
5	Kashif Mehmood	09	71,000,000	Tax return & statement of property are not available.
6	Imran Ali	01	5,000,000	Previous policy surrendered sum assured Rs. 10 lac. Difference in annual income as per tax return than claimed in policy form.
7	Numair Ali	01	5,000,000	Tax return is not available and inadequate bank balance
8	Rehan Nazar	01	5,500,000	His two policies were surrendered 507126956-1 & 507094438-8. Tax return bank statement is not available.
9	Umer Waris	01	10,000,000	Income Tax Return of business is not provided to authenticate his income.
10	Arsalan Farrukh	01	6,200,000	Amount showing on salary slip is mismatched with monthly credit entries in bank statement. Difference of Rs. 1 lac is observed. Tax return is not provided as well.
11	Syed Asifhussain Shah	01	6,000,000	Not provided any proof of business income as claimed and bank statement.
12	Maryam Naveed	01	4,000,000	Not provided any proof of business income and bank statement showing very minimal balance and poor statement
13	Muhammad Usman	01	10,000,000	Not provided direct of proof income of Rs. 10 lac per month as claimed. Further, tax return is also not provided.
14	Khizra Ghazanfar Ali	01	5,000,000	No proof of income of husband is provided as policyholder is housewife. Further, no any financial documents are attached with proposal.
15	Umber Afzalchatha	01	10,000,000	Amount of Insurance Premium is more than 20% of annual income

				which is earning from salary. Further, no direct evidence of income is provided to other income and inactive business status.
16	Jamshaidiqbal	01	10,000,000	Income tax return showing very minimal annual income as Rs. 850,000/-. However, policyholder claimed Rs. 500,000/- per month income in proposal form. Policyholder misstated the financial position.
17	Salman Zaheer Khan	01	6,000,000	Not provided any direct of proof of income of Rs. 800,000/- per month as claimed in proposal from. Further, bank statement showing inadequate balance.
18	Ali Zaryabbhatti	01	10,000,000	Not provided any proof income i.e. Bank Statement and other financial documents.
19	Muhammad Ibrahim	01	10,000,000	Not provided any direct proof of income, tax return and poor bank statement.
20	Muhammad Qaisar Pervez	01	330,000,000	His financial information was found fake and he was not financially sound
Total		29	579,500,000	

Annex-24

Statement showing of irregular/unjustified payment on death claims

Irregularities	Amount
Policy holder, Zahid Mehmood, holding policy#603753230-6 1. First policy number was 6035974902 commenced from 24.09.2012 with sum assured Rs 4.0 million had irregularly changed with policy number 603753230-6 with sum assured Rs 7.0 million. 2. In policy, different proposal numbers were used i.e. 170568 & 241650 3. First policy was commenced on 24.09.2012 but the proposal form was signed on 20.01.2015 by tampering the sum assured from Rs.4.0 million to Rs.7.0 million. 4. Claim of Rs.15.064 million irregularly paid to policy holder brother (guardian) without consent of nominee and claim payment to nominee i.e. 03 daughters. 5. Cause of death was cancer but no medical reports attached.	15.064
Policy holder was Subhan Shafiq, holding policy#603639135-0 1. Fake policy number 504548861-6, and different sum assured Rs 1 million & 3 million was disclosed in policy. 2. The year was manually tampered from 30.4.2003 to 30.4.2013 for Policy number 603639135-0. 3. Business value of Mr. Subhan was Rs 2.5 crore and 70 million property but no tax returns were submitted. 4. No bank statement of UK and Pakistan accounts were available in file. 5. As per HM Revenue & Customs UK final reminder letter dated 15.02.2013, policy holder was defaulter of tax 535.12 Euro. 6. Total sum at risk including previous policies was 10 million but it was wrongly filled Rs 11.2 million. 7. Different spellings in different documents of policy holder's wife are mentioned, somewhere as SaeedaSubhanShafique while somewhere as Mrs. SaidaSubhan. 8. In death certificate of hospital, the name of patient is Malik Subhan while in death certificate of NADRA it is SubhanShafiq. 9. Discrepancy exists in the place of death in the certificates issued by hospital and NADRA 10. Address in hospital death certificate, NADRA death certificate and in NIC was different.	11.614
Policy holder was Muhammad Abid Hayat, holding policy#6034355714 1. Business & property value of Mr. Muhammad Abid Hayat was more than Rs 2 billion but no tax returns were submitted. 2. Policy holder was owner of 03 petrol pumps and 01 CNG station but only one petrol pump one bank account statement attached. 3. First cheque of premium Rs.781,000 submitted by sales officer was returned back due to insufficient funds.	17

4. Weight of policy holder was too high 115 kg and abdomen was 113 cm in spite off of that he was declared as healthy.	
5. Declaring of wrong age policy holder nominee son 34 years instead of 32 years.	
6. Copy of cheque payment and bank statement showing cheque transfer was not available in file.	
Total	43.678

Annex-25

Irregular/unjustified payment of death claims

Irregularities	Amount
1. Policyholder, Mr. Muhammad Imran (Late) bearing policy#507185883-1 with ADB coverage dated 03-03-2014 for sum assured of Rs. 2 million . 2. Policyholder was died of chronic diabetic on 8-02-2016, after 01 year 11 months issuance of the policy. 3. Policyholder was suffering chronic diabetic since 12 years as per investigation report of early death claim 4. Policyholder was revived in other policy bearing number 506577123-5 with an amount 0.672 million 5. Policy holder did not disclosed his pre-insurance ailment he was known case of insulin dependent diabetic diseases at proposal stage. 6. Management accepted the proposal only charging 50%-Extra Mortality and without investigation of health of policyholder. 7. The Regional Claim Committee and Zonal Claim Committee recommended the repudiated the death claim of both policies. 8. Regional Claim Committee recommended that strict action may be initiated against the field force witnessed the revival of second policy without taking medical record to ensure his health condition.	2.872
Policy holder, Mr. Rana Muhammad Ehsan (late) bearing policy No. 507214706-7 with sum assured of Rs. 1.7 Million. Dated 20-11-2014 and another policy bearing No 5072090821-1 with sum assured Rs 0.800. Dated 20-09-2014 was proposed as healthy and good as well as financially sound at initial stage 2. Policyholder was submitted all financial information is false and based on bogus documents and he did not declared that he was ex-serviceman of Pakistan Air-force in two page report endorsed by AM/SM. 3. As per investigation report revealed that he never purchased the car nor owner of Al-Ghani hospital and his monthly income was Rs 25,000/- instead of Rs. 160,000/- 4. Zonal Claim Committee recommended for repudiated of policies. On later stage RCC approved the claims subject to verification bank statement on both policies. 5. Policyholder died on 12-11-2016 due to heart attack.	2.745

6. Management failed to investigate about policyholder financial position at initial stage of insurance policy on false financial information	
1. Policyholder Mr. Bilal Ashraf procured a medical insurance policy bearing No 602337671-2 with ADB for sum of assured Rs. 2 Million. Dated 31-12-2017 and another policy bearing number 602241893-0 for sum of assured Rs. 1.110 Million. Dated 12-01-2013 2. Policyholder was died on 03-01-2019 due to brain Hemorrhage. 3. No medical report was obtain for confirmation of his actual cause of death. 4. As per statement of his widow, deceased was died due to sudden brain Hemorrhage during the way to hospital and hospital authority refused to admit the deceased assured, therefore, deceases was not hospitalized in hospital. 5. As per investigation report revealed that assured deceased was taken to Adil Hospital Lahore but no medical report / certificate was attached with investigation report. 6. The Zonal Claim Committee (ZCC) and Regional Claim Committee (RCC) admitted the case for payment Rs 2.170 Million and RS, 1.573 Million along with FIB at Rs. 9,250/- per month till 30-11-2032. 7. Management failed to investigate the actual cause of death and investigation report is not satisfactory as there is contradiction in the statement of widow of deceased assured regarding the hospitalization of deceased.	3.743
1. Policy holder Mr. Samar Abbas procured a non-medical insurance policy bearing No 602319954-0 dated 20-01-2017 and bearing policy No 605806960-0 dated 18-07-2018 for sum of assured Rs 2.000 Million and Rs. 0.500 Million with Accidental Death Benefit (ADB). 2. Policy holder was caption Army. The policyholder got added ADB after issuance of policyholder and cancelled of Accidental Indemnity Benefit (AIB) as the same is not admissible to persons of armed forces. 3. Policyholder was died by drowning in sea at Karachi 13-06-2019. 4. Autopsy report (Postmortem) of the deceased assured was not available in record. 5. Regional and Zonal Committee admitted the claim of both policy in favor of nominee an amounting Rs 5.290 Million including payment of ADB.	5.290
	14.650

Annex-26**Details on sale of vehicles at lower rates**

S.No	Vehicle Name	Sales price Rs.	Current market price (Rs)	Difference/ Loss (Rs)
1	Indus Corolla (1300cc)	455,000	500,000/- to 580,000/-	125,000
2	Suzuki Hi-Roof (800cc)	217,000	315,000/- to 380,000/-	163,000
3	Suzuki Cultus (1000cc)	217,000	395,000/- to 485,000/-	268,000
4	Suzuki Cultus (1000cc)	217,000	395,000/- to 485,000/-	268,000
5	Suzuki Cultus (1000cc)	217,000	395,000/- to 485,000/-	268,000
6	Suzuki Cultus (1000cc)	560,786	395,000/- to 485,000/-	(75,786)
7	Suzuki Cultus (1000cc)	665,000	595,000/- to 860,000/-	195,000
8	Suzuki Cultus (1000cc)	639,786	785,000/- to 900,000/-	260,214
9	Suzuki Cultus (1000cc)	600,000	785,000/- to 900,000/-	300,000
10	Suzuki Cultus (1000cc)	600,000	785,000/- to 900,000/-	300,000
11	Suzuki Cultus (1000cc)	750,000	880,000/- to 1,040,000/-	290,000
12	Suzuki Mehran (800cc)	399,786	575,000/- to 685,000/-	285,214
13	Suzuki Mehran (800cc)	425,000	575,000/- to 685,000/-	260,000
14	Suzuki Mehran (800cc)	381,000	575,000/- to 685,000/-	304,000
15	Suzuki Mehran (800cc)	425,000	575,000/- to 685,000/-	260,000
Total		6,769,358		3,470,642

Annex-27**Details of Non-Production of record**

S. No.	Req. No & date	Record not provided/incomplete record	Remarks
1	No.01 Dated 5.4.2021	1. Management letter issued by chartered accountants during 2019-20.	Not provided
2	No.05 Dated 5.4.2021	1. List of HR contractor of KS&EWs alongwith contract file. (in original) 2. Complete details of foreign tours of officers and staff alongwith their approval files and expenditure incurred during the period 2019-20.	Partial/incomplete record provided to audit.
3	No.06 Dated 5.4.2021	1. Complete details of total Government grant received by the KS&EW during the years 2018-19 and 2019-20. 2. Complete details of Government grant utilized in KS&EW during the years 2018-19 and 2019-20. 3. A copy of reconciliation statement of Government grant prepared by KS&EW for the years 2018-19 and 2019-20.	Partial/incomplete record provided to audit.

4	No.07 Dated 7.4.2021	1. Tender/ contract file for Supply, Installation, Testing & Commissioning of brand new Double beam/ Girder Electrically operated Rail mounted Gentry Cranes- infrastructure up-gradation of KS&EW during the period 2019-20 alongwith their relevant files. 2. Tender/ contract file for up-gardation of KS&EW project-313 package 4-A during the period 2019-20 alongwith their relevant files. 3. Tender/ contract file for Design Install and Commission of Mechanical & Electrical System and Associated Civil Works for Ship Lift & Transfer System on Design and Built Basis at KS&EW, Karachi during the period 2019-20 alongwith their relevant files. 4. Tender/ contract file for Refurbishment/ overhauling, up gradation and procurement of 1×32 /5 Tons Double Boom level luffing Crane during the period 2019-20 alongwith their relevant files. 5. Tender/ contract file for Janitorial services during the year under review. (in original). 6. Tender/ contract file for appointment of Chartered Accountant (Audit Firm). 7. Tender/ contract file for edible items of Canteen during the year (in original)	Partial/incomplete record provided to audit.
5	No.08 Dated 7.4.2021	1. Copy of MoU signed with Parties for preparing the design of vessels. 2. Complete details of maintenance budget for construction of Shipyard Training School (STS) building utilized during 2019-20.	Partial/incomplete record provided to audit.
6	No.9 Dated 19.4.2021	1. Contract file for hiring of manpower alongwith list of contractors during the year 2019-20. 2. Copy of approved rates of material, labor and overhead selected by management to charge for cost estimation in ship building, Ship repairs and General Engineering cost centers.	Partial/incomplete record provided to audit.
7	No.10 Dated 19.4.2021	1. Detail of slow-moving items of stores Rs. 8,647,642/- for the year 2019-20. 2. Complete detail/ contract file for purchase of Computers Rs. 20,172,666/- during the year 2019-20.	Partial/incomplete record provided to audit.
8	No.11 Dated 21.4.2021	1. Complete detail/contract file for Tender No. TS4391E during the period 2019-20 alongwith their relevant files. 2. Complete detail/contract file for Tender No. TS386567E during the period 2019-20 alongwith their relevant files. 3. Tender/ contract file for Infrastructure Up-gradation	Partial/incomplete record provided to audit.

		work bearing Tender No.TS125548E during the period 2019-20 alongwith their relevant files. 4. Tender/ contract file for Infrastructure Up-gradation work bearing Tender No.TS123689E during the period 2019-20 alongwith their relevant files. 5. Tender/ contract file for Infrastructure Up-gradation work bearing Tender No.TS121984E during the period 2019-20 alongwith their relevant files. 6. Complete detail/ file for Facilitation charges receivable of -Rs. 3,751,050/-. 7. Complete detail/ file for rent receivable of Rs.11.7 million from Posco Engineering & TSML for the year 2019-20.	
9	No.12 Dated 22.4.2021	1. Annexed-A: Local Purchases (60% record received) 2. Annexed-B: Foreign Purchases (55% record received) 3. Annexed-C: Disposal of scrap items(60% record received)	Partial/incomplete record provided to audit.
10	No.15 Dated 01.6.2021	1. Project file of SLTS alongwith PC-I, PC-II, PC-III & PC-IV files. 2. A copy of agreement signed between KSEW and Consultant for SLTS Project. 3. A copy of agreement signed between KSEW and Posco for SLTS project. 4. Complete detail list of purchases made in SLTS project during the period 2019-20 alongwith relevant files. 5. A copy of inquiry report conducted by Ministry of Defence Production in SLTS Project for irregularities pointed out by audit for procurement and contract of execution process of SDE. 6. Complete details/Tender file for expenditure incurred on Shipyard Facilitation centre during the year under review.	Partial/incomplete record provided to audit.

