AUDIT REPORT
ON
THE ACCOUNTS OF
PUBLIC SECTOR ENTERPRISES
AUDIT YEAR 2009-10

AUDITOR-GENERAL OF PAKISTAN

CONTENTS

		Preface	i
		Executive Summary	v
		Recommendations	xv
SECTION-I		**AUDIT REPORT**	
		CABINET DIVISION	
	1.	Printing Corporation of Pakistan (Pvt) Limited	5
		MINISTRY OF COMMERCE	
	2.	National Insurance Company Limited	11
	3.	Pakistan Reinsurance Company Limited	16
	4.	State Life Insurance Corporation of Pakistan	22
	5.	Trading Corporation of Pakistan (Pvt.) Limited	27
	6.	Pakistan Tobacco Board	42
		MINISTRY OF DEFENCE	
	7.	Pakistan International Airlines Corporation	53
	8.	Skyrooms (Pvt.) Limited	68
		MINISTRY OF DEFENCE PRODUCTION	
	9.	Pakistan Ordnance Factories	73
	10.	Pakistan Ordnance Clothing Factory	82
		MINISTRY OF EDUCATION	
	11.	National Book Foundation	87
		MINISTRY OF ENVIRONMENT	
	12.	Pakistan Environmental Planning and Architectural Consultants (Pvt) Limited	91

FINANCE DIVISION

13.	Industrial Development Bank of Pakistan	95
14.	Pakistan Security Printing Corporation (Pvt.) Ltd.	97
15.	State Bank of Pakistan	99
16.	Small and Medium Enterprises Bank Limited	104
17.	Zarai Taraqiati Bank Limited	108

MINISTRY OF FOOD AND AGRICULTURE

18.	Pakistan Agricultural Storage and Services Corporation Limited	117

MINISTRY OF HOUSING AND WORKS

19.	National Construction Limited	129
20.	Pakistan Housing Authority	132

MINISTRY OF INDUSTRIES AND PRODUCTION

21.	Export Processing Zones Authority	139
22.	Pakistan Industrial Development Corporation	144
23.	Pakistan Steel Mills Corporation (Pvt.) Limited	146
24.	Pakistan Steel Fabricating Company (Pvt.) Limited	169
25.	Small and Medium Enterprises Development Authority	171
26.	Utility Stores Corporation of Pakistan (Pvt) Limited	175
27.	ENAR Petrotech Services (Pvt) Limited	185
28.	Heavy Mechanical Complex (Pvt) Limited	187

State Engineering Corporation (Pvt) Limited

29.	State Engineering Corporation (Pvt) Limited	190
30.	**Heavy Electrical Complex (Pvt) Limited**	193
31.	**Pakistan Machine Tool Factory (Pvt) Limited**	196
32.	Pakistan Engineering Company Limited	198

National Fertilizer Corporation of Pakistan

33. National Fertilizer Corporation of Pakistan (Pvt) Limited 201
34. National Fertilizer Marketing Limited 203
35. NFC Institute of Engineering and Fertilizer Research (Pvt) Limited 207
36. NFC Institute of Engineering and Technological Training (Pvt) Limited 209

MINISTRY OF INFORMATION AND BROADCASTING

37. Associated Press of Pakistan Corporation 213
38. Pakistan Broadcasting Corporation 215
39. Pakistan Television Corporation Limited 217

MINISTRY OF KASHMIR AFFAIRS AND GILGIT – BALTISTAN

40. Northern Areas Transport Corporation Limited 229

MINISTRY OF LABOUR AND MANPOWER

41. Employees' Old-Age Benefits Institution 235

MINISTRY OF LIVESTOCK AND DAIRY DEVELOPMENT

42. Korangi Fisheries Harbour Authority 239

OVERSEAS PAKISTANIS DIVISION

43. Overseas Pakistanis Foundation 245

MINISTRY OF PETROLEUM AND NATURAL RESOURCES

44. Pakistan Petroleum Limited 255
45. Pakistan State Oil Company Limited 256

46. Saindak Metals Limited 262
47. Sui Southern Gas Company Limited 264
48. Sui Northern Gas Pipelines Limited 276
49. Oil and Gas Development Company Limited 281
50. Pakistan Mineral Development Corporation (Pvt) Limited 290
51. Lakhra Coal Development Company Limited 292
52. Government Holdings (Pvt) Limited 295

PLANNING AND DEVELOPMENT DIVISION

53. National Logistic Cell 301
54. Pakistan Institute of Development Economics 305

MINISTRY OF PORTS AND SHIPPING

55. Gawadar Fish Harbour 309
56. Pakistan National Shipping Corporation 310
57. Port Qasim Authority 314

MINISTRY OF SOCIAL WELFARE AND SPECIAL EDUCATION

58. Pakistan Bait-ul-Mal 331

MINISTRY OF TEXTILE INDUSTRY

59. National Textile University 341

MINISTRY OF TOURISM

60. Pakistan Tourism Development Corporation Limited 345
61. PTDC Motels North (Pvt) Limited 347

MINISTRY OF WATER AND POWER

62. National Engineering Services Pakistan (Pvt) Limited 351

	63.	National Power Construction Corporation (Pvt) Limited	356
SECTION-II		**Comments on Internal Controls**	361
Annexures	I.	Non-submission of Accounts	365
	II.	Companies under liquidation	368
	III.	Recoveries made and financial irregularities / losses of public money etc. condoned or rectified at the instance of Audit	370
	IV.	Final position of Audit Paras and MFDAC	378
	V.	Details of acceptance of claims against defaulted premium / expired insurance cases by Pakistan Re-insurance Corporation Limited	384
	VI.	Details of non-supplied auditable record by Pakistan International Airlines Corporation	386
	VII.	Receipt and Expenditure Statement	388

PREFACE

Article 169 of the Constitution of the Islamic Republic of Pakistan read with Section 8 and Section 15 and other relevant provisions of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 requires the Auditor-General of Pakistan to conduct audit of the expenditure 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 contains the results of audit of the accounts for the year 2008-09 of Public Sector Enterprises of Government of Pakistan conducted during the year 2009-10. The audit was conducted on a test check basis by the Directorates General of Commercial Audit and Evaluation, Karachi and Lahore, with a view to reporting significant findings to stakeholders.

The findings indicate the need for adherence to regulatory framework and prudent financial decision making, besides instituting and strengthening internal controls to avoid recurrence of similar irregularities.

Audit observations included in the report were discussed in various Departmental Accounts Committee meetings and finalized thereafter.

The report is submitted to the President of Pakistan in pursuance of Article 171 of the Constitution of the Islamic Republic of Pakistan for causing it to be laid before the National Assembly.

Islamabad
Dated:

TANWIR ALI AGHA
Auditor-General of Pakistan

EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

Audit of the accounts of Public Sector Enterprises (PSEs) of the Federal Government is conducted by five Circle Offices, each headed by a Director of the Directorates General of Commercial Audit and Evaluation (DG, CA& E), Karachi and Lahore on behalf of the Auditor-General of Pakistan.

Three Circle Offices (Karachi Circle, PIAC Circle and Pakistan Steel Circle) of DG, CA & E, Karachi are located in Karachi whereas offices of the Directors, Commercial Audit, Lahore and Wah Cantt. are functioning under the administrative control of DG, CA & E, Lahore.

The Directorate General of Commercial Audit and Evaluation, Karachi carries out audit inspection and evaluation of PSEs whose head offices are located in Sindh and Balochistan. Federal Government PSEs having head offices in Punjab, NWFP and Islamabad Capital Territory are covered by the DG, CA & E, Lahore.

Audit includes financial, regularity and performance audit as well as special studies. Besides, special audit is also conducted on request of auditee formations or their Administrative Ministries based on the importance of issue or nature of complaint. This is carried out in the light of specific terms of reference duly approved by the Auditor-General of Pakistan.

There are 92 PSEs that fall under the audit jurisdiction of the Directorates General. The receipt and expenditure budget of these organizations was Rs 1,602.926 billion and Rs 1,370.287 billion respectively for the year 2008-09. This report contains audit results of 41 organizations out of total 92 Federal Government PSEs, selected on the basis of risk assessment. Accordingly, permanent files and planning files were prepared and high-risk areas were identified during desk audit activity. Audit was carried out to verify adequacy of internal controls, with specific emphasis on high value items and inherent risk areas. Audit checks were applied keeping in view the nature of transactions, current commercial accounting and auditing best practices and relevant financial and operational manuals.

It was also ascertained that the organizations were managed and run in accordance with sound commercial practices and that the canons of financial propriety and specific as well as general government policy directives were being adhered to.

Internal controls were reviewed with the objective of identifying weak areas and recommending improvements.

This report also contains comments on the annual audited accounts of 43 Public Sector Enterprises (37 current and 6 arrears). Thirty six organizations (Annexure-I) failed to submit their annual audited accounts by November 30, 2009, the prescribed date.

Ten organizations (Annexure-II) ceased their operational activities during the years 1986 to 2005. These are still under the process of liquidation / privatization.

The report contains 179 audit paras involving Rs 51,816.641 million; out of which ten audit paras for Rs 95.461 million and 46 audit paras for Rs 7,099.523 million pertain to fraud/embezzlement and wastage/inefficiency respectively. A number of observations were settled during processing of the report as the requisite action including recovery of Rs 1,283.392 million (detailed at Annexure-III), was taken by the respective managements.

Draft paras were discussed in the Departmental Accounts Committee (DAC) meetings and finalized in the light of its recommendations for inclusion in the Audit Report and consideration of Public Accounts Committee. Remaining irregularities and less important observations were placed in the Memorandum for Departmental Accounts Committee (MFDAC) (detail attached at Annexure-IV) for pursuance till compliance.

Significant findings and audit observations are as under:

Ministry of Commerce

National Insurance Company Limited

1. Non - renting out of vacant space of a building – Rs 17.476 million *(Para-5)*
2. Irregular appointment of a consultant – Rs 2.400 million *(Para-6)*

Pakistan Re-insurance Company Limited (PRCL)

3. Discretionary payments of Re-insurance Commission without set criteria – Rs 477.655 million *(Para-9)*

4. Non-recovery of insurance premium due to delayed reconciliation – Rs 28.706 million *(Para-10)*

State Life Insurance Corporation (SLIC)

5. Non-recovery of dues from tenants upon vacation of premises – Rs 18.760 million *(Para-13)*

Trading Corporation of Pakistan (Pvt.) Limited (TCP)

6. Undue favour to Sugar Cartel by defying the directives for procurement causing crisis / increase in prices *(Para-16)*

7. Irregular / imprudent procurement of sugar – Rs 4.668 billion *(Para-17)*

8. Loss due to import of sugar at higher rates – Rs 74.194 million *(Para-18)*

9. Irregular increase in transportation rates of wheat - Rs. 3.021 billion *(Para-19)*

10. Loss on account of purchase of rice at inflated price - Rs 762.500 million *(Para-22)*

Pakistan Tobacco Board

11. Embezzlement of cash - Rs 9.097 million *(Para-28)*

12. Shortage of cash and misappropriation by fictitious adjustment - Rs 1.196 million (*Paras-31 & 32)*

Ministry of Defence

Pakistan International Airlines Corporation (PIAC)

13. Purchase of Aab-e-Zam Zam at exorbitant rates – SAR 1.680 million (Rs 36.960 million) *(Para-38)*

14. Irregular award of contracts for consultancy and refurbishment of Chairman Secretariat – Rs 55.774 million *(Para-39)*

15. Employees in excess of sanctioned strength – Rs 101.405 million *(Para-40)*

16. Irregular contract appointment and absorption of officers – Rs 48.851 million. *(Para-41)*

17. Non-recovery of outstanding dues from Government Organizations, sales agents and private parties – Rs 104.856 million *(Paras-42, 43 & 44)*

18. Non-production of auditable record *(Para-46*

Skyrooms (Pvt) Limited

19. Non-recovery of dues from various parties – Rs 2.729 million *(Para-49)*

Ministry of Defence Production

Pakistan Ordnance Factories

20. Non-transparent procurement due to non-advertisement in the press - Rs 347.473 million *(Para-51)*

21. Blockage of public funds - Rs 132.521 million *(Para-52)*

22. Loss due to abnormal delay in finalization of contract– Rs 34.593 million *(Para-53)*

23. Non-recovery on account of risk and cost from defaulting suppliers – Rs 14.851 million *(Para-54)*

Ministry of Environment

Pakistan Environmental Planning and Architectural Consultants (Pvt) Limited

24. Misappropriation through fake adjustment– Rs 0.625 million *(Para-64)*

Finance Division

State Bank of Pakistan (SBP)

25. Irregular payment of foreign currency exchange difference – Rs 4.850 million *(Para-61)*

Zarai Taraqiati Bank Limited

26. *Non-recovery of dues from the defaulter firm – Rs 80.576 million* (Para-74)

27. Loss due to non-encashment of bank guarantee - US $ 51,396 - Rs 3.598 million *(Para-76)*

28. *Loss on account of undue favour - Rs 0.912 million* (Para-79)

Ministry of Food and Agriculture

Pakistan Agricultural Storage and Services Corporation Limited

29. Loss due to purchase of sub-standard rice in violation of purchase agreement – Rs 411.260 million *(Para-81)*

30. Un-justified payment of price differential – Rs 28.256 million *(Para-82)*

31. Loss due to non-utilization of godowns/premises of mill owners – Rs 23.980 million *(Para-83)*

Ministry of Housing and Works

Pakistan Housing Authority

32. Un-authorized retention of income tax deducted at source – Rs 3.842 million *(Para-91)*

33. Non-transparent procurement of store of Rs 2.219 million involving excess payment – Rs 0.851 million *(Para-92)*

Ministry of Industries and Production

Export Processing Zones Authority (EPZA)

34. Non-recovery of Annual Ground Rent and Utility Charges – US$ 0.988 million (Rs 81.006 million) *(Para-95)*

35. Non-completion of projects worth US$ 0.725 million and non-recovery of penalty – US$ 0.270 million (Rs 23.000 million) *(Para-96)*

Pakistan Steel Mills Corporation (Pvt) Limited (PSM)

36. The Corporation suffered a net loss during the year 2008-09 – Rs 26.526 billion *(Para-98.2)*

37. Irregular utilization of Employees' Funds – Rs 7.514 billion *(Para-99)*

38. Sale of steel products below cost – Rs 7.151 billion *(Para-100)*

39. Irregular registration of a firm as a "Trader" and "Consumer" at the same time; and irregular registration of firms for sale of steel products *(Paras-104 & 112)*

40. Undue favour to dealers by inadequately publicizing the credit scheme – Rs 644.565 million *(Para-105)*

41. Allotment of land below market value; and less charging of Annual Ground Rent – Rs 511.495 million *(Paras-106 & 109)*

42. Unabsorbed fixed cost due to shortages of raw material – Rs 277.320 million *(Para-108)*

43. Irregular sharing of duty / taxes levied by a foreign government – US$ 2.130 million (Rs 181.142 million) *(Para-110)*

44. Award of 50% of procurement contract to 2nd lowest bidder – Rs 14.820 million *(Para-111)*

Utility Stores Corporation of Pakistan (Pvt) Limited

45. Loss due to procurement of rice at higher rates – Rs 118.931 million *(Para-118)*

46. Shortage of stock – Rs 57.083 million *(Para-119)*

47. Loss due to theft / burglary – Rs 30.468 million *(Para-120)*

48. Loss due to less receipt of insurance claims – Rs 29.158 million (*Para-121)*

49. Loss due to theft and fire incidents etc. – Rs 11.406 million *(Para-122)*

State Engineering Corporation (Pvt) Limited

50. Irregular payment of bonus – Rs 1.018 million *(Para-129)*

Heavy Electrical Complex (Pvt) Limited

51. Loss due to defective repair/rehabilitation of power transformers – Rs 28.668 million *(Para-132)*

52. Loss due to payment of late delivery charges – Rs 4.398 million *(Para-133)*

National Fertilizer Marketing Limited

53. Non-reconciliation of stocks – Rs 237.053 million *(Para-140)*

54. Loss due to shortage of fertilizer in godowns – Rs 11.609 million *(Para-141)*

Ministry of Information and Broadcasting

Associated Press of Pakistan Corporation

55. Irregular appointment of a news editor – Rs 2.442 million *(Para-146)*

Pakistan Broadcasting Corporation

56. Blockage of funds due to non-commissioning of transmitters – Rs.101.343 million *(Para-148)*

57. Non-recovery of marketing rights – Rs 49.072 million *(Para-149)*

Pakistan Television Corporation Limited

58. Excess deduction of services charges by WAPDA on account of collection of TV License Fee – Rs 273.747 million *(Para-151)*

59. Non-recovery of utilization charges – Rs 80.500 million *(Para-152)*

60. Non-recovery on account of provision of uplink facility – Rs 65.272 million *(Para-153)*

61. Irregular payment due to appointment on the basis of fake degree – Rs 2.407 million *(Para-160)*

Ministry of Labour and Manpower

Employees' Old Age Benefits Institution (EOBI)

62. Non-recovery of contributions from defaulting employers – Rs 1.364 billion *(Para-163)*

63. Loss of capital gain due to non-disposal of right shares – Rs 80.146 million *(Para-164)*

Ministry of Livestock and Dairy Development

Korangi Fisheries Harbour Authority (KoFHA)

64. The Authority suffered a net loss during the year 2007-08 – Rs 54.535 million *(Para-165.2)*

65. Fraudulent payment of salary and leave encashment – Rs 0.662 million *(Para-166)*

Overseas Pakistanis Division

Overseas Pakistanis Foundation

66. Non-possession of land – Rs 32.790 million *(Para-170)*

67. Non-encashment of performance guarantee – Rs 13.624 million *(Para-171)*

68. Payment of fraudulent claim - Rs 4.988 million *(Para-172)*

Ministry of Petroleum and Natural Resources

Pakistan State Oil Company Limited (PSO)

69. The Organization suffered a net loss during the year 2008-09 – Rs 6.699 billion *(Para-176.2)*

70. Untraceable fixed assets – Rs 325 million *(Para-177)*

71. Irregular award of contract for installation of Retail Automation System – Rs 312 million *(Para-178)*

72. Expenditure on rent / maintenance of unutilized land – Rs 7.264 million *(Para-179)*

Sui Southern Gas Company Limited (SSGCL)

73. Systemic issues - delay in completion of procurement cycle; and irregular adoption of tendering procedure – Rs 593.775 million *(Paras-183 & 184)*

74. Non-recovery against Take or Pay (ToP) claim – Rs 1.177 billion *(Para-185)*

75. Non-recovery of outstanding dues from defaulting consumers – Rs 1.393 billion *(Para-187)*

76. Defective agreement and non-invoking of *Force Majeure* – Rs 357 million *(Para-189)*

77. Provision of difficult condition in tendering – Rs 4.376 million *(Para-190)*

Sui Northern Gas Pipelines Limited (SNGPL)

78. Due to failure of the Company to control Unaccounted for Gas (UFG) losses upto prescribed target, Oil and Gas Regulatory Authority applied cut of Rs 2.775 billion resulting in decrease in profit to that extent *(Para-191.4)*

Oil and Gas Development Company Limited

79. Non-transparent procurement of store valuing Rs 674.427 million

involving excess payment – Rs 78.195 million *(Para-194)*

80. Loss identified in stock verification of assets – Rs 164.210 million *(Para-195)*

Planning and Development Division

National Logistic Cell

81. Investment in violation of policy – Rs 115.972 million *(Para-212)*

Ministry of Ports and Shipping

Gwadar Fish Harbour (GFH)

82. Continuation of service of an officer after superannuation – Rs 1.772 million *(Para-215)*

Port Qasim Authority (PQA)

83. Abnormal delay in preparation and submission of accounts *(Para-219)*

84. Allotment of 20 acres plot for warehouse to piddle pan involving benefit – Rs 380 million *(Para-220)*

85. Hiring of tugs and boats in violation of Board of Directors policy for replacement - Rs 382.958 million *(Para-221)*

Ministry of Social Welfare and Special Education

Pakistan Bait-ul Mal

86. Disbursement under Food Support Programme to invalid beneficiaries – Rs 926.655 million *(Para-226)*

87. Embezzlement in Food Support Programme – Rs 14.601 million *(Para-228)*

Ministry of Tourism

Pakistan Tourism Development Corporation Limited

88. Non-transparent hiring of building for office – Rs 6.316 million

(Para-235)

Ministry of Water and Power

National Engineering Services Pakistan (Pvt) Limited

89. Irregular award of contracts- Rs 17.538 million *(Para-238)*

90. Irregular expenditure due to award of work in a non-transparent manner - Rs 3.131 million *(Para-241)*

Recommendations

The executive machinery of the Government (Principal Accounting Officers) should take necessary steps to evaluate, institute and strengthen the management, budgeting and accounting controls to achieve following objectives:

i. Adherence to regulatory framework;

ii. Streamlining inventory management to achieve economy, efficiency and effectiveness in procurement and utilization of funds;

iii. Ensuring effectiveness of the planning process and initiatives on investment to prevent violation of government policies;

iv. Proper monitoring and timely enforcement of contracts;

v. Expediting the process of liquidation of projects to avoid recurring costs;

vi. Ensuring timely action for recovery of debts, loans and advances;

vii. Timely submission of annual accounts and audited financial reports to audit authorities;

viii. Ensuring transparency in procurement under Public Procurement Rules, 2004; and

ix. Conformity between the powers exercised by the Board of Directors of Public Sector Enterprises and instructions of Finance Division and Establishment Division.

2. Principal Accounting Officers should take immediate steps to:

i. Effect recoveries of outstanding amounts including loans, on priority basis, from the defaulters;

ii. Impose/collect liquidated damages from the defaulting contractors in relevant cases highlighted in this report;

iii. Investigate misappropriation and theft cases pointed out in the report and effect recoveries where called for;

iv. Improve financial health of loss bearing organizations;

v. Stop investing in low rated institutions;

vi. Expedite winding up of organizations under liquidation;

vii. Avoid delay in award of contracts; and

viii. Remove ambiguities in recruitment policy followed by public sector organizations.

SECTION - I
AUDIT REPORT

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CABINET DIVISION

( )

PRINTING CORPORATION OF PAKISTAN (PVT) LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

1. Printing Corporation of Pakistan (Pvt) Limited was incorporated on January 1, 1969 as a private limited company under the Companies Act 1913 (now Companies Ordinance 1984). The entire shares of the Corporation are held by the Government of Pakistan. The Corporation is principally engaged in the printing of Government publications.

Government of Pakistan approved privatization of the Corporation. Consequently the Privatization Commission appointed consultants to carry out the privatization process and determine net worth of the Corporation. According to the report of the consultants, the Corporation is in process of transferring title of assets in its own name.