Annex-28

Details of submission of fake inspection reports for obtaining construction loans

S.#	Customer Name & account No. & date	Scheme and Amount	Statement in valuation report	Physical inspection	Remarks initiatives by staff (BM)
Peshawar					
1	Ali Raza 9100005033 24-06-2019	GharAsan Flexi 3 million + 1.5 million =4.5 mill	1)“ arches type” 2) Corner plot and road on left side 3) stairs were straight	1)“corner type” 2) constructed house on left side 3) stairs were in two steps with a landing	1) Pictures of first inspection report were removed and destroyed. 2) Difference of only 33 days in plaster and installing wooden frames and windows. 3) Market value stated at 3.95 mill whereas HBFC financed at 4.5 mill. 4) final tranche of rs 0.5 mill was never asked for nor put up for reducing financing
2	Najma khan 910000509-0 Sept & Oct 2019	Ghar Pakistan 0.45 mill*3 = 1.35 mill	1)Roof top with chips on walls picture but wrote that first floor has to be completed	Wall with chips on second floor	Same picture by valuator and BM showing 3 persons sitting. This kills the purpose of dual inspection. Neighbours reported that the house was fully constructed two years ago.
3	IshratJehan 910000500-9 Apr May 2019	GharAsan scheme 0.6 +0.45+ 0.3 =1.35 mill	1) stairs on left side	2) stairs on right side with different elevation	A.J Associates based in Hyderabad are well known for drawing fake and misleading pictures
4	Anwar Ali Khan 910000505-8 25 th and 26 th June 2019	GharAsan Flexi 0.96 m+0.72m +0.48 m =2.160 mill			AJ attached pictures that were very different from location, structure, size and nature.
5	M. Naeem Khan 910000501-7	Ghar Pakistan 0.45 *3+0.15m =1.5 mill		Finished first entrance, second floor and roof top with marble flooring	FI U Team not allowed to visit site

6	Shah Raza 910000498-6 Mar Apr 2019	GharAsan $0.8+0.6+0.4=$ 1.8 mill	Ground floor is roofed and plaster work is under process	Only "Front Gate" visible. Pictures only focused portion of a wall and roof. Borrower did not inspection to FIU team.	1) March statement completed external & internal plaster, frames of doors, windows done. Pictures similar for release of different tranches. 2) Did not avail last 0.2 mill and case closed within one year of financing.
7	Abdul Qayyum Khan 610000006-0 Oct 2018	Small Builder Scheme $4 \text{ mill}+4 \text{ mill}+2$ $\text{mill}=$ 10 mill			1) Tranches of Loan were released within 7 days. 2) Small builders' scheme requires payment of rent between tranches. But the customer payments were nil. Company cannot pay further tranches to defaulters. 3) BM has used pictures of valuers that defeat the purpose of dual control. 4) Property already constructed.
8	Dur E Shahwar 910000495-2 Dec 2018 Feb & Jun 2019	GharAsan $5.7+2.85+0.95$ $=9.5 \text{ mill}$		Pictures different for elevation stairs & constructed plots on sides.	Amount of 1 st & 2 nd tranche given simultaneously 2) valuers used pictures of another property . 3) BM endorsed it.
9	Rashid Ahmed 910000491-1 Jul & Dec 2018	GharAsan $0.6+0.45+0.3=$ 1.35 mill		Undertaking given by customer that he had shifted in the house in 2018 and ground + first floor were	Some insider of the branch had already informed the customer that the auditors /FIU were coming for inspection. The customer came out from his house and did not permit the

				constructed. Report, pictures submitted by BM differ from actual site.	team inside. Infact, he forwarded his complaint to Head office. His actions and words contradicted as he was well aware that the team is coming and his complaint turned out to be Bogus.
10	ArifaMunir 910000506-6	GharAsan $0.52+0.39+0.26=$ 1.17 mill	AJ associates had again used pictures of another property.	An employee was a guarantor in this case.	Tranches were paid according to BM's evaluation.
Total					34.68 million
Dera Ismail Khan					
1	IkramUllah Khan (Employee) 9260002358 May, Jul & Nov 2018	GharAsan Flexi 1.2 million + 0.9 + 0.6 million =2.7 mill Not availed 0.3 mill	1) "Only the plinth on the plot" to obtain 1 st tranche. 2) "Structure on GF/1 st / 2 nd FL (with Block Masonry work". For 2 nd Tranche Corner plot and road on left side 3) Valuation report released in Dec 2018 whereas cheque already issued in Nov 2018.	1) IAD only open plot. 2) Only DPC completed. 3) actual report not available in file, but note of Branch Staff BCCL Checklists 3,4,5 placed at 189-192/Cr.	1) Investment Officer & BM showed one room constructed on the plot. 2) Pictures of first inspection report were removed and destroyed. 3) BM mentioned "I admit that remaining 02 tranches were disbursed without completing the required construction work".
2	ShujaatHussain 9260002283 Dec 2017 & Feb, Mar, Apr & Sep 2018	GharAsan (Flexi) 0.5 mill	1)"completed internal & external Plaster G.F & F.F, frames of doors & windows are fixed, flooring of all room done. Recommend for release of 1 st , 2 nd & 3 rd tranche."	1) BM took close photographs, only gate visible whereas elevation should be evident.	Same picture by valuator and BM showing 3 persons sitting. This kills the purpose of dual inspection. IAD Report &Photograph concludes that financing was sanctioned on already constructed property.

					Interview of borrower by BM D.I Khan “who told that they shifted the house in the year 2016”
3	Rashid Ullah Khan 9260002457 Jun 2019	GharAsan flexi scheme 2.280 mill out of 5.700 sanctioned	1) A.J associates stated “open plot”.	1) BM stated “Open Plot”	Difference in stage of construction by IAD as open plot & BM reported “completed plinth with DPC/ lentil level of G.F recommended for the release of 1 st tranche. Only digging could be seen. Fake pictures shown of a constructed property. It was an open plot even on the day of inspection. BM accepted his fault and stated that work was in progress but suspended, ‘l be careful in future. BM deliberately took pictures of adjacent property.
4	Razia Sultana 9260002515 Aug Oct 2019	Ghar Pakistan 1.24 m+0.930 =2.170 mill out of 3.100 mill		BM took pictures “Complete plinth with DPC /lentil level of G.F. recommended for release of 1 st tranche. .	BM accepted fault and stated digging was done at the time of cheque delivery. DPC was not complete but now in progress. Evident that fake pictures were taken to release funds.
The use of “whito” indicates tampering of facts.					
Total					8.58 million
Gilgit					
1	AslamBaig 9310004545	Ghar Pakistan 0.6 million + 0.45	1) First cheque issued by	1)5 th sept FIU noted that the	1) To facilitate the customer, first

	20 th & 26 th April 2019.	million =1.05 mill	stating that DPC is complete. 2) “Visited the proposed site & found RCC roofed okay of release of 2 nd tranche”. Three Vague pictures were taken front, inside & corner covering only corner walls & avoiding side views	pictures were not of the property that was financed. Following differences were noted: a) Front elevation (chajja) was in steps, in pictures it was plain. b) There were two columns behind the main gate in pic whereas actually there were no columns. c) front iron gate of original property was single panel whereas in pic it was double panel gate. d) actual site had no property & open space on left side, whereas a property appeared on the left side in the pic.	cheques was issued on Saturday. Investment Officer & BM showed one room constructed on the plot. 2) Pictures of first inspection report were removed and destroyed. 3) BM mentioned “I admit that remaining 02 tranches were disbursed without completing the required construction work”. After Internal Audit Report BM visited property and wrote and signed : “ placed actual pictures of the site after visited myself.” She admitted that now she took actual pictures whereas the first physical inspection was carried out by Shahid Ali who provided these pictures and she just signed.
This is a fraud case. The BM has signed on fake reports. She should have mentioned the fact of pictures taken by someone else and only endorsing in good faith. This leads to concealment of true facts.					
2	Shah Rayees Khan 9310004297 Dec 2017 & Feb, Mar, Apr & Sep 2018	GharAsan (Flexi) 2mill+ 1.5 mill+ 1 mill+0.5 mill= 5 mill	1) Converted the residential property loan to commercial.	Residential property used as commercial as an institute. If BCA would demolish, and then HBFC	Knew the facts but concealed them.

				would have to bear losses.	
3	Imran Khan Imran Khan 9310004503 Mar Jun 2019	GharAsan flexi scheme $0.33 \text{ mill} \times 4 = 990 + 0.11 \text{ mill} = 1.11 \text{ million}$	1) Created a fake construction loan on already constructed property. Pictures taken Not covering sign board.	All reports and pictures depicted false evidences. The valuator also supported the B.M	The staff along with valuator was involved in making fake reports.
4	Muhammad Mustafa 9310004677 Jun 2019 With only 2 days gap	GharAsan Flexi $1.2 \text{ mill} + 1.2 \text{ mil} = 2.4 \text{ mill}$	Did not show the use of guest house at ground floor	The transit of file and cheques between Gilgit Islamabad takes two days, but the date of cheques and counter on file show it on the same date. This issue arise that the file was signed approved on back dates.	Fake reports – property already constructed and used as a guest house.
5	Sultan Khan 9310004602 Jun 2019 2 cheques same & next day	Ghar Pakistan Scheme $0.720 \text{ mill} + 0.54 \text{ mill} + 0.360 \text{ mill} = 1.620 \text{ mill}$	Taken pictures with close-ups to avoid location of the property	BM relied on pictures taken by someone else and responsible for concealment	Possibility of fraud and chances of bribe
6	Ashraf Nama 9310004370	GharAsan Flexi $0.32 \text{ mill} + 0.24 \text{ mill} + 0.16 \text{ mill} = 0.72 \text{ mill}$	No file maintained	Photographs not available in record.	
7	RehmatKarim 9310004529 Jan 2019	GharAsan Flexi $0.16 \text{ mill} + 0.12 \text{ mill} + 0.08 \text{ mill} + 0.04 \text{ mill} = 0.4 \text{ mill}$	Fake reports to release loan.		
8	Bashir Ahmad 9310004305 Sept 2018	GharAsan (Flexi) $1.6 \text{ mill} + 1.2 \text{ mill} + 0.8 \text{ mill} + 0.4 \text{ mill} = 4 \text{ mill}$	Fake pictures showing construction	Property not constructed and idle. The	It had chances of encroachment.

	Apr Feb 2019		going on.	owner resided abroad and the property was vacant.	
9	Ikramud Din 9310004669 Jun 2019 3 cheques in one day July 2019	GharAsan (Flexi) 1.2 mill+0.9 mill+ 0.6 mill+0.3 mill= 3 mill	BM reported fake pictures and valuers also supported her.	Pictures of another property had been taken. In actual, stairs were thicker, door available in pictures adjacent to stairs, shops under construction in pictures and front elevation and chajja also different.	
10	NasirHussain May Jun 2019	GharAsan (Flexi) 1.2 mill+1.2 mill= 2.4 mill	BM stated GF floor complete & F.F to plinth level.	Pictures show grey structure by Valuator and Khan Engineering.	BM deliberately took fake pictures. Used pictures of another property and prepared deceptive report and concealed the actual condition.
11	Rehmat Jan 9310004271 Oct 2018 10 days gap Nov 2018 Mar 2019	GharAsan (Flexi) 0.8 mill+0.6 mill+0.4 mln+0.2 mln = 2 mill	Shahid Ali inspected site and declared ok for 4 th tranche.	Property was not eligible for 4 th tranche.	Property was not eligible for 4 th tranche.
12	Dr. FarukhSuhanaShahid 9310004354 Dec 2018 2 cheques& Jan 2019	GharAsan (Flexi) 0.6 mill+0.6 mill +0.6 mill + 0.2 mill= 2 mill	G.F & F.F roofed by Shahid Ali. A.J associates took contradictory pictures of showing complete roof level then only shuttering.	On physical site visit, the building was used as office of PEC Pakistan Engineering Council for the last two years. There was a clear cut sign board. The	Shahid Ali deliberately took pictures of back view to avoid view of PEC sign board. The staff was well aware that the building used was for commercial purpose. This is clear cut violation of residential / building plans

				G.F was also financed from account number 9310003174.	rules.
13	ShahidIqbal 9310004586	Ghar Pakistan (Flexi) 0.15+ 0.15= 0.3 mill	Inspected the proposed site and commented RCC roofed.	FIU visited in Sept 19 and found that there was no RCC.	A clear fraud case where the BM is responsible for preparation of deceptive reports, concealment of facts and misplacement of record from files.
14	Ghulam Mustafa 9310004651 13 th & 25 th June 2019	GharAsan (Flexi) 0.57 mill + 0.57 mill= 1.140 mill	Both chequeswere released with a difference of 13 days and exposed the company with risk.	The couple responded that the roof filling was complete on 6/7/2019.	In order to achieve sales target, she gave the cheque 13 days earlier.
Total					27.14

Annex-29

Statement showing of Loans disbursed on fictitious properties

S.#	Account Number	Name of Borrower	CNIC	Mortgage Property Address	New Address	Sanctioned amount/ Outstanding Principal (Rs in million)
1	946000408-9	Muhammad Amir	42201-0622255-3	R-578, Sector 16-A, Buffer zone North Karachi	The same could not be traced out in KacchiAbadies Scheme	5.670/5.549
2	947000327-9	Iqbal Ahmed	42201-4585556-3	Account No. A-474, Sector V, Ahsanabad Society, KDA Scheme 33, Karachi.	R-404, Sindh Goathabad Scheme, Allah Bux Goat, Karachi East	5.000/4.900
3	946000374-3	Shahzaib	42201-9808239-7	R-545, Sector 16-a, buffer zone, North Karachi.	House No. 480, Street no. 1, Shah Khalid Bin Abdul Aziz Colony vide notification of	4.641/4.600

					Sindh KatchiAbadies Authorities dated 08.11.1991	
4	946000393- 3	Syed Sana Ullah		R-195, Sector 1-A/4, North Karachi	Encroached property	2.450/2.400
Total:						17.761/17.449

Annex-30

Details of Irregular appointment of staff

S.#	Name of Officer	Consolidated Salary
1.	Mr. Muhammad Ahsan	50,000
2.	Ghazali Abbas	63250
3.	Jawed Arshad	200,000
4.	Muhammad Yaseen	70,000
5.	Manoj Kumar	84,637
6.	Saddam Hussain	36,612
7.	Kamran Ahmed Khan	94,875
8.	Ahmad Raza	50,000
9.	Rida Ashraf	137,500
10.	Dost Muhammad	40,000
11.	Rizwan Ahmed	49,680
12.	Muhammad Khan	80,892
13.	Rukhsana Shahjahan	167,400
14.	Rana Muhammad Akram	246,100
15.	Quratulain Siddiqui	57,245
16.	Syed Mubashar Ahmed	64,800
17.	Gohar Amin	46,224
18.	Khalid Mehmood	50,000
19.	Syed Hashim Raza Zaidi	80,892
20.	Farhan Hashim	75,900
21.	Nazir Ahmed	108,000
22.	Maryam Haqnawaz	45,796
23.	Muhammad Ahsan Irfan	80,892
24.	Muhammad Maqsood	62,100
25.	Khizar Hayad	124,200
26.	Muhammad Zakariya	58,850
27.	Atiqur Rehman	75,900
28.	Bilal Anwar	57,245
29.	Massab Ahmed Abbasi	68,694
30.	Muhammad Fahim Khan	80,892
31.	Malik Muhammad Arsalam	62,150
32.	Haroon Qureshi	120,175
33.	Iftikhar Hussain	40,072
34.	Kashif Ahmed	66,501
35.	Rehan Ahmed	50,600
36.	Shehzad Mehfooz	40,072
37.	Hafiz Mohsin Ali	55,000
38.	Wasiur Rehman	57,245
39.	Pervaiz Ali	42,757
40.	Fasiuddin Hashmi	42,800
41.	RAhil Jawed	86,135
42.	Saad Bin Farrukh	51,521
43.	Fawad Ahmed Sheikh	66,000
44.	Zara Khan	61,020
45.	Muhammad Umair	57,245
46.	Rabia Ashraf	51,521

47.	Kamran Khan	110,745
48.	GhulamSarfaraz Khan	61,525
49.	AltamashHussain	43,200
50.	Muhammad Raza Ali	70,200
51.	Fawad Ahmed Memon	50,000
52.	Bakhtiar Ali	65,000
53.	Ryasat Ali	50,000
54.	Tahoor Ahmed Khan	70,000
55.	Tariq Ali	45,000
56.	Dr. Amin Rehmani	150,000
57.	Yasir Ahmed Khan	70,000
58.	AitsamRabbani	50,000
59.	QuratulAinAzeem	50,000
Total		4,345,060x12
Grand total		52,140,720

Annex-31

Details of Non-production of auditable record

Non Production of Record 2020-21 of PSPC					
Req#	Point #	Date	Description	Record Provided to the Auditors	Column1
1	4		subsidiary ledgers	21-Oct-21	PARTIAL
	12		Age wise detail of other receivables along with files.		NIL
	14		Complete approved Budget allocation file and expenditure against it.	18-Oct-21	PARTIAL
	17		Appointments file of External Auditors.		NIL
2	2		Approved list of prequalified vendors/suppliers	26-Oct-21	NIL
	6		List of all contracts with agreements and payment files	21-Oct-21	PARTIAL
	7		Complete list of Consultants appointed with files		NIL
3	4		Appointments made last five years with appointment files	21-Oct-21	PARTIAL
	5		Approved sanctioned and available strength of employees along with copy of approval	21-Oct-21	NIL
	9		List of employees resigned/terminated / suspended along with their case files	21-Oct-21	PARTIAL
	10		List of Officers promoted with files	21-Oct-21	PARTIAL
	11		List of employees retired along with case files.	21-Oct-21	PARTIAL
	12		List of disciplinary cases of employees along with relevant files	21-Oct-21	PARTIAL
	13		Outsourced employees Contract agreement and payment file	21-Oct-21	NIL
	16		Files regarding Admin Orders/SOPs/Government Circulars during the period	21-Oct-21	NIL
	17		Detail of legal cases lodged/decided/pending with files	21-Oct-21	PARTIAL
	18		List of disciplinary cases against employees	21-Oct-21	PARTIAL

			with files		
	19		Detail of cases of theft, fraud, embezzlement, if any	21-Oct-21	Mis Reported
	20		Detail of cases of incidents/accidents/damages reported	21-Oct-21	PARTIAL
	21		Detail of assets insured along with Insurance File		PARTIAL
Req-4	1	13-Oct-21	Repair and maintenance of Security Guards quarters	21-Oct-21	NIL
	2		Complete detail along with expenditure of tree and plant	21-Oct-21	NIL
	3		Complete case file and supporting documents of changing room building (ground plus two)		NIL
	4		Complete case file of purchase of mineral water along with detail of R.O Plant consumption wise		NIL
	5		Detail of two units AC plant and its allocation		NIL
	6		Details of security camera and its allocation		NIL
	7		Details of sale of various waste material	26-Oct-21	PARTIAL
Req. 5	2		List of work orders received with concerned files showing works assessment/ cost assessments and with factory production files	26-Oct-21	PARTIAL
	2		Complete files of the investment made in the mutual funds	26-Oct-21	PARTIAL
Req-8	1	13-Oct-21	View rights to access software system	21-Oct-21	NIL
	10		POL purchase files		NIL
	6		Details of deduction made from allottees		NIL
Req-13	1	14-Oct-21	Personal file of Executive, Officer and Officials	1-Nov-21	PARTIAL
	2		Personal File of officers on deputation	1-Nov-21	PARTIAL
	3		Hiring/appointment record of Chief medical officer with salary/remuneration	1-Nov-21	NIL
Req-14	1	14-Oct-21	List of legal cases with detailed description, decided in favor or against along with case files	1-Nov-21	PARTIAL
	3		Appointment files of legal consultant advocates	1-Nov-21	NIL
	4		Details of legal and professional Tax Advisory service with appointment file		NIL
Req-15	1	14-Oct-21	Complete details of construction works showing amount, date of start, date of completion or ongoing with all relevant files.	1-Nov-21	PARTIAL
	2		Details of project showing amount, date of started, date of completion or going along with concerned files	1-Nov-21	PARTIAL
	3		Details of repair & maintenance of machinery, equipment, buildings & General along with relevant files	21-Oct-21	PARTIAL
	6		Details of work in progress with concerned works files		PARTIAL
	7		Details of Pakistan Strategic Allocation Fund	21-Oct-21	NIL
	9		Details of WIP NBNF and Prize Bond	18-Oct-21	CHECK
	10		Details of advances to suppliers local		NIL
	11		Details of scrap and fixed assets sales with files	26-Oct-21	PARTIAL
	12		Details of imprest and adjustment		NIL

	13		Details of Extended duty allowance staff		NIL
	14		Details of overtime with approval files		NIL
	20		Details of gardening expenses	21-Oct-21	NIL
	21		Details of Aviary/Zoo expenses	21-Oct-21	NIL
	22		Details of poly culture forest	21-Oct-21	NIL
Req-16	1	18-Oct-21	Contract file of M/s continental enterprises on accounts of contract file regarding water proofing bank note factory		PARTIAL
	2		Construction file of road in estae area along with PO, (BOQ report of Civil engineering pertaining to Psi) and its payment		PARTIAL
	3		Details of waste of komori Machine since its installation		NIL
	4		Detail of case No. 2A/2020 dated 18-05-2020 along with enquiry report	1-Nov-21	NIL
	5		Details of PSPC Aviary	21-Oct-21	NIL
	6		Details of Retired army officer along with retirement file		NIL
	7		Details of rejected papers along with purchase date and payment	26-Oct-21	NIL
	9		Details of medical expenses employees on deputation	1-Nov-21	NIL
Req-18	1	20-Oct-21	Details of sales and purchase of birds for PSPC Aviary for last 03 years	21-Oct-21	NIL
	2		Complete file of misprint signature of Rs. 20 note and its present status along with enquiry report		NIL
	3		Complete file of those construction of building road ets in which the purchases of material was responsibility of corporation		PARTIAL
	4		Detail of purchase of red brick/tiles		NIL
	5		Complete file regarding incident report shortage of 70 notes of 5000 at cutpak department along with enquiry report		NIL
Req-19	1	20-Oct-21	Copy of relevent rule of creaing liability		NIL
	2		Detailed calculation of stamp duty with documents		NIL
	3		Year wise breakup of stamp duty liability		NIL
	4		Reason for non-payment of stamp duty		NIL
	5		Govt. Revenue Authority attesting the large agreements		NIL
Req-20	1	21-Oct-21	File of Purchase		PARTIAL
Req-21	1	22-Oct-21	Rehabilitation of old PSPC factory		NIL
	3		Rehabilitation and water proofing		PARTIAL
	4		Establishment of Family Parks		NIL
	5		Construction of over lying of Road		PARTIAL
	6		Installation of security fencing around Durban and DSF flats and quarters		PARTIAL
	8		Reconstruction of Estate boundary wall towards Shahra - E - Faisal		NIL
	9		Complete case file and supporting documents of changing room building (ground plus two)		PARTIAL
Req-22	1	26-Oct-21	SOPs of Bank note Production		NIL
Req-23			Ms. Rukhsana		NIL
			Mr. HaroonQureshi		NIL
			Mr. Saifullah		NIL

			Mr. Rana Muhammad Akram Rajput		NIL
Req-24		9-Nov-21	1. Estimated cost.		PARTIAL
			2. Original BoQ.		PARTIAL
			3. Revised BoQ.		PARTIAL
			4. Mobilization Advance.		PARTIAL
			5. Original payment bills.		PARTIAL
			6. Payment file.		PARTIAL
			7. Completion Certificate.		PARTIAL
			8. Note Portion.		PARTIAL
Req-25		9-Nov-21	file No.LP/T1210/20 for roof water proofing at bank note factory		PARTIAL

Annex-32

Statement showing Non-recovery/adjustment of outstanding amount

S#	Title of account	Amount
1	Loans, advances and bills of exchange	804,753
2	Assets held with reserve bank of India	11,943
3	Balances due from the Governments of India & Bangladesh	13,141
4	Commission receivable and others	4,426
5	Other advances, deposits and prepayments	9,901
6	Receivable balance from Railways account	30,157
	Total	874,322

S#	A/c	Description	Outstanding balances
1	361006	Receivable from GOP-Under SAFE China Deposit III	84,025,300,000
2	361009	Receivable from GOP under FCY Deposit IV	84,025,300,000
3	361011	Receivable from GOP under FCY Deposit V	336,101,200,000
4	496103	Receivable/Payable - Karachi Office	3,841,085,428,981
5	496111	Receivable/Payable - Lahore Office	4,211,130,720
6	496115	Receivable/Payable - Islamabad Office	925,786,033,205
7	496116	Receivable/Payable - Peshawar Office	10,085,235,034
8	496117	Receivable/Payable - Rawalpindi Office	33,415,425,185
9	496203	Inter-company Account - Karachi Office	4,051,579,780,539
10	165512	Coupon Income Receivable on ZTBL Preference Shares	1,303,750,229
11	191002	Loans & Advances receivable from Bangladesh	12,195,002,255
12	238514	Other Receivable-Others	2,188,974,174
13	238525	Receivable from DPC (Deposit Protection	23,893,040
14	238527	Receivable from PSPC (Pakistan Security Printing Corporation)	10,821,726
		total	9,386,037,275,087

Details of non-provision of Record

S#	Req #	Dated	Details of information / record	Audit Remarks
01	03	30-12-2020	Personal files of following officers: Governor Deputy Governors Chief Economic Advisor Executive Director(s)	Only appointment notification issued by Ministry for Governor and DG was provided.
03	07	04-01-	6. List of employees applied for higher studies abroad during last 5 years along with total expenditure incurred.	Only one year data received.
06	14	13-01-	3. Details of minimum eligibility criteria for the commercial banks to be part of the schemes and what are the Key Performance Indicators (KPIs) to evaluate/assessed the uninterrupted continuity and outcomes of those schemes. 4. Policy related to Contingency planning and Crisis Management Framework. 5. List of institutions/Banks/organizations which availed safety nets and under what circumstances the safety net was provided by SBP.	Not provided.
07	21	02-02-	9. Bank institutions wise liquidity and reserves.	Not provided
08	24	08-02-	1. Detail of rehiring of employees after retirement for last five years. 2. Observation report by Mr. ZubairSoomro relating to anomalies between OMS & NCBS. 3. Legal opinion of Chief Legal Advisor (CLA) relating to anomalies between OMS & NCBS. 4. Legal opinion of Chief Legal Advisor (CLA) relating to standardization of compensation and benefits of EDs (OG-VIII) appointed as DG. 5. Actuarial report relating to anomalies between OMS & NCBS. 9. Status of vacant post of ED- Islamic Banking 10. Appointment file along with advertisement and personal file of Mr. ShahidMehmood Khan. 11. Appointment file along with advertisement and personal file of Dr. Saeed Ahmed. 13. Work Load Analysis report submitted by consultant (M/s. Mazar) with presentation. 19. Detail of instances/activities informed/observed under whistle blow policy. 20. Deputation and personal file of Ms. Erum Saba 21. Hiring file of NTS along with tender documents and payments their against.	(1) Only one year data was provided. Not provided 11. Only appointment letter was provided. 20. Only deputation request and approval were provided.
09	27	10-02-	1. Statement/database of ITRS 2. Statement/database of ERF 3. Statement/database of WEBOC 4. Statement/database of EORS 5. Statement/database of V-20 6. Statement/database of V-11 7. Statement/database of E-FORM 8. Statement/database of M-FORM	Not provided

			9. List of Authorized dealers 10. List of FX license allocated 11. Complete reports of Banking Inspection Department 1. Remittances Division: i. Commercial Remittance for a. Service charges, fee, b. Purchase of ships from abroad c. Pakistani Airlines d. Dry-docking, repairing, charter hire, and disbursement at foreign ports, contractor hire, communication charges and Insurance of ships of P.N.S.C e. Shipping Industry related cases (Freight, Demurrage etc.) f. Cash to master. g. Container detention charges. h. Services LC for Engineering, Professional and consultancy charges. i. Courier Companies Charges j. Visa Fee Collected by various Embassies k. IT Related Payments□ l. Other Miscellaneous Payments m. Acknowledgment of Royalty/ Technical Fee Contracts n. Issuance of NOC for Branch/ Liaison Office o. FCY Bank Guarantee in favor of Residents and Non-Residents Entities p. Issuance of EEC q. Payments related to SBP registered loans ii. Private Remittances of: a. Advertisements in Newspapers and Magazines abroad by exporters / non exporters. b. BOD Meeting fee payments, Family Remittance Facilities, Training and Conference Fee, Travelling Expenses, Medical and Educational Expenses. c. Daily Allowances in Foreign Exchange to SBP Officials for Official Visits abroad d. Other Private Remittances iii. Trade Related Cases: a. Issuance of NOC for Re-export of Frustrated Cargo/imported goods b. Issuance of exemptions from export procedure for Books, Newspapers etc. under Chapter XII c. To accord/allow various kinds of Permissions/remittances/LCs, under Chapter XIII & F.E. Circular No.4/95 on case to case basis which are beyond the power of Authorized Dealers. d. Cases of Export of Raw Cotton. iv. Insurance: a. Issue/Renewal of Revolving Letter of Credit to insurance companies. b. Post facto checking of documents/ forms 'M' of Re-insurance/claim cases, checking of monthly statements submitted by the Pakistan Re-insurance Company Limited (PRCL) / National Insurance Company Limited (NICL). c. Salvage Claims 2. Monitoring and Verification Division: i. Monitoring Processing of Export Overdue Cases: a. Issuance of Final Show Cause to delinquent ADs in cases of late/incorrect reporting of EOD cases or non/incomplete submission of pre-adjudication information/documents.	

			b. Issuance of final show cause to delinquent exporters in case of non-realization of export proceeds within the given timeline. c. Lodgment of complaints against exporters/ADs to FEA Court or EPD/OSED as the matter may be. d. Statement of cases of rectification in EORS and finalized. e. Statement of cases of adjustment against Advance Payments. f. Statement of cases of Write-off in case of re-import/discount. g. Statement of cases of extension in realization period of overdue export bills. ii. E-Forms data base/statement of Customs Authorities along with show cause and complaints lodged. iii. Statement of penalty recovered by ADs in respect of import advance payment cases and deposited to SBP-BSC (Bank) through RTGS: iv. Statement of export cases reported on V-11 v. Statement of Import Advance Payments: vi. Statement of Advance Payment Vouchers (APV) and Submission of Shipping Documents against Export Advance Payment (Karachi Region Only) along with of E-Form, GD, BL, APV, PRC, SWIFT message etc. vii. Statement of Reconciliation & Maintenance of Transactional Break-up of Outstanding Export Advance Payment (EAP): viii. Statement of EE/EF for Verification under Export Refinance Scheme. ix. Statement of PRCs Verification 3. Govt. Schemes & FE Allocation Division: a. Statement of Exchange Accounts along with F, E and allocated, released/cleared by Ministry of Finance in favor of all Ministries/Govt. Deptts. /Autonomous Bodies/Semi-Autonomous Bodies other than Defense Services along with registration numbers allocated/approved opening fresh L/C and amendment there in after having clearance from EPD SBP. b. Statement of all Government subsidy schemes like DDT, DLTL (Textile & Non-Textile), Sugar, Wheat, etc. as per the SRO issued by ministry concerned.	

10	28	12-02-	1. Selection criteria of fund managers approved by Board. 2. Hiring file of fund managers along with tender documents. 4. Assessment report of World Bank Advisory and Management Program (RAMP) mission and its recommendation. 9. Operational evaluation parameters approved by Board.	Not provided.																																												
12	31	15-02-	4. List of Commercial Banks whose CAR was below than defined limit (11.9%) along with imposition of penalty in case of non-compliance.	Not provided.																																												
13	32	16-02-2020	Detail list of Minimum Capital Requirement for commercial banks Action taken by SBP against any commercial bank due to decrease in MCR Up-to what extent MCR action to be taken against bank Action taken against any commercial banks for not meeting MCR requirement with decision Process of action taken i.e. warning to the banks for not meeting MCR Detail of penalty imposed on commercial banks for not meeting MCR	Not provided.																																												
14	33	16-02-	6. Complete personal files of following Executive Directors: a. Mr. Dr. InayatHussain b. Mr. Syed Samar Husnain c. Mr. Saleemullah. 7. Complete Personal files of following Managing Director: d. Mr. Muhammad Ashraf Khan e. Mr. Syed Irfan Ali f. Mr. RiazNazaraliChunara.	Not provided.																																												
15	37	23-02-	2. Complete list of lying vacant posts with date and reasons.	Not provided.																																												
16	38	26-02-	4. Workload Analysis Report concluded by M/s SidatHyderMorshid during FY 2019-20.	Not provided.																																												
17	43	10-03-	3. Personal files of following officers on deputation FY 2019-20. <table><tr><th>S#</th><th>PIN</th><th>Full Name</th><th>Grade</th></tr><tr><td>1</td><td>8836</td><td>ABDUR RAUF</td><td>OG-6</td></tr><tr><td>2</td><td>8297</td><td>AMJAD MANZOOR</td><td>OG-8</td></tr><tr><td>3</td><td>7344</td><td>ASLAM NAVAI</td><td>OG-4</td></tr><tr><td>4</td><td>8631</td><td>HASNAIN TAHER DAHODWALA</td><td>OG-6</td></tr><tr><td>5</td><td>5255</td><td>IQBAL AHMED SHAHANI</td><td>OG-2</td></tr><tr><td>6</td><td>7754</td><td>MUHAMMAD ARIF</td><td>OG-5</td></tr><tr><td>7</td><td>8093</td><td>NAJAM ALTAF</td><td>OG-6</td></tr><tr><td>8</td><td>7488</td><td>SYED SAJID ALI</td><td>OG-7</td></tr><tr><td>9</td><td>8517</td><td>SYEDA SADAF BAQIR</td><td>OG-5</td></tr><tr><td>10</td><td>8922</td><td>WASEEM FAZAL UR REHMAN</td><td>OG-3</td></tr></table>	S#	PIN	Full Name	Grade	1	8836	ABDUR RAUF	OG-6	2	8297	AMJAD MANZOOR	OG-8	3	7344	ASLAM NAVAI	OG-4	4	8631	HASNAIN TAHER DAHODWALA	OG-6	5	5255	IQBAL AHMED SHAHANI	OG-2	6	7754	MUHAMMAD ARIF	OG-5	7	8093	NAJAM ALTAF	OG-6	8	7488	SYED SAJID ALI	OG-7	9	8517	SYEDA SADAF BAQIR	OG-5	10	8922	WASEEM FAZAL UR REHMAN	OG-3	Not Provided
S#	PIN	Full Name	Grade																																													
1	8836	ABDUR RAUF	OG-6																																													
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9	8517	SYEDA SADAF BAQIR	OG-5																																													
10	8922	WASEEM FAZAL UR REHMAN	OG-3																																													
18	44	11-03-	3. Detail of Travelling expenses & daily allowances of Governor under requisitioned format by audit as per requisition. 4. Detail of Travelling expenses & daily allowances of Deputy Governors under requisitioned format by audit as per requisition.	Not provided.																																												
19	45	16-03-	3. Last five years Audit and Inspection Group Review on Government Business operations submitted/provided by BOP.	Not provided.																																												
20	46	18-03-	4. External legal opinion from Mr. Khalid Anwar relating to OMS & NCBS. 6. Enquiry report of Chief Legal Advisor (CLA) relating to OMS & NCBS.	Not provided.																																												

			7. Salary survey reports of 2009, 2011, 2013, 2015, 2017 & 2019.	
21	48	25-03-	3. Complete detail of special debt repayment accounts/deposits of Rs. 24.243 Billion along with its movement & return/interest thereon. (Note 30.3 to Financial Statements) 4. Complete file/detail of provisions made against Home remittances of Rs. 260.363 million along with reasons. (Note 32.3.2 to Financial Statements) 5. Complete file/detail of provisions made against claims under arbitration amounting to 1.60 Billion& other provisions of Rs. 985.02 million along with reasons. (Note 32.3.2 to Financial Statements)	Partial record in form of GLs provided.
			Non-Provision of record Procurement of Electric Fencing- Rs.13.895 million	