1.1 The working results of the Corporation for the year 2008-09 as compared to the previous years are as under:

(Rs in million)

	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07
Sales	175.921	(58.51)	424.054	194.79	143.850
Cost of sales	215.987	(7.03)	232.339	40.83	164.979
Gross profit / (loss)	(40.066)	-	191.715	-	(21.128)
Administrative expenses	123.045	19.44	103.012	14.04	90.329
Selling expenses	1.109	(59.07)	2.710	212.21	0.868
Operating profit / (loss)	(164.220)	-	85.992	-	(112.325)
Other income	21.368	64.57	12.984	3.52	12.543
Financial charges	73.206	20.21	60.897	11.99	54.376
Workers Profit Participation Fund	-	-	1.903	-	-
Profit / (loss) before taxation	(216.058)	-	36.174	-	(154.158)
Taxation	-	-	2.120	194.85	0.719
Net profit/(loss) after taxation	(216.058)	-	34.054	-	(154.877)
Accumulated(loss) B/F	(1,124.289)	(0.05)	(1,124.868)	15.97	(969.991)
Prior years adjustments	(34.257)	-	(33.474)	-	-
Accumulated(loss) C/F	(1,374. 603)	22.26	(1,124.289)	(0.50)	(1,124.868)
Trade debtors-unsecured	146.537	31.42	111.502	4.85	106.340

Source: Annual Audited Accounts

Accumulated losses of the Corporation increased by 22.26% from Rs 1,124.289 million in 2007-08 to Rs 1,374.603 million in 2008-09. The financial state of affairs of the Corporation continued to deteriorate.

1.2 Trade debtors increased by 31.42% from Rs 111.502 million as on June 30, 2008 to Rs 146.537 million as on June 30, 2009. It included a provision for doubtful debts of Rs 8.310 million.

1.3 Contributory Provident Fund amounting to Rs 586.730 million (2008: Rs 562.009 million) including accrued interest as on June, 30, 2009 had not been paid to the Trust which was against the provision of section 227 of the Companies Ordinance 1984. It needs to be justified.

1.4 The current liabilities of the Corporation exceeded its current assets by Rs 627.600 million (2008: Rs 470.240 million) resulting in an adverse current ratio of 0.41:1 which is unfavourable and reflective of weak position of the Corporation's liquidity.

AUDIT PARAS

2. Misappropriation of store items – Rs 0.588 million

As per Para-23 of General Financial Rules, every government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by government 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 other government officer to the extent for which it may be shown that he contributed to the loss by his own action or negligence.

Printing Corporation of Pakistan purchased various items of store valuing Rs. 587,600 during August 5, 2005 to May 8, 2007 for Mechanical/Maintenance Sections. The items of store were received and entered in the record of Security and Store Sections and were not issued to the indenting sections i.e. Mechanical/Maintenance Sections. The management checked the utilization of these items and found misappropriated as no documentary evidence of its utilization was available. Thus, store valuing Rs 587,600 was declared short. The

departmental enquiry dated November 1, 2008 held Electrical Supervisor responsible for misappropriation of store valuing Rs 587,600.

The matter was reported to the management on October 31, 2009 and the Ministry on December 5, 2009. The management in its reply dated January 27, 2010 stated that Manager Production had been appointed for fresh inquiry and action would be taken in light of his enquiry report and audit would be informed accordingly.

The DAC in its meeting held on February 4, 2010 directed the management to expedite the enquiry and submit report within one month. No progress was received till finalization of this report.

3. Loss due to non-imposition of L.D. charges- Rs 0.397 million

As per Clause 10 of contract dated December 17, 2008 between PCP and M/s. Archteetonic (Pvt) Ltd., in case of failure to supply the store within stipulated time liquidated damages @ 0.5% per week or a part thereof on pro-rata basis on the value of goods delivered late will be levied.

Printing Corporation of Pakistan (Pvt.) Limited awarded a contract to M/s. Archteetonic (Pvt) Ltd. Rawalpindi for procurement of 85 M. ton paper of different sizes @ Rs 82,880 per M. ton on December 17, 2008. The delivery period was 15 to 30 days i.e. up to January 18, 2009 but the firm failed to supply the requisite paper within stipulated period. Director Finance recorded dissenting note on file dated April 20, 2009 that the firm had applied for extension after 2 ½ months of delivery period, and there was neither any strike nor was any other reason for the delay. The management, however, extended the delivery period up to April 20, 2009 without recording any genuine reasons. This resulted into loss to the Corporation due to non-imposition of L.D. charges of Rs 396,752.

The matter was taken up with the management on October 31, 2009 and the Ministry on November 11, 2009. The management in its reply dated December 18, 2009 stated that extension was not granted for total period of delay and actual amount of L.D. charges pertaining to the condoned period was Rs 396,752. The reply was not acceptable as no L.D. charges were imposed on the defaulting contractor who was bound to deliver the store within stipulated period. The

contractor even tendered the request for extension after a lapse of 2½ months of the delivery period and made himself liable for L.D. charges.

The DAC meeting was held on February 4, 2010. The Committee directed the management to submit revised reply with detail of delay occurred in other similar cases during the year 2008-09. Compliance was awaited till finalization of this report.

MINISTRY OF COMMERCE

( )

NATIONAL INSURANCE COMPANY LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED DECEMBER 31, 2008

4. National Insurance Company Limited (NICL) was registered as a public limited company under Companies Ordinance, 1984 on March 31, 2000. The Company is engaged in Non-Life Insurance business of public property including fire, marine, aviation transportation, engineering and crops / agriculture insurance etc.

4.1 The working results of the Company for the year ended December 31, 2008 as compared with those of the previous years are given as under:

(Rs. in million)

	2008	% Inc/(Dec)	2007	% Inc/(Dec)	2006	% Inc/(Dec)	2005
Premium Earned	4,872.400	9.7	4,441.213	2.0	4,353.429	1.9	4,271.091
Re-Insurance Cession	(1,968.882)	(2.0)	(2,008.058)	(10.2)	(2,236.799)	10.2	(2,028.980)
Net Premium Revenue	2,903.518	19.3	2,433.155	15.0	2,116.630	(5.6)	2,242.111
Net Claim Paid	(1,028.247)	336.0	(235.857)	(38.0)	(380.236)	(38.5)	(618.646)
Management Expenses	(350.345)	16.5	(300.838)	7.2	(280.538)	2.2	(274.410)
Commission from Reinsurer	58.453	7.1	54.573	(1.6)	55.464	10.8	50.056
Underwriting surplus	1,583.379	(18.8)	1,951.033	29.1	1,511.320	8.0	1,399.111
Investment Income	(374.017)	-	1,462.327	55.9	938.213	(22.0)	1,203.291
Rental Income	144.177	29.4	111.454	18.7	93.930	19.4	78.643
Other Income	473.758	4,215.9	10.977	(36.5)	17.296	(7.1)	18.618
General and Administration Expenses	(314.093)	34.4	(233.628)	26.8	(184.181)	(21.8)	(235.563)
Negative goodwill on acquisition of subsidiary	-	-	-	-	-	-	439.393
Profit before tax	1,513.204	(54.2)	3,302.163	38.9	2,376.578	(18.1)	2,903.493
Taxation	(466.106)	(56.4)	(1,070.276)	27.8	(837.293)	1.1	(828.443)
Profit after tax	1,047.098	(53.1)	2,231.887	45.0	1,539.285	(25.8)	2,075.050

(Source: Annual Audited Accounts)

Company's underwriting results deteriorated by 18.8% during the year 2008 as compared to the preceding year 2007 because of significant increase in the payment of Net Claims. During the year 2008, the Company paid Rs 1,028.247 million Net Claims as against Rs 235.857 million in preceding year 2007, resulting in 336% increase in Net Claims. Claims ratio was 35.4% in the year 2008 as against 9.70% in the preceding year 2007. This ratio depicted a sharp increasing trend as the Company's payment of Net Claims increased with a greater pace than that of Net Premium Revenue.

4.2 Net Profit before Taxation for the year under review was Rs 1,513.204 million as against Rs 3,302.163 million for the preceding year 2007, resulting in decrease in profit by 54.2%.

4.3 General and Administrative Expenses increased to Rs 314.093 million in the year 2008 from Rs 233.628 million in 2007, registering an increase of 34.4%. This included increase of 17% in Salary Expenses, 39% in Repair & Maintenance Expenses and 103% in Miscellaneous Expenses. The reasons for increase in the expenses needed to be investigated.

AUDIT PARAS

5. Non-renting out of vacant space of a building - Rs 17.476 million

As a matter of prudence, property owned by an organization should be utilized for the purpose for which it was purchased or constructed.

In National Insurance Company Limited (NICL), the following spaces were lying vacant in NICL Building located at Abbasi Shaheed Road adjacent to Shahra-e-Faisal, Karachi for renting purpose till audit in October 2009:

(Rs. in million)

S. No.	Floor	Area (sq. feet)	Date since lying vacant	Amount of rent (@ Rs.42 per sq ft x No. of months)
1.	14th floor (right wing)	5,267	31-08-2004	10.618
2.	15th floor (left and right wing)	5,267 5,267	01-01-2007 27-05-2008	5.309 1.549
			Total	**17.476**

The Organization was deprived of rental income amounting to Rs 17.476 million due to non-renting out of vacant space. This indicated inefficient administration of the immovable assets.

The matter was taken up with the management in September 2009 and reported to the Ministry in November 2009. The management in its reply dated September 11, 2009 stated that last advertisement was published on May 20, 2007 and added

that inadequate parking and dilapidated condition of building were the reasons for no interest shown by the prospective tenants. The management in its further reply dated December 17, 2009 stated that renovation work of the building was underway and the vacant spaces would be rented out after completion of civil works. The reply was not tenable, as the management had made sole advertisement of the vacant premises after inordinate delay of three years. Moreover, the renovation work was also delayed, as the premises were vacant since 2004.

The matter was discussed in the DAC meeting held on January 26, 2010. The management reiterated its stand about non-renting of the two floors due to inadequate parking and dilapidated condition of the building and added that the renovation work had been taken in hand and installation of new lifts was in process. They added that due to their efforts, the space was expected to be rented out by April 2010, despite problem of car parking. Audit pointed out towards delayed action in the advertisement. The management clarified that they had been making efforts through personal levels and estate agents. The DAC directed the management to justify the delayed advertisement through a revised reply and also directed to expedite action for renting out the premises. However, no revised reply was received till the finalization of this report.

6. Irregular appointment of a consultant – Rs 2.400 million

The guidelines issued by the Establishment Division, Government of Pakistan through UO.No.11-3/2001-MSW-III, dated January 25, 2002 regulating the appointment of consultants for strict compliance by all Ministries / Divisions / Departments / Organizations provide mainly as under:

i. Consultant should not be appointed to perform routine functions of an organization.
ii. Consultancy should be widely advertised indicating the requirements as specified in the guidelines.
iii. The advertisement shall indicate the range of compensation package.
iv. The applicants shall be short listed and prioritized by an In-house Committee of the client organization.

National Insurance Company Limited (NICL) appointed a consultant in January 2007 for Re-insurance Department with a package of Rs.75,000 per month with

other benefits for 11 months contract. Further extension in the contract period was allowed and the appointment was in continuation till audit in October 2009. The consultant was paid an amount of Rs 2.400 million as salary up to October 2009 (total 32 months). However, the post of the consultancy was neither advertised nor the procedure of selection prescribed in the guidelines was observed by the management.

The irregularity was pointed out to the management in September 2009 and reported to the Ministry in November 2009. The management in response dated September 29, 2009 stated that the consultant was hired due to his experience in the field of insurance. The management in its further reply dated December 17, 2009 stated that the hiring of the consultant on contract basis comes under the competency of the BoD of NICL since its conversion from corporation to company. The reply was not tenable, as the appointment was not transparent. The violation of the guidelines indicated undue favour extended to a particular person. Moreover, directives of the Establishment Division, Government of Pakistan were to be implemented by all the ministries and all the organizations under their administrative control.

The matter was discussed in the DAC meeting held on January 26, 2010. The management informed that the consultant was assigned a particular product, *i.e.*, "Crop Loan Insurance" which was successfully launched and the Company had earned a net revenue of over Rs 90 million. They added that the consultant after completion of two years contract had been relieved of the job. Audit pointed out that the consultant was not originally appointed for the said job and the non-transparent appointment was the observation. The DAC concluded that irregularity had occurred and directed the management to submit a revised reply justifying the non-advertisement. However, no revised reply was received till the finalization of this report.

7. Irregular acceptance of cargo legal liability claim - US$ 12,815 (Rs 1.050 million)

Section-2(a) of the General Condition of the Insurance Policy provides that the Insured shall use due diligence and do and concur in doing everything reasonably practical to avoid and diminish any claim.

National Insurance Company Limited (NICL) paid an amount of US$ 12,815 (US$ 2,095 as professional fee of legal agents plus US$ 10,720 as 5% retention share of NICL equivalent to Rs 1.050 million) in February 2008 on account of claims against Cargo Legal Liabilities. The period of policy was October 15, 2005 to October 15, 2006. The payment was made on the advice of Pakistan Re-insurance Company Limited (PRCL) against claim of a consignment released by Pakistan International Airlines Corporation (PIAC) on forged documents at Heathrow Station. The Cargo Manager of PIAC, instead of seeking complete set of documents, had released the consignment in April 2006 on the basis of a Bank Delivery Order, which was not verified from the concerned Bank and later on found to be forged. The investigation report by PIAC had held Clearing and Cargo Agents responsible for the lapse and recommended recovery from them. Since due diligence was not exercised by the Insured as per requirement of the Policy, the acceptance of the claim by the management was considered irregular.

The irregularity was pointed out to the management in September 2009 and reported to the Ministry in November 2009. The management in its reply dated December 17, 2009 stated that liability of NICL was limited to only 5% of the claim and the responsibility of due diligence fell upon PRCL who covered major portion of risk, which was 95%. They added that the law firm who were the underwriters (having an international repute) for PRCL had recommended for acceptance of claim. The reply was not tenable, as NICL was responsible for their own share and due diligence should have been exercised before making any payment on this account.

The matter was discussed in the DAC meeting held on January 26, 2010. The management informed that the main insurer (PRCL) sharing 95% liability had accepted the claim and paid 100% amount to the Insured; therefore, NICL had to release its 5% share. Audit pointed out that the management should have exercised due diligence on its part as per terms of insurance agreement irrespective of extent of the share. The DAC directed the management to substantiate their action of payment with regulations by submitting a revised reply within one week. However, no revised reply was received till the finalization of this report.

PAKISTAN RE-INSURANCE COMPANY LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED DECEMBER 31, 2008

8. 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 objectives of the Company are the development of insurance as well as reinsurance business in Pakistan and to carry out reinsurance business.

8.1 The working results of the Company for the year ended December 31, 2008 as compared with those of the previous years are given as under:

(Rs. in million)

	2008	% Inc/ (Dec)	2007 (Re-stated)	% Inc/ (Dec)	2006	% Inc/ (Dec)	2005
Gross premium Income	4,516.903	(3.3)	4,650.955	7.4	4,350.564	(10.9)	4,883.301
Retrocession	(2,621.328)	(12.0)	(2,957.872)	1.4	(2,935.059)	2.0	(2,878.658)
Net Premium Income	1,895.575	12.0	1,693.083	19.6	1,415.505	(29.4)	2,004.643
Net Claims Paid	(961.692)	3.3	(931.289)	19.9	(776.710)	(5.6)	(822.690)
Management Expenses	(250.091)	62.4	(153.960)	5.2	(146.333)	(14.2)	(170.624)
Net Commission Paid	(477.655)	19.4	(399.882)	8.8	(367.422)	(40.7)	(619.893)
Underwriting Profit/(loss)	206.136	(0.9)	207.951	66.3	125.041	(68.1)	391.436
Investment Income	846.394	(77.1)	3,689.377	378.1	771.733	66.1	464.695
Other Income	148.180	84.2	80.426	156.4	31.364	(59.3)	76.978
General & Admin Expenses	(61.712)	23.4	(50.004)	(65.5)	(145.094)	(3.7)	(150.722)
VRS expenses	-	-	(69.102)	-	-	-	-
Net profit before tax	1,139.000	(70.5)	3,858.647	392.8	783.044	0.1	782.386
Taxation	(252.775)	89.5	(133.393)	20.0	(111.200)	(40.8)	(187.959)
Net Profit after tax	886.225	(76.2)	3,725.254	454.5	671.844	13.0	594.427

(Source: Annual Audited Accounts)

Net Premium Income increased by 12%, *i.e.,* from Rs 1,693.083 million of the year 2007 to Rs 1,895.575 million of the year 2008. However, underwriting

profit decreased during the year 2008. The reason for this decrease was significant increase of 62.4% in the Management Expenses as compared with preceding year 2007. These expenses included Retirement Benefits of Rs 71.498 million during the year 2008, as compared with negative balance of Rs 12.825 million in the preceding year. The increase in Retirement Benefits needs to be elaborated.

8.2 Net Profit before Taxation for the year under review was Rs 1,139.000 million as against Rs 3,858.647 million for the preceding year 2007, resulting in a substantial decrease of 70.5%.The main reason for the decline was decrease in Investment Income which was only Rs 846.394 million during the year 2008 as against Rs 3,689.377 million in the preceding year, registering a decrease of 77.1% . This needs to be improved.

8.3 General and Administrative Expenses were recorded as Rs 61.712 million in the year 2008 which were Rs 50.004 million in the preceding year 2007, registering an increase of 23.4%. These expenses need to be controlled.

8.4 Due to increase in expenses, Company's operating ratios showed un-healthy trend during the year 2008 as explained below:

- Return on Assets (which represents Net Income per Rupee of Average Assets) significantly fell down from 32.4% in the year 2007 to 7.1% in the year 2008.
- Return on Equity (which represents ability to generate revenue from its internal resources) significantly fell down from 58.4% in the year 2007 to 12.2% in the year 2008.

8.5 Due to decline in Net profit, Earning Per Share (EPS) significantly decreased by Rs.9.5 per share, registering a decline of 76% as compared with the preceding year 2007. Decline in EPS needs attention of the management for remedial measures.

AUDIT PARAS

9. Discretionary payments of Re-insurance Commission without set criteria – Rs 477.655 million

Rule-10 of GFR provides that every officer incurring or authorizing expenditure from public funds should be guided by high standards of financial propriety.

Pakistan Re-insurance Company Limited (PRCL) pays a fraction of premium to the ceding insurance companies on account of Re-insurance (R/I) Commission. However, there were no set criteria, rates or any approved policy for transparent payment of such commission. PRCL paid R/I Commission to the extent of Rs 477.655 million to its various clients (insurance companies) during the year 2008 which was irregular due to absence of any set criteria / parameters. Details of the paid commission are given as under:

Category	**Net Commission** (Rs. in million)
Fire	55.942
Marine Cargo	6.154
Marine Hull	4.814
Accident	5.403
Aviation	(0.282)
Engineering	(3.163)
Treaty	408.787
Total	**477.655**

The matter was reported to the management in September 2009 and the Ministry in November 2009. The management in its replies dated November 25, 2009 and December 1, 2009 stated that on facultative business, PRCL had been allowing different rates on different classes of business as per approved underwriting instructions included in the 'Underwriting Manual'. They added that fixation of premium rate including other terms and conditions were the prerogative of insurers (cedents) or leaders, whereas PRCL by way of reinsurance had to follow them. The reply was not tenable, as there was no set policy guiding the management to regulate fixation and payment of commission on the basis of rates prevailing in international and local markets for transparent transactions.

The issue was discussed in the DAC meeting held on January 25, 2010. The management reiterated its stand that they had to follow the terms and conditions decided by lead insurance companies, which include commission. Audit pointed out that they had observed individual cases where the commission initially fixed was enhanced by the management upon request of the concerned insurance companies. The management argued that in order to secure business they had to remain flexible within the upper limit of commission as fixed with approval of their BoD. The DAC directed the management to substantiate their system of fixation of commission by furnishing a revised reply to Audit within 15 days. However, no revised reply was received till the finalization of this report.

10. Non-recovery of insurance premium due to delayed reconciliation – Rs 28.706 million

Section-43(1) of the Insurance Ordinance, 2000 binds the insurers to pay their premiums on account of reinsurance timely by levying a penalty in case of default for the period during which the default continues as payable to the reinsurance company calculated on the amount of the defaulted premium at the base rate prevailing on the date on which the default first occurred. Moreover, Section-43(2) makes it obligatory upon the insurers 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.

An amount of Rs 40.410 million was outstanding as on December 31, 2008 in the accounts of Pakistan Re-insurance Company Limited (PRCL) as receivable from an insurer since 1999. The Insurer failed to pay the premium to PRCL for the major reason that PRCL did not reconcile the accounts from time to time for settlement and the premium amount kept on accumulating. Finally the case of recovery was decreed in favour of PRCL in the Court of Law in October 2005. The management filed an execution application in the Court on November 17, 2006, *i.e.*, one year later than the decree; however, it remained non-materialized till audit in September 2009.

The matter was reported to the management in September 2009 and to the Ministry in November 2009. The management in its replies dated November 25, 2009 and dated December 1, 2009 stated that they had filed a suit in the High Court of Sindh, which was decreed in favour of PRCL and an execution

application for recovery of the decreed amount had been filed. They added that the firm was untraceable. The reply was not tenable, as recovery action was taken after an inordinate delay.

The issue was discussed in the DAC meeting held on January 25, 2010. The management informed that the recoverable amount was Rs 28.706 million. They added that a decree in favour of PRCL had already been issued by the court in October 2005; however, the execution would be filed upon tracing of assets of the defaulting firm. Audit pointed out that the legal action was taken in the year 2003 as against due amount by the year 1999. The DAC directed the management to justify the time period of four years consumed in initiating legal action by submitting a revised reply within 15 days. However, no revised reply was received till the finalization of this report.

11. Irregular acceptance of facultative insurance claims in defaulted premium / expired insurance cases – Rs 32.814 million

Section-43(1) of the Insurance Ordinance 2000 provides that "Every insurer shall pay the amount payable on account of reinsurance with the Company as required within such period as may be prescribed by regulations". Moreover, the "Underwriting Instructions" of Pakistan Re-insurance Company Limited (PRCL) vide section-6(a) makes it mandatory upon the insurers to deposit the premium within the validity period of the policy.

PRCL extended undue favour to its client insurance companies by accepting the facultative claims in cases of seven policies (details at Annex-V). The beneficiaries either had already defaulted in payment of premium or the insurance period had expired but the management paid the claims amounting to Rs 32.814 million despite not receiving the premium within the validity period of respective policies.

The matter was reported to the management in September 2009 and referred to the Ministry in November 2009. The management in its reply dated December 1, 2009 stated that Section-43 of the Insurance Ordinance, 2000 had been discontinued through an SRO issued in the year 2005. They added that Section-35 of the SECP Insurance Rules-2002 provides that no insurance policy shall be

avoided on ground of non-payment of premium. The reply was not tenable, as another provision in the same Section provides as under:

> "Nothing in this rule shall prevent the inclusion in a policy of a provision to the effect that the cover under the policy shall not commence until the premium has been paid or guaranteed to be paid in such manner as may be set out in the policy or otherwise accepted or agreed to by the insurer."