Annex-34

Detail of the engineers / officers appointed against the advertisement criteria and fake/bogus certificate

Sr. No.	Para #	Name	Designation	Deficiencies	Pay & Allowances (Rs.)
01	22	Mr. Sohail Azam	Trainee Engineer	- Appointed Without Advertisement - Not submitted copy of Degree - Appointment against rules on the request of Secretary of controlling Ministry. - Extension from time to time - Promoted in Grade-8, 9, 10 & 11	10,632,000
02	23	Mr. Nadeem Ahmad		- Not registered with PEC as Engineer - interview committee had only 03 members	30,050,000
03	24	Mr. Moazzam Ul Ibad	Junior Engineer	- Appointed against the criteria mentioned in advertisement - Appointment on abolished post - Appointed as Junior Engineer instead of Trainee Engineer - No required experience and declared as professional engineer by the PEC	14,200,000
04	25	Ms. Aman Asad Fazli	Junior Architects	- Appointed against the criteria mentioned in advertisement - Not registered with PCATP - No relevant qualification for the post	13,460,000
05	26	Mr. Awais Iqbal		- Appointed against the criteria mentioned in advertisement - Inordinate favour given by awarded 15 marks in interview - Awarded 25 marks without post qualification experience - Multidivisional interview committee had only 03 members having no	15,740,000

				member from HR	
06	27	Ms. Tayyaba Majid Khan	Design Engineer	- Appointed against the criteria mentioned in advertisement - No relevant degree and experience as per advertisement - No equivalence committee (EC) was constituted - Tempering in the interview sheet to increase the marks of the engineer - Multidivisional interview committee had only 03 members having no member from HR - Inducted from contract to regular cadre after six months instead of 01 year as per service requirement	10,870,000
07	28	Mr. Muhammad Naveed	Junior Engineer	- Appointed against the criteria mentioned in advertisement - Not registered with PCATP - No equivalence committee (EC) was constituted (M.D approved special as special - interview committee had only 03 members	15,290,000
08	29	Mr. Salman Ahsan	Junior Engineer	Fake/bogus PEC certificate produced at the time of appointment	10,944,000
09	30	Mr. Yasir Naeem	Junior Engineer	- Appointed against the criteria mentioned in advertisement - No equivalence committee (EC) was constituted - Two candidates were disqualify on the basis of incomplete documents but the same deficiency was observed in the documents of the engineer concerned	13,330,000
10	31	Mr. Khurram Shahzad	Structural Engineer	- Not registered with PEC as Engineer - Master degree not accredited with HEC/PEC - Conditional appointment order issued due to doubtful status of his M.Sc. but the said condition was not fulfilled. - No action to dismiss the engineer	14,690,000
11	32	Mr. Yasin	Architect	- Appointed against the criteria mentioned in advertisement - Tempered in interview mark sheet - Multidivisional interview committee had only 03 members having no member from HR	5,634,000

12	33	Mr. Saad Kibria	Junior/Senior Engineer	- Appointment was made in violation of the criteria and without having the requisite experience. - Conditionally appointed subject to recognition of master degree - Master degree was not recognized as engineering qualification	2,420,000
Total					157,260,000

Annex-35

(Rs. in million)

Sr. No.	Name of Project	Contractor Name	Start Date	Completion Date	Actual Cost
1.	Construction of Student Service Center	Green Power Associates	11.12.2018	30.06. 2020	32.015
2.	Construction of Parking Building / Plaza	Green Power Associates	11.12. 2018	22.06. 2020	70.715
3.	Construction of Material Lab	M/s Campaigner Associates (Pvt.)Ltd	10.12. 2018	10.06.2019	5.574
4.	Extension of Petroleum & Gas Engg.	M/s Campaigner Associates (Pvt.)Ltd	10.12.2018	09.12.2019	11.914
5.	Construction of Transport office	M/s Waseem Ahmad Arbi Govt. Contractors	20.06.2019	20.05.2020	3.943
6.	Construction of Buses shed	M/s Waseem Ahmad Arbi Govt. Contractors	20.06.2019	20.05.2020	4.208
7.	Construction of Road from Mosque to transport office	M/S Qadri Builders Govt. Contractor	16.12.2019	30.06.2020	2.209
8.	Construction of Wall for Extension of V.C. House	M/S Faisal Saleem & Co	11.02.2021	31.05.2201	0.980
9.	Construction of wall around buses shed & Transport Office	M/S Faisal Saleem & Co	11.02.2021	31.05.2021	0.981
Total cost of civil works projects not approved from senate(Competent Authority)					132.539

Annex-36

Sr. #	Name of Lecturer	Per Month Pay	Date of Joining	As on	No. of Month	Pay Drawn (Rs.)
1	Engr. Saqib Ejaz	65,000	06.09.19	31.07.21	22	1,430,000
2	Ms. Laraib Abid	65,000	11.09.19	31.07.21	22	1,320,000
3	Engr. Habib-ur-Rehman	50,000	16.12.19	31.07.21	19	1,045,000
4	Engr. Muhammad Jawad	60,000	16.12.19	31.07.21	19	1,045,000

	Khan					
5	Engr. Aneeq Nasir Janjua	65,000	17.12.19	31.07.21	19	1,045,000
6	Engr. Muhammad Bilal Akram	70,000	06.01.20	31.07.21	18	1,170,000
7	Ar. Mohsin Iqbal Deo	70,000	06.01.20	31.07.21	18	1,170,000
8	Ar. Muhammad Israr Ali	70,000	14.01.20	31.07.21	18	900,000
9	Engr. Muhammad Tahir	55,000	29.01.20	31.07.21	18	1,080,000
10	Mr. Muhammad Fuzail	60,000	28.02.20	31.07.21	17	1,105,000
11	Mr. Mohib Ullah Khan	60,000	28.02.20	31.07.21	17	1,190,000
12	Engr. Umer Bin Nooman	55,000	05.03.20	31.07.21	16	1,120,000
13	Engr. Muhammad Umais	65,000	09.03.20	31.07.21	16	1,120,000
14	Ms. Nazish Huma Khan	65,000	20.10.20	31.07.21	9	495,000
15	Mr. Muhammad Hamza	65,000	20.10.20	31.07.21	9	540,000
16	Mr. Muhammad Kamran Abid	60,000	21.10.20	31.07.21	9	540,000
17	Mr. Mustajib-ur-Rehman	55,000	21.10.20	31.07.21	9	495,000
18	Dr. Hafiz Muhammad Azib Khan	55,000	05.01.21	31.07.21	6	390,000
19	Dr. Saqib Ali	55,000	05.01.21	31.07.21	6	390,000
Total						17,590,000

Annex-37

Sr.#	Name of employees	Designation	Date of Joining	Salary Per month
1	Dr. Mansoor Ahmad	Associate Professor (Civil)	12/7/2020	240,500
2	Dr. Khizar Abid	Assistant Professor (P&G)	9/16/2019	130,000
	S/o Abid Hussain Nizami			
3	Dr. Asad Afzal Hamayon	Assistant Professor (BBA)	11/19/2019	150,000
	S/o Abad Hussain Khan			
4	Dr. Muhammad Zahid	Assistant Professor (Civil)	2/3/2020	165,748
	S/o Khadim Hussain			
5	Dr. Muhammad Zulkarnain Abbas	Assistant Professor (Mech.)	10/21/2020	130,000
	S/o Ghulam Abbas			
6	Dr. Ammad Ali Khan Jadoon	Assistant Professor (EE)	10/26/2020	130,000
	S/o Muhammad Yunus Khan Jadoon			
7	Dr. Raheela Naz	Assistant Professor (Chemistry)	10/27/2020	84,000
	D/o Muhammad Saleemm			
8	Dr. Farooq Kifayatullah	Assistant Professor (EE)	10/29/2020	130,000
	S/o Kifayatullah			
9	Dr. Suleman Khan	Assistant Professor (Physics)	11/2/2020	84,000
	S/o Amin Jan Khan			
10	Dr. Muhammad Yasir	Assistant Professor	11/3/2020	138,937

	S/o Umar Gul	(Mech)		
11	Dr. Muhammad Haris	Assistant Professor (BBA)	11/5/2020	84,000
	S/o Mukhtar Ahmed			
12	Engr. Saqeb Ejaz	Lecturer (EE)	9/6/2019	65,000
	S/o Ejaz Ahmed			
13	Ms. Laraib Abid	Lecturer (Chem)	9/11/2019	60,000
	D/o Abid Rasheed			
14	Engr. Habib-Ur-Rehman	Lecturer (P&G)	12/16/2019	55,000
	S/o Liaqat Ali			
15	Engr. Muhammad Jawad Khan	Lecturer (P&G)	12/16/2019	55,000
	S/o Muhammad Muntazim Ghorri			
16	Engr. Aneeq Nasir Janjua	Lecturer (P&G)	12/17/2019	55,000
	S/o Nasir Mahmood Janjua			
17	Engr. Muhammad Bilal Akram	Lecturer (Civil)	1/6/2020	65,000
	S/o Muhammad Akram Rana			
18	Ar. Mohsin Iqbal Deo	Lecturer (Arch.D)	1/6/2020	65,000
	S/o Muhammad Iqbal			
19	Ar. Muhammad Israr Ali	Lecturer (Arch. D)	1/14/2020	50,000
	S/o Muhammad Nasir Ali			
20	Engr. Muhammad Tahir	Lecturer (CET)	1/29/2020	60,000
	S/o Zahoor Hussain			
21	Mr. Muhammad Fuzail	Lecturer (C S)	2/28/2020	65,000
	S/o Muhammad Afzal			
22	Mr. Mohib Ullah Khan	Lecturer (C S)	2/28/2020	70,000
	S/o Nasim Ullah Khan			
23	Engr. Umer Bin Nooman	Lecture (Mech.)	3/5/2020	70,000
	S/o Muhammad Nooman			
24	Engr. Muhammad Umais	Lecturer (Mech.)	3/9/2020	70,000
	S/o Liaqat Hussain			
25	Ms. Nazish Huma Khan	Lecturer (Fashion Design)	10/20/2020	55,000
	D/o Ashiq Ahmed Khan			
26	Mr. Muhammad Hamza	Lecturer (Fashion Design)	10/20/2020	60,000
	S/o S. Israr Hussain			
27	Mr. Muhammad Kamran Abid	Lecturer (C S)	10/21/2020	60,000
	S/o Abid Hussain			
28	Mr. Mustajib-Ur-Rehman	Lecturer (C S)	10/21/2020	55,000
	S/o Muhammad Akram			
29	Dr. Hafiz Muhammad Azib Khan	Lecturer (EE)	1/5/2021	65,000
	S/o Muhammad Akhtar Khan			
30	Dr. Saqib Ali	Lecturer (EE)	1/5/2021	65,000
	S/o Rana Zulfiqar Ali			

31	Engr. Saima Akram D/o Muhammad Akram Shah	Lab. Engineer (EE)	9/6/2019	45,000
32	Engr. Abdul Khaliq Khan S/o Muhammad Younus Khan	Lab. Engineer (Mech.)	9/6/2019	40,000
33	Engr. Mudassir Khan S/o Ubaid-Ur-Rehman	Lab. Engineer (P&G)	12/16/2019	40,000
34	Engr. Mughees Riaz S/o Muhammad Riaz Akhtar	Lab. Engineer (EET)	1/31/2020	40,000
35	Mr. Enam-Ul-Haq S/o Muhammad Ajmal	Programmer (IT Section)	11/1/2020	45,000
36	Mr. Faheem Abbas S/o Altaf Hussain	Assistant (Mech.)	10/30/2019	29,085
37	Mr. Faisal Abbas S/o Malik Sajid Hussain	Assistant (Civil)	10/30/2019	29,085
38	Mr. Mohsin Jamal S/o Saeed Ahmad	Accounts Assistant (BBA)	11/5/2019	29,085
39	Mr. Muhammad Shahbaz S/o Malik Abdul Razzak	Assistant Supervisor Civil	10/30/2019	24,000
40	Ms. Fozia Umber D/o Shabbir Hussain	Hostel Assistant (B S)	10/30/2019	23,100
41	Ms. Fariha Gul D/o S.M.K. Pasha Gillani	Hostel Assistant (EE)	11/1/2019	23,100
42	Mr. Abid Nadeem S/o Zafar Iqbal Nadeem	Lab. Assistant (Mech.)	12/28/2017	22,050
43	Mr. Muhammad Ashraf S/o Muhammad Arshad	Lab. Assistant (Mech.)	12/28/2017	22,050
44	Mr. Muhammad Shahid Ashraf S/o Hafiz Muhammad Ashraf	Lab. Assistant (Civil)	1/1/2018	21,000
45	Mr. Anzar Iftikhar S/o Iftikhar Ahmad	Lab. Assistant (Civil)	1/1/2018	21,000
46	Mr. Qamar us Zaman S/o Muhammad Ashiq	Lab. Assistant (C S)	1/17/2018	22,050
47	Mr. Abid ur Razaq S/o Abdul Razaq	Lab. Assistant (C S)	1/23/2018	22,050
48	Mr. Shafaqat Rasool S/o Faiz Rasool	Lab. Assistant (Mech.)	10/29/2019	24,000
49	Mr. Ali Raza Zaffar S/o Zafar Hussain	Lab. Assistant (Civil)	10/28/2019	25,200
50	Mr. Adnan Waheed S/o Abdul Waheed	Lab. Assistant (EE)	10/30/2019	25,200
51	Mr. Nadeem Akmal S/o Muhammad Akmal	Lab. Assistant (Civil)	10/30/2019	25,200

Annex-38

Name of Category	Detail of Category	B.Sc. Electrical Engineering		B.Sc. Mechanical Engineering		B.Sc. Civil Engineering	
		No. of Seats	No. of Students actually admitted	No. of Seats	No. of Students actually admitted	No. of Seats	No. of Students actually admitted
A	Punjab	21	90	7	7	7	7
B	Multan, BWP & D.G. Khan Division	12	9	4	4	4	4
E	Sindh	9	10	3	3	3	3
G	KPK	6	1	2	2	2	2
H	Balochistan	3	0	1	1	1	1
I	FATA	6	0	2	0	2	0
J	AJK/PATA	3	4	1	1	1	3
K	Overseas Pakistanis	9	0	2	3	2	3
L	DAE	3	3	0	1	0	1
M	Female (All Pakistan Basis)	3	0	1	0	1	1
N	Professional Engineers	3	0	1	1	1	1
O	NFC-IET Employees	7	1	4	1	4	1
P	Armed Forces	2	0	1	1	1	1
S	Self-Supporting	30	1	9	14	9	14
Q	B-Tech (Hons) B.S Technologies	3	3	1	1	1	1
	Total	120	122	39	40	39	43

Annex-39

Detail of loss sustained by the NEST due to investment on low rate of interest and ignoring the highest rate offered by ABL										
S No.	Date of issue of TDR	Maturity Date	TDR No.	Interest Rate applied (%)	Max. Rate of interest offered (%)	Amount Invested (Rs. in million)	Profit Earned (Rs. in million)	Required profit to be earn	Days	Loss amount (Rs. in million)
1	2	3	4	5	6	7	8	9	10	11
1	23.06.2017	01.03.2018	641441	5.80	6.25	4,200.00	128.70	139.52	194	10.82
2	05.07.2017	01.01.2018	15553	5.80	6.25	110	3.13	3.39	180	0.26
3	21.07.2017	31.08.2017	15554	5.80	6.25	66	0.39	0.46	41	0.08
4	24.01.2018	25.04.2018	641451	5.80	6.25	2,200.00	31.69	34.28	91	2.59
5	24.01.2018	25.04.2018	641452	5.80	6.25	50	0.72	0.78	91	0.06
6	25.01.2018	25.04.2018	641453	5.80	6.25	2,000.00	28.60	30.82	90	2.22
7	10.01.2018	10.04.2018	641456	5.80	6.25	110	1.57	1.70	90	0.12
8	10.04.2018	10.07.2018	641456	5.90	6.25	110	1.44	1.53	81	0.09
9	10.07.2018	09.08.2018	-	6.00	6.25	111.334	0.55	0.57	30	0.02
10	21.02.2018	01.06.2018	641455	5.80	6.25	1,000.00	15.89	17.12	100	1.23
11	25.04.2018	25.04.2019	641463	6.25	6.25	4,250.00	40.06	47.30	65	7.25
12	07.05.2018	07.08.2018	641464	5.90	6.25	60	0.52	0.55	54	0.03
13	01.06.2018	01.07.2018	641467	5.80	6.25	70	0.32	0.35	29	0.03
		Total:-					253.58	278.38	1136	24.80