Above provision upheld the "Underwriting Instructions" issued by PRCL in terms of collection of premium at the right time from the Insured to provide risk cover during policy period.

The issue was discussed in the DAC meeting held on January 25, 2010. The management informed that they had not provided the clause about non-cover of risk in case of default in premium payment, with the objective to capture business. They added that due to this strategy, PRCL was overall beneficiary, as the total earning on facultative insurance was much higher than payment of claims in such defaulted premium cases. Audit pointed out that the agreements encouraged the default in premium payment. The DAC directed management to substantiate their stand of overall profit by submitting a revised reply. However, no revised reply was received till the finalization of this report.

STATE LIFE INSURANCE CORPORATION OF PAKISTAN

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED DECEMBER 31, 2008

12. 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.

12.1 The working results of the Corporation for the year 2008 as compared with those of the previous years are tabulated below:

(Rs. in million)

	2008	% Inc/ (Dec)	2007	% Inc/ (Dec)	2006	% Inc/ (Dec)	2005
Income							
Premium Income less reinsurance	22,695.280	21.3	18,716.696	17.0	15,991.575	15.7	13,820.110
Investment Income (net)	18,696.912	9.3	17,103.562	16.5	14,678.544	14.0	12,878.120
Rental Income (net)	341.924	8.1	316.436	93.3	163.732	7.4	152.518
Total Income	**41,734.116**	15.5	**36,136.694**	17.2	**30,833.851**	14.8	**26,850.740**
Claims and expenditure:							
Payment to policy holder	(12,778.765)	18.5	(10,782.851)	21.0	(8,912.102)	16.4	(7,654.280)
Management expenses	(7,998.487)	27.7	(6,264.844)	(3.3)	(6,479.571)	29.2	(5,016.710)
Total claims and expenditure	**(20,777.252)**	21.9	**(17,047.695)**	10.8	**(15,391.673)**	21.5	**(12,670.990)**
Excess of income over claims and expenditure	20,956.864	9.8	19,088.999	23.6	15,442.178	8.9	14,179.750
Addition /(Subtraction) to Life Fund	(19,303.062)	3.2	(18,696.958)	27.1	(14,712.265)	5.5	(13,951.416)
Surplus before tax	**1,653.802**	321.8	**392.041**	(46.3)	**729.913**	219.7	**228.333**
Life Fund at the end of the year	177,459.130	13.2	156,737.302	13.6	137,959.771	12.4	122,775.180
Percentage of Expenses to Total Income	49.8	5.5	47.2	(5.4)	49.9	5.7	47.2
Percentage of Expenses to Premium income	91.5	0.4	91.1	(5.3)	96.2	4.9	91.7

(*Source: - Annual Audited Accounts)*

During the year 2008, the Corporation had Earnings per Share (EPS) of Rs.26.93 as compared with Rs.25.61 per share of preceding year 2007. The Company earned a total income of Rs 41.734 billion in the year 2008 as compared

with Rs 36.137 billion in the preceding year, thereby registering an increase of 15.5%.

12.2 Management expenses increased by 27.7% from Rs 6,264.844 million in preceding year 2007 to Rs 7,998.487 million during the year 2008, which needs justification. Moreover, the expense ratio of the Corporation increased from 33.4% in preceding year 2007 to 35% in the year 2008, which was an unfavourable sign. The detailed disclosure of the management expenses were not available in the audited report of the Corporation, which need to be provided in the notes to the accounts.

12.3 Amounts due from other insurers / re-insurers increased from Rs 18.865 million as on December 31, 2007 to Rs 52.287 million on December 31, 2008, showing a substantial increase of 177%. The efforts need to be made for early recovery. Moreover, unsecured loans to the extent of Rs 111.402 million were given to employees and agents.

12.4 Cash and Bank Deposits stood at Rs 18.176 billion as on December 31, 2008 against Rs 11.719 billion as on December 31, 2007, showing an increase of 55.1%. An amount of Rs 2.459 billion was kept in current and other accounts and Rs 14.336 billion were deposited in one-year maturities. Moreover, an amount of Rs 1.270 billion was kept in fixed deposits maturing after 12 months as on December 31, 2008. Thus a massive amount was kept in current as well and short-term deposits (less than 12 month maturity). The Corporation would have benefited had the surplus amount beyond the emergent requirements been kept in the fixed deposits with maturity beyond 12 months. Furthermore, deposits maturing within 12 months worth Rs 14.336 billion were deposited with one bank, *i.e.*, Rs 7.506 billion in UBL. This accounts for 52% of the total deposits maturing within 12 months, which was a significantly high amount and leads to concentration of investment in one entity. The matter needs justification.

AUDIT PARAS

13. Non-recovery of dues from tenants upon vacation of premises – Rs 18.760 million

Rule-26 of GFR provides that it is the duty of the departmental controlling officer to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the Public Account.

Moreover, Rule-31 of GFR provides that the Head of the Department concerned will be responsible for the due recovery of the rent of the building owned by the department.

In State Life Insurance Corporation of Pakistan (SLIC), following amount was outstanding as on December 31, 2008:

(Rs. in million)

Particulars	No. of Tenants	Amount
Rent	153	24.546
Electricity Charges	49	3.351
	Total	**27.897**

The above outstanding dues pertained to the tenants who had vacated the premises of SLIC buildings without clearing their dues. Sufficient security deposits from the tenants seemed to have not been obtained by the management to avert such situation upon their vacation. The rent due from such tenants pertained to the period 1976 to 2008. Thus, the chances of recovery were remote.

Non-recovery of dues from the tenants in time indicated ineffective internal controls prevalent in Real Estate Division of the Organization. Moreover, no remedial measures were taken by the management.

The non-recovery was pointed out to the management in August 2009 and reported to the Ministry in November 2009. The management in its reply dated December 30, 2009 stated that Rs 7.520 million had been recovered from the observed amount and Rs 2.710 million had been written-of since the amount was minor enough to take any legal action. They added that recoverable amount

against other tenants was in process, though most of the tenants had left the premises and their whereabouts were not known.

The matter was discussed in the DAC meeting held on January 25, 2010. The management informed that recoveries had been made leaving a balance of Rs 18.760 million. They added that cases involving petty amount totaling Rs 2.710 million were being recommended for write-of. They further added that in certain recovery cases, decrees were received from the court but addresses / assets of the defaulting firms were untraceable; therefore, they were going to hire private firms for the search job. The DAC directed the management to analyze the situation about recoverable amount and submit the position through a revised reply within two weeks. However, no revised reply was received till the finalization of this report.

14. Non-recovery of sale proceeds from zonal heads – Rs 0.988 million

Rule-26 of GFR provides that it is the duty of the departmental controlling officer to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the Public Account.

Contrary to the above, State Life Insurance Corporation of Pakistan (SLIC) did not recover an amount of Rs 0.988 million as on December 31, 2007 from the serving zonal heads. The amount was due on account of selling the business promotional material to the fieldworkers and marketing executives. The sale proceeds thereof were required to be deposited by the zonal heads. The position of non-recovery was reviewed by the Board of Directors in its meeting held on May 28, 2008. The Board directed to recover the amount from those zonal heads. However, no compliance was made by the management till audit in October 2009.

The non-recovery from its own executives indicated loose internal controls prevailing in the organization which required remedial measures.

The issue was taken up with the management in September 2009 and reported to the Ministry in November 2009. The management in its reply dated December 30, 2009 stated that the recovery of the receivable amount was under consideration.

The matter was discussed in the DAC meeting held on January 25, 2010. The management informed that the recovery was being made. The DAC directed the management to pursue the recovery and intimate progress within a week. However, no progress was intimated by the management till the finalization of this report.

TRADING CORPORATION OF PAKISTAN (PVT.) LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

15. Trading Corporation of Pakistan (TCP) was incorporated on July 28, 1967 as a private limited company under the Companies Act, 1913 (now the Companies Ordinance, 1984). It is fully owned by the Federal Government and operates under the administrative control of the Ministry of Commerce. The registered office of the Company is situated at Karachi.

In pursuance of Government's decision in 1996 to merge Rice Export Corporation of Pakistan (RECP) and Cotton Export Corporation (CEC) into TCP, the Board of Directors of all the three corporations passed a resolution. Accordingly, TCP accepted to perform the functions of RECP and CEC. The Corporation has restricted its engagement in trading on behalf of the Government of Pakistan only.

15.1 The working results of the Corporation for the year 2008-09 as compared with those of the previous years are given below:

(Rs. in million)

	2008-09	**% Inc/ (Dec)**	**2007-08**	**% Inc/ (Dec)**	**2006-07**	**% Inc/ (Dec)**	**2005-06**
Sales and related income	64,160.799	120.9	29,044.63	114.2	13,561.474	(48.1)	26,151.491
Cost of sales	(61,904.991)	122.9	(27,772.230)	109.9	(13,231.334)	(48.0)	(25,462.454)
Gross profit	2,255.808	77.3	1,272.396	286.4	330.140	(52.1)	689.037
Operating expenses	(655.072)	125.7	(290.236)	3.1	(281.575)	49.3	(188.604)
Operating profit / (loss)	1,600.736	62.4	985.588	1,929.40	48.565	(90.3)	500.433
Other income	676.861	93.8	349.304	(18.7)	429.559	23.3	348.407
Profit/ (loss) before taxation	2,277.596	70.6	1,334.892	146.1	476.895	(40.8)	804.960
Taxation	(462.482)	85.1	(249.838)	49.7	(166.853)	(2.3)	(170.780)
Profit/ (loss) after tax	1,815.114	67.3	1,085.054	197.9	310.042	(51.1)	634.180
Prior period adjustments	(1.649)	(99.0)	(161.408)	13,033.30	(1.229)	(97.2)	(43.880)
Redemption of Bonds	Nil	-	(4,066.66)	273.1	(1,089.915)	(16.6)	(1,307.598)

(Source: Annual Audited Accounts)

Cost of Sales (Rs 111.680 billion) increased by Rs 27.414 billion during the year 2008-09 (32.5% over preceding year 2007-08) resulted in excess of cost over sales by Rs 49.778 billion. The excess of cost was borne by the Government of Pakistan as subsidy.

15.2 Cash and Cash Equivalent at the end of the year 2008-09 depicted excess use of cash Rs 69.591 billion with an increase of Rs 15.127 billion over preceding year 2007-08. These were mainly receivable from the Government. These deficits were countered by overdrafts / short term running finance causing huge annual financial charges. Finance Cost for the year 2008-09 crossed Rs 14.321 billion with an increase of Rs 8.495 billion over preceding year 2007-08. The Finance Cost was charged to commodities' cost as to be ultimately borne by consumers or Government.

15.3 Blockage of Funds in Stock-in-Trade reached to Rs 27.281 billion as on June 30, 2009 with an increase of 91.6% (Rs 13.044 billion) over preceding year 2007-08. The management needs to provide commodity-wise breakup of Stock-in-Trade alongwith its policy for maintenance of stock position.

15.4 The presentation of financial statements needs to be brought in line with requirements of International Accounting Standards (IAS-1).

15.5 The External Auditors offered eight qualification remarks on the accounts for the year 2008-09 as detailed below:

i. Sufficient appropriate audit evidence could not be obtained to verify various trade receivables and payables. Reconciliation of wheat imported and delivered to provinces could not be finalized, as Credit Sales made to Provinces has not been fully acknowledged by them.
ii. Provision for gratuity was not based on actuarial valuation.
iii. Provision for deferred tax was not made.
iv. Reasonable assurance could not be obtained about completeness of contingencies and commitments.
v. Provision of disputed tax liability of Rs 2.353 million at subsidy income was not booked.
vi. Margin has not been reversed for expired bank guarantees of Rs 25 million of RECP (defunct).
vii. Title of Assets was not transferred to TCP of RECP (defunct) and CEC (defunct), taken over by it as a result of merger.
viii. Provision of a specific liability of Rs 541.284 million regarding Liverpool Cotton Association (award against defunct CEC) was not booked. This was disclosed as a contingent liability.

The qualifications expressed by External Auditors made the reasonableness of the accounts doubtful in above listed areas. Corrective measures for removal of the qualifications were not taken by the management till the finalization of this report. Improvement in this regard needs to be expedited.

AUDIT PARAS

16. Undue favour to Sugar Cartel by defying the directives for procurement causing crisis / increase in prices

One of the laid down objectives of Trading Corporation of Pakistan (TCP) is that the Organization will strive to stabilize market conditions and neutralize effect of high market prices resulting from unwarranted escalation by private importers and post facto act as a check on disparity between import prices and scarcity prices. The objective manifests TCP's responsibility to ensure stability in prices of the commodities it deals with.

Contrary to its mandate, TCP did not perform its role of stabilizing market condition to neutralize the high market prices of sugar during the year 2008-09. The management of TCP was directed to procure sugar to avert the crisis as apprehended by higher authorities and concerned ministries as detailed below:

i. The Economic Coordination Committee (ECC) directed TCP on February 3, 2009 to import 200,000 M/Tons of refined sugar.
ii. The Advisor / Chairman of ECC through a letter dated February 20, 2009 conveyed TCP to purchase at least 100,000 M/Tons in its first tender since there was a rising trend in the international sugar prices.
iii. Ministry of Industries & Production by clearly stipulating the expected shortfall of 741,000 M/Tons directed TCP on March 21, 2009 to materialize import / shipments of sugar by June 2009, *i.e.*, well before commencement of holy month of Ramadan.
iv. Ministry of Food & Agriculture through a letter dated June 10, 2009 while forecasting the depletion of stock advised TCP to immediately implement ECC's decision to procure 200,000 M/Tons of sugar.

However, TCP opened tenders to purchase only 50,000 M/Tons of sugar on February 28, 2009 and that too reduced to 25,000 M/Tons for actual purchased

quantity. Surprisingly, TCP slowed down the process of sugar purchases for the balance quantity of 175,000 M/Tons and subsequently suspended two tenders for 50,000 M/Tons and 25,000 M/Tons opened on May 30 and June 6, 2009 respectively.

The non-compliance of directives / advices, received by the management well in time before the crisis, indicated that undue favour was extended to the cartel of the commodity, causing a crisis leading to country-wide increase in prices and shortfall in supply.

The issue was pointed out to the management in September 2009 and referred to the Ministry in November 2009. The management in its reply dated January 5, 2010 stated that the decision to limit the quantity of sugar in the first tender and the suspension of two later tenders of 50,000 M/Tons and 25,000 M/Tons were done under the directives of the Ministry of Commerce. The reply was not tenable, as TCP was advised by Advisor to PM through a letter dated February 20, 2009 to import at least 100,000 M/Tons of sugar. Moreover the letter from Ministry of Industries and Production dated March 21, 2009 predicted a shortfall of 3.295 million M/Tons in the country from March to November 2009; hence it was advised that the imported shipments of sugar must reach the country by mid 2009.

The matter was discussed in the DAC meeting held on January 26, 2010. The management informed that the first advice for procurement of 200,000 M/Tons sugar had provided tendering in manageable sizes and not in a one go. They added that first tender was floated for 50,000 M/Tons; however, the lowest bidder offered only 25,000 M/Tons and the PPRA Rules do not permit matching of prices from other bidders. Audit pointed out that in case of emergency, the PPRA Rules allow extra-ordinary measures, *e.g.*, negotiated tendering, direct contracting, etc. The management clarified that emergency was not declared at that time by MINFAL, and added that Ministry of Commerce had also advised to procure only 25,000 M/Tons in that tendering. The DAC directed the management to submit a revised reply within four weeks by incorporating the viewpoint of both ministries. However, no progress was intimated by the management till the finalization of this report.

17. **Irregular / imprudent procurement of sugar – Rs 4.668 billion**

The laid down objective of Trading Corporation of Pakistan (TCP) is that the Organization will strive to stabilize market conditions and neutralize effect of high market prices resulting from unwarranted escalation by private importers and post-facto act as a check on disparity between import prices and scarcity prices. The objective manifests TCP's responsibility to ensure stability in prices of the commodities it deals with.

Contrary to the above, TCP neither fulfilled its objective nor observed the Public Procurement Rules in following cases of sugar procurement:

(i) **Irregular purchase in disregard of bid submission period – US$ 47.850 million (Rs 3.828 billion)**

TCP invited international bids on August 14, 2009 from the pre-qualified foreign suppliers for purchase of 75,000 M/Tons white sugar in bags. Thereafter, the management published a corrigendum on August 22, 2009 notifying that non-prequalified bidders may also participate in the tender. The tender opening date was fixed as on August 29, 2009. Accordingly, a total No. of 15 days was allowed to prequalified bidders and 7 days to non-prequalified bidders. Thus, the management not only violated Rule-13 of Public Procurement Rules, 2004 (prescribing 30 days response time in case of international tendering) but also did not provide equal opportunity to the non-prequalified bidders. The insufficient period as well as discrimination deprived the Organization from the benefit of real competitive rates in this procurement case worth US$ 47.850 million (Rs 3.828 billion @ US$ 1.00 = Rs.80.00). This indicated lack of planning for procurement in the Organization.

The irregularity was pointed out to the management in October 2009 and reported to the Ministry in November 2009. The management in its reply dated January 5, 2010 stated that due to acute shortage and demand of sugar in the country, the time limit was not followed under PPRA Rule-13 which provided that no time limit shall be applicable in case of emergency. The reply was not tenable, as the overall procurements of sugar did not show the management's concern for emergency. For example, the ECC directed TCP to import 200,000 M/Tons of refined

sugar on February 3, 2009, whereas the tenders for procurement of 25,000 M/Tons and 50,000 M/Tons were continued to be floated partially in five tenders by the management from February 10, 2009 to May 6, 2009. Moreover, the last two tenders (among the initially floated five tenders) floated on May 30, 2009 and June 6, 2009 were suspended by the management and later on re-floated on August 14, 2009.

The matter was discussed in the DAC meeting held on January 26, 2010. The management informed that the reduced numbers of days were allowed due to emergent requirement of sugar and the PPRA Rules allow such action in case of emergency. Audit pointed out that earlier two tenders had been cancelled which did not reflect the emergency action. The DAC directed the management to submit a revised reply within two weeks. However, no progress was intimated by the management till the finalization of this report.

(ii) **Imprudent procurement by losing opportunity of economical rates – Rs 840 million**

TCP floated international tenders (opened on February 28, 2009) for procurement of 50,000 M/Tons of sugar against 200,000 M/Tons as directed by ECC on February 3, 2009. The bid received from M/s Bung S.A., Geneva was considered as lowest at the rate of US$ 451.45 per M/Ton for a quantity of 25,000 M/Tons and the contract was awarded on March 2, 2009. M/s Al Khaleej, Dubai, a compliant bidder had extended the validity of their revised offer up to March 13, 2009 and also extended their offered quantity up to 100,000 M/Ton as per terms and conditions of the tender. However, the management did not consider that offer.

Subsequently, two tenders for supply of 50,000 M/Tons and 75,000 M/Tons were floated by the management, which were opened on May 16, 2009 and August 29, 2009 respectively. In case of both tenders, the offers of M/s Al-Khaleej, Dubai being lowest at US$ 474 and US$ 638 per M/Ton respectively were accepted. Thus by ignoring the earlier offer of the same firm (which was a compliant bidder as regards to term and condition of the tender) for supply @ US$ 451.45 per M/Ton, the management later on had to make procurement from the same firm at the higher rates. Whereas, the circumstances in the wake of emergency for sugar procurement prevailing

in the country justified the exercise of Rule-42 (d)(iii) of Public Procurement Rules, 2004 (which allows negotiated tendering in emergency). However, the management did not avail the opportunity of negotiated tendering with that particular firm which had matched the lowest bidder's rate in the earlier tender opened on February 28, 2009. The inaction of the management caused a loss to the Public Exchequer amounting to Rs 840 million (worked out as a difference of first tender's rate with the subsequent two tenders for a quantity of 100,000 M/Tons).

The loss was pointed out to the management in October 2009 and reported to the Ministry in November 2009. The management in its reply dated January 5, 2010 stated that they had held detailed discussions with Managing Director, Public Procurement Regulatory Authority (PPRA) as the rules do not allow negotiation. They added that in the first tender, the supplier offered to enhance the quantity but the Joint Secretary, Ministry of Commerce proposed that a decision in this regard should not be taken unless ministry concerned decides. They further stated that the Ministry in its letter dated March 2, 2009 limited the quantity of sugar import to 25,000 M/Tons. The reply was not convincing as the Advisor to Prime Minister through a letter dated February 20, 2009 had advised TCP to import at least 100,000 M/Tons of sugar.

The issue was discussed in the DAC meeting held on January 26, 2010. The management informed that they had taken up the matter with PPRA Authorities, which had advised that negotiations with bidders were not allowed. The DAC directed the management to submit documentary evidence in this regard through a revised reply. However, no revised reply was received till the finalization of this report.

18. **Loss due to import of sugar at higher rates – Rs 74.194 million**

The directives of the Economic Coordination Committee (ECC) of the Cabinet to Trading Corporation of Pakistan (TCP) for import of 200,000 MT sugar to meet the domestic requirements should have been complied with in letter and spirit in the best interest of country and its organizations.

TCP in partial compliance of ECC directives opened Letter of Credit for import of 75,000 M/Ton sugar against which about 56,314.50 MT sugar was imported

through three ships. The tenders were called for in parts and in subsequent tenders offers were authorized to the suppliers for quantities less than the tendered quantity as the prices kept on increasing (details are given below).

S.No	Vessel Name	Qty. Tendered (M/Tons)	Qty. Arrived (M/Tons)	Rate per MT (US $)	Diff. with 1st tender (US$)	Effect of Difference (US$)
1	Rising Phoenix	25,000	26,250.00	451.45	-	-
2	Atlantic Dream	50,000	16,100.00	474.00	22.55	363,055
3	Shakhtar	50,000	13,125.00	494.00	43	564,375
	Total:	125,000	55,475.00	-	**Total**	**927,430**
						Rs 74,194,400 @ Rs.80/US$

Against ECCs instructions to import 200,000 MT of sugar, only 150,000 MT were tendered Out of this, only 125,000 MT contracts were awarded; resultantly only 55,475 MT sugar was received. Hence, short procurement of 144,525 M/Tons was made.

The matter was reported to the management on July 24, 2009 and the Ministry on September 5, 2009. The management in its replies dated September 9, 2009 and September 25, 2009 stated that TCP adopted transparent import procedures as per PP Rules 2004. Audit contended that provisions of Rule No.42 (d) should have been invoked to invite other bidders to match the lowest offers in the best interest of the country since special conditions existed in terms of increasing prices.

The issue was discussed in the DAC meeting held on October 9, 2009. The management explained that delay in procurement resulting into high price purchase of sugar was caused due to instructions from the Government. The DAC directed that relevant documents mentioning Government directives be provided to Audit without delay. No such documents were provided to audit till finalization of this report.

19. Irregular increase in transportation rates of wheat - Rs. 3.021 billion

The Clause 2 (C) of terms & conditions for transportation / logistics company and 5 (C) of contract agreement finalized in November 2007 with the transporters to transport wheat from Port Qasim and Karachi Port to the food centers spread all over the Country provide that all expenses, government levies, costs in addition to the rates approved, shall be borne by the transporters themselves.