Annex-40

Detail of loss sustained by the NEST due to investment on low rate of interest than KIBOR										
S No.	Date of issue of TDR	Maturity Date	TDR No.	Interest Rate applied (%)	KIBOR Rate during the date (%)	Amount Invested (Rs. in million)	Profit Earned (Rs. in million)	Required profit (Rs. in million)	Days	Loss sustain (Rs. in million)
1	2	3	4	5	6	7	8	9	10	11
1	23.06.2017	01.03.2018	641441	5.80	7.02	4,200.00	128.70	156.71	194	28.01
2	05.07.2017	01.01.2018	15553	5.80	6.14	110.00	3.13	3.33	180	0.20
3	21.07.2017	31.08.2017	15554	5.80	6.14	66.00	0.39	0.46	41	0.07
4	24.01.2018	25.04.2018	641451	5.80	6.20	2,200.00	31.69	34.01	91	2.32
5	24.01.2018	25.04.2018	641452	5.80	6.20	50.00	0.72	0.77	91	0.05
6	25.01.2018	25.04.2018	641453	5.80	6.20	2,000.00	28.60	30.58	90	1.97
7	10.01.2018	10.04.2018	641456	5.80	6.20	110.00	1.57	1.68	90	0.11
8	10.04.2018	10.07.2018	641456	5.90	6.50	110.00	1.44	1.59	81	0.15
9	10.07.2018	09.08.2018	-	6.00	7.02	111.33	0.55	0.64	30	0.09
10	21.02.2018	01.06.2018	641455	5.80	6.22	1,000.00	15.89	17.04	100	1.15
11	25.04.2018	25.04.2019	641463	6.25	6.17	4,250.00	40.06	46.70	65	6.64
12	07.05.2018	07.08.2018	641464	5.90	6.50	60.00	0.52	0.58	54	0.05
13	01.06.2018	01.07.2018	641467	5.80	7.02	70.00	0.32	0.39	29	0.07
		Total:-					253.58	294.47	1136	40.89

Non-production of record

SEPZ

Req. No.	Dated	Description
03	22.03.21	Detailed list of legal/court case files Pending, decided of SEPZ, Sialkot and initiated during the year 2018-19 & 2019-20 along with files.
08	29.03.21	All investment proposal files of units' alongwith investment application. Copy of agreements all of investors Details of scrap / waste and estimated value of wastage and rates of taxes applied on waste and SEPZ share etc. Detail of export projections units' wise last five years alongwith actual exports. Details of unit wise import for last five years alongwith product wise quota / limit of import. Complete correspondence files of units / investors of SEPZ. Complete correspondence files of FBR Files regarding instructions and reminders issued to investors / units, PSIC, Customs and others.
09	29.03.21	Complete file of PC-I SEPZ. Detail of cancellation of project due to non-compliance of SEPZ/PSIC laid down procedure. Detail of action taken against the investors due to non-compliance of laid down procedure.
10	29.03.21	Approval files of all investors / units of SEPZ, Sialkot
11	30.03.21	Complete detail of Covid related expenditures upto 30.06.2020 i.e cash distribution, Ration distribution, establishment of quarantine centers, procurement of medicines, equipment and pandemic response, etc. along with relevant files of SEPZ may please be provided to audit for review and return. Further, funds received in this regard may also be informed to audit.
20	28.10.21	In this regard, it is requested vide requisition No.20/EPZA/2020-21 dated 28.10.2021 that the relevant record of clearing and forwarding agents involved in illegal activities as mentioned above, which may please be provided to audit along with implementation on the board decision may also be provided with documentary proof. Nevertheless, no record was produced to audit by the management till 15.11.2021.

Annex-42

Loss of rental income due to non-renting out of KEPZ warehouses

S. No.	Date of Dollar Conversion	Dollar Conversion rate	Rent rate per sq. ft. US\$	Amount (3x4) x 12	Area in Sq. Ft. (1416 sq. Meter convert)	Amount in PKR
1	30-Jun-05	59.68	0.22	157.56	15,236	2,400,511
2	30-Jun-06	60.15	0.22	158.80	15,236	2,419,416
3	30-Jun-07	60.90	0.25	182.70	15,236	2,783,617
4	31-Dec-08	78.70	0.25	236.10	15,236	3,597,220
5	31-Jul-09	83.00	0.25	249.00	15,236	3,793,764
6	30-Jun-10	85.47	0.25	256.41	15,236	3,906,663
7	30-Jun-11	86.21	0.25	258.63	15,236	3,940,487
8	30-Jun-12	94.60	0.25	283.80	15,236	4,323,977
9	30-Jun-13	99.61	0.28	334.69	15,236	5,099,331
10	30-Jun-14	98.79	0.28	331.93	15,236	5,057,353
11	30-Jun-15	102.15	0.35	429.03	15,236	6,536,701
12	30-Jun-16	104.54	0.35	439.07	15,236	6,689,640
13	30-Jun-17	104.65	0.35	439.53	15,236	6,696,679
14	30-Jun-18	121.73	0.35	511.27	15,236	7,789,649
15	28-Feb-19	138.90	0.35	388.92	15,236	8,888,378
16	30-Jun-20	168.50	0.35	707.70	15,236	10,782,517
17	30-Jun-21	174.00	0.35	730.80	15,236	11,134,469
Total						95,840,370

Annex-43**Irregular sublet of unit in violation of rule**

M/s Premier Stitching Limited				
S. No	Period	Tenant	Agreement Date	Amount (US\$)
1	01-12-17 to 30.11.18	M/s Denim Clothing	Dec, 2017	55,000
2	01-09-18 to 31.08.19	M/s Imperial Rags	Aug, 2018	55,000
3	15-08-19 to 15-07-20	M/s Imperial Rags	Aug, 2019	55,000
4	15-07-20 to 15-06-21	M/s Imperial Rags	July, 2020	55,000
Total				210,000

M/s Karima Textile				
S. No	Period	Tenant	AgreementDate	Amount (US\$)
1	01-09-17 to 31-07-18	Usman Global Trading	11-09-17	30,800
2	25-06-18 to 24-05-19	M/s Saltex	27-07-18	77,000
3	27-06-19 to 26-05-20	M/s Saltex	26-06-19	77,000
4	27-05-20 to 26-04-21	M/s Saltex	-	77,000
Total				261,800
Grand Total				471,800
Total US\$ 471,800 * Rs.150 = Rs.70.770 million				

Annex-44**Statement showing of avoidable expenditure**

Date	Account	Amount	Short Narration
7/3/2019	Imran (Sufian Engineering Works) (Cash)	6,000	Shaper Machine for Student GIZ Program
7/31/2019	Kamran Engineering Industries (Pvt) Ltd	350,000	Out Source of Machining Works
7/31/2019	Kamran Engineering Industries (Pvt) Ltd	350,000	Out Source of Machining Works
9/22/2018	Kamran Engineering Industries (Pvt) Ltd	35,000	Out Source of Machining Works
3/26/2019	Cash	1,800	Brazing charges
3/28/2019	Consultancy & Engineering Services	1,400	Argon Welding Charges
3/28/2019	Consultancy & Engineering Services	1,400	Argon Welding Charges
3/28/2019	Consultancy & Engineering Services	9,700	Argon Welding Charges
4/8/2019	Consultancy & Engineering	700	Argon Welding Charges

	Services		
5/27/2019	Consultancy & Engineering Services	4,500	Argon Welding Charges
5/27/2019	Consultancy & Engineering Services	2,100	Argon Welding Charges
8/5/2019	AkhtarZaman Transport (Cash)	3,500	Mould Pickup & Delivery charges
8/5/2019	AkhtarZaman Transport (Cash)	16,000	Mould Pickup & Delivery charges
9/4/2019	Consultancy & Engineering Services	4,500	Argon Welding Charges
8/5/2019	AkhtarZaman Transport (Cash)	3,500	Mould Pickup & Delivery charges
9/4/2019	Consultancy & Engineering Services	700	Argon Welding Charges
9/4/2019	Consultancy & Engineering Services	4,500	Argon Welding Charges
9/4/2019	Consultancy & Engineering Services	4,500	Argon Welding Charges
9/4/2019	Consultancy & Engineering Services	4,500	Argon Welding Charges
8/1/2019	OCEANIC INDUSTRIAL ENGINEERING SERVICES	10,222	Refurbishment work of Hydraulic Cylinder
8/7/2019	Cash	1,800	Brazing charges
9/4/2019	Consultancy & Engineering Services	4,500	Argon Welding Charges
10/15/2019	OCEANIC INDUSTRIAL ENGINEERING SERVICES	235,106	Refurbishment word of Hydraulic Cylinder
9/4/2019	Consultancy & Engineering Services	9,000	Argon Welding Charges
11/14/2019	Industrial Equipment Solution	50,000	Gear Hobbing& Gear Milling Machine
9/22/2018	Kamran Engineering Industries (Pvt) Ltd	30,000	Out Source of Machining Works
8/7/2019	Cash	1,800	Brazing charges
8/25/2019	Consultancy & Engineering Services	1,000	Argon Welding Charges
9/4/2019	Consultancy & Engineering Services	700	Argon Welding Charges
9/4/2019	Consultancy & Engineering Services	700	Argon Welding Charges
9/4/2019	Consultancy & Engineering Services	4,500	Argon Welding Charges
9/4/2019	Consultancy & Engineering Services	4,500	Argon Welding Charges
10/22/2019	Consultancy & Engineering	4,500	Argon Welding Charges

	Services		
10/24/2019	Consultancy & Engineering Services	1,000	Argon Welding Charges
11/19/2019	Kamran Engineering Industries (Pvt) Ltd	35,000	Out Source of Machining Services
12/9/2019	Imec Engineering Solutions (Pvt) Ltd	350,000	Outsource work of Machining
10/6/2019	Consultancy & Engineering Services	1,500	Argon Welding Charges
1/17/2020	Sankei Engraving Technology(Thailand)Ltd	474,173	Out Source Texturing services
8/7/2019	Cash	1,800	Brazing charges
9/4/2019	Consultancy & Engineering Services	700	Argon Welding Charges
9/4/2019	Consultancy & Engineering Services	5,200	Argon Welding Charges
10/22/2019	Consultancy & Engineering Services	4,500	Argon Welding Charges
10/29/2019	Consultancy & Engineering Services	2,800	Argon Welding Charges
7/5/2019	Cash	4,800	Engraving for Ej/57/02/19
9/4/2019	Consultancy & Engineering Services	4,800	Argon Welding Charges
9/4/2019	Consultancy & Engineering Services	1,000	Argon Welding Charges
9/18/2019	Cash	2,800	Brazing charges
9/25/2019	Consultancy & Engineering Services	3,000	Argon Welding Charges
10/14/2019	Consultancy & Engineering Services	8,200	Argon Welding Charges
10/24/2019	Consultancy & Engineering Services	3,000	Argon Welding Charges
11/21/2019	Cash	5,000	Sand blasting on chevron bottle moulds
1/2/2020	Cash	3,000	Sand Blasting services for Chevron Botle
12/9/2019	Imec Engineering Solutions (Pvt) Ltd	350,000	Outsource work of Machining
1/15/2020	Imec Engineering Solutions (Pvt) Ltd	350,000	Outsource work of Machining
1/28/2020	Consultancy & Engineering Services	2,000	Argon Welding Charges
8/7/2019	Cash	1,800	Brazing charges
9/4/2019	Consultancy & Engineering Services	13,200	Argon Welding Charges
9/4/2019	Consultancy & Engineering	4,500	Argon Welding Charges

	Services		
9/4/2019	Consultancy & Engineering Services	1,200	Argon Welding Charges
9/4/2019	Consultancy & Engineering Services	4,900	Argon Welding Charges
1/22/2020	NED University of Engineering & Technology	21,470	Material Testing charges for AHL Moulds
1/23/2020	Consultancy & Engineering Services	600	Argon Welding Charges
2/18/2020	Consultancy & Engineering Services	2,500	Argon Welding Charges
5/4/2020	Sankei Engraving Technology(Thailand)Ltd	315,000	Out Source Texturing services
9/22/2018	Kamran Engineering Industries (Pvt) Ltd	30,000	Out Source of Machining Works
5/7/2019	Cash	1,800	Brazing charges
9/4/2019	Consultancy & Engineering Services	4,500	Argon Welding Charges
1/23/2019	Kamran Engineering Industries (Pvt) Ltd	350,000	Out Source of Machining Works
9/4/2019	Consultancy & Engineering Services	4,500	Argon Welding Charges
9/12/2019	Consultancy & Engineering Services	1,700	Argon Welding Charges
10/22/2019	Consultancy & Engineering Services	4,500	Argon Welding Charges
12/27/2019	AkhtarZaman Transport (Cash)	2,500	Mould Pickup & Delivery charges
10/1/2019	Cash	1,800	Brazing charges from Zohaib Autos
10/22/2019	Consultancy & Engineering Services	4,500	Argon Welding Charges
11/19/2019	Consultancy & Engineering Services	1,400	Argon Welding Charges
11/21/2019	Cash	1,800	Brazing charges
11/25/2019	Consultancy & Engineering Services	1,500	Argon Welding Charges
11/28/2019	Muhammad Hanif (Cash)	5,000	Delivery charges of AHL Moulds
11/28/2019	AkhtarZaman Transport (Cash)	5,500	Mould Pickup & Delivery charges
12/27/2019	AkhtarZaman Transport (Cash)	2,500	Mould Pickup & Delivery charges
12/30/2019	Consultancy & Engineering Services	4,500	Argon Welding Charges
1/24/2020	AkhtarZaman Transport (Cash)	5,500	Mould Pickup & Delivery

			charges
8/1/2019	OCEANIC INDUSTRIAL ENGINEERING SERVICES	61,333	Refurbishment work of Hydraulic Cylinder
11/21/2019	cash	1,800	Brazing charges
12/4/2019	Consultancy & Engineering Services	4,500	Argon Welding Charges
3/11/2020	Consultancy & Engineering Services	700	Argon Welding Charges
3/20/2020	Consultancy & Engineering Services	4,500	Argon Welding Charges
1/24/2020	Consultancy & Engineering Services	800	Argon Welding Charges
2/11/2020	Consultancy & Engineering Services	2,100	Argon Welding Charges
2/11/2020	Consultancy & Engineering Services	2,100	Argon Welding Charges
8/1/2019	OCEANIC INDUSTRIAL ENGINEERING SERVICES	10,222	Refurbishment work of Hydraulic Cylinder
12/1/2019	Consultancy & Engineering Services	4,500	Argon Welding Charges
12/31/2019	Cash	1,800	Brazing charges from Zohaib Autos
1/5/2020	Consultancy & Engineering Services	700	Argon Welding Charges
3/10/2020	Consultancy & Engineering Services	4,500	Argon Welding Charges
3/27/2020	Consultancy & Engineering Services	4,500	Argon Welding Charges
5/18/2020	AkhtarZaman Transport (Cash)	3,000	Mould Pickup & Delivery charges
12/27/2019	Consultancy & Engineering Services	4,500	Argon Welding Charges
8/1/2019	OCEANIC INDUSTRIAL ENGINEERING SERVICES	30,667	Refurbishment work of Hydraulic Cylinder
10/1/2019	Cash	1,800	Brazing charges from Zohaib Autos
11/7/2019	Consultancy & Engineering Services	5,200	Argon Welding Charges
11/14/2019	Consultancy & Engineering Services	700	Argon Welding Charges
11/28/2019	AkhtarZaman Transport (Cash)	2,500	Mould Pickup & Delivery charges
12/31/2019	AkhtarZaman Transport (Cash)	6,000	Mould Pickup & Delivery charges
1/28/2020	Consultancy & Engineering Services	4,500	Argon Welding Charges

8/1/2019	OCEANIC INDUSTRIAL ENGINEERING SERVICES	20,445	Refurbishment work of Hydraulic Cylinder
1/28/2020	Consultancy & Engineering Services	4,500	Argon Welding Charges
1/30/2020	Cash	1,800	Brazing charges
2/11/2020	AkhtarZaman Transport (Cash)	5,500	Mould Pickup & Delivery charges
6/23/2020	Cash	1,800	Brazing charges from Zohaib Autos
12/4/2019	Consultancy & Engineering Services	1,000	Argon Welding Charges
2/25/2020	Cash	125	Brazing against jobs
3/9/2020	PRO CNC	19,000	Outsource work of Sliders & Electrodes
6/10/2020	Consultancy & Engineering Services	3,500	Argon Welding Charges
2/25/2020	Cash	125	Brazing against jobs
3/9/2020	PRO CNC	19,000	Outsource work of Sliders & Electrodes
6/10/2020	Consultancy & Engineering Services	3,500	Argon Welding Charges
12/27/2019	AkhtarZaman Transport (Cash)	2,500	Mould Pickup & Delivery charges
1/15/2020	Imec Engineering Solutions (Pvt) Ltd	350,000	Outsource work of Machining
2/25/2020	Cash	1,800	Brazing against jobs
5/18/2020	AkhtarZaman Transport (Cash)	3,000	Mould Pickup & Delivery charges
6/23/2020	AkhtarZaman Transport (Cash)	6,000	Mould Pickup & Delivery charges
1/28/2020	Consultancy & Engineering Services	800	Argon Welding Charges
12/31/2019	Cash	975	Brazing charges from Zohaib Autos
1/2/2020	Consultancy & Engineering Services	2,650	Argon Welding Charges
1/23/2020	Consultancy & Engineering Services	700	Argon Welding Charges
2/11/2020	Consultancy & Engineering Services	1,400	Argon Welding Charges
12/31/2019	Cash	975	Brazing charges from Zohaib Autos
1/2/2020	Consultancy & Engineering Services	2,650	Argon Welding Charges
1/23/2020	Consultancy & Engineering Services	700	Argon Welding Charges

2/11/2020	Consultancy & Engineering Services	1,400	Argon Welding Charges
6/13/2020	Consultancy & Engineering Services	4,500	Argon Welding Charges
6/22/2020	Consultancy & Engineering Services	700	Argon Welding Charges
6/23/2020	Cash	1,800	Brazzing charges to Zohaib Autos
2/11/2020	AkhtarZaman Transport (Cash)	5,500	Mould Pickup & Delivery charges
3/14/2020	Consultancy & Engineering Services	1,500	Argon Welding Charges
6/23/2020	Cash	1,800	Brazzing charges to Zohaib Autos
6/24/2020	Consultancy & Engineering Services	4,500	Argon Welding Charges
		4,214,638	

Annex-45

Statement showing of non-recovery from investors

S.#	Customer Name	Pot Size/ Acres	Total Plot's Value (Rs)	Amount Received(Rs)	Outstanding amount (Rs)
A	Bin Qasim Industrial Park				
1	M/s. Gasco Engineering Pakistan Pvt. Ltd.	2	27,000,000	22,900,000	4,100,000
2	M/s. Ahmed Glass Industries Pvt. Ltd.	4.426	79,668,000	61,101,200	18,566,800
3	M/s. Hi-tech Auto Parts Pvt Ltd.	12.006	216,108,000	151,275,600	64,832,400
4	M/s. Pinnacle Biotech Pvt. Ltd.	10	180,000,000	126,000,000	54,000,000
5	Master Auto Engineering	12	312,000,000	109,200,000	202,800,000
6	Master Auto Engineering	3	105,000,000	36,750,000	68,250,000
7	Lucky Auto Industries	5	175,000,000	122,500,000	52,500,000
8	Lily International	5	175,000,000	122,500,000	52,500,000
	Total				517,549,200
B	Korangi Creek Industrial Park				
1	M/s. Al Shaheer Corporation	1.401	41,329,500	31,329,000	1000,000
2	M/s. Al Rehman Lubricants Pvt. Ltd. (Unit-2)	0.52	15,340,000	11,505,000	3,835,000
3	M/s. Gigi Industries(Pvt.)	0.987	29,116,500	16,000,000	13,116,500

	Ltd. (Unit-2)				
4	M/s. Gigi Industries(Pvt.) Ltd. (Unit-1)	0.988	29,146,000	16,000,000	13,146,000
5	M/s. Dewan Development (Pvt.) Ltd.	0.988	148,200,000	75,000,000	73,200,000
6	M/s. Reliance Services Company (Pvt.) Ltd.	0.468	13,806,000	6,903,000	6,903,000
7	M/s. United King Foods (Pvt.) Ltd.	0.468	13,806,000	6,903,000	6,903,000
8	M/s. Aluplas (Pvt.) Ltd.	0.633	15,508,500	7,754,250	7,754,250
9	M/s. Nawan Laboratories (Pvt.) Ltd.	1.977	58,321,000	29,160,750	29,160,750
10	M/s. Studio 146(Pvt.) Ltd.	0.613	52,105,000	26,052,000	26,052,000
11	M/s. Hoorapharma (Pvt.) Ltd.	1.86	223,320,000	120,300,000	103,020,000
	Total				293,091,000
C	Rachna Industrial Park				
1	M/s. Maxell Power(Pvt.) Ltd	1.0100	10,100,000	3,000,000	7,100,000
2	M/s. Mr Hassan Mian	1.000	10,000,000	3,000,000	7,000,000
3	M/s. Next Bridge (Pvt.) Ltd	1.000	10,000,000	3,000,000	7,000,000
4	M/s. Syed Omer	1.000	10,000,000	3,100,000	6,900,000
5	M/s. Sky High Industries	1.000	10,000,000	3,000,000	7,000,000
6	M/s. Iftikhar Ahmed	1.000	10,000,000	3,500,000	6,500,000
7	M/s. Bamboo King	1.000	10,000,000	3,000,000	7,000,000
8	M/s. Pak Earth Chemical	1.0075	10,075,000	7,000,000	3,075,000
9	M/s. Muhammad Nadeem Anwar	0.500	5,200,000	1,560,000	3,640,000
10	M/s. Muhammad Nadeem Anwar	0.500	5,200,000	1,560,000	3,640,000
11	M/s. Muhammad Sajjad	0.5000	5,200,000	1,560,000	3,640,000
12	Mr. Usman Anwar Kiani	0.4625	5,180,000	3,600,000	1,550,000
13	M/s. Al Baddar Engineering	0.2500	2,800,000	980,000	1,820,000
14	M/s. Ray Gold Pakistan	0.1250	1,500,000	450,000	1,050,000
15	M/s. Muhammad Umair	0.1250	1,500,000	450,000	1,050,000
16	M/s.HasnainRaza	0.1250	1,500,000	450,000	1,050,000
17	M/s. CalganPhytoPharma (Pvt.) Ltd.	0.500	5,200,000	2,080,000	3,120,000
18	M/s.MahmoodShafiBatla	1.500	15,000,000	6,000,000	9,000,000
19	M/s. Sheikh Tahir Ahmed Munir	3.4500	34,500,000	14,000,000	20,500,000

20	M/s.InterwoodMobel (Pvt.) Ltd.	25.00	300,000,000	120,000,000	180,000,000
21	M/s. Muhammad Ali	0.5350	6,420,000	2,400,000	4,020,000
22	M/s. Mumshad Ali	0.5350	6,420,000	2,400,000	4,020,000
23	M/s. KadKam technology (Pvt.) Ltd	1.0100	12,120,000	4,800,000	7,320,000
Total					296,995,000
Grand Total A+B+C					1,107,635,200

Annex-46

Statement showing of Irregular appointment of 36 employees

S.No	Name	Designation	Date of Induction	up to Aug. 2021	Served in months	Rate per month (Rs.)	Salary Paid Col-6 x col-7 (Rs.)
1	2	3	4	5	6	7	8
1	Ms.FatimaJaved	Media Manager	Apr-21	Aug-21	5	98,889	497,740
2	Mr.Irtaza ALI	DGM HR Training	Jun-20	Aug-21	15	148,333	2,249,722
3	Mr. Muhammad Ayub	Mgr. Education	Sep-20	Aug-21	12	97,900	1,184,590
4	Mr.ShahidHussain	Account Officer	Mar-21	Aug-21	6	34,621	210,034
5	Mr.MuhammadYameen	Job Specialist	Dec-20	Aug-21	9	59,333	537,956
6	Dr.Naveen Roy	Cardiologist	Dec-20	Aug-21	9	118,667	1,075,911
7	Dr.SajidaHamza	Medical Officer	Aug-20	Aug-21	13	51,917	681,839
8	Dr.Summiya Akbar	Medical Officer	May-21	Aug-21	4	51,917	209,397
9	Dr.Muhammad Ibrahim	Medical Officer	Sep-20	Aug-21	12	51,917	628,192
10	Dr.Rabia Hamid	Medical Officer	Oct-20	Aug-21	11	51,917	576,275
11	Mr.Ashraf Khan	Dy.Administrator	Jun-21	Aug-21	3	54,409	163,226
12	Mr.SalmanSabir	Ast.Administrator	Jun-21	Aug-21	3	48,950	146,850
13	Dr.Muhammadmansoor	Medical Officer	Jun-21	Aug-21	3	51,917	155,750
14	Doctor Muhammad Ahmed	Medical Officer	Jun-21	Aug-21	3	51,917	155,750
15	Dr.MuntazFareed	Medical Officer	Jun-21	Aug-21	3	51,917	155,750
16	Dr.MithooLal	Medical Officer	Jun-21	Aug-21	3	51,917	155,750
17	Dr.JaviriaJameel	Medical Officer	Jun-21	Aug-21	3	51,917	155,750
18	Dr.MuhammadJabbar	Medical Officer	Jun-21	Aug-21	3	51,917	155,750
19	Dr.Shabana	Medical Officer	Jun-21	Aug-21	3	51,917	155,750
20	Dr.MariaAkram	Medical Officer	Jun-21	Aug-21	3	51,917	155,750
21	Mr.Shoukat Jamal	Mgr.Security	Mar-21	Aug-21	6	148,333	899,889
22	Maj. Muhammad Ali	Mgr.Security	Mar-21	Aug-21	6	148,333	899,889

23	Maj. Muhammad Baqar	Mgr.Security	Mar-21	Aug-21	6	148,333	899,889
24	Nil	Mgr.Security	Mar-21	Aug-21	6	97,900	593,927
25	Maj.FidaHussain	Mgr.Town Ship	May-21	Aug-21	4	148,333	598,278
26	Mr.Feroz Ahmed	Mgr. Corp. Plann.	Jul-20	Aug-21	14	103,833	1,470,972
27	Ms.AsiaZareen	AM. Finance	Oct-20	Aug-21	11	35,600	395,160
28	Mr.HafizJawadLakhani	Audit Officer	Sep-19	Aug-21	24	89,000	2,162,700
29	Mr. Muhammad Adnan	Audit Officer	Dec-19	Aug-21	21	59,333	1,261,822
30	Mr.AizazHaider	Accountant	Nov-20	Aug-21	10	89,000	895,933
31	Mr. Muhammad Ibrahim	Job Specialist	Sep-20	Aug-21	12	115,700	1,399,970
32	Mr.AbidHussain	Job Specialist	Jul-21	Aug-21	2	59,333	118,667
33	Mr.MuhammadMoosa	Job Specialist	Jul-21	Aug-21	2	59,333	118,667
34	Mr.Yasir Ali	Asstt Manager	Jun-21	Aug-21	3	47,170	141,510
35	Mr.MuhammadIqbal	Job Specialist	Apr-21	Aug-21	5	148,333	746,611
36	Mr.AbidHussainQureshi	Job Specialist	Jul-21	Aug-21	2	59,333	118,667
							22,130,282

Statement showing of non-production of record

Requisition No 01 dated 08-07-2021							
1) Organization manuals with soft copy.							
2) Soft copy of Policy, Rule and Regulation applicable to Pakistan steel mill.							
3) Job description manual employees with soft copy.							
4) Approved sanctioned strength along with actual placement against each post (with soft copy).							
5) Management letter							
6) Operational activity report of last 5 years							
7) Complete case file of enquiry related matter of Pakistan Steel Mill including finalized and under process enquiry proceeding							
Requisition No 02 dated 08-07-2021							
1-Approved and actual budget of Pakistan Steel Mill (Soft and hard copy)							
3-Schedule of Accounts (with soft copy)							
4-Cash book							
6-Minutes of all relevant committees pertaining to the matter of Pakistan Steel Mill along with working papers							
7-Detail along with complete file regarding grant or financial support received by PSM from local or international source and its actual utilization							
Requisition No 03 dated 08-07-2021							
1- Statement of unadjusted Advance Payment (In hard and soft form) to various vendors in following form							
	s.no	Supplier name	Status Local/foreign	Advance payment amount	Aging Unadjusted since		
					3-12 months	1-3 years	More than 3 years
Requisition No 04 dated 15-07-2021							
1-Complete detail of existing Electric power supply system of PSM							
2. Detail of own power generation system showing its last operational result in term of production, distribution and sale with outstanding dues on users.							
3. Distribution policy of own produced electricity distribution,							
4. Current status of own power supply system along with fixed expenditure to this system.							
5. Assets of own power supply system along with physical verification report							
6. Complete files of outsourcing power supply alongwith agreements with parties.							
7, Agreements made with outside supplier for electricity supply showing specifically agreed charges							
8. Distribution policy of purchased electricity distribution.							
9. Theft /Un-authorize use of electricity cases with billing details.							
10. Disputed cases or cases in Litigation with complete files							
I I. Details of temporary and permanent connection with detail of annual billing.							
12, Detail of outranging against users showing aging as upto one year,1-3 years and above 3							

years
<u>Requisition No 06 dated 27-07-2021</u>
Item No 2-physical verification report of store,spare,machinery,equipment and finished good in hand
3-statement of slow moving obsolete or out of order items as at june 30 2019 to 2021
<u>Requisition No 07 dated 15-07-2021</u>
Approved medical policy
Complete file of agreement with service provider
Complete file of all medical payments
Complete file of all Re-imbursed medical payments
Approved and actual budget of medical department
List of employees with chronic disease along with expenditures incurred
8 SOP, actual revenue and expenditure of 100 bed hospital along with details of asset at thdisposal of hospital
<u>Requisition No 08 dated 15-07-2021</u>
Hiring and Re-hiring policy
List of permanent employees
List of contract employees of PSM with appointment date and salary
List of Daily wagers and outsource employees of PSM with appointment date and salary
Disciplinary Cases
Theft Cases With financial impact
Retrenchment policy along with detail files of retrenched employees
8 List of employees re-hired after superannuation/retrenchment with Re-appointment date and salary
<u>Requisition No 09 dated 27-07-2021</u>
Budget and actual expenditure of each department
Detail payment made to contractors or service providers, Hospitals, medical store, Medical Store and Medical Lab, Utilities.
Detail of procurement made with files
<u>Requisition No 10 dated 27-07-2021</u>
Outstanding details of utility consumers of PSM
Details of write off cases with relevant policies
<u>Requisition No 11 dated 28-07-2021</u>
4- Detail of vehicles at VIP pool and their allotment details along with petrol consumption detail of each allotted vehicle.
5- No of vehicles non-operational with registration number
6- Theft or mis-use cases pertaining to transport along with enquiry reports. 7- Detail of Repair expenditure (original files)
10- Detail of rental base hiring of transport. Show terms and condition of hiring and respective use of transport along with actual billing
11- Detail of accident cases either owned or hired transport. Provide detail of cost of repair on account of accidental damage
<u>Requisition No 13 dated 03-08-2021</u>
Item No 1.Legal Relationship of following with PSM
Pakistan Steel Cadet College
Hadded welfare Trust

Country club Steel town Item no 02 - list and source of income Item no 03-propertywise approve rent Item no 04-Detail of income of Quaid e azampark,Halls,others Item no 05-income from Officers Mess or other source Item No 07-detail of investment and disinvestment Item no 08-policy ,sop for investment
<u>Requisition No 14 dated 03-08-2021</u> 2-Repair & Maintenance Expenses 3-Details/files of vehicles/buses used to pick & drop employees of PSM, along with: a. Ongoing agreement or arrangement or contract. b. Payment made thereon. c. ToRs of arrangements. 4-Records & register of consumption of POL, Diesel, Lubricants.also provide purchase 5-detail list of POL/Diesel/Lubricants with actual payment rate. 6-Provide agreement for paying POL, Diesel, Lubricants expenditures 7-Details and complete files of all kinds of vehicles/transport or machine hired on contract basis for short run and long run period <u>Req. No, 15/DCA-PSM//2020-21</u> <u>Dated:- 03-08-2021</u> Status of the revival plan of PSM operation or privatization process alongwith GOP/Ministry directives Enquiry or investigation reports of NAB/FIA/other Agency or consultants or experts on affairs of PSM Since 2015 to onward. Also provide action detail, if any taken in the light of report. <u>Req. No, 16/DCA-PSM//2020-21</u> <u>Dated:- 24-08-2021</u> 1-A- List of commercial organization/institute/set up operating at the Land of PSM. B- Provide documentary evidence of PSM relationship with organization of point-1-A C-Provide All legal agreement (old and mew both) or other relevant document reflecting rights and obligation of PSM and organization of point1-A 2-A-List of non-commercial organization/institute/set up operating at the Land of PSM. B-Provide documentary evidence of PSM relationship with organization of point-A C-Provide All legal agreement (old and mew both) or other relevant document reflecting rights and obligation of PSM and organization of point 2-A <u>Req. No, 18/DCA-PSM//2020-21</u> <u>Dated:- 24-08-2021</u> Complete file of procurement of AC Complete file of hiring of all service provider who remained in service during 2019-20 to 2020-21 Complete file of hiring of all service provider who discontinued services during 2019-20 to 2020-21 <u>Req. No, 20/DCA-PSM//2020-21</u> <u>Dated:- 24-08-2021</u> Retrenchment details <u>Req. No, 26/DCA-PSM//2020-21</u> <u>Dated:- 31-08-2021</u> Copy of Trust Deed (Hadeed Welfare Trust)