Trading Corporation of Pakistan (TCP) allowed increase in the rate of transportation during March 2008 to the extent of 18 percent (effective during the balance term of the contract) of the agreed rates whereas the fuel prices increased from their lowest level in February 2008 till their peak in April 2008 by 7.8 percent. Moreover, TCP paid extra costs to the Transporters @ Rs. 20,000 per truck (to 98 trucks) and Rs.400 PMT on account of deviation from settled routes under food department directives and due to partial closure of Kohat Tunnel respectively. Audit contended that such increases and extra payments were not covered under the agreement with the transporters.

The irregularity was reported to the management on July 20, 2009 and the Ministry on September 5, 2009. The management vide its reply dated September 9, 2009 endorsed the audit observation that increase of 18% in transportation charges was allowed by the management on 1st and 16th March 2008. However, the management failed to justify increases in transportation rates greater than the fuel price increases. They mentioned the payment procedure to transporters whereby 90% of contracted amount was given to them on submission of tally sheets and rest 10% allowed on receipt of original bilties (transporter's receipt). The reply of the management was evasive and irrelevant since the issue raised in observation had not been addressed.

The management vide its reply dated September 25, 2009 reiterated its earlier stance by stating that the 18% increase was made due to increase in fuel prices. However, no reply was given to audit in respect of the fact that the rate of increase to transporters was greater than the increase in fuel prices and that the increased rates were extended till June 2009 although fuel prices were reduced to the extent of 20% (from Rs 60 to Rs 48) from October to December 2008.

The matter was discussed in the DAC meeting held on October 9, 2009. The management could not clarify the payment of Rs.20,000 per truck due to diversion caused by directives of the food department and Rs.400 per M/Ton due to partial closure of Kohat Tunnel (claimed but unsupported by documentary evidence) and raise of 18 percent due to increase in fuel prices in violation of the above mentioned terms and conditions of contract agreement. The DAC directed that the increased amount on above accounts may be calculated so that the exact amount of inflated rate was arrived at and further directed TCP that a revised reply may be

submitted to audit for verification. The compliance in this regard was awaited till finalization of this report.

20. Delivery of wheat at Gawadar Port caused extra transportation charges - Rs 1.088 billion

Rule-4 of the PP Rules 2004 provide that procurement should be carried out with the object that it brings value for money to the agency and the procurement process is efficient and economical. Moreover, TCP has among its objectives that it will achieve economies of scale by handling bulk transactions secure advantages of price, freight and port handling expenses.

Trading Corporation of Pakistan (TCP) imported 481,295 MT of wheat for national consumption from Russia which was received at Gawadar Port during wheat operation 2009. 23 vessels were berthed at Gawadar Port instead of Ports in Karachi as per directives of the Federal Government to make Gawadar Port operational. The wheat after being received on Gawadar port was transported to different godowns of TCP which are situated at Pipri, Landhi, and Korangi in Karachi. The transportation charges @ Rs 2,655 per M/Ton were paid by TCP instead Rs 395.30 per M/Ton from Karachi/Bin Qasim Port to TCP Godowns. Thus a total sum of Rs 1.278 billion was incurred on transportation of wheat from Gawadar to TCP Godowns located at Karachi which could only be Rs 190.256 million (with a saving of Rs 1.088 billion) had the vessels were berthed at Karachi /Bin Qasim Port instead of Gawadar Port.

The matter was reported to the management on July 20, 2009 and to the Ministry on September 5, 2009. The management in its replies dated September 9, 2009 and September 25, 2009 stated that the import of wheat through Gawadar port was done under Federal Government's directives. Audit's contention as to whether the TCP's management informed the Ministry regarding extra costs to be borne by the Government in case of imports through Gawadar Port remained unanswered.

The issue was discussed in the DAC meeting held on October 9, 2009. The Committee directed the management of TCP to submit a revised reply to Audit clearly mentioning that TCP informed Government through their Ministry about the extra costs expected to be borne by TCP in case of shipments through Gawadar port.

21. **Payment of demurrage on wheat carriers - US$ 11.626 million equivalent to Rs 930.133 million**

Rule-4 of Public Procurement Rules 2004 provides that procurement should be carried out with the object that it brings value for money to the agency and the procurement process is efficient and economical.

Trading Corporation of Pakistan imported wheat for national consumption during the years 2007-09, but the process adopted was not economical since huge expenditure was incurred on payment of demurrage on ships carrying imported wheat. Amounts of US$10.512 million (equivalent to Rs.841 million @ 1 US$ = Rs 80) and US$1.114 million (equivalent to Rs.89.133 million @ 1 US$ = Rs 80) were spent on demurrage on wheat carrying vessels during the years 2007-08 and 2008-09 respectively. Inefficiency in managing port operations was visible from the fact that in 2008-09, 34 out of 45 wheat carriers; and in 2007-08, 6 vessels out of 43 incurred demurrage.

The port demurrage was not an expense of routine nature but it was a penalty imposed against abnormal detention of the vessels beyond permissible time limit agreed as per charter party (payable in foreign exchange). Therefore, the same should have been avoided through fool proof, efficient and effective port operation which is one of the important functions of TCP. The above state of affairs occurred because no proper and well coordinated plan for arrival of vessels at discharge port was timely chalked out which resulted into bunching of a dozen of vessels at outer anchorage.

The matter was taken up with the management on July 20, 2009 and the Ministry on September 5, 2009. The management in its replies dated September 9, 2009 and September 25, 2009 stated that for wheat imported during 2007-08, the vessels arrived at KPT during February and March 2008 and that they requested the port authorities to allocate them births, directly vide their letter dated December 12, 2007 and indirectly through MINFA vide their letter dated December 1, 2007. Similarly, for wheat imports during 2008-09 it was stated that quantities were increased from the tendered quantity of 250,000 MT in the 2nd, 3rd and 4th shipments for which berths were not available. They added that in the year, 0.84 million MT out of 2.68 million MT of wheat was handled at Gawadar port wherein demurrage was caused due to bunching of wheat vessels.

The replies were not tenable as the replies from the port authorities had not been shown to Audit. Moreover, for the year 2008-09 wheat imports; last shipment date of the 4th shipment is September 20, 2008 whereas the arrival dates of vessels incurring demurrage started from September 22, 2008 which indicated that increase in quantities in the initial shipments could not be a factor causing demurrage. Further, demurrage at Gawadar Port was yet another instance of ill planned port handling by TCP.

The issue was discussed in the DAC meeting held on October 9, 2009. The Committee directed the management of TCP to provide to audit the replies of the port authorities to TCP to clarify that their efforts to obtain berths at port were meaningful. It was further directed that port operations planning in line with shipping intelligence information before finalizing commodity procurements may also be provided to Audit for verification. The compliance of DAC's directives was awaited till finalization of the report.

22. Loss on account of purchase of Rice at inflated price - Rs 762.500 million

The record of rice prices in December 2008 (TCP's presentation to the Standing Committee of Parliament on Trade and Commerce on January 1, 2009) available in Trading Corporation of Pakistan (TCP) showed that wholesale rate in Karachi was Rs.60,000 per M/Ton for Super Basmati Rice (new crop) and Rs.24,000 per M/Ton for Irri-6 Sindh Rice.

TCP awarded contracts for supply of Super Basmati Rice (new crop) and Irri-6 Sindh Rice on December 15, 2008 at the rates of Rs.87,000/- per M/Ton for 20,000 M/Tons and Rs.32,900/- per M/Ton for 25,000 M/Tons. Hence, a loss of Rs.762.50 million was incurred as per following details:

Variety of Rice	Minimum offer received (Rs. /M.Ton)	Wholesale rate in Karachi (Rs. /M.Ton)	Variation in price (Rs. /M.Ton)	Quantity purchased (M.Ton)	Loss suffered (Rs in million)
Super Basmati (New Crop)	87,000	60,000	27,000	20,000	540.00
Irri-6 White (15-20% Broken)	32,900	24,000	8,900	25,000	222.50
				Total	**762.50**

The matter was reported to the management on July 24, 2009 and the Ministry on September 5, 2009. The management vide its replies dated September 9, 2009 and September 25, 2009 put forth the following reasons in support of its purchases:

i. The market prices issued by City District Govt. Karachi (CDGK) were in the range of Rs.80-85/Kg for Super Basmati and Rs.32/Kg for Irri-6 rice.
ii. In reply to a U.O from TCP, MINFA stated that they cannot fix upper price limit for "this purpose", and that TCP should accept the lowest price "provided all other formalities have been fulfilled".
iii. The rice was milled and not husked which is the variety for local wholesale market reflected by its prices, therefore additional cost (Rs.16,000/PMT) on account of processing, packing, storage was added to the cost of rice.

The reply was not tenable on the following grounds:

i. The prices announced by CDGK are retail prices (trading in smaller quantities) and are always invariably higher than the wholesale prices, which in this case were relevant since a tender to procure 100,000 MT Basmati rice was floated.
ii. Since procurement was involved hence advice with reference to lower rates should have been solicited rather than fixing of upper price limit, to which MINFA replied to accept only lowest prices after meeting all formalities. Audit contended that TCP should have ascertained market prices as a due diligence matter before going for rice procurement tender.
iii. The distinction of milled and husked rice was not mentioned in the specifications tendered or supplied. Moreover, since no supporting document was provided in support of their claim of existence of such distinction this reply could be considered as an afterthought.

The issue was discussed in the DAC meeting held on October 9, 2009. The management could not clarify the correct wholesale rates on dates the rice was procured by TCP. The DAC directed TCP to provide relevant data (local procurement price of rice by exporters) during the procurement dates to Audit.

23. **Unjustified change in the tender opening dates of rice and negotiation with other bidders after opening tenders (violation of PPRA Rules -2004)**

Rule-40 of Public Procurement Rules 2004 provides that no negotiations will be allowed with other bidders after opening the tender and declaration of first lowest bidder. Moreover Rule-27 does not allow curtailment of biding time.

TCP initially decided January 6, 2009 as the tender opening date for the purchase of Irri-6 Rice which was later extended to January 19, 2009. Similarly for the purchase of Super Basmati Rice the initial date was January 7, 2009 which was extended to January 20, 2009. Later on the dates of opening of the tenders for purchase of Irri-6 rice and Basmati rice were changed to January 14, 2009 and January 15, 2009 respectively, curtailing five days in the bidding time of both the tenders.

In the same tenders for the Irri-6 white rice, 11 out of total 19 bids submitted were found responsive. M/s. Mustafa & Co. @ Rs 25,770 per M/Ton was found the lowest bidder. For Super Basmati Rice, 12 out of total 19 bids received were found responsive. M/s. Universal Trading Co. Karachi was found the lowest who quoted Rs 75,900 per M.Ton. TCP accepted the lowest bidders but counter offers were issued to the remaining responsive bidders for matching the price with the lowest bidders' rates.

Audit was of the view that fixing and altering the tender opening dates and negotiation with other bidders after opening the tenders and declaration of first lowest bidder was a violation of the PP Rules.

The irregularity was pointed out to the management on July 24, 2009 and the Ministry on September 5, 2009. The management in its replies dated September 9, 2009 and September 25, 2009 stated that out of nine tenders for rice, they finalized only three tenders and scrapped six tenders. They further stated that the dates for opening of tenders were extended to achieve the target of maximum participation and finalize the in-house preparation for this purchase. The bidders were asked to match the lowest price to get maximum quantity in shortest possible time but no one matched the lowest price. The reply was not tenable as the tender dates were not only extended against PP rules but also curtailed. Moreover, reasons for asking the bidders to match the lowest prices were not relevant in terms of PP rules and

principles of propriety. Mentioning the number of total tenders, as well as accepted and scrapped tenders was irrelevant and evasive.

The matter was discussed in the DAC meeting held on October 9, 2009. The management could not clarify as to why the tender dates were first extended and then again curtailed. The DAC directed to submit a revised reply to Audit.

24. Violation of Public Procurement Rules in award of time for submission of bids

Rule-13 of PP rules 2004 provides that at least 15 days time in case of local tender and 30 days time in case of foreign tender must be given to the parties to ensure effective participation in the tendering process.

Trading Corporation of Pakistan (TCP) for the purchase of 100,000 M/Tons of Super Basmati Rice and 200,000 MT Irri-6 Rice published Tender Notice in two newspapers *viz.* daily 'Dawn' and 'Jang' on December 12, 2008 (Friday). The bids were required to be submitted by December 15, 2008 (Monday). Moreover, aforesaid tender notice mentioned that detailed terms and conditions of the tender could be purchased on cash payment from December 11, 2008. Thus, 15 days time was not allowed to the bidders which was in violation of PP Rules, 2004.

The matter was reported to the management on July 24, 2009 and the Ministry on September 05, 2009. The management vide its replies dated September 09, 2009 and September 25, 2009 stated that tender notice was published in The Nation, Business Recorder (Karachi), Aman (Faisalabad), Balochistan News (Quetta), Aftab, Shumal, Nijat, Express (Karachi), Business Recorder on December 06, 2008 and later on, on the instructions of the Chairman it was also published in two more dailies, The daily 'Dawn' and the 'Jang' on December 12, 2008. They further stated that rice was procured on urgent basis to stabilize market against the bumper crop. However, newspaper clippings confirming the publication were not provided to audit. Audit contention was that if the tender was published on December 6, 2008 which needed to be verified even then, the mandatory requirement of 15 days bid submission time was not fulfilled by the management.

The issue was discussed in the DAC meeting held on October 9, 2009. The management could not clarify as to why the time period of 15 working days in

compliance of PP Rules was not ensured after the publishing of ads in the newspapers. The DAC directed to submit a revised reply to Audit.

25. Non-recovery of Godown Shortage from the custodian of TCP Pipri Godown – Rs 11.080 million

The terms and conditions of contract with the custodian by Trading Corporation of Pakistan (TCP) provide that any shortage will be borne by the custodian.

TCP awarded contract to discharge and transport 13,825 M/tons of imported sugar during March 26, 2006 to April 4, 2006 from Port Qasim to TCP's Pipri Godown, to M/s. International Equipment (handling agent/custodian). On finalization of deliveries, a quantity of 383.388 M/Tons was determined as Godown shortages.

The Finance Division of TCP evaluated that the cost of shortage of 383.388 M/Ton amounted to Rs.20.080 million. This shortage, despite deployment of regular TCP employees at the Godowns, indicated mismanagement. It also indicated loose internal control and lack of proper monitoring and supervision over custodians by the management of TCP.

The matter was reported to the management on July 24, 2009 and the Ministry on September 5, 2009. The management vide its reply dated September 25, 2009 stated that as per terms and conditions of contract shortages were to be borne by the custodian, and out of total Rs.20.080 million, Rs.9.000 million had been adjusted from the security deposit of the custodian leaving balance of Rs.11.080 million which was yet to be recovered. It is worth mentioning here that the Journal Voucher for the adjustment of Rs.9.000 million, provided to audit, was neither signed by any authority nor it had the voucher No. and date. In order to examine the case in detail, the complete record/files were called for which were awaited.

The matter was discussed in the DAC meeting held on October 9, 2009. The management failed to provide any supporting documents in favour of its claim of partial recovery of Rs.9.000 million from the custodian. The DAC decided that management should provide valid supporting documents to Audit to verify the recovery of Rs. 9.000 million.

26. Improper management of real estates leading to unauthorized occupation

Article No. III (9) of the Memorandum of Association, Trading Corporation of Pakistan (TCP) provides that the Corporation will let on hire all or any of the property whether movable or immovable. The objective manifests TCP's responsibility to utilize profitably its movable / immovable property rather than allowing illegal occupations by unauthorized persons.

TCP had not been utilizing some of its properties / land profitably due to unauthorized occupation, vacant or rent being unpaid as detailed below:

S. No.	Nature of Property	Current status of Property
1.	5 Officers Bungalows, 48 Staff Flats, 66 Bachelors Flats, 38 Staff Quarters at Bin Qasim / Pipri and 36 Flats and 6 Officers Bungalows in Landhi, Karachi	All Bungalows / Bachelor Flats were unauthorizedly occupied without any rent.
2.	3 Officers Bungalows in Qasim Rice Godown, Bin Qasim, Karachi	No record about status of the bungalows was supplied to Audit.

The non-securing the interest of the Organization indicated inadequate assets management prevailing in the Organization, which required remedial measures.

The issue was taken up with the management in October 2009 and referred to the Ministry in November 2009. The management in its reply dated January 5, 2010 stated that those premises were with old construction and due to deteriorated condition; officers and staff of TCP were not willing to live there. The reply was not tenable, as condition of assets cannot be made a justification for allowing unauthorized occupation.

The matter was discussed in the DAC meeting held on January 26, 2010. The management clarified that the premises were occupied before merger of RECP with TCP and they had made efforts to evacuate the occupants but could not succeed due to law and order situation created by them. The DAC directed the management to take up the matter at Ministry level for action from Government of Sindh and submit a revised reply within two weeks elaborating their efforts. However, no progress was intimated by the management till the finalization of this report.

PAKISTAN TOBACCO BOARD

27. Pakistan Tobacco Board was established under an Ordinance (Ordinance No.1 of 1968, dated 8th February, 1968) as a semi autonomous body under the control of Ministry of Commerce. The main functions of the Board are to regulate, control and promote the export of tobacco products, levy and collect cess at the rates prescribed by the Government from time to time not exceeding 3% *ad valorem*.

Annual Audited Accounts of the Board for the years 2007-08 and 2008-09 were not furnished by November 30, 2009.

AUDIT PARAS

28. Embezzlement of cash- Rs 9.097 million

In accordance with para 13 of GFR Vol-I, every controlling officer is required to ensure that adequate provisions exist to prevent and detect errors and irregularities in the financial proceedings; guard against waste and loss of public money and inspect at least once in every financial year to see whether:

i. Rules of handling and custody of cash are properly understood and applied.
ii. Satisfactory arrangement exists for systematic and proper maintenance of books of accounts and other ancillary record concerned with the initial accounts.

Contrary to the above, Pakistan Tobacco Board (PTB), neither maintained/signed Cash Book properly nor prepared bank reconciliation statements on monthly basis. The DDO was entrusted the additional duties of Internal Audit Officer, Deputy Secretary Administration and Deputy Director (B&F) simultaneously which was against the spirit of internal controls system. The management detected embezzlement of cash in May 2008, but no departmental enquiry was conducted to fix the responsibility on the persons at fault. As per initial enquiry dated December 23, 2008, the Cashier altered the amount in signed cheques, made fictitious entries in the cash book and did not deposit the receipts of the Board in the Bank during the period from July, 2006 to November, 2008. Due to

negligence of the DDO in the discharge of his duties, a sum of Rs 9.097 million was embezzled by the Cashier.

The matter was reported to the management on September 24, 2009 and the Ministry on November 11, 2009. The management in its reply dated October 4, 2009 stated that the case was referred to NAB in December, 2008 and the accused employees were under custody of NAB Authorities. Audit is of the view that a huge amount was embezzled due to non-segregation of duties and the loose internal controls,.

The DAC in its meeting held on January 9, 2010 directed the management to pursue the case. No progress was intimated till finalization of this report.

29. **Unauthorized procurement of vehicles – Rs 4.800 million**

In terms of Para a (1) of Cabinet Secretariat O.M. dated July 22, 2005 in case of replacement of condemned vehicles the Secretaries In-charge, Ministries / Divisions and subordinate offices under their administrative control are empowered to sanction purchase of new vehicles in replacement of condemned vehicles and copy of the sanction will be sent to Cabinet Division.

PTB purchased 4 vehicles (two 2000 CC cars and two pick-up) worth Rs 4.800 million as replacement of condemned vehicles during 2007-08 without prior sanction from the Administrative Secretary. This resulted in unauthorized procurement of vehicles worth Rs 4.800 million.

The matter was reported to the management on September 15, 2009 and the Ministry on November 11, 2009. The management in its replies dated October 4, 2009 and January 4, 2010 stated that PTB being an autonomous entity having its own financial sources purchased four vehicles in 2007-08 in lieu of outlived vehicles. It was further stated that *ex-post facto* approval would be obtained in due course. The reply was not convincing because the Federal Government policy was equally applicable to PTB which was not followed.

The DAC in its meeting held on January 9, 2010 directed the management to obtain *ex-post facto* approval of the Secretary. No progress was intimated till finalization of this report.

30. **Un-authorized procurement of imported vehicle - Rs 3.620 million**

In terms of Para-C of the Cabinet Division OM dated July 22, 2005, the ban imposed on procurement of new vehicles was lifted and the summary for relaxation of the ban to the Prime Minister was not required. The instructions with reference to imported vehicles circulated vide Cabinet Division's D.O letter dated February 28, 2000 were applicable to Ministries/Divisions attached departments/ Autonomous/Semi autonomous Bodies and Corporations.

Contrary to the above instructions, PTB purchased one imported vehicle, Land Rover 2.2 D.W Model 2007 from M/s. Hayat Khan Pvt Ltd. at a cost of Rs 3.620 million on January 2, 2008, without obtaining prior approval of the Prime Minister.

The matter was reported to the management on September 24, 2009 and the Ministry on November 11, 2009. The management in its replies dated October 4, 2009 and January 4, 2010 stated that imported vehicle was purchased after completion of formalities, through press and PTB was an autonomous body having its own financial sources. The reply was not acceptable because the government instructions are also applicable to autonomous bodies working under the control of Federal Government.

The DAC in its meeting held on January 9, 2010 directed the management to get ex- post facto sanction from the Cabinet Division. No progress was received till finalization of this report.

31. **Non-recovery of outstanding advances - Rs 1.100 million**

In terms of Para-666 of Treasury Rules, no disbursing officer should allow to disburse a second advance without producing a detailed bill to account for the advance already withdrawn and in no case the adjustment should be delayed beyond the end of the financial year.

Contrary to the above, Pakistan Tobacco Board paid advances frequently to Transport and Store Officer (TSO) without adjustment of previous outstanding advances. An amount of Rs 1.100 million was outstanding against the officer as on June 30, 2009. The officer retired on January 4, 2009 but amount was neither

adjusted nor recovered from him. This resulted in non-recovery of outstanding advances of Rs 1.100 million.

The matter was reported to management on September 24, 2009 and the Ministry on November 11, 2009. The management in its replies dated October 4, 2009 and January 4, 2010 stated that PTB could not afford to stop the advance to TSO in order to run the affairs of the Board on day to day basis. The reply was not convincing as the management violated the rules and did not ensure strict financial discipline.

The DAC in its meeting held on January 9, 2010 directed the management to recover the outstanding advances. Compliance was awaited till finalization of this report.

32. **Shortage of cash - Rs 0.668 million**

In terms of Para-77 (III) & (IV) of Treasury Rules, the Cash Book should be closed regularly and completely checked. The head of the office should verify the totaling of the Cash Book or this be done by other responsible subordinate other than the writer of the Cash Book and initial it as correct. At the end of each month the head of office should verify the cash balance, the Cash Book and record a signed and dated certificate to that effect.

During physical verification of cash book of Pakistan Tobacco Board, Head Office on September 19, 2009, shortage of cash Rs 667,519 was found as per Cash Balance recorded in Cash Book and physical available balance with the Cashier which tantamount to misappropriation of cash.

The shortage of cash was pointed out to the management on September 29, 2009. The management in its reply dated October 4, 2009 stated that the then Cashier and DDO were involved in embezzlement case. The reported payments were made against the TA/DA bills of Board Members in advance without obtaining sanction of competent authority and when the said bills were taken into account the difference would be adjusted. The reply was not convincing as the difference in Cash Book has not been set right. Although, the management admitted recovery but neither disciplinary action against the defaulters was taken nor was recovery effected.

The DAC in its meeting held on January 9, 2010 directed the management to get verify the latest position from audit. No progress was intimated till finalization of this report.

33. Misappropriation by fictitious adjustment - Rs 0.528 million

As per paras 4 & 5 of GFR Vol-I, all transactions to which any officer of government is a party in his official capacity must be brought to account without delay. Moneys received as dues of government or for deposit in the custody of government should be credited into the Public Account in accordance with the Treasury Rules.

An amount of Rs 528,143 was outstanding against the Ex-Chairman, PTB as on July 1, 2008. The said amount was shown as adjusted in Advance Register on November 30, 2008 against cash received from the concerned officer but voucher/receipt number was not recorded in the Advance Register. When above receipt was cross checked with the Cash Book of relevant period, no such cash entry was available. This indicated that either the amount was not actually paid by the Ex-Chairman, PTB and only a fictitious entry was made or the amount in question was received but not deposited by the cashier. In both the cases an amount of Rs 528,143 was misappropriated.

The matter was reported to management on September 24, 2009 and the Ministry on November 11, 2009. The management in its replies dated October 4, 2009 and January 4, 2010 stated that original record was in the custody of NAB and therefore the actual position cannot be intimated at this stage. The reply was not convincing because the photo copies of the relevant cash book and advance register was available with the management which proved the contention of audit.

In DAC meeting held on January 9, 2010, the management intimated that the case was under investigation with NAB. No progress was received till finalization of this report.

34. Irregular expenditure due to re-employment – Rs 0.403 million

In pursuance of Cabinet Secretariat letter No. F.No.2/10/2007-E-1 dated December 4, 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 etc under administrative control of the Government, requires approval of the Prime Minister. All cases of re-employment are subject to the following conditions/criteria:

i. Non-availability of suitable qualified or experienced officer to replace the retiring officer,
ii. The officer is a highly competent person with distinction in his profession/field,
iii. The re-employment does not cause a promotion blockage; and
iv. Retention of retiring officer for a specified period is in the public interest.

Pakistan Tobacco Board re-employed Secretary, PTB (BPS-19) on September 30, 2008, when the officer was retired on attaining the age of superannuation without referring the case to the competent authority for approval. However, the case of re-employment was sent to Ministry of Commerce vide letter dated October 22, 2008. But, the Ministry refused to forward the case as the case was required to be submitted six months in advance before the retirement of the officer. On posting of regular Secretary PTB, the Board appointed the officer as advisor vide office order dated August 3, 2009 for which PTB's Board was not competent. This resulted in an irregular expenditure of Rs 402,805 on account of pay and allowances for the period from October 2008 to August 2009.

The matter was reported to management on September 24, 2009 and the Ministry on November 11, 2009. The management in its replies dated October 4, 2009 and January 4, 2010 stated that the contention of the audit was correct as the above procedure was also mentioned in PTB bye-laws and service rules, but the officer was re-employed in the larger interest of the public as well as PTB. In reply the management admitted the irregularity but no corrective measures were taken.

The DAC in its meeting held on January 9, 2010 directed the management to get the expenditure regularized from the competent authority. Compliance was awaited till finalization of this report.

MINISTRY OF DEFENCE

PAKISTAN INTERNATIONAL AIRLINES CORPORATION

35. Pakistan International Airlines Corporation (PIAC) was incorporated on April 18, 1956, under the Pakistan International Airlines Corporation Act, 1956 (PIAC) Act 1956). Its shares are quoted on all stock exchanges of Pakistan. 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**.**

AUDIT PARAS

36. Irregular purchase of B-777-300ER Full Flight Simulator – UK£ 5.711 Rs 770.980 million

Clause-12 (2) of PPRA Rules 2004 provides that all procurement opportunities over one 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. Further, Rule-47 of PPRA (Public Access and Transparency) states that as soon as a contract has been awarded, the procuring agency shall make all documents related to the evaluation of the bid and award of contract public.

Pakistan International Airlines Corporation (PIAC) entered into an agreement on June 17, 2009 with M/s Thales Trainings and Simulator Ltd. UK, the lowest bidder, for purchase of Full Flight Simulator for training on newly inducted B-777-300ER aircraft, at the cost of UK£ 5.711 million (Rs770.98 million @ UK£1 = Rs.135). Local and International Tenders were floated through local and international print media in November 2007. However, neither advertisement was floated at PPRA Website nor purchase agreement was disclosed on the PIAC and PPRA Websites for public access. Further, no integrity pact was signed by both the parties and incorporated in the agreement. NAB evaluation form required to be submitted in the cases worth Rs50 million and above was also not attended to. The heavy expenditure on procurement without observance of rules / transparency parameters indicated loose internal controls prevailing in the Organization.

The irregularity was pointed out to the management and Ministry in November 2009; however, no reply was received.

The matter was discussed in the DAC meeting held on December 21 & 22, 2009. The DAC expressed its displeasure over no reply from the management against this Para till the meeting and termed it an irresponsible attitude on the part of concerned officials and decided that it would stand. However, the concerned representative came up and informed that they had advertised in international press; however, it was not floated on PPRA website. Upon request of the management for giving an opportunity to reply, the DAC directed the management to submit a comprehensive reply well before pre-PAC meeting of the DAC.

37. Non-replacement of defective material – Rs 96.146 million

Paras-12 & 14 of Conditions of Purchase in the Manual for Procurement of Engineering and Maintenance Goods in Pakistan International Airlines Corporation (PIAC) provide that "all items must meet in all respects with the specifications and conditions of the Order and must be in good condition on receipt, otherwise they will be liable to rejection and in case of rejection, goods will be removed by the suppliers for replacement at their expense".

In PIAC, Procurement and Logistics (P&L) Division, the Discrepancy Reports revealed that technical store items valuing Rs 96.146 million were imported from 42 foreign suppliers in the year 2008, which were rejected due to short packed / duplicate shipment / defective material / used condition / life expired or damaged. But neither the material was got replaced, nor cost of the items including the custom duty and other taxes were recovered from the suppliers till audit in October, 2009. In certain cases material was returned to the suppliers but no credit note for adjustment was made with the suppliers. Thus, due to negligence of concerned division, the cost of the items was not recovered which caused blockage of an amount of Rs 96.146 million, a likely loss to PIAC.

The irregularity was pointed out to the management on October 30, 2009 and reported to the Ministry on November 7, 2009, but no reply was received.

The matter was discussed in the DAC meeting held on December 21 & 22, 2009. The management informed that the suppliers were registered and made supplies on regular basis. They added that replacement of defective material was part of the process and adjustments were made in subsequent supplies through credit notes. They further added that they had made recovery in majority of the cases.

The DAC directed the management to get the partial recoveries verified from Audit and directed the management to make efforts for full recovery. However, verification by Audit revealed that no credit note had been received as adjustment against recoveries from the vendors till January 25, 2010.

38. Purchase of Aab-e-Zam Zam at exorbitant rates – SAR 1.680 million (Rs 36.960 million)

Pakistan International Airlines Corporation (PIAC) procurement policies provide that the products / goods, services, works, plant and equipment and Information System needed to carry out the new projects and or the operation and maintenance of the Airline, are procured with due attention to technically the best, economical and the lowest cost. Moreover, PIAC Procurement Manual provides that amount of contract exceeding Rs 20 million should be made through Central Purchase Committee.

In PIAC, a contract dated October 14, 2008 for supply of 140,000 plastic cans of 10 litres capacity containing Aab-e-Zam Zam @ Saudi Arabia Riyal (SAR) 22 per can involving a total cost of SAR 3.080 million (equal to Rs 67.770 million approx) was concluded at Jeddah Station. The agreed price of SAR 22 per can was exorbitant, as the normal rate of Aab-e-Zam Zam during the Hajj season was within SAR 10 per can. Ministry of Religious Affairs, Zakat & Ushar on October 8, 2008 had taken the decision of continuation of complimentary supply of a 10 litres can of Aab-e-Zam Zam to each Haji, at respective airport of Pakistan. However, the management did not place the procurement case before the Central Purchase Committee (CPC) for approval as the contract amount exceeded Rs 20 million. Moreover, the agreement was signed by the Country Manager (Jeddah Station), which was in contravention of PIAC Schedule of Powers.

Audit was of the view that despite availability of sufficient time for Hajj in December, 2008, the management by awarding contract in haste, within 6 days of

procurement decision, caused a loss of Rs 36.960 million (worked out at 140,000 cans x difference excess amount SAR 12 = SAR 1.680 million x conversion rate Rs.22) to the Organization due to imprudent procurement.

The irregularity was pointed out to the management and Ministry in November 2009, but no reply was received.

The matter was discussed in the DAC meeting held on December 21 & 22, 2009. The DAC expressed its displeasure over no reply from the management against this Para.

39. Irregular award of contracts for consultancy and refurbishment of Chairman Secretariat – Rs 55.774 million

Rule-4 of Public Procurement Rules, 2004 make procuring agencies responsible to 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. Moreover, Rule-9 prohibits splitting of works.

Further, Rule-16 provides that the procuring agency engaging in pre-qualification shall announce in the pre-qualification documents all information required for pre-qualification.

Pakistan International Airlines Corporation (PIAC), Works Department invited applications through PIAC website on June 10, 2005 and national dailies on June 17, 2005, from interior designing firms for work of up-gradation, renovation and improvement of the interiors of Chairman Secretariat and some Executive Offices. The financial limits of the works were not indicated in the pre-qualification notice. In response, eight parties applied for pre-qualification. The management selected two interior designing firms for small interior designing works up to Rs 3 million, whereas only one firm was short-listed and selected for major projects of interior designing works above Rs 3 million. However, instead of re-tendering for achieving proper competition and obtaining economical rates for the works above Rs 3 million, the management exercised discretion by awarding the contract at a total cost of Rs 7.894 million to the single short listed firm (under category of over Rs 3 million) as the sole suitable bidder. The charges for consultancy and supervision were agreed at exorbitant rate of 8.5% of the total contract cost. The

fee could have been considerably lesser, had proper competition been allowed by giving other parties a chance. Thus, the management deprived the Organization from competitive rates. Also, considering the difficult financial situation that the Corporation was in, it was an imprudent use of financial resources.

Although the management hired the above consultant before carrying out the work by foreseeing it as a consolidated job, yet the work was carried out in piecemeal raising 14 different Capital Sanctions during the year 2005-06 at the rate of Rs.5,160 per sq.ft. A total expenditure of Rs 55.774 million was incurred on the up-gradation / renovation work. The management neither took this huge project as a single work for obtaining competitive rates nor the engineer estimates were prepared to evaluate the bids. Instead, four firms were selected for all the jobs without open tender. The irregular award of work costing Rs 55.774 million indicated loose internal controls prevailing in the Organization.

The irregularity was pointed out to the management in April 2009 and reported to the Ministry in November, 2009, but no reply was received.

The matter was discussed in the DAC meeting held on December 21 & 22, 2009. The DAC observed that irregularity had occurred.

40. **Employees in excess of sanctioned strength – Rs 101.405 million**

Chapter 13 Clause No. 13.02.02 of Personnel Policy Manual defines the procedure for horizontal movement / re-designation of employees requires that "The Human Resource & Administration Department shall initiate a case to fill in an appropriate assignment for the purpose of horizontal movement / re-designation of concerned officer within the approved HRB". Moreover, the manpower at out station is required to be retained as per approved Human Resources Budget (HRB).

In Pakistan International Airlines Corporation (PIAC), a random sampling revealed that 147 employees pertaining to various categories at two offices and one station as detailed below were posted in excess than approved HRB and without proper sanctioned strength. The management while making internal postings did not consider the approved strength of the entities resulting in extra financial burden of Rs 101.405 million for the period from January 2007 to April

2009 on account of salary and allowances; whereas the Corporation was already suffering from losses.

S. No.	Office / Station	Department	Approved HRB	Actual strength	Excess No. of employees
1	IT Department	-	20	53	33
2	Multan	Marketing	12	30	18
		Finance	1	9	8
		HR & Admn	3	6	3
		Works	0	1	1
		P&L/Food	8	16	8
		PAX Service	34	63	29
		TGS Maint.	10	23	13
		Engg.	5	14	9
3	Karachi Booking Office	Marketing	5	11	6
		Reservation	19	32	13
		Cargo	3	9	6
		Total	**120**	**267**	**147**

The irregularity was reported to the management in May, August and September, 2009 and referred to the Ministry in August, October and November 2009. The management in their replies dated June 19, 2009 and September, 2009 stated that study of HRB was conducted in 1985-87 and thereafter no such exercise had been done. They added that the Head Office was working on it and the HRB would be finalized keeping in view the huge increase of workload particularly at the stations and that rationalization of manpower requirement needed to be expedited at PIAC (HO) level. Moreover, the management also stated that one time promotion had been given to all employees up to Pay Group-VIII on certain criteria irrespective of the availability of position in the salary group.

The reply was not tenable, as it was prime responsibility of the management to keep the strength within the approved limit and should not have allowed anybody to join duty without approved HRB or in excess of HRB. As regards the increase of workload at stations, no considerable increase in the number of flights at Multan Station was observed. The violation of standing regulations indicated loose internal controls within the Organization.

The matter was discussed in the DAC meeting held on December 21 & 22, 2009. The management informed that number of flights at Multan Station had been increased considerably; however, the HRB strength had not been revised since 1985-87. The management added that promotion of employees on the basis of

completion of certain years were made irrespective of the availability of higher vacant posts, therefore, this situation had arisen. For excess employees in IT, the management clarified that there was old technology in IT Department and computer related expertise was not available; hence those persons were appointed on contingent basis with the approval of Managing Director. Upon query from Audit, the management informed that advertisement was not made for the recruitment. Audit pointed out that commencement of an I.T Project was a planned matter and cannot be treated as emergency nature calling for contingent appointment. The management informed that the M.D. was authorized to make such appointment.

The DAC observed that the basic requirement for promotion to higher post is availability of vacant post as per sanctioned strength; whereas, the policy of bulk promotions adopted by the Organization is a violation of the rules. The DAC expressed displeasure over the unsatisfactory reply by the management. The DAC further observed that irregularity had occurred, as the M.D. was not expected to override transparency in competitive recruitment. The management requested for a revised reply. The DAC allowed one day for submission of a revised reply. The management in its revised reply dated December 22, 2009 reiterated its earlier stand by informing that the excess strength was due to one-time promotion and permanent absorption of contractual employees, whereas that contention was not found convincing by the DAC.

41. **Irregular appointment / promotion of officers on contract and subsequent permanent absorption – Rs 48.851 million**

In-accordance with Government policy regarding contract appointments for the posts in Autonomous / Semi Autonomous Bodies, Corporations, Public Sector Companies, etc., circulated vide Cabinet Secretariat, Establishment Division letter No.06/02/200 R-3 dated May 6, 2000, the appointment on contract basis can be made for three maximum periods of two years after obtaining standing instructions from the Administrative Ministry / Division concerned specifying such posts and parameters governing the contract appointment in consultation with Board of Directors of concerned organizations. Vacancies should be advertised in the leading national and regional newspapers. Selection should be made through regularly constituted Selection Committee / Board.

Moreover, Article No.10 of Pakistan International Airlines Corporation (PIAC) Act, 1956 provides that the Corporation may appoint such officers, advisers and employees, if the Federal Government so directs, on such terms and conditions the Federal Government may specify. Clause No.30.01.01 of the PIAC's Personal Policy Manual provides that promotion shall be made on the basis of merit and Corporation's 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 the above, contract appointment and promotion of officers in PIAC were made in disregard of government directives and organizational rules:

(i) Irregular appointment of officers on contract and subsequent permanent absorption – Rs 44.492 million

PIAC, Information Technology Department appointed two officers on contract in whose case following violations were made with reference to above policies respecting fair competition, promotions, and pay scale fixation.

S. No.	Designation-Pay Group (Personal No.)	Appointment date/ Salary	Contract Period	Promoted Group/date/ salary	Remarks
1	Communication Engr-VII (P.No.56814)	24-01-03/ Rs.10,943	5yrs	VII/ 24-2-03/ Rs.48,000 + perks	Pay Scale of Communication Engineer is Group VI-he is appointed in VII No Internal or external Advertisement No Bases for enhancement, no performance evaluation Cancellation of initial letter and issuance of another within period of just one moth only
	Promoted as Manager Communication (Phones)		3 yrs	VII/ 31-3-08/ Rs.48,000 + perks	Designation changed in violation of PIA Personnel Policy Manual and Contract Agreement
2	Communication Engineer -V (P.No.56810)	24-03-03/ Rs.8,845	5 yrs	V/26-2-03/ 22,000	No Internal or external Advertisement No Bases for enhancement, no performance evaluation
			3 yrs	VIII/ 31-3-08/ 37,000	Promotion in violation of PIA Personnel Policy Manual and Contract Agreement
				VIII/ 11-6-2009/ 37,000 +10,000	Unauthenticated I.T Proficiency Pay in addition to contract salary is given in violation of PIA Personnel Policy Manual and Contract Agreement

As evident from above details of violation, the salary paid to the two officers was irregular, which was to the extent of Rs 7.671 million till Audit in August 2009. Moreover, both the officers were subsequently absorbed permanently in PIAC on July 15, 2009.

The management in similar way also appointed 13 officers on contract basis and repeated same violations involving payment of salary to the extent of Rs 36.821 million till August 2009 which was irregular. The incurrence of heavy expenditure on irregular appointment / promotion by the management indicated loose internal controls adding to the losses. Besides, de-motivating effect on regular employees could not be ruled out due to these irregular appointments followed by their promotion / subsequent permanent absorption.

The irregularity was pointed out to the management on November 3, 2009 and reported to the Ministry on November 16, 2009; however, no reply was received.

The matter was discussed in the DAC meeting held on December 21 & 22, 2009. The DAC observed that irregularity had occurred. The DAC also directed the management to investigate such cases for remedial action well before the time it is placed before PAC.

(ii) Malpractices in appointment of a Programmer – Rs 4.359 million

Pakistan International Airlines Corporation (PIAC), appointed a person as Programmer in Pay Group-V on December 26, 2001, without giving any advertisement to fill the above-mentioned post. The domicile of the incumbent submitted at the time of entry in service was found bogus upon verification. Consequently, his services were terminated on May 30, 2002. But despite this forgery, the management re-appointed / re-instated him to join the duty on December 4, 2002 and his period of absence w.e.f. May 30, 2002 to December 4, 2002 was also regularized. Whereas, Clause No.34.01.03 of Personal Policy Manual of PIAC prohibits re-employment of a persons who is dismissed from the service of the Corporation or any other employer, or convicted of an offence involving moral turpitude.

Further, he was absorbed in Pay Group – VII, whereas he was initially appointed in Pay Group – V. Moreover, his salary was revised irregularly from Rs.7,000 to Rs.28,000 in March 2007. The contract agreement was also signed for further three years, i.e., April 1, 2008 to March 31, 2011. Thus, the management violated

the contract agreement's Article-5, which provided that the employee shall not be entitled to any emoluments, benefits or facilities except those specified in Article-4. It indicated misuse of power and undue favor extended at the cost of Corporation funds involving financial impact of Rs 4.359 million.

The irregularity was pointed out to the management and Ministry in November, 2009; however, no reply was received.

The matter was discussed in the DAC meeting held on December 21 & 22, 2009. The management informed that the domicile was found bogus upon verification hence, the official was dismissed; however, later on he brought a genuine domicile from the same office and made an appeal. He was, therefore, again appointed. The management further clarified that promotion was not given to the official but he was placed / absorbed in the pay group as per salary drawn with the approval of competent authority.

The DAC observed that the irregularity had occurred.

42. **Non-recovery of outstanding dues from Government Organizations – Rs 75.557 million**

Clause-2.2 of Pakistan International Airlines Corporation (PIAC) Credit Policy provides that 60 days credit is allowed to the Agencies of Government of Pakistan. All further credit on overdue accounts should be stopped until all past dues are cleared.

In PIAC, Revenue Accounting Department (Cargo), a huge amount of Rs 175.121 million on account of Foreign Mail & Cargo Transportation was outstanding till audit in November, 2009 against the Pakistan Post Office since the year 2004.

Moreover, an amount of Rs 26.618 million was outstanding as on December 31, 2008, which was due on account of fare of Hajis from Ministry of Hajj and Religious Affairs since the year 2006. However, despite lapse of 03 years, the management did not take prompt steps to realize the dues within the credit period. Instead, the management accounted for the amount as Trade Debts.

Despite borrowing heavy amount from DFIs and Banks at high markup to run the Corporation's day-to-day business, the management did not take effective steps to

recover the long outstanding dues. The realization was becoming remote with the passage of time due to ineffective receivable management prevailing in the Organization.

The non-recovery was pointed out to the management on November 6, 2009 and reported to the Ministry on November 18, 2009, however, no reply was received.

The matter was discussed in the DAC meeting held on December 21 & 22, 2009. The management informed that Pakistan Post Office had made payment after clearance period of ninety days and the outstanding in September, 2009 was only Rs 48.939 million.

As regards recovery from Ministry of Religious Affairs, the management informed that the facility was extended to them on the instructions of the then Federal Minister for Religious Affairs; however, they did not receive any payment despite efforts.

The DAC directed the management to make efforts for full recovery from Pakistan Post Office. As regards the recoverable amount from Ministry of Religious Affairs, the DAC directed the management to refer the case to Government Adjustor, Ministry of Finance through Secretary Defence by providing full details. However, no progress was intimated by the management till the finalization of this report.

43. Non-recovery of dues from Pax Sales Agents – Rs 24.860 million

Under Para 2.01 of Credit Policy of Pakistan International Airlines Corporation (PIAC), the fundamental principle in extending the credit is that the authority extending credit is also responsible for timely recovery whilst the Finance Department function is to ensure accounting reconciliation and up to date status of outstanding. Moreover, as per Para 9.14 (IV) of Sales Department Passenger Sales Manual, the Standard Operating Procedure for reporting sales proceeds is that all selling outlets shall report sale proceeds on periodic basis and shall make settlement on fortnightly basis to local finance. The amount of any discrepancy pointed out by the Accounts Office / Finance in the fortnightly sales report of Pax Sales Agents, should be recovered immediately / adjusted in the next fortnightly sales report.