Function, duties, responsibilities of HWT
Copy of approved Annual accounts of Trust of Last 5 years
Copy of internal Audit Reports
Trial balance, cash book, General Ledger ,income & Expenditure account and statement of position
List of institution, organization, commercial/ residence set up under the control of Trust along with copy of agreement of each
Reconciliation of statement of Trust Account with PSM
Head wise`/Institution revenue detail with outstanding balance.
Detail of other receivables with aging form Trust
Devolution file of Trust with complete correspondence.
Revenue earning from Other activities/function including Marriage Hall and lawn, Tuck Shop,
Data with complete file regarding Trees cutting in steel Town and other areas of PSM
Req. No, 27-A/DCA-PSM//2020-21
Dated:- 31-08-2021
Complete file of engineering contracts
Complete detail of repair and maintenance
Detail file of special advances
Detail of arrangement through regular employees or other sources along with financial impact
Complete file regarding fund received to settle retired employees dues and current status
Req. No, 27-B/DCA-PSM//2020-21
Dated:- 31-08-2021
Complete list of retired petitioner and non-petitioner employees along with dues and working files.
Court Cases regarding non-payment of dues of retired employees.
Funds received, used and outstanding regarding retired employees.
Funds Reconciliation Statement.
Complete management approvals files etc.
List of retired employees awaiting for settlements.
Req. No, 28-B/DCA-PSM//2020-21
Dated:- 31-08-2021
Organization of security department
List of Security Personnel appointed during 2019-20 and 2020-21
Current duty roster of security personnel.
Incidents/accidents/theft cases report register with case files 2019-20 and 2020-21.
Appointment files of Special Security Guards.
Appointment files of Defence Security Guards
Details of Inquiries, investigation, Disciplinary cases of Security Personal during the years 2019-20 and 2020-21.
Req. No, 29-B/DCA-PSM//2020-21
Dated:- 31-08-2021
Outstanding rental dues upto June 30, 2021 against Industrial units
Details of litigation/court cases regarding land of PSM.
Req. No, 30-B/DCA-PSM//2020-21
Dated:- 31-08-2021
Details of following as at June 30 2020 and dec-31 2020 and june 30 2021
Outstanding trade debt(party wise complete list)

Outstanding trade deposit(party wise complete list)
Outstanding other receivables(party wise complete list)
Outstanding Advances(party wise complete list)
Documentary evidence of recovery and adjustments made against each of above at point 1- during 2020-21

Annex-48

S. No.	Name of Store	Quantity of Ghee/Oil supplied (Kgs)	Value of Ghee/Oil (Rs.)
01	Aabpara S/M Islamabad	28,270	5,941,750
02	Tarlai Kalan (1060)	1,000	170,000
03	Taxila City	5,000	850,000
04	Thanda Pani Harnoi	30,450	5,176,500
05	Ali Plaza Bhara Kahu, Ibd	14,726	3,548,990
06	Ali Pur Frash	1,250	212,500
07	Bhera Pull B/Kahu	500	85,000
08	Burma Town Lehtar Road	1,000	170,000
09	Cherah Chowk Ibd	10,000	1,700,000
10	Ghourri Town Ibd	2,500	425,000
11	Jhang Sayedan	7,500	1,275,000
12	G-9 Markaz Islamabad	55,164	10,838,650
13	Khanna Pull Opp CNG	14,196	2,761,640
14	Kotli Sattian	26,224	4,838,320
15	Main Trameri Chowk Ibd	17,590	3,154,400
16	NIH Islamabad	10,650	1,929,600
17	POFs Wah	7,434	1,495,580
18	Simli Road Bara Kahu Ibd	500	85,000
19	Sitara Market G-7,Isld	47,400	8,225,200
20	Sunny Bank Muree	12,500	2,125,000
Total		293,854	55,008,130

Annex-49

Loss of income by non-charging of dead freight

(M/s. NRL)

Total number of shipments	Average Minimum cargo to be lifted in M.Tons	Actual Cargo Quantity lifted M.Tons	Difference Cargo lifted M.Tons	AFRA Rate in US\$ per M.Ton	Total Cost of Dead weight charges US\$
A	B	C	D	E	F=D*E
03	70,000×4=280,000 March,2020 to June, 2020	204,100.87	75,899.16	7.8064	592,499.203
Total dead freight Income loss in Rs.(01 US\$ equal to Pak-Rs.167 average)					98,947,366.84

(M/s. PRL)

S.No.	Vessel Name & Cargo Code	Average Minimum cargo to be lifted in M.Tons	Actual Cargo Quantity lifted in M.Tons	Difference Cargo lifted in M.Tons	AFRA Rate in US\$ per M.Ton	Total Cost of Dead weight charges in US\$
1.	M.T. Lahore P-12/19	68,870	68,457.76	412.24	5.3129	2190.19
2.	M.T. Quetta P-15/19		68,688.00	182.00	5.3129	966.95
3.	M.T. Quetta PK-04/20		62,129.00	6,741.00	8.4796	57,160.98
4.	M.T. Shalamar P-06/20		66,515.85	2,354.15	8.4796	19,962.25
Total amount in US\$						78,090.18
Total amount in Rs. average 1US\$ equal to Rs.167						13,041,060.06

(M/s. PARL)

S.No.	Vessel Name & Cargo Code	Average Minimum cargo to be lifted in M.Tons	Actual Cargo Quantity lifted in M.Tons	Difference Cargo lifted in M.Tons	AFRA Rate in US\$ per M.Ton	Total Cost of Dead weight charges in US\$
1.	M.T. Shalamar MM-05/20	(70,000-0.5%)=69,650	66,265	3,385	5.6459	19,111.372
2.	M.T. Quetta MA-06/20		66,752	2,898	5.6459	7,667.818

3.	M.T. Quetta MU-10/20		64,673	4,977	7.4718	37,187.149
4.	M.T. Lahore MM-13/20		55,881	13,769	7.4718	102,879.214
5.	M.T. Quetta MU-15/20		60,966	8,684	7.4718	73,569.111
Total amount in US\$						240,414.66
Total amount in Rs. average 1US\$ equal to Rs.167						40,149,248.22

Annex-50

Details of retired officers of armed forces

S. No.	Particulars	Date of appointment	Period of services (in years)	Salary & Allowances per month in Rs.	Total Salary & Allowances in Rs.
1.	Capt.® Muhammad Shakil, Executive Director (Commercial) Grade-(XIV)	01-01-2016	05	574,417	34.465
2.	Lt. Col.® Sarfaraz Ahmed, Manager Grade-(XIII)	04-12-2012	08	513,273	49.274
3.	Major® Muhammad Tariq, Manager Grade-(XIII)	01-01-2013	08	353,751	33.960
4.	Capt.® RasheedZafar, Manager Grade-(XIII)	12-09-2019	02	315,000	7.560
5.	CDR.® AsadullahQureshi, Deputy Manager Grade-(XII)	04-01-2013	08	240,000	23.040
Total					148.299

Annex-51

Statement showing of irregular sale of vehicles to officers

S.#	Name & Designation of Officer	Vehicle Number & Model.	Sale Value (Rs)
1.	Syed JararHyder, ED (Finance)	T/Corolla CC1299 GPA-232 Model:2011	1,000,000
2.	Capt. Muhammad Shakil, ED (Commercial)	T/Corolla cc1299 GPA-233 Model:2015	1,200,000
3.	Mr. Tariq Majid, ED (SM)	T/Corolla CC 1299 GPA-235 Model:2015	1,200,000
4.	Mr. KhurramMirza, ED (SP&PL)	T/Corolla CC 1399 GPA-231Model:2015	1,200,000
5.	Mr. ZeeshanTaqi, GM	S/Swift CC 1328 GPA-192 Model:2015	1,000,000
6.	Mr. Rao Ahmed Mushtaq, GM	S/Swift CC 1328 GPA-198 Model:2015	1,000,000
7.	Mr. Zafarullah Khan, GM	S/Swift CC 1328 GPA-195 Model:2015	1,000,000
8.	Mr. Babar Jamal Zuberi, (CIA)/GM	S/Swift CC 1328 GPA-191 Model:2015	1,000,000
9.	Mr. Agha NizamuddinPathan, GM	S/Swift CC 1328 GPA-193 Model:2015	1,000,000
10.	Mr. Dr. M. KhursheedFarooqi, GM	S/Swift CC 1328 GPA-197 Model:2015	1,000,000
11.	Col® Sarfraz Ahmed, Acct:GM	S/Cultus CC 1000 GPA-200 Model:2015	800,000
12.	Capt® Mustafa Kizibash, Actt. GM	S/Cultus CC 993 GPA-206 Model:2015	800,000
13.	Mr. Muhammad Javeed, Manager	S/Cultus CC 1000 GA-5691 Model:2008	800,000
14.	Capt.® M. AyubChaudhry, Manager	S/Cultus CC 1000 GPA-208 Model:2015	800,000
15.	Maj® Muhammad Tariq, Manager	S/Jeep CC 1328 GPA-2007 Model:2007	500,000
16.	Mr. Zaheeruddin Babar, Manager	S/Cultus CC 993 GPA-202 Model:2015	700,000
17.	Mr. Muzaffar Ahmed, Manager	S/Cultus CC 993 GPA-203 Model:2015	900,000
18.	Mr. Santosh Kumar Khatri, Manager	S/Cultus CC 993 GPA-204 Model:2015	900,000
19.	Mr. Muhammad Yaseen, Manager	S/Cultus CC 993 GPA-205 Model:2015	900,000
20.	Engr. Inkisar Ahmed Khan, Manager	S/Cultus CC 993 GPA-207 Model:2015	900,000
21.	Mr. AamirSaleem, Manager	S/Cultus CC 993 GA-5698 Model:2008	700,000
22.	Ms. Maria Zeeshan, Manager	S/Cultus CC 1000 GPA-201 Model:2015	900,000

23.	Capt.® M. Farooq, Port Captain	S/Cultus CC 1000 GA-5690 Model:2008	700,000
24.	Mr. Amir Rehman, Deputy Manager	S/Cultus CC 993 GA-5695 Model:2008	700,000
25.	Mr. FarooqAzam, Deputy Manager	S/Cultus CC 993 GPA-209 Model:2015	900,000
26.	Mr. Imtiaz Ahmed, Deputy Manager	S/Cultus CC 993 GA-5699 Model:2008	700,000
27.	Dr. Aqeel, Deputy Manager	S/Cultus CC 1000 GPA-199 Model:2015	900,000
28.	Mr. Amin-ul-haqNizami, Deputy Manager	S/Cultus CC 993 GPA-211 Model:2015	800,000
29.	Capt.® Malik Tariq, Deputy Manager	S/Cultus CC 993 GA-6684 Model:2005	600,000
30.	Mr. Badi-uz-Zaman, Superintendent Engineer	S/Cultus CC 1000 GA-5692 Model:2008	700,000
31.	Syed Masood Ahmed, Superintendent Engineer	S/Cultus CC 993 GA-5332 Model:2007	600,000
32.	Mr. Rizwan Ahmed, Superintendent Engineer	S/Cultus CC 993 GA-5335 Model:2007	600,000
Total			20,200,000
Total POL, repair & maintenance expenditure as on 30th June, 2020			18,366,292
Grand Total			38,566,292

Annex-52

Irregular promotion of contractual officers

S.#	Name & Designation of Officer	Date of appointment	Date of Promotion	Number in Contractual Seniority list	Number by-pass in promotion as per contractual seniority list	Number by-pass in promotion as per permanent employees' seniority list	Promoted as designation
1.	Mr. Kashif Kamran Khan, Assistant Manager (X)	19.10.2006	02.02.2021	03	02	11	Deputy Manager (XI)
2.	Mr. Muhammad Saleem Sohail, Assistant Manager (X)	07.03.2008	02.02.2021	04	02	11	Deputy Manager (XI)
3.	Mr. Abid-ur-Rehman, Assistant Manager (X)	16.11.2009	02.02.2021	05	03	11	Deputy Manager (XI)
4.	Mr. Sultan Khan, Assistant Manager (X)	13.10.2010	02.02.2021	08	04	11	Deputy Manager (XI)
5.	Mr. Yousof Zahid Hussain, Assistant Manager (X)	07.02.2011	02.02.2021	09	04	11	Deputy Manager (XI)
6.	Mr. Rehan Ahmed, Assistant Manager (X)	19.03.2015	02.02.2021	16	10	11	Deputy Manager (XI)
7.	Mr. Asadullah Munir, Assistant Manager (X)	19.03.2015	02.02.2021	17	10	11	Deputy Manager (XI)
8.	Mr. Sikander, Assistant Manager (X)	20.05.2015	02.02.2021	20	12	11	Deputy Manager (XI)
9.	Mr. Sajjad Ali, Assistant Manager (X)	28.05.2015	02.02.2021	21	12	11	Deputy Manager (XI)
10.	Mr. Muhammad Imran Bin Anis, Assistant Manager (X)	27.02.2017	02.02.2021	23	13	11	Deputy Manager (XI)
11.	Syed Faraz Pervaiz, Assistant Manager (X)	01.03.2017	02.02.2021	24	13	11	Deputy Manager (XI)

12.	Mr. Muhammad ShoibIdress, Assistant Manager (X)	06.03.2017	02.02.2021	25	13	11	Deputy Manager (XI)
13.	Mr. Muhammad Jahangir Khan, Assistant Manager (X)	31.07.2017	02.02.2021	28	15	11	Deputy Manager (XI)

Annex-53

Non-adjustment of tax from tax authorities

From 2009 to 2020

S.#	Details	Amount
1	Withholding Tax (CPF/GPF)	114,423,342.19
2	Withholding Tax (PQA Foundation Fund) 2009-10	796,519.90
3	Advance tax (F.A) 2009-10	726,699,894
4	Withholding Tax (Bank)2009-10	30,167,911.18
5	Withholding Tax (Investments) 2009-10	188,961,635.09
6	Withholding Tax (Investments) 2010-11	212,174,538.49
7	Withholding Tax (Bank) 2010-11	16,973,101.60
8	Withholding Tax (Investments) 2008-09	10,530,542.21
9	Withholding Tax (Banks) 2009-10	230,211,985.00
10	Withholding Tax (Pension Fund) 2009-10	25,393,728.45
11	Withholding Tax (E.W Fund) 2009-10	157,456.20
12	Withholding Tax (GFHP A/C)	148,791.98
13	Withholding Tax (Bank) 2010-11	255,854,730.39
14	Withholding Tax (Bank) 2011-12	15,927,734.71
15	Withholding Tax (Investments) 2011-12	212,097,067.79
16	Withholding Tax 2011-12	259,115,401.66
17	Withholding Tax 2011-12	277,468,782.25
18	Withholding Tax on import 2012-13	84,010,964.00
19	Withholding Tax (Bank) 2014-15	603,843,986.53
20	Withholding Tax Motor	549,698.00
21	Withholding Tax Banks 2012-13	12,482,728.36
22	Withholding Tax (Investments) 2012-13	121,101,694.84
23	Withholding Tax (Investments) 2013-14	96,281,877.81
24	Withholding Tax (Bank) 2013-14	17,020,407.55
25	Withholding Tax 2013-14	332,198,095.90
26	Withholding Tax (Investments)	110,125,891.65
27	Withholding Tax 2014-15 - Bank (F.A)	21,883,112.67
28	Withholding Tax 2015-16 - Bank (F.A)	17,311,737.16
29	Withholding Tax (Investments) 2015-16	146,382,832.71
30	Advance Tax to FBR for 2015-16 (FA)	400,000,000
31	Withholding Tax 2016-17 Banks FA	25,519,071.27
32	Withholding Tax 2016-17 Investments	110,839,993.89

33	Withholding Tax 2016-17 (Revenue)	1,056,047,247
34	Withholding Tax 2017-18 Banks (FA)	33,552,040.41
35	Withholding Tax 2017-18 Investments (FA)	168,509,101.22
36	Withholding Tax 2017-18 Revenue	1,619,291,790
37	Withholding Tax from LCS	14,141,340
38	Withholding Tax 2016-17 (Revenue Department)	1,181,599,497
39	Withholding Tax 2018-19 Banks (FA)	60,131,220.60
40	Withholding Tax 2018-18 Investments	297,157,555.39
41	Withholding Tax 2018-18 (Revenue)	2,292,901,393
42	Withholding Tax 2018-19 Banks (FA)	43,721,403.50
43	Withholding Tax 2019-20 Banks (FA)	1,172,981,495.30
44	Withholding Tax 2019-20 (Revenue)	2,848,363,377
45	Advance Tax to FBR	880,000,000
TOTAL		16,345,062,214.13

Up-to 2009

S.No.	Details	Amount
1	Income Tax Deptt Turnover (FA)	58,260,838.53
2	Income Tax Deptt Turnover (Revenue)	306,850,000
4	Income Tax Deptt (FA Deptt)	24,780,243.80
5	Income Tax Deptt (Revenue Deptt)	283,497,997.89
6	Withholding Tax others	970,435.9
TOTAL		674,359,514.08

Annex-54

Statement showing f non-recovery of various dues

S.#	Party Name	Outstanding Amount (Rs)
1.	Pakistan Customs	26,582,312
2.	Pakistan Revenue Automation	6,654,403
3.	Pakistan Army (Embaraktion)	1,654,558
4.	JICA Scanners	1,147,048
5.	Pakistan Railway Freight	801,203
6.	Pakistan Navy	3,127,365
7.	Bhitai Rangers Staff	4,031,009
8.	Bahria Foundation	445,765
9.	Ayesha Siddiqi	875,917
10.	Khali Nawaz	1,380,518
11.	M/s RazzaqueBasit Oil Industries (ROW charges)	11,442,910
Total		58,143,008

Annex-55

Details of non-production of auditable record

Requisition No & Date	Items Requested
Req No.51/GA/ PQA/ 2019-20 dated 26.05.2021	Complete file of allottee M/s Pak Pansy Private Limited. (EIZ)
Req No.52/GA/PQA/2019-20 Dated 02.06.2021	1. PQA Services Rules / policy of cadre change. 2. P.F of Mr. Zaheer-ur-din Talpur Director HR 3. Complete details of the out of court settlement cases in respect of all the officers who initially took stay orders from the courts against their termination from job along with justification, BRs and final letters of settlement issued to the higher courts for intimation. 4. Completed details of the degrees / certificates of the employees not verified till date- along with dates of dispatch to the concerned universities/Boards.
Req No.54/GA/PQA/2019-20 Dated 02.06.2021	1. Complete details of the changes in plots against Master Plan along with BRs. 2. Complete details of the allotment made of 2 acres of ROW plot besides PEPCO. 3. Completed details along with files of the allotment of commercial plots into warehouses situated against the PQA Housing Complex. 4. Complete details of the allotment of Industrial Park plots in EIZ.
Req No.55/GA/PQA/2019-20 Dated 06.06.2021	1. List of 193 cancelled plots in zone-wise along with list of restored file and their allotment files and survey files. 2. Complete files of transferred plots of all zones during the year 2018-19 and 2019-20 as per list provided. 3. File of SP-5, 46.8 Acre of BRR Fertilizers. 4. File of M/s Tri-Pack Film Ltd. 39 acres. 5. File of SP -14 Pak china , 100 acre 6. File of M/s PTA Ltd. EZ-1/350 Acre 7. Complete details of the court cases of IM/Land, settled in favour / against the PQA.
Req No.58/GA/PQA/2019-20 Dated 10.06.2021	1. Agreement / contract file of Dredger.
Req No.60/GA/PQA/2019-20 Dated 11.06.2021	1. Complete details of the plots along with files of change of zones, if not, provide a certificate countersigned by the relevant DG. 2. Complete details of the plots along with files of change of Category, if not, provide a certificate countersigned by the relevant DG. 3. Complete details of the plots along with files of change of Trade, if not, provide a certificate countersigned by the relevant DG. 4. Complete details of the restored plots till-date. 5. Complete details and copies of the cancellation notices issued to

	the allottees. 6. Complete details of the vacant and vacated/un-vacated plots after issuance of the cancellation notices. 7. Complete details of sub-let of plots by allottees, if not, provide a certificate countersigned by the relevant DG.
Req No.61/GA/PQA/2019-20 Dated 11.06.2021	1. Complete lease file of M/s Procon Engineering, D-56 to D-66 along with copies of amalgamated plots 63-64.
ReqNo.62/GA/PQA/2019-20 Dated 11.06.2021	1. Complete details of 225 missing Files pertaining to IM Department, if none, provide a certificate countersigned by the relevant DG. 2. Names of allottees and numbers of the files along with Details of the Plots in Acres. 3. Details of the Annual ground Rent and Maintenance charges, being recoverable from these allottees as per acres.
Req No.65/GA/PQA/2019-20 Dated 17.06.2021	1. Complete Files of the canceled plot of Mr. HAZrat Syed Ahmad, EIZ/LL/G-01, 10 Acres along with file of restoration of plot, if none, provide a certificate countersigned by the relevant DG. 2. Complete Files of the canceled plot of Mr. Muhammad Saqib, EIZ/LL/G-02, 10 Acres along with file of restoration of plot, if none, provide a certificate countersigned by the relevant DG. 3. Complete Files of the canceled plot of Mr. Muhammad Hussain, EIZ/LL/G-03, 10 Acres along with file of restoration of plot, if none, provide a certificate countersigned by the relevant DG. 4. Complete Files of the canceled plot of Mr. Younis Khan Khel, EIZ/LL/G-01 10 Acres along with file of restoration of plot, if none, provide a certificate countersigned by the relevant DG.
Req No.66/GA/PQA/2019-20 Dated 18.06.2021	1. Complete survey files along with drawings / revised drawings file of M/s Procon Engineering. D-56 to D-66 Complete details of the additional land allotment cases along with files and PQA Policy of additional Land allotment.
Req No.67/GA/PQA/2019-20 Dated 18.06.2021	1. Complete details / record of gate Pass Books returned to the Store Department due to any reason.
Req No.68/GA/PQA/2019-20 Dated 24.06.2021	1. P.F of Mr. Shahnawaz Mangrio along with promotion case files.
Req No.69/GA/PQA/2019-20 Dated 24.06.2021	1. All files initiated for extra /additional land, along with details of approvals of concerned DGs and Chairman from 2015 to 2020. 2. All cases initiated for change of location and / or re-appropriation along with approvals of concerned DGs and Chairman from 2015 to 2020. 3. All cases of late physical possession fee billed from 2015 to 2020. (If not billed reasons may be stated). 4. All cases of physical demarcation conducted from 2015 to 2020. 5. All changes made in the map/master plan of industrial zones

	with respect to amenity plots, re-appropriation of plots, allocation of additional lands and permission given to allottees to build beyond the approved limits of land. These changes may be marked separately in map zone (Year wise) from 2015 to 2020. 6. Out of court settlement cases made from 2015 to 2020. 7. Name of the officers posted in survey department for last 5 years and involved in initiating and proposing the above required details.
ReqNo.70/GA/PQA/2019-20 Dated 24.06.2021	1. All drawings approved from 2015 to 2020. 2. Files of all development projects initiated in last 5 years (2015 onwards) along with details of scrapped projects.
Req No.71/GA/PQA/2019-20 Dated 24.06.2021	1. Billing cases and files of electrical connections to industrial zones and PQA housing Complex. 2. Complete details of inventory procured since 2015 to 2020 and their case files along with approvals.
Req No.72/GA/PQA/2019-20 Dated 24.06.2021	1. Complete details of storage allowed by the department in last 5 years (2015-2020)
ReqNo.73/GA/PQA/2019-20 Dated 25.06.2021	1. Complete details and record of PSDP Projects. 2. All implementation agreements initiated / proposed in the last 5 years (2015-20)
Req No.74/GA/PQA/2019-20 Dated 25.06.2021	Complete details along with approval copies of NUF waiver cases from 2015 to 2020. Complete details along with approval copies of penalty waiver, PDC waiver or any other charges waived from 2015 to 2020.

Annex-56**Detail of Secured Advance to M/s. J.S Enterprises**

Date	PV No.	Account	Description	Total Amount Rs.	75% Amount Rs.
27.04.2018	QTA-000-01	JS Enterprises (Escrow-NLC)	Mobilization advance	101,000,000	0
25.06.2018	QTA-000-04	Do	Do	74,800,000	0
04.07.2018	QTA-000-03	Do	Secured Advance on material	.	100,000,000
06.07.2018	QTA-000-04	Do	Do	400,000,000	300,000,000
16.08.2018	QTA-000-03	Do	Do	40,000,000	30,000,000
26.10.2018	QTA-000-02	Do	Do	33,333,333	25,000,000
30.05.2019	QTA-000-02	Do	Do	13,333,333	10,000,000
12.06.2019	QTA-000-05	Do	Do	200,000,000	150,000,000
17.06.2019	QTA-000-06	Do	Do	133,333,333	100,000,000
19.09.2019	QTA-000-01	0000150540000204	Do	20,000,000	15,000,000
				1,149,133,333	221,058,589

Annex-57

**Statement of Dollar difference paid to JS Enterprises (Escrow – NLC),
0000150540000204 and PMU office**

Date	PV No.	Account	Description	Amount Rs.
19.06.2019	PV-QTA-000-08	JS Enterprises (Escrow-NLC)	Dollar Difference	100,000,000
09.07.2019	PV-QTA-000-03	0000150540000204	Do	65,000,000
08.01.2020	PV-QTA-000-10	Do	Do	15,000,000
27.02.2020	PV-QTA-000-03	Do	Do	2,724,316
01.06.2020	PV – 09	0000291650505054	Do	10,000,000
22.06.2020	PV – 37	Do	Do	12,000,000
29.06.2020	PV – 20	Do	Do	4,526,723
11.05.2020	PV – 38	Do	Deduction of IT	7,000,000
13.05.2020	PV – 43	Do	Deduction of IT	4,807,550
27.04.2021	PV – 11	0000291650504903	Dollar Difference	23,222,950
				244,281,539

Annex-58

Board of Directors - Its composition (From 2010 – 2021)

S.#	Name	Position	Executive / Non-Executive / Independent Director	From	Age at the time of appointment	To	Qualification
1.	Mushtaq Ahmed Shah	Retd. Civil Servant	Non-Executive Director	15-Mar-13	N/A	14-Sep-13	N/A
2.	Karim Ahmed Khawaja	Politician	Independent Director	15-Mar-13	N/A	14-Sep-13	N/A
3.	FazalKadir Khan Sherani	Businessman	Independent Director	15-Mar-13	N/A	02-Apr-13	N/A
4.	Zubair Ahmed Malik	Profit N/A	Independent Director	02-Apr-13	N/A	14-Sep-13	N/A
5.	Raja Gustasab Khan	Insurance Sector	Independent Director	15-Mar-13	N/A	14-Sep-13	N/A
6.	IqbalInayat	Advocate	Independent Director	15-Mar-13	N/A	20-Mar-13	N/A
7.	Habibuddin	Businessman	Independent Director	15-Mar-13	N/A	14-Sep-13	N/A
8.	Ameen Mohammed Bandukda	Barrister, Advocate	Non-Executive Director	23-Feb-15	50 years	30-May-18	MBA-IBA, Law Barrister, UK
9.	Azher Ali Choudhry	Additional Secretary, MoC	Non-Executive Director	10-Mar-15	55 years	9-Dec-15	Graduation
10.	NadeemKaramat	Banker	Independent Director	30-Mar-15	56 years	26-Nov-15	MBA-USA
11.	M. GhalibNishtar	Banker	Independent Director	30-Mar-15	57 years	30-May-18	Master in Computer Science
12.	Shaban Khalid	Businessman	Independent Director	30-Mar-15	37 years	30-May-18	BBA,USA
13.	SavakRustomPoonegar	Ex-Chief Secretary, Balochistan	Independent Director	31-Mar-15	81 years	30-May-18	M.A (Economic Development), USA
14.	AttiyaYasminJavid	Professor	Independent Director	31-Mar-15	54 years	30-May-18	PhD (Economics)
15.	Kamal Afsar	Ex-Secretary Commerce	Independent Director	3-Apr-15	68 years	30-May-18	M.A (Economics)
16.	Rizwan Bashir Khan	Additional Secretary, MoC	Non-Executive Director	10-Dec-15	58 years	8-May-16	M.A (Economic Development), USA
17.	AsadHayauddin	Additional Secretary, MoC	Non-Executive Director	9-May-16	34 years	23-Oct-16	N/A
18.	Dr. Aamer Ahmed	Additional Secretary	Non-Executive Director	24-Oct-16	N/A	17-Apr-17	N/A
19.	Dr. NazimLatif	Additional Secretary, MoC	Non-Executive Director (Ex-Officio)	6-Dec-17	N/A	30-May-18	N/A

			Member of the Board)				
20.	Roshan Ali Shaikh	Executive Director, State Life Insurance	Non-Executive Director	31-May-18	50 years	15-Oct-18	Master in Urban Development, Japan Master in Economics
21.	Syed Arshad Ali	Retd Federal Secretary, Wafaqi Mohtasib	Independent Director	31-May-18	64 years	1-Apr-19	MSc-Physics
22.	Syed Muhammad Tariq Huda	Additional Secretary, MoC	Non-Executive Director (Ex-Officio Member of the Board)	31-May-18	52 years	18-May-20	M.B.B.S L.L.B
23.	Nazish Afraz	Professor	Independent Director	31-May-18	N/A	She never joined the Board, as she regretted vide her letter dated 09-Jul-18.	N/A
24.	Shafqaat Ahmed	Banker / Advisor	Independent Director	31-May-18	68 years	30-May-21	B.A
25.	Aasim Azim Siddiqui	Businessman	Independent Director	31-May-18	47 years	30-May-21	MBA, USA
26.	Dr. Rashid Manzoor	Sr. Joint Secretary, Finance Division	Non-Executive Director (Ex-Officio Member of the Board)	31-May-18	56 years	30-May-21	M.B.B.S
27.	Manzoor Ali Shaikh	Executive Director, State Life Insurance	Non-Executive Director	4-Feb-19	52 years	30-May-21	B.E (Civil)
28.	Tariq Jamil	Insurance Sector	Independent Director	29-Nov-19	77 years	30-May-21	B.A (Math), Punjab Associate Member of Chartered Insurance Institute (ACII), UK Associate Member Bank Administration Institute, USA
29.	Syed Rafeo Bashir Shah	Additional Secretary	Non-Executive Director (Ex-Officio Member of the Board)	1-Jun-20	49 years	30-May-21	Master (International Law & Economics)-Switzerland

Annex-59

S. No.	Division/ Office	No. of proposal submitted	No. of projects awarded	No. of projects not awarded	Success Ratio
1	Architecture & Planning (Karachi)	54	4	50	7
2	Architecture & Planning (Lahore)	38	1	37	3
3	Building Services	13	2	11	15
4	Construction Management	2	-	2	0
5	Disaster Management & Reconstruction	2	1	1	50
6	Economic Studies	10	2	8	20
7	Environmental & Public Health Engineering	52	2	50	4
8	Geotechnical & Geo-Environmental Engineering	16	0	16	0
9	Highways & Transportation Engineering	91	16	75	18
10	Islamabad	20	2	18	10
11	Karachi	60	13	47	22
12	Muscat	5	0	5	0
13	Peshawar	34	4	30	12
14	Power & Mechanical	25	1	24	4
15	Riyadh	16	1	15	6
16	Structural Engineering	15	4	11	27
17	Water & Agriculture	35	8	27	23
TOTAL		488	61	427	13

Annex-60

The Chartered Accountants issued a qualified opinion in their audit report for the year 2019-20 on the following basis:

- As per qualification of the Chartered Accountants, records for sales, inventories, salaries and benefits and other expenses are maintained at their regions, which are not integrated with the accounting system maintained at head office. Furthermore, the absence of proper inventory software system, tracking of quantitative data of goods sold is not maintained by USC which resulted in auditor's inability to obtain assurance on the completeness of item-wise sales.
- Finance Division through office memorandum F.15 (3) R-14/84 dated 16 October, 1984 has directed all autonomous / semi-autonomous bodies and corporations are under their administrative control, where the pension scheme

does not exist that the payment of gratuity in addition to contributory provident fund should not be allowed to their employees on their d for quitting the service. However, the company has accounted for provision of gratuity amounting to Rs. 1,017.628 million at the reporting date which is in contravention/violation of articles of association of the company and finance division's office memorandum, which need justification

- The company's existing process relating fraud prevention, detection and response are not formally documented and standardized. In the absence of formalized system of fraud risk assessment, prevention, detection and response framework, it is not possible to evaluate the effectiveness of these processes and accordingly, auditors remained unable to evaluate financial impacts, if any, of ongoing investigations/inquiries and cases involves the company and its personnel on the financial statements.
- The company has recognized a balance payable to Trading Corporation of Pakistan (Private) Limited (TCP) amounting to Rs. 23,999.144 million. In response to the auditors, standard confirmation letter, TCP confirmed a balance receivable from the company amounting to Rs. 53,526.987 million which comprises of principal amounting balance amounting to Rs. 24,335.261 million and accrued mark up on outstanding principal balance amounting to Rs. 29,191.726 million resulting in a difference of Rs. 29,527. 843 million between the balances as recognized b the company and the amount confirmed directly by TCP. Furthermore, the company has not provided to auditors reconciliation or supported documents in explanation of this difference. As a result, auditors were unable to determine whether any adjustment has been required in respect of recorded or unrecorded balances payable to TCP.
- It is emphasizedon the matter regarding recoverable from store in charge amounting to Rs. 1,569.233 million including Rs. 382.305 million relating to embezzlement of cash funds in Quetta region. The company has recorded provision amounting to Rs. 1,482.254 million on accounts of non-recovery of these balances.
- The company has advance income tax amounting to Rs. 2,753.455 million relating to tax years 2009 to 2016 in respect of amended assessment order which the company is contesting before different appellate forums. The recoverability of this amount is subject to pending court decision.

- It is also emphasized on the matter regarding Tax Refund due from the FBR against various demands of Sales Tax and Federal Excise Duty valuing Rs. 1,315.891 million relating to period from July 2011 to June 2016, which needs early recovery to reduce the financial crises of the corporation. The company is in appeal against these cases and the recoverability of the amount is subject to the pending court decision.