In Karachi Booking Office, PIAC, a total amount of Rs 30.784 million was lying recoverable till audit in June 2009 from various Pax Agents on various accounts as detailed below:

S. No.	Ageing of the recoverable amount	Nature of recovery	No. of Pax Agents	Total Receivable Amount (Rs. in million)
1	1999-2008	Discrepancies	95	14.900
2	1999-2008	Excess refund to passengers	48	3.828
3	1999-2008	Voidation of Tickets	72	5.123
4	1999-2008	Non-recovery of Government Taxes	50	1.018
5.	1999-2008	Less charges of fare, refund without approval and interest on late payments	13	1.505
6.	2000-2008	Short Payment of sale proceeds	11	1.824
7.	2007	Penalties due to illegal and inadmissible passengers	14	2.586
		Total		**30.784**

The amount was required to be recovered / adjusted from Pax Sales Agents by the management immediately when it was disclosed, but no effective steps were taken to recover the amount which resulted in heavy accumulation of dues. It was indicative of loose internal controls prevalent in the Organization.

The non-recovery was reported to the management and Ministry in August 2009, but no reply was received.

The matter was discussed in the DAC meeting held on December 21 & 22, 2009. The management stated that Rs 4.924 million pertaining to the heads of accounts S. No.1 to 6 above had been recovered and they were making efforts for recovery of remaining amount (Rs 23.274 million). As regards recoverable amount at S. No.7 above, the management informed that the amount included waived off amount of Rs 0.500 million, whereas Rs 0.500 million had been recovered (leaving a balance Rs 1.586 million).

The DAC directed the management to secure adequate securities from the agents to avoid such situation. The management added that they were doing business with the agents in sizeable transactions of millions of rupees and outstanding

amount reported was an accumulated figure whereas the yearly position would be nominal. Audit pointed out that it was a test case and not exhaustive one.

The DAC directed the management to streamline the recovery measures. The DAC also directed the management to get the recoveries verified from Audit. However, no record in respect of recoveries made was supplied to Audit for verification till the finalization of this report.

44. **Non-recovery from private parties – Rs 4.439 million**

Clause-2.02 of Credit Policy Pakistan International Airlines Corporation (PIAC) Credit Policy provides that 30 days credit is allowed to private parties. All further credit on overdue accounts should be stopped until all past dues are cleared.

The PIAC, Procurement and Logistic (P&L) Department sold certain store items valuing Rs 4.439 million to various private parties during the period 1993 to 1996 and raised invoices against them. The management, however, failed to recover the dues from the parties, which indicated negligence and inadequate internal controls. Had timely action been taken as per PIAC Credit Policy, the management could have recovered the dues.

The irregularity was pointed out to the management and Ministry in November 2009; however, no reply was received.

The matter was discussed in the DAC meeting held on December 21 & 22, 2009. The DAC expressed its displeasure over no reply from the management against this Para and directed the management to submit a comprehensive reply well before pre-PAC meeting of the DAC.

45. **Irregular expenditure on repair of aircraft components abroad – US$ 20,825 (Rs 1.291 million)**

Part-145 under Article 2.1.2.5 of Pakistan International Airlines Corporation (PIAC), Engineering Maintenance Organization Exposition Manual provides that procurement of aircraft component (consumable / rotable), material (consumable / raw) and tooling/test equipment, etc., shall be made from the approved vendor list.

Moreover, as per Clause-12.56 of Administrative / Finance Rules, Chapter No.XII, providing delegation of powers at certain levels, the Corporations officers like SVP, MD, Chief Engineer are empowered to sign any repair order valuing Rs 0.2 million in a single case.

PIAC Engineering Department incurred an expenditure of US$ 20,825 (equivalent to Rs 1.291 million) on repair abroad of a Fuel Shut-off Valve in July 2007 from a Hong Kong based firm on single quotation basis, without calling rates from other firms as per approved list. Further, the repair work was not got approved from the SVP or MD before placing the order despite the expenditure exceeded Rs 0.200 million which was not within the competency of Chief Engineer. Although the repair of the part was not urgent, as it was lying idle in Logistic Division by more than six month, yet the management preferred to place repair order in haste without observing due process for competitive rates and without competent forum. Thus, the management extended undue favour against PIAC's interest.

The irregularity was pointed out to the management on October 15, 2009 and reported to the Ministry in November, 2009; however, no reply was received.

The matter was discussed in the DAC meeting held on December 21 & 22, 2009. The management informed that as per delegation of financial powers, necessary approval of the competent forum is obtained in case of capital expenditure and contract sanction; however, in case of repairs, approval of such forum was not necessary. Audit pointed out that the observation was based on the delegation of financial powers in PIAC, which cannot be denied. The DAC observed that irregularity had occurred.

46. **Non-production of auditable record**

Section-14(2) and (3) of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001 provides 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 applicable to such persons.

Moreover, under Section-16 of Pakistan International Airlines Corporation (PIAC) Act 1956, the management is bound to make the auditable record available to Government Audit.

During course of audit inspection of PIAC Information Technology Department, the Audit Party issued 27 requisitions to the management in July 2009 to August 2009. However, despite written reminders and several personal contacts, only partial record was supplied. The management resorted to delaying tactics to waste precious working days of Audit to avoid any expected observation. The details of un-attended requisitions are detailed at Annex–VI. In the absence of most of the requisitioned auditable record, Audit was unable to ascertain transparency in most of the avenues of PIAC Information Technology Department.

The matter was taken up with the management on August 5, 2009 and reported to the Ministry in November 2009. The management in its reply dated August 10, 2009 stated that the information / record demanded was basically related to HR, Finance and Procurement Department and added that I.T. Department was not custodian of that record, therefore, could not provide such information.

The reply was not tenable, as the management was expected to comply with the rules for supply of auditable record.

The issue was discussed in the DAC meeting held on December 21 & 22, 2009. The management informed that the record was supplied to Audit. However, Audit pointed out that the required record had not been supplied and it could be proved on item-to-item basis.

The DAC directed the management to supply all record and an Audit Programme would be chalked out by Audit. The DAC also directed the management to supply complete record. However, no progress was made by the management till the finalization of this report. Responsibility needs to be fixed and action taken against the officials concerned for the non-production of requisitioned record.

SKYROOMS (PVT.) LIMITED

47. Skyrooms (Pvt.) Limited was incorporated as a Private Limited Company on May 20, 1975. The Company is a wholly owned subsidiary of Pakistan International Airline Corporation (PIAC). Until June 30, 1999, PIA Holding (Pvt.) Limited was holding company. The company owns and manages Airport Hotel at Karachi.

AUDIT PARAS

48. Irregular award of contract for supply of fish – Rs 3.368 million

Rule-40 of Public Procurement Rules, 2004 provides that there should be no negotiation with the bidder having submitted the lowest evaluated bid or with any other bidder.

Moreover, as per Purchase Policy of Skyrooms (Pvt.) Limited, a subsidiary of Pakistan International Airlines Corporation (PIAC), all material shall be purchased from the original source.

In Skyrooms (Pvt.) Limited, a contract for supply of fish amounting to Rs 3.368 million for the period 2007-08 was awarded to a firm after negotiation. The vendor was 3rd lowest and also a general order supplier; whereas, the Purchase Policy required a specified vendor of seafood supplies. Thus, the management violated the Public Procurement Rules as well as the Purchase Policy and awarded the contract to a non-specified supplier on negotiation thereby extending undue favour to the supplier. Hence, the purchase of seafood amounting to Rs 3.368 million was irregular and unjustified.

The irregularity was pointed out to the management on September 11, 2009 and to the Ministry on October 23, 2009, but no reply was received.

The matter was discussed in the DAC meeting held on December 21 & 22, 2009. The management informed that the market rates had gone lower; therefore, they decided to negotiate with the bidders. Upon request from the management, the

DAC allowed submission of a revised reply and decided to settle the Para subject to verification of the data in revised reply.

In response to DAC directives, the management submitted their revised reply on December 23, 2009 contending that the bidders were called for negotiation in the light of lower rates in the market.

The reply was not tenable, as the rates of seafood items were not fixed on one price but these were variable and fluctuated on day-to-day basis due to different factors, *i.e.*, quantity of supply and fishing season, *etc.;* therefore, the rates quoted by the bidders in the tender were obviously based on average price for the whole year. Besides, no documentary evidence was provided by the management to verify whether any official letter was sent to all bidders for negotiation because in reply the management enclosed only an unauthentic / unstamped copy of letter from the 2nd lowest bidder as a refusal to negotiate; whereas, they failed to provide the refusal letter from the 1st lowest bidder.

49. Non-recovery of dues from various parties – Rs 2.729 million

As per Clause-2.02 of Credit Policy of Pakistan International Airlines Corporation (PIAC), the time limit for credit is 30 days. Financing cost @ Rs 1.25% per month is to be added to all overdue credit for such period. Moreover Clause-2.03 provides that no credit will be extended without satisfactory credit rating and /or sufficient bank guarantee.

In Skyrooms (Pvt.) Limited (a subsidiary of PIAC), outstanding dues amounting to Rs 2.729 million were lying recoverable against various private parties as on December 31, 2008. The breakup / ageing of outstanding amount was as under:

(Rs. in million)

Period	Amount
More than 30 days	0.329
More than 90 days	0.662
More than 01 year	1.469
More than 03 years	0.269
Total	**2.729**

Above table indicates that major amount, *i.e.*, Rs 1.729 million out of total amount of Rs 2.729 million was outstanding for more than one year, which was contrary to the approved policy of credit up to 30 days and indicated lack of receivable management in the Organization. In the absence of any security, the chances of recovery were remote and there was likelihood of loss to the Organization.

The non-recovery was pointed out to the management in July 2009 and reported to the Ministry in October, 2009, but no reply was received.

The matter was discussed in the DAC meeting held on December 21 & 22, 2009. The management informed that they had initiated legal cases for recovery. The DAC directed to pursue the cases for full recovery.

MINISTRY OF DEFENCE PRODUCTION

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PAKISTAN ORDNANCE FACTORIES

50. Pakistan Ordnance Factories were established under the POFs Board Ordinance 1961 to meet the arms and ammunition requirements of Pakistan Armed Forces during peace and war. For the purposes it has 14 manufacturing units along with services departments and POFs Board with its secretariat.

AUDIT PARAS

51. Non-transparent procurement due to non-advertisement in the press - Rs 347.473 million

According to para 7 of POFs Purchase Manual, the purchase of all non-proprietary items that are not of a secret nature and the estimated value of which is greater than rupees two million will be made on open tendering basis by advertising through press.

In various factories/service units of POFs, procurement of store having value greater than rupees two million were made without press advertisement during the year 2007-08. This resulted in non-transparent procurements of Rs 347.473 million as detailed below:

Sr.#	POFs Unit	AIR PARA	Rs in million
1.	Gadwal Factory	Para No.01	125.309
2.	Hospital	Para No.04	63.630
3.	MAA Factory	Para No.0l	58.388
4.	B&G Factory	Para No.04	27.960
5.	-do-	Para No.03	6.441
6.	Director Civil Works	Para No.0l	24.656
7.	Explosive Factory	Para No.0l	11.385
8.	-do-	Para No.02	4.250
9.	-do-	Para No.03	8.505
10	Director Services	Para No.0l	3.988
11	-do-	Para No.02	2.594
12	-do-	Para No.04	2.032
13	Havelian Factory	Para No.01	8.335
		Total	**347.473**

The matter was reported to the respective units from October to November, 2008 and the Ministry on August 15, 2009. The management in their replies from December, 2008 to January, 2009 stated that the material procured was to be used in defence ammunition and press advertisement involved heavy expenditure. The replies of the management were not acceptable because most of the items were of general nature for which open tender through press was mandatory to get competitive rates.

The DAC meeting was held on December 9, 2009. During the meeting the management provided a copy of letter of Cabinet Division dated April 14, 2008 whereby the procurements by Defence Production Division was exempted from PPRs, 2004, in case PAO had certified that store to be procured was of sensitive nature. DAC observed that the requisite certificate from the PAO was not obtained by POFs as per Cabinet Division's instructions and directed the management to regularize the matter from competent authority. No progress was intimated till finalization of this report.

52. **Blockage of public funds - Rs 132.521 million**

Clause 6 of the POF's Purchase Policy provides the following general guidelines for raising demand and or submitting / approving of purchase proposals:

a. That due economy and care is exercised in formulating requirement.
b. That the lowest technically acceptable rate is accepted or the reason for accepting a higher (technically acceptable) rate has been satisfactorily explained.
c. That in demanding / purchasing stores 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 money.

Contrary to the above, POFs made ill planned procurements as the stores were lying unconsumed from 1971 to 2008. This resulted in blockage of public funds amounting to Rs 132.521 million as detailed below:

Sr.#	POFs Unit	Para Nos of AIR for the year 2007-08	Lying unconsumed since	Rs in million
1.	SAA Factory	Para No. 02	2003	19.399
2.	-do-	Para No. 07	2006	10.230

3.	Havelian Factory	Para No. 03	March 2008	18.413
4.	-do-	Para No. 04	1997-2002	2.193
5.	-do-	Para No. 11	2003	2.300
6.	-do-	Para No. 15	2003	0.447
7.	-do-	Para No. 14	1993	0.215
8.	Gadwal Factory	Para No. 03	2002-2005	16.632
9.	-do-	Para No. 07	2000-2005	5.346
10.	Director Services	Para No. 10	1992	1.318
11.	Director Export	Para No. 03	May 2008	9.531
12.	TA Factory	Para No. 04	2004	8.864
13.	-do-	Para No. 03	2005	0.131
14.	B&G Factory	Para No. 10	1971	7.690
15.	-do-	Para No. 11	1990-2002	5.348
16.	SanjwaI Factory	Para No. 09	1986-1991	7.355
17.	-do-	Para No. 07	2005-2006	3.177
18.	Weapons Factory	Para No. 13	1987-2008	6.268
19.	-do-	Para No. 12	2005-2006	1.946
20.	Carbide Factory	Para No. 02	1988-1997	2.516
21.	MAA Factory	Para No. 10	1991-2001	2.055
22.	MG Factory	Para No. 02	1991-1998	0.327
23.	Explosive Factory	Para No. 06	2006	0.820
		Total		**132.521**

The matter was reported to the respective units from October to November, 2008 and the Ministry on August 15, 2009. The management in its replies from December, 2008 to January, 2009 stated that the material would be utilized in future production orders. The reply was not convincing because excessive material was procured than actual demand and huge capital was blocked un-necessarily.

The DAC meeting was held on December 9, 2009. Management informed the Committee that certain items had been consumed but on verification by Audit, it was noticed that a large portion of store was still lying unconsumed. The Committee observed the blockage of funds and directed to take action for procurement beyond requirement. No progress was received till finalization of this report.

53. **Loss due to abnormal delay in finalization of contract – Rs 34.593 million**

As per rule 26 of PPRs 2004, procuring agency, keeping in view the nature of the procurement, bid shall be subject to a bid validity period. Bids shall be valid for the period of time specified in the bidding document; under exceptional circumstances and for reason to be recorded in writing, all bidders shall be asked to extend their respective bid validity period; such extension shall be for not more than the period equal to the period of the original bid validity; and the bidders who agree to the procuring agency's request for extension of bid validity period shall not be permitted to change the substance of their bids. Further, rule 27 of PPRs, 2004 stipulates that advertisement of such extension in time shall be done in a manner similar to the original advertisement.

POF's Explosive Factory raised an indent for procurement of 1,300 M. ton sulphuric acid on September 11, 2006. Tender enquiries were issued to 04 firms on November 20, 2006 with tender opening date on December 6, 2006. The rate of Rs 3,399 per M. ton offered by M/s. Amber Chemical (Pvt.) Ltd., Hattar was the lowest with the validity period of one month which was further reduced to Rs 3,390 per M. ton. The validity period was extended up to February 15, 2007 by the firm on the request of management with the remarks that price of raw material was fluctuating frequently, therefore, the case be finalized immediately. However, the management did not finalize and requested for extension in validity period upto April 30, 2007. The management again failed to materialize the contract within validity period and requested for 3rd extension upto May 25, 2007. Even after 3rd extension the management could not finalize the contract. Finally, the contract was signed on August 11, 2007. The supplier intimated the POFs management, the new rates of supply in view of fluctuation of raw material prices. Keeping in view the urgency, POFs Board approved the increase in rate from Rs 3,390 per M. ton to Rs 30,000 per M.ton (785% higher). Accordingly the firm supplied 13,000 M.ton store at revised rate of Rs 30,000 per M.ton. This resulted in loss of Rs 34.593 million due to abnormal delay in finalization of the contract.

The matter was reported to the management on August 6, 2009 and the Ministry on October 10, 2009. The management in its reply dated August 26, 2009 stated that proposal was initiated on April 7, 2006 and the contract was approved within validity period. The reply was not convincing, because indent of the said purchase

was raised on September 11, 2006 and the contract was signed by firm on August 11, 2007. Further, no reason for delay in finalization of contract was stated by the management in its reply.

The DAC meeting was held on December 9, 2009. It was intimated by the management that the case was under enquiry and final decision would be taken in the light of enquiry. No progress was intimated till finalization of this report.

54. **Non-recovery on account of risk and cost from defaulting suppliers - Rs 14.851 million**

In terms of clause 14 (a) (iii) of POFs Purchase Procedure, in case the supplier failed to supply the store as per delivery period the contract was to be cancelled and to make purchase from elsewhere at risk and cost of the supplier.

A POFs Explosive Factory placed an order dated August 16, 2007 for supply of 600,000 liters rectified spirit @ Rs 20.69 per liter on M/s. Abdullah Sugar Mills, Lahore. As per delivery period, the delivery of the consignment was required to be completed upto December 31, 2008, but the firm could supply only 195,000 liters spirit upto May 2, 2008 and went into default. The Director P & S cancelled the contract on August 30, 2008 at risk and cost of the firm. The POFs subsequently procured the leftover quantity of 405,000 liters spirit from M/s. Habib Sugar Mills @ Rs 50 per liter on November 5, 2008. This resulted into non-recovery of Rs 11.871 million on account of risk and cost from defaulter supplier.

B POFs Explosive Factory placed an order dated January 20, 2007 on M/s. Qingyang Chemical China for supply of 34,000 kg Penta Erythritol @ Rs 100.68 per kg for financial year 2006-07. The store was rejected during inspection by PATLO Beijing. The supplier refused to supply the store and on the proposal for cancellation of the contract, the financial advisor concurred the cancellation of purchase proposal subject to recovery of risk and cost amount from the defaulting firm.

The management subsequently purchased the cancelled quantity of 34,000 kg store from M/s. Cosmic International Lahore at a total cost of Rs 6.725 million on May 28, 2008. The management forfeited the bank guarantee of US $ 5,168 equal

to Pak Rs 321,191. This resulted in to non-recovery of Rs 2.980 million (Rs 197.80 – Rs 100.68 x 34,000 kg – Rs 321,191).

The matter (A) was reported to the management and the Ministry on October 10, 2009. The matter (B) was reported to the management on August 6, 2009 and the Ministry on October 10, 2009. The management did not furnish reply in case of (A) above. As regard (B) above it was replied on August 28, 2009 that being no grip on foreign supplies and general conditions of contract provide only imposition of L.D. charges for delayed delivery. It was further added that Purchase and Store Department was asked to take necessary action against the defaulter firm. The reply was not convincing because in this case the supplier failed to supply the store which caused loss of Rs 2.980 million to Government.

Total= A+B= Rs 11.871 million + Rs 2.980 million = Rs 14.851 million

The DAC meeting was held on December 9, 2009. The management informed the Committee regarding (A) above that the case was in the court of law. The Committee directed the management to pursue the case. As regards (B) above, the management was directed to intimate the progress of the case. No progress was received till finalization of this report.

55. **Non-disposal of rejected lots of delay tubes – Rs 8.852 million**

As per POFs Technical Executive Coordination letter dated November 20, 1972, 15% rejection was allowed for Delay Tubes for Grenade Hand as per HE P2 A1.

Contrary to the above, Manager Shell vide its letter dated October 29, 2008 rejected 61,365 Delay Tubes for Grenade Hand A/Pers HE P2 A1 valuing Rs 14.829 million. The rejected store was lying at Magazine F-4/18 of the Filling Factory. The management nominated an officer to conduct court of enquiry on November 15, 2008 but the report was awaited. The material was lying in the store without utilization/disposal.

The matter was brought to the notice of management on September 2, 2009 and the Ministry on October 16, 2009. In reply dated September 14, 2009 it was stated that the case was under investigation and further action would be taken after finalization of enquiry.

The DAC meeting was held on December 9, 2009. It was intimated that 24,739 Delay Tubes had been re-inspected out of 61,365 and now accepted/dispatched to the concerned units. The remaining quantity of 36,626 worth Rs 8.852 million was lying in the store. The DAC directed the management to provide a copy of the enquiry report while the remaining rejected store be disposed of. No progress was intimated till finalization of this report.

56. Loss due to payment of low power factor penalty – Rs 2.957 million

As per Para-II of the POFs Board letter dated August 2, 1987, the average power factor of a consumer at the point of supply shall not be less than 85%. In event of the said power factor falling below 85% the consumer shall pay penalty of one percent increase in the energy charges corresponding to 1% decrease in the power factor below 85%.

POF's Director Services paid an amount of Rs 2.957 million to WAPDA as low power factor penalty during 2008-09. Payment of low power factor penalty indicated that POFs failed to utilize the power up to agreed terms. Due to payment of penalty, POFs sustained a loss of Rs 2.957 million which could had been avoided by exercising due vigilance towards utilization of power as per agreed terms.

The matter was reported to the management on September 2, 2009 and the Ministry on October 16, 2009. In reply dated September 18, 2009, the management stated that it was not technically feasible to control the power factor values. Moreover, terms/conditions for payment of low power factor penalty were approved by the POFs Board vide letter dated August 2, 1987 as amended vide letter dated October 3, 1991. Reply was not acceptable as payment on account of low power factor penalty was approved/paid by POFs Board to WAPDA and it was not understood as to how management was unable to control the power factor values technically.

The DAC in its meeting held on December 9, 2009 directed the management to review the power factor values by reassessing the actual requirements. No progress was reported till finalization of this report.

57. **Blockage of funds due to non-supply of the ammo – Rs 1.080 million**

As per extract of Export Division dated December 17, 2007, ammunition was required to be supplied to the Government of Indonesia on immediate basis.

POF's Filling Factory received the extract from the Export Division for supply of '105 mm How HE with Fuze PDM -557' and '105 mm How smoke WP with Fuze PDM-557' having a quantity of 55 each valuing Rs 1,079,933.

The ammunition (ammo) was lying open in the Factory since August 2008, but the same was not dispatched to Indonesia. This resulted into blockage of funds of Rs 1.080 million due to non-lifting of the ammo by the client.

The matter was brought to the notice of management on September 2, 2009 and the Ministry on October 16, 2009. In reply dated September 14, 2009, the management stated that they had reminded the Export Division for lifting of requisite store and in case of cancellation of extract, the ammo will be diverted to regular production line. The contention of the management was not convincing because ammo had a shelf life and would not be utilized for other useful purposes beyond its life.

The DAC in its meeting held on December 9, 2009 directed the management to fix responsibility for non-manufacturing/dispatch of export lot well in time and management may also intimate further progress towards its utilization against regular production. No progress was received till finalization of this report.

58. **Loss due to acceptance of defective store - Rs 0.539 million**

In term of clause x of daily order Part-1 dated May 20, 1967, where the components are required to be stored in bulk over a long period they should have passed inspection and proofed where necessary before stocking.

POFs Weapons Factory purchased 25,047 cartridge case deflector on May 26, 1993 @ Rs 21.50 per unit. The store was lying unconsumed in the Factory. The management signed a new contract dated October 6, 2005 with M/s. Precision Engineering Ltd. Lahore for supply of this item @ Rs 132.25 per unit. Thus, the formation had suffered a loss of Rs 538,510 (Rs 21.50 x 25,047 units).

The matter was reported to the management on October 2, 2007 and the Ministry on August 15, 2009. The management in its reply dated October 26, 2007 stated that store had only minor defect which would be rectified and utilized. Reply was not convincing as the store was lying idle for the last 16 years, and was not useable as management had purchased new store in lieu of the defective store.

The DAC in its meeting held on December 9, 2009 directed the POFs Board to order an inquiry to fix the responsibility for acceptance of defective store. No progress was received till finalization of this report.

PAKISTAN ORDNANCE CLOTHING FACTORY

59. Pakistan Ordnance Clothing Factory was established under the POFs Board Ordinance 1961 to meet the clothing requirements of Pakistan Armed Forces.

AUDIT PARA

60. **Blockage of fund due to purchase of excessive stores - Rs 61.799 million**

The Chairman POFs Board vide clause 6 of letter dated January 4, 1971 instructed that due economy and care may be exercised in formulating requirement. Further, the GHQ, IS Branch, Rawalpindi conveyed the decision of the competent authority for discontinuation of Camouflage Combat Dress (CCD) uniform vide letter dated February 23, 2008.

A. Contrary to the above, Pakistan Ordnance Clothing Factory did not cancel the contract No.61-LP-36-CIO dated May 18, 2007 valued at Rs 114.818 million for supply of 1,093,500 meters cloth camouflage rip. The firm supplied 335,232 meters cloth amounting to Rs 35.200 million after the issuance of cancellation orders by GHQ and the management extended the delivery period upto April 30, 2008 with retrospective effect. Due to non-cancellation of contract immediately and extension in delivery period an undue favour was extended to the firm which resulted in blockage of fund of Rs 35.200 million.

B. POF's Clothing Factory awarded contract No.42/LP/37/Pur/CLO dated December 6, 2007 to M/s. Y2K Industries Ltd, Karachi for supply of 18,168 meters fusing buckram white @ Rs 55 per meter for Rs 999,240. Store was to be delivered by February 29, 2008. At the time of receipt of store, a quantity of 29,935 meters was already available in store, thus, raising the total stock to 48,103 meters. Out of which only 800 meters was consumed by June 30, 2008, while 47,303 meters worth Rs 2.602 million @ Rs 55 per meter remained unconsumed.

C. During physical verification conducted by Audit team in June 2009, it was observed that certain other material valuing Rs 23.997 million was also lying in POFs Clothing Factory at the time of discontinuation of Army uniform by the GHQ.

Due to non-utilization of the store, blockage of funds of Rs 61.799 million was caused (A+B+C=Rs 35.200 million + Rs 2.602 million + Rs 23.997 million).

The matter was reported to the management on November 12, 2008 and the Ministry on August 15, 2009. The management in its reply dated December 5, 2008 stated that the case had been taken up with GHQ for disposal of items relating to CCD uniform. Reply was not convincing as the management failed to cancel the contracts immediately to avoid further unwarranted accumulation of stores of Army uniform.

The DAC meeting was held on December 9, 2009. The committee directed the management to dispose of the store and get it verified by audit. Compliance was awaited till finalization of this report.

MINISTY OF EDUCATION

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NATIONAL BOOK FOUNDATION

61. National Book Foundation (NBF) is an autonomous body established under an Act of Parliament in 1972. National Book Foundation is engaged in the promotion of literacy by developing printing and trading of books and other activities related thereto.

Annual Audited Accounts of the Foundation for the years 2007-08 and 2008-09 were not furnished by November 30, 2009.

AUDIT PARA

62. **Unauthorized payment of medical allowance – Rs 34.976 million**

According to Finance Division (RW) letter No.F.l (1) Imp/94 dated June 29, 1999, no Corporation, Autonomous/Semi Autonomous Body will announce, the revision of salary/allowances structure without prior approval of Finance Division (RW). Further, as per Finance Division letter dated July 19, 2004, any proposal for revision in the salaries, allowances and perquisites of the supervisory and executive staff of public sector Corporations/Autonomous/Semi Autonomous Bodies and organizations is required to be carried out by the Board of Directors/Governors with prior approval of the Finance Division (Regulation Wing). Finance Division U.O. dated July 31, 2007 further stipulates that in the light of legal opinion of the Law, Justice and Human Rights Division, all the Regulatory Authorities may be directed to comply with the course of action decided in the meeting by submitting their salary structures to the standing committee of the Finance Division for consideration.

The management of National Book Foundation (NBF) allowed medical allowance to its employees @ 35% of running basic pay after approval of the Board of Governors w.e.f December 12, 2000. An amount of Rs 34.976 million was paid from 2003-04 to November, 2009 to their officers and staff without approval of Finance Division. This resulted in unauthorized payment of Rs 34.976 million on account of medical allowance.

The matter was reported to the management on April 2, 2009 and the Ministry on October 10, 2009. In replies dated May 25, 2009 and November 9, 2009, the management stated that medical allowance was allowed to the employees after approval of Board of Governors. The reply was not acceptable as the approval of Finance Division was not obtained before allowing medical allowance.

The DAC in its meeting held on November 12, 2009 directed the management to get the position verified from Finance Division within one month. No progress was received till finalization of this report.

MINISTRY OF ENVIRONMENT

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PAKISTAN ENVIRONMENTAL PLANNING AND ARCHITECTURAL CONSULTANTS (PVT) LIMITED

63. Pakistan Environmental Planning and Architectural Consultants (Pvt) Limited (PEPAC) was incorporated as a private limited company in 1974 under the Companies Act, 1913 (now Companies Ordinance, 1984). The Company is primarily engaged in providing architectural consultancy services.

Annual Audited Accounts of the Company for the year 2008-09 were not furnished by November 30, 2009.

AUDIT PARA

64. **Misappropriation through fake adjustment– Rs 0.625 million**

As per para 12 of GFR, a controlling officer must see that the funds allotted to spending units are expended in the public interest and upon the objects for which money was provided.

An officer of Pakistan Environmental Planning and Architectural Consultants (Pvt) Limited (PEPAC), Islamabad drew an advance of Rs 533,000 for hiring of consultants of Tax Advisory Services for recovery of tax refunds vide BPV No. 21 dated February 25, 2006. Subsequently, the advance amounting to Rs 625,000 was adjusted as consultancy fees in respect of two firms by the officer concerned on March 1, 2006. The scrutiny of record revealed that a fake adjustment of Rs 0.625 million was made by a Deputy Manager which caused loss to that extent.

The matter was reported to the management on May 24, 2008 and the Ministry on October 7, 2009. The management in its reply dated November 3, 2009 intimated that an amount of Rs 110,000 had been recovered from the officer concerned and remaining amount would be recovered in six monthly installments.

The DAC in its meeting held on November 7, 2009 directed the management for full recovery. Neither suitable action against the defaulter was initiated nor was any progress towards recovery intimated till finalization of this report.

FINANCE DIVISION

( )

INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

65. Industrial Development Bank of Pakistan (IDBP), a scheduled bank, was established in Pakistan under the Industrial Development Bank of Pakistan Ordinance, 1961. The bank's registered office and principal office is situated in Karachi. It provides all types of banking services and is also engaged in term financing for industrial and commercial activities, fund management and leasing business by operating 17 branches in Pakistan.

Shareholding's equity was showing negative balance since many years. It indicated the existence of material uncertainty which may cast significant doubt on the bank's ability to continue as a going concern and the bank may be unable to realize its assets and discharge its liabilities in the normal course of business. However, financial statements were prepared on the going concern basis while considering the fact of restructuring of the bank.

65.1 The working results of the Bank for the year 2008-09 as compared with the previous years are given as under:

(Rs. in million)

	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07	% Inc/ (Dec)	2005-06
Mark up/Interest income	404.055	(8.5)	441.814	(20.0)	552.443	95.5	282.605
Mark up/Interest expense	(689.973)	11.9	(616.701)	(5.1)	(649.811)	(2.0)	(662.873)
Net interest expense	(285.918)	63.5	(174.887)	79.6	(97.368)	(74.4)	(380.268)
Provision against non performing loans	159.307	-	(602.262)	-	233.212	764.6	26.972
Bad debts written off directly	(0.061)	(99.2)	(7.697)	(76.3)	(32.419)	(94.8)	(627.586)
Provision against other assets	(0.022)	-	4.357	(97.8)	198.643	-	(18.731)
Net interest expense after provision	(126.694)	(83.8)	(780.489)	-	302.068	-	(999.613)
Non mark up / interest income	422.828	163.5	160.487	39.5	115.019	52.4	75.490
Non mark up / interest expenses	(155.888)	-	793.010	-	(812.774)	(7.3)	(876.572)
Profit / (Loss) before tax	140.246	(18.9)	173.008	-	(395.687)	(78.0)	(1,800.695)
Taxation	(2.151)	(95.2)	(44.466)	1,574.8	(2.655)	15.3	(2.303)
Profit / (Loss) after tax	138.095	7.4	128.542	-	(398.342)	(77.9)	(1,802.998)

(Source: Annual Audited Accounts)

Net Interest Expense increased by 63.5% during the year 2008-09. One of the reasons of the increase was that certain beneficiaries of counter guarantees had defaulted in repayment by Rs 39.650 million. This amount was ultimately borne by the Bank, which needed to be justified.

65.2 The Bank had obtained interest free borrowing under SBP credit line amounting to Rs 13,000 million and banking sector adjustment loan amounting to Rs 500 million without any formal agreement; therefore, terms and conditions of the loan remained undefined.

65.3 Due to delay in the payment of Central Excise Duty, tax authorities demanded additional duty and surcharge amounting to Rs 95.420 million but no provision was made in the accounts by the Bank, which needs clarification.

65.4 The Bank had not recorded penalties levied by SBP for non-maintenance of liquid assets in accordance with the provisions of the Banking Companies Ordinance. The Bank had also not recorded claims recoverable from SBP on account of various PLS borrowings aggregating to Rs 566.051 million and Rs 561.310 million on the understanding that the issue would be settled at the time of restructuring of the bank.

65.5 In terms of Administration Agreement between GoP and IDBP, the Bank was appointed as administrator regarding Small Industries Re-finance Department Loans (SIRD Loans) with the obligation to maintain separate records and accounts in respect of funds being administered under SIRD Loans. However, Bank did not comply with and booked these loans in its accounts as "Borrowing from Other Banks, Agents, *etc."* with corresponding debit to "Advances." The non-compliance needs to be clarified.

PAKISTAN SECURITY PRINTING CORPORATION (PVT.) LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

66. Pakistan Security Printing Corporation (PSPC) is a private limited company governed under the Companies Ordinance, 1984. Core operational activity includes printing of bank notes and Other Security Products (OSP). PSPC had a shareholding interest of 40% in Security Paper Limited (SPL) and 47% in SICPA Inks Pakistan (Pvt.) Limited. Annual capacity includes 2.2 billion pieces of bank notes. Sales are made to SBP, NADRA, AGPR, Banks, Pakistan Post Office and Passport & Immigration Department.

66.1 The working results of the Corporation for the year ended June 30, 2009 as compared with those of the previous years are given as under:

(Rs. in million)

	2008-09	**% Inc/(Dec)**	**2007-08**	**% Inc/(Dec)**	**2006-07**	**% Inc/(Dec)**	**2005-06**
Sales	4,912.467	23. 5	3977.576	(0.5)	3,996.864	25.3	3,190.992
Cost of sales	(3,449.898)	15.1	(2,997.457)	5.4	(2,842.723)	18.5	(2399.156)
Gross profit	**1462.569**	49.2	**980.119**	(15.1)	**1154.141**	45.7	**791.836**
Administrative Expenses	(274.687)	17.1	(234.636)	23.4	(190.098)	(1.7)	(193.468)
Impairment loss	(7.720)	-	-	-	-	-	-
Profit before tax	**1,180.162**	**58.3**	**745.483**	**(22.7)**	**964.043**	**61.1**	**598.368**
Other income	217.733	4.5	208.376	(18.6)	255.942	10.9	230.716
Financial charges	(41.097)	(78.0)	(187.227)	(40.4)	(314.125)	781.8	(35.623)
Other charges	(69.947)	134.8	(29.789)	(23.9	(39.176)	(55.2)	(87.352)
Share of profit from associates excluding dividend	113.409	35.4	83.768	27.5	65.726	58.1	156.973
Profit before taxation	**1,400.260**	70.6	**820.611**	(11.9)	**932.410**	8.0	**863.08**
Profit after taxation	**999.550**	68.5	**593.212**	0.7	**589.049**	(8.1)	**641.010**

(Source: Annual Audited Accounts)

Repair and Maintenance Expenses increased by 141% (year 2008-09: Rs 15.956 million, year 2007-08: Rs 6.609 million) where as exchange loss increased by 1,422% (year 2008-09: Rs 11.643 million, year 2007-08 : Rs 0.765 million). The increase needs to be justified.

66.2 Reversal in Provision for Obsolete Stores and Spares increased by 1,224% (year 2008-09: Rs 1.85 million, year 2007-08: Rs 0.14 million) and that for Obsolete Stock by 223% (year 2008-09: Rs 7.589 million, year 2007-08: Rs 2.347 million) which needed to be elaborated.

STATE BANK OF PAKISTAN

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

67. State Bank of Pakistan (SBP) is the Central Bank of Pakistan and is incorporated under the State Bank of Pakistan Act, 1956. The Bank is primarily responsible for the management of credit, foreign exchange and currency in the country and also acts as the fiscal agent of the Government.

67.1 The working results of the Bank for the year 2008-09 as compared with those of the previous years are given as under:

(Rs. in million)

	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07 Re-stated	% Inc/ (Dec)	2005-06
Discount, interest / markup and/or return earned	183,112.028	74.6	104,882.577	13.4	92,513.195	32.3	69,940.502
Interest/markup expense	(8,085.169)	115.7	(3,748.759)	(29.1)	(5,289.092)	30.7	(4,047.802)
Net income	**175,026.859**	73.1	**101,133.818**	15.9	**87,224.103**	32.4	**65,892.700**
Commission income	1,667.375	131.5	720.289	9.8	656.268	48.8	441.033
Exchange gain/(loss)	34,725.139	(44.0)	61,973.254	3,065.4	1,957.806	(55.3)	4,376.273
Dividend income	9,733.352	47.6	6,594.079	53.8	4,286.628	117.1	1,974.628
Other operating income - net	1,220.052	(87.3)	9,631.073	227.1	2,944.823	268.3	799.545
Other income / (Charges) – net	55.916	(112.69)	(440.596)	(101.65)	26,675.175	290.7	6,826.117
Total operating income – net	**222,428.693**	23.8	**179,611.917**	44.5	**123,744.80**	54.1	**80,310.30**
Note printing charges	(4,193.032)	35.4	(3,097.868)	0.3	(3,087.214)	27.0	(2,431.476)
Agency commission	(3,614.261)	(33.4)	(2,710.017)	5.2	(2,576.382)	17.6	(2,190.528)
- Loans and advances	451.726	-	-	-	73.964	-	-
- Diminution in value of investment	98.687	-	-	-	-	-	-
- Other doubtful assets	(62.615)	(48.9)	(122.543)	(42.2)	(212.057)	(61.3)	(547.691)
Operating profit/(loss)	**215,109.198**	23.9	**173,681.489**	47.3	**117,943.114**	56.9	**75,140.61**

General, administrative and other expenses	(10,897.194)	22.6	(8,888.130)	(3.5)	(9,210.501)	32.4	(6,956.813)
Net profit for the year	**204,212.004**	**23.9**	**164,793.359**	51.6	**108,732.613**	59.5	**68,183.788**

(Source: Annual Audited Accounts)

The Discount / Interest Earned registered an increase of 75% from Rs 104,882.577 million in the preceding year 2007-08 to Rs 183,112.028 million in the year 2008-09; however, increase in income as percentage of total assets was marginal (year 2008-09; 16%, year 2007-08;15.9%). The matter needed to be justified.

67.2 Interest / Markup Expense on Deposits increased by 116% from Rs 3,748.759 million in the preceding year 2007-08 to Rs 8,085.169 million in the year 2008-09, which resulted in increase of 3.7% in financial expense as percentage of operating profit as compared with 2.2% of the preceding year 2007-08. Deterioration in the said ratio needed to be looked into.

67.3 External Auditors while qualifying their opinion, had stressed upon the Bank to maintain a provision of Rs 2,318 million relating to net assets recoverable from Reserve Bank of India and transactions in former East Pakistan. As the provision had not been netted-off against relevant assets and liabilities; therefore, the assets of issue department and banking department were overstated by Rs 4,053 million and Rs 5,976 million respectively. Liabilities and unrealized appreciation on gold reserve of the banking department were overstated by Rs 7,473 million and Rs 2,556 million respectively, which needed elucidation.

AUDIT PARAS

68. Irregular payment of foreign currency exchange difference – Rs 4.850 million

Rule-31 of Public Procurement Rules, 2004 provides that no bidder shall be allowed to alter or modify his bid after the bids have been opened.

Moreover, as per Supply Orders dated June 24, 2008 issued to four suppliers by State Bank of Pakistan (SBP) for procurement of IT equipment, the payment was required to be made in Pak Rupees.

SBP invited bids for procurement of PCs, Laptops, Colour / Black Laser Printers, Dot Matrix Printers, which were opened on March 28, 2008. Four suppliers stood lowest evaluated with the validity of offer for 90 days, *i.e.,* June 26, 2008. The notifications of awards to all suppliers were issued on June 24, 2008, *i.e.,* within the validity period. After receipt of notices of award by the suppliers, they lodged claim for compensation to allow impact of devaluation of Pak Rupee against Dollar and Euro rates. The management, before acceptance of the demand, sought legal opinion, which in its advice dated August 30, 2008 opined that the exchange rate adjustment was not covered in the agreements; hence *Force Majeure* Clause in general was not applicable. The Legal Advisor specifically advised the management that the change in price due to exchange rate difference was not required. However, contrary to the advice, the management accepted the request of suppliers on September 27, 2008 and paid a total amount of Rs 4.850 million as detailed below:

Sr. No.	**Value of Contract** (Rs. in million)	**Currency**	**Compensation** (Rs. in million)
1	45.598	USD	3.357
2	11.442	EURO	0.652
3	8.887	USD	0.654
4	2.550	USD	0.187
	68.477		**4.850**

Since the demand by the suppliers for compensation against devaluation of Pak Rupee was not covered in the agreements / supply orders, the management extended undue favour by paying heavy amount of Rs 4.850 million, which was a loss to the Organization.

The loss was pointed out to the management in October 2009 and reported to the Ministry in November 2009, but no reply was received.

The matter was discussed in the DAC meeting held on December 17, 2009. The management informed that although the tender document had no provision for payment of difference in exchange rate and the legal advice was against the payment, yet they took a commercial decision. They added that US$ had gone up

by 22% and in case of scrapping the tender, the items would have been purchased at higher price because the bidders had expressed their inability to supply. Audit pointed out that bidders were under obligation to supply; otherwise, option for the forfeiture of bid security was available. The management informed that they had observed Rule-4 of PPR's 2004 to get the value for the money.

The DAC observed that increase in the price during validity of bid was not permissible and concluded that irregularity had occurred.

69. Undue expenditure on recruitment of personnel through a head hunting firm – Rs 1.460 million

Para-8 (i) of State Bank of Pakistan, Staff Service Regulations, 2005 provides that appointment to the service of the Bank shall be made by direct recruitment and by promotion from a lower cadre or a grade in accordance with the policy approved by the Central Board.

Moreover, Para-8 (iv) provides that the Bank may hire any person including a retired employee on contract basis for such duration and on such terms and conditions as may be determined.

State Bank of Pakistan (SBP) appointed five officers through an outside agency. The management paid remuneration amounting to Rs 1.460 million to the same firm as equivalent to one-month salary of each of the appointed officer.

As per Service Regulations, the Bank management should have filled these vacancies through promotions or by advertising in the local / international newspapers and SBP Website. Had these vacancies were filled through promotions and in case of non-availability of suitable candidate by advertising in the local / international newspapers and SBP Website, the expenditure of Rs 1.460 million could have been avoided.

The matter was pointed out to the management in October 2009 and reported to the Ministry in November 2009, but no reply was received.

The issue was discussed in the DAC meeting held on December 17, 2009. The management informed that they had earlier advertised the posts but the response

was not according to advertised criteria. Therefore, they had to obtain services of head hunting firms. They added that they had benefited through this process as qualified persons from foreign countries were selected.

The DAC directed the management to furnish a revised reply with documentary evidence in this regard. The management in its revised reply dated January 16, 2010 reiterated earlier stand by quoting immaterialized advertisement and BoD's approval for acquiring head hunting firm. However, the verification by Audit on February 3, 2010 revealed that the educational qualifications were not so specialized (*e.g.,* Master Degree in Economics, Finance, Business Administration, Human Resources; and C.A.) requiring services of head hunting firm. Moreover, the selection of head hunting firm itself was non-transparent as the management got exemption from its BoD to advertise, which was a violation of Public Procurement Rules, 2004.

SMALL AND MEDIUM ENTERPRISES BANK LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED DECEMBER 31, 2008

70. Small and Medium Enterprises (SME) Bank was incorporated in pursuance of Government of Pakistan Ordinance No. LVI of 2001, with the objective of supporting and developing SME Sector of the country. 93.8% of the shares of the Bank are owned by the Federal Government. The Bank was formed as a public limited company under the Companies Ordinance, 1984. The main objectives of the Bank are:

i. To support, develop and promote SMEs by providing them with necessary technical and financial assistance;
ii. To concentrate on value addition and export oriented SMEs; and
iii. To enable SMEs to play a vital role in stimulating GDP growth, create job opportunities and reduce poverty.

70.1 The working results of the Bank for the year ended on December 31, 2008 as compared to the previous years are appended below:

(Rs in million)

	2008	% Inc/ (Dec)	2007	% Inc/ (Dec)	2006
Mark-up/Return/ Interest earned	774.797	(11.51)	875.560	(8.82)	960.293
Mark-up/Return/Interest expense	385.379	1.43	379.956	(16.32)	454.062
Net mark-up/Interest Income	389.418	(21.43)	495.604	(2.10)	506.231
Provisions/(Reversals) – net	11.368	-	(137.525)	(40.31)	(232.669)
Net mark-up/Interest Income after provisions	378.050	(40.29)	633.129	(14.31)	738.900
Non- Mark up/Interest Income	58.647	45.38	40.338	50.45	26.810
Total:	436.697	(35.16)	673.467	(12.05)	765.710
Administrative expenses	570.101	8.29	526.464	(4.95)	553.867
Reversals of other provisions/write off	(6.614)	11.91	(5.910)	(70.45)	(20.000)
Other charges	5.204	535.41	0.119	(24.68)	0.158
Total non-markup/Interest expense	568.691	9.08	521.373	(2.37)	534.025
(Loss) / Profit before taxation	(131.994)	-	152.094	(34.35)	231.685
Taxation	400.954	861.75	41.691	(46.89)	78.498
(Loss) / Profit after taxation	(532.948)	-	110.403	(27.93)	153.187
Un-appropriated profit B/F	297.418	42.24	209.096	(644)	586.546
Profit available for appropriation	(235.530)	-	319.499	(56.81)	739.733
Basic/diluted earnings per share (Rs)	(2.23)	-	0.48	-	0.77

Source: Annual Audited Accounts

The net loss of the Bank for the year 2008 was Rs 532.948 million (net profit for 2007: Rs 110.403 million). Keeping in view the weighted average number of ordinary shares earning per share decreased from Rs 0.48 in 2007 to Rs 2.23 as on December 31, 2008, which needs to be improved.

70.2 The Bank sustained loss before tax of Rs 131.994 million in 2008 as compared with profit before tax of Rs 152.094 million in 2007. The main reason for conversion of profit into loss was lesser reversals by Rs 78.429 million in 2008 on account of Provisions/(Reversals) against non-performing advances as compared to the previous year as detailed below:

(Rs in million)

	2008	2007	Difference
Provision/(Reversal) against non-performing advances	(26.214)	(104.643)	(78.429)
Provision/Impairment/(Reversal) for diminution in the value of investments	34.876	0.804	34.072
Provision/(Reversal) for diminution in the value of assets	-	(37.466)	(37.466)
Bad debts written off directly	2.706	3.780	(1.074)
	11.368	**(137.525)**	**(82.897)**

70.3 Bad debts amounting to Rs 2.706 million were written off and directly charged to profit and loss account. The reasons for writing off the said amount need to be justified. Further, an amount of Rs 201.050 million was written off against non-performing advances (advance of old portfolio i.e. RDFC & SBFC). The authority / policy under which the said amount was written off may be elaborated.

70.4 The return on equity ratio indicates how profitable a company is by comparing its net income to its average shareholders' equity. The return on equity ratio measures how much the shareholders earned for their investment in the company. The return on equity of the SME Bank decreased in 2008 to -4.91% (2007: 4.33%). In general, return on equity was considered satisfactory from 15% to 20 %. Efforts to increase the return on equity ratio need to be made.

AUDIT PARAS

71. Irregular payment of legal fee – Rs 1.250 million

Law, Justice and Human Rights Division letter dated January 14, 2005, all the corporations/authorities and government controlled organizations are required to seek prior approval of the Ministry where the fee exceeds Rs 100,000.

Contrary to the above, SME Bank, Islamabad appointed a legal counsel in 2007 to contest five cases pending in Supreme Court of Pakistan, at a fee of Rs 250,000 per case with total fee of Rs 1,250,000. The legal counsel was appointed by the management at a very high fee and without concurrence/ approval of Law and Justice Division. This resulted into irregular payment of Rs 1,250,000.

The irregularity was reported to the management on June 9, 2008 and the Ministry on October 1, 2009. The management in its reply dated August 21, 2008 stated that the letters issued by the Ministries were not applicable to the banks. The reply was not convincing as Bank being Government owned organization was required to follow the Government's instructions.

The DAC meeting was held on December 16, 2009. Management informed the committee that PAC had constituted a committee comprising representative of Audit Department, Finance Division and Law Division to deliberate the similar issue i.e. paras No.89-92 for the year 2005-06. A meeting of sub-committee was held on November 17, 2009. The report of the sub-Committee was awaited till finalization of this report.

72. Non-deduction of income tax from contractor - Rs 0.376 million

According to Section 153(i) of the Income Tax Ordinance 2001, every person responsible for making payment is liable to deduct tax and deposit in the Government treasury.

SME Bank (H.O), Islamabad awarded renovation works of SME Bank, S.I.T.E. Branch and F.B. Area Branch, Karachi to M/s. Ghani Sons, Karachi. The works were completed at the cost of Rs 4,410,635 and Rs 1,856,611 respectively. The Chief Manager, Karachi released the payment to the contractor without deduction

of income tax of Rs 376,035 @ 6%, hence, the State was deprived of revenue to that extent.

The matter was reported to the management on August 1, 2007 and the Ministry on September 12, 2009. The management in its reply dated September 26, 2007 informed that income tax was not deducted under influence of the then Chief Manager who left service and after investigation, it was confirmed that Chief Manager exceeded his authority.

The DAC meeting was held on December 16, 2009. The Committee directed the management to effect recovery and get it verified from Audit. No progress was received till finalization of this report.

ZARAI TARAQIATI BANK LIMITED

73. Agricultural Development Bank of Pakistan (ADBP) was established under the Agricultural Development Bank Ordinance 1961. It was restructured vide ADBP (Reorganization and Conversion) Ordinance 2002 and renamed as Zarai Taraqiati Bank Limited (ZTBL) and incorporated as a public limited company on October 23, 2002 under the Companies Ordinance, 1984. 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 and investment activities and other banking business.

AUDIT PARAS

74. Non-recovery of dues from a defaulter firm – Rs 80.576 million

Lahore High Court, Lahore issued decree on October 19, 1998 in favour of ZTBL for the recovery of Rs 92.150 million.

Loan of Rs 45.623 million was sanctioned in favour of M/s. Asia Compack (Pvt) Limited for establishment of Chip Board Manufacturing Unit in District Sahiwal. Actual amount disbursed was Rs 43.462 million from March 16, 1992 to June 18, 1993. The Company went into default after making a nominal payment of Rs 0.194 million. Project was ultimately closed in 1998. Total amount outstanding against the Company was Rs 92.150 million. Bank filed a suit against the Company which was decreed in its favour on October 19, 1998. Against the securities, Bank was able to auction agriculture land for an amount of Rs 11.380 million. This resulted into non-recovery of Rs 80.576 million from the defaulter firm.

The matter was brought to the notice of management on March 31, 2009 and the Ministry on September 8, 2009. Management in its reply dated April 16, 2009 stated that new liquidator had been appointed and the Bank was pursuing liquidation of project. Reply was not convincing as the project had not been liquidated as yet.

The DAC meeting was held on December 16, 2009. Management informed the Committee that new liquidator had been appointed by court and the Bank was pursuing for early liquidation of project / assets / collateral. The DAC directed the management to pursue the case till its liquidation. No progress was intimated till finalization of this report.

75. Non-recovery from the defaulting borrowers - Rs 4.076 million

According to clause 12.10 (A) of the Credit Manual (Vol-I) of ZTBL, loans for inputs are to be recovered in lump sum immediately after harvesting / marketing of the respective crop.

ZTBL, Nankana Sahib disbursed short term loans of Rs 4.533 million for inputs under Sada Bahar Scheme to 14 borrowers during 2005-07. All these loans were required to be recovered in lump sum after the harvesting / marketing of the crops as per instructions of credit manual, but same were not recovered and Rs 5.663 million were outstanding on March 16, 2009.

The matter was reported to the management on March 31, 2009 and the Ministry on August 31, 2009. The management in its reply dated April 16, 2009 stated that recovery notices had been issued and the recovery was being perused. Reply was not tenable as recovery effort was too delayed due to which chances of recovery were remote.

The DAC meeting was held on December 16, 2009. Management informed the Committee that Rs 1.587 million had been recovered from the defaulters. The DAC directed the management to recover the remaining amount. Neither the recovery had been got verified from audit nor the balance amount was recovered till finalization of this report.

76. Loss due to non-encashment of bank guarantee – US $ 51,396 (- Rs 3.598 million)

According to clause 21.6 of the Instructions on Tendering Bidding (I.T.B) the Bid Security would be liable to be forfeited by ZTBL in the following circumstance:

a) If vendor withdrew the bid during the bid validity period.
b) If vendor failed to sign the contract in accordance with clause 43 of the I.T.B.

c) If vendor failed to furnish a Performance Security within 28 days in accordance with clause 44 of the I.T.B.

ZTBL (HO), Islamabad invited bids for Centralized Core Banking Application System on November 13, 2006. M/s. Sungard submitted its technical proposals to ZTBL in response to the invitation of bids. The vendor also submitted the bid security of US $ 51,396 in the shape of bank guarantee dated January 29, 2008. The bid was accepted on technical / financial basis being the lowest. The bank guarantee was valid up to April 30, 2008. On February 22, 2008, ZTBL informed M/s. Sungard that its proposal was considered successful. According to clause 44 of I.T.B, M/s. Sungard was required to provide performance guarantee within 28 days up to March 22, 2008, but the firm failed to sign the contract on one pretext or the other and did not provide the performance guarantee. The Sungard also raised certain quarries / objections and did not supply the performance guarantee and the Bank management failed to encash the bank guarantee of US $ 51,396 equivalent to Pak. Rs 3,597,720 as the contract could not be signed within 28 days and the bank guarantee was also expired on April 30, 2008. After expiry of the bank guarantee, the legal advisor opined on August 20, 2008 that ZTBL had right and could encash bank guarantee before its expiry.

The matter was reported to the management on March 31, 2009 and the Ministry on September 8, 2009. The management in its reply dated April 16, 2009 stated that vendor did not agree to furnish the performance guarantee which was not a standard practice for M/s. Sungard. Reply was not tenable because such requirement was mandatory and also included in the biding documents.

DAC meetings were held on July 4, 2009 and December 12, 2009. Management informed the Committee that project was very complex in nature. Hence a long time was spent on negotiation. The deadline for utilization of ADB loan was June 30, 2008 and litigation was not viable for ZTBL. The DAC directed the management to recover the amount from M/s. Sungard, but no progress was received till finalization of this report.

77. Irregular appointment in violation of service rules – Rs 1 million

According to the Establishment Division O.M. No. 9/1/2203-R-5 dated May 16, 2003, a person who does not possess the qualification prescribed in the

recruitment rules for a post should not be considered as eligible by substituting some alternate qualifications not prescribed in the rules.

Zarai Taraqiati Bank Limited published an advertisement for the post of Senior Vice President (Information System Audit Department) in daily DAWN, Islamabad on December 9, 2007. As per criteria the candidate should be master degree holder in IT Computer Science / MBA (IT) along with CISA with 10 years experience or ACA / ACMA / ACCA along with five years post qualification audit experience. The ZTBL short listed seven candidates out of 51 applications received which included Mr. Saeed Ahmad who neither fulfilled qualification mentioned for the said post nor experience. The candidate was Master of Science in Total Quality Management passed in 2004 and Certified Information System Audit (CISA) in 2007. Management appointed him one post below as Vice President (VP) at gross salary of Rs 100,000 per month along with self maintained 1000 cc car under the Company's Car Loan Depreciation Policy vide offer letter dated March 20, 08. The officer joined the ZTBL on June 7, 2008. Audit was of the view that appointment and payment of Rs 1 million up to March 2009 was irregular.

The matter was reported to the management on March 31, 2009 and the Ministry on October 26, 2009. The management in its reply dated April 16, 2009 stated that none of the candidates fulfilled the relevant criteria. Thus the incumbent having experience of IT Audit Operations was appointed in the Bank as Vice President instead of Senior Vice President. He was, however, assigned the duties of Acting Senior Vice President and no other induction at the level of SVP was made in the field. Reply was not acceptable as the management should had re-advertised the post/vacancy for more competition and suitable appointment on merit.

The DAC meetings were held on July 7, 2009 and December 16, 2009. The Committee directed the management to take action against the person who appointed the officer without observing the prescribed qualification and get the expenditure regularized from competent authority. No progress was intimated till finalization of this report.

78. **Irregular payment due to irregular re-employment - Rs 0.975 million**

According to Establishment Division O.M. dated June 12, 1999, the employees of Corporations, Autonomous/Semi Autonomous Bodies who exercised their option for Golden Hand Shake/Early Retirement Benefits Scheme (GHS&ERBS) are not eligible for re-employment in Government/Public Sector Corporations and Autonomous/Semi Autonomous Bodies etc. for a period of at least five years in any form i.e. re-employment, contract appointment or consultancy contract etc.

ZTBL appointed Vice President (Finance and Accounts) at a gross salary of Rs 75,000 per month with 1,000 cc Car vide office letter dated January 23, 2008. The officer joined the ZTBL on February 8, 2008 after availing the voluntary separation scheme (VSS) on February 6, 2008 from the PTCL. The officer was not entitled for re-employment within five years in any Government/Semi Government, Corporation etc. This resulted in an irregular payment of Rs 975,000 from February 2008 to March 2009.

The irregularity was reported to the management on March 31, 2009 and the Ministry on September 8, 2009. The management in its reply dated April 16, 2009 stated that induction of the incumbent was made under SR-2005 which did not debar him from seeking employment in the bank on merit. Reply was not acceptable because the officer exercised option for GHS and ERBS and as such he was not eligible for reemployment for a period of five years.

The DAC in its meetings held on July 7, 2009 and December 16, 2009 did not agree with viewpoint of management and directed to follow the Government instructions strictly. No progress was received till finalization of this report.

79. **Loss on account of undue favour - Rs 0.912 million**

As per approval of Board, the President was required to serve the Bank for a period of three years and one vehicle which was under his use would be sold out to him on book value at the time of relieving from the Bank.

The Board of ZTBL appointed the President of ZTBL for a period of three years w.e.f. March 20, 2007. As per Board's approval two vehicles i.e. Double Cabin Pick-up for official use and a car for private use was purchased at a cost of

Rs 1,561,500 on November 14, 2007. The officer concerned left/ resigned from the bank on July 31, 2008. At the time of leaving the Bank, vehicle No. IDF-1304 Toyota (5 door land cruiser) under protocol duty at Lahore was called from Lahore and handed over to the President at one rupee only being book value of the vehicle. Moreover on the advice of the ZTBL (HO) the Zonal Office incurred an amount of Rs 245,887 on improvement of the said vehicle on January 25, 2008. It is further added that management auctioned a five door land cruiser for Rs 666,000 during the year 2008. The ex-President tendered only 16 months service and for his entitlement for vehicle on book value, a period of 36 months was required. Due to misuse of power and undue favour, a loss of Rs 0.912 million was sustained by government (i.e. Rs 666,000 auctioned price of old land cruiser + Rs 245,887 repair cost of land cruiser handed over to the President).

The matter was reported to the management on March 31, 2009 and the Ministry on September 8, 2009. The management in its reply dated April 16, 2008 stated that the President was entitled to purchase one vehicle at book value and not necessarily to purchase the vehicles in his use. The reply was not acceptable as the vehicle could not be sold/handed over to officer as he rendered only sixteen months service instead of thirty six months service.

The DAC meeting was held on December 16, 2009. Management informed the Committee that according to Banks Nationalization Act, the Board of Directors was fully empowered to frame and approve policy, as such there was no violation of rule / policy as the facility was extended through BOD's approval. The DAC directed the management to refer the matter to Finance Division, Regulation Wing.

MINISTRY OF FOOD AND AGRICULTURE

PAKISTAN AGRICULTURAL STORAGE AND SERVICES CORPORATION LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2009

80. The Pakistan Agricultural Storage and Services Corporation Limited (PASSCO) was incorporated on August 31, 1973 as a non-listed public limited company. It is implementing the Federal Government's policy of support price programs of food grain and equitable distribution of food commodities and maintenance of their reserve stocks.

The objectives of the Corporation are to purchase, acquire, sell, supply, market, distribute, exchange, dispose of, import, export and store agricultural commodities.

80.1 The operational results of the Corporation for the year 2008-09 as compared to the previous years are tabulated below:

	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04
Procurement target of wheat (in metric ton)	1,400,000	1,300,000	1,300,000	1,200,000	1,400,000	1,200,000
Actual procurement of wheat (in metric ton)	853,983	1,242,508	1,268,808	997,310	823,300	785,256
Percentage of procurement	60.99	95.58	97.60	83.11	58.81	65.44
Godown Storage capacity (in metric ton)	330,900	330,900	330,900	330,900	330,900	330,900
28 Silos storage capacity (underutilized) since 1984 (in metric ton)	100,000	100,000	100,000	100,000	100,000	100,000
Godowns storage capacity in NWFP not being utilized by PASSCO management since its construction	3,300	9,900	9,900	9,900	9,900	9,900
Total godown storage capacity	434,200	440,800	440,800	440,800	440,800	440,800
Minimum strategic reserves to be kept	500,000	500,000	500,000	500,000	500,000	500,000

According to the wheat procurement policy of the government, procurement target of 1.3 million M. ton for the years 2006-07, 2007-08 and 1.4 million M. ton for 2008-09 was given to PASSCO, however, management could achieve 97.60%, 95.58% and 61% of the target respectively. Continuous failure in achieving procurement targets indicated that management failed to grab the market. Reasons of lesser achievement of procurement targets need to be justified.

80.2 During the crop 2009 PASSCO procured 2.346 million M. ton wheat against the covered storage capacity of 0.434 million M.ton. A quantity of 1.914 million M. ton of wheat was lying in open places. Reasons for not increasing the storage capacity need to be explained as the open stock was subject to great risk of weather hazards. The management of PASSCO had incurred an amount of Rs 155.756 million from 2000-01 to 2008-09 on rent of sites and construction of temporary plinths, which could had been avoided, had the management made a change in policy and constructed permanent plinths on its existing godowns where sufficient space was available or by leasing the land on long term basis if further required.

80.3 The working results of the Corporation for 2008-09 as compared to the previous years are as under:

(Rs in million)

Head of Account	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07
Wheat Export	1,331.27	22.23	1,089.16	(46.17)	2,023.28
Wheat Local	12,039.95	(30.88)	17,418.66	89.79	9,177.64
Black Gram	2,215.26	308.72	542.00	-	-
Rice and by product	-	-	-	-	309.70
Total Sales	15,586.48	(18.18)	19,049.82	65.50	11,510.62
Cost of paddy Powder and Tips sold	-	-	-	(100.00)	292.09
Cost of Mung sold	0.116	(99.59)	28.20	-	-
Misc Cost	14,845.49	(23)	19,282.61	-	-
Total direct cost of Sales	14,845.37	(22.90)	19,254.41	72.82	11,141.05
Gunny bags consumed	774.98	(0.99)	782.74	27.78	612.56
Labour Charges	14.02	(36.39)	22.04	110.44	10.47
Market Fee	6.80	(34.67)	10.41	15.46	9.02
Rent of Sites	9.48	30.75	7.25	58.21	4.59
Tarpaulins Exp.	39.83	(53.22)	85.15	(5.94)	90.53
Other Miscellaneous	421.84	198.14	141.49	396.98	28.47
Total Operating Expenses	1,266.94	20.77	1,049.08	26.64	828.39
Salary Wages & Other Benefits	441.57	13.36	389.54	7.75	361.53
Others Field Office Expenses	26.02	(22)	33.31	(29.75)	47.42
Total Field Offices - Admn. & General Expenses	467.59	10.58	422.845	3.40	408.94
Total Operating Expenses including Direct Cost & Field Office Expense	16,579.89	(20.00)	20,726.34	67.44	12,378.39
Gross Profit / (Loss)	741.11	-	(204.59)	(76.42)	(867.77)
Salary Wages & Other Benefits (HO)	213.04	12.03	190.15	11.02	171.27
Others (HO)	51.86	47.20	35.23	43.84	24.49
Head Office - Admn. & General Expenses	264.89	17.53	225.38	15.13	195.76

Operating Profit / (Loss)	1,699.92	-	(1,901.89)	78.83	(1,063.53)
Other operating Income	216.71	127	95.63	-	-
Financial & Other Charges	2,099.69	28.85	1,629.55	0.62	1,619.56
Allowance for Incidentals	2,783.72	(20.68)	3,509.44	142.62	1,446.46
Cost Differential	42.20	(92.41)	555.86	11.93	496.60
Profit / (loss) before Tax	(399.77)	-	629.49	-	(567.58)
Taxation	40.94	49.204	80.33	10.13	72.94
Profit/(loss) after taxation	(440.71)	-	549.16	-	(640.52)

Source: Annual Accounts

The sales of the Corporation decreased from Rs 19,049.82 million in 2007-08 to Rs 15,586.48 million in 2008-09. Operating expenses increased from Rs 1,049.08 million in 2007-08 to Rs 1,266.94 million in 2008-09 registering an increase of 21% over the previous year. The main reasons for increase under this head was the increase in the transportation expenses which rose from Rs 30.947 million to Rs 324.370 million (948%). Financial cost increased from Rs 1.629 billion in 2007-08 to Rs 2.099 billion in 2008-09 registering an increase of 29%. The organization sustained a loss of Rs 440.706 million during the year 2008-09, as compared with a profit of Rs 549.158 million in the 2007-08, in spite of the fact that other income increased from Rs 95.632 million in 2007-08 to Rs 216.709 million in 2008-09 (i.e.127%). The deteriorating performance of the Corporation needs to be improved.

80.4 The financial statements for the year ended March 31, 2009 showed an amount of Rs 1.527 billion as receivable from Government of Pakistan on account of cost differential on the purchase of Super Basmati, but no such confirmation/ commitment for the said purchase was available with the Corporation. Hence the receipt was doubtful and unless a provision of Rs 1.527 billion was incorporated in the financial statements, the loss was understated to that extent, which needs to be explained.

80.5 The Corporation had not disclosed its policy in respect of accumulating compensated absences whereas IAS-19 'Employee Benefits' requires a provision in respect of accumulating compensated absences as the employees render services that increase their entitlement to future compensated absences. The obligation exists, and is to be recognized even if the compensated absences are non-vesting. The non-disclosure had resulted in understated loss to that extent, which needs to be explained.

AUDIT PARAS

81. Loss due to purchase of sub-standard rice in violation of purchase agreement - Rs 411.260 million

PASSCO vide letter dated February 18, 2009 instructed all the Zonal Heads to stop procurement of super rice with immediate effect. Further, according to clause 4 of the rice agreement executed between PASSCO and Mills, the rice suppliers should confirm the standards and clear the sample test conducted by the rice experts. Further, clause 6 (P) stipulates that in case the rice was rejected due to non-meeting the specification, the miller shall be liable to provide the required quantity afresh.

The procurement of Super Rice was banned by MINFA from February 18, 2009 and all the heads were advised to intimate the stock position. The heads of Gujranwala and Mandi Bahu Din Zones reported stock quantity of 20,750 and 52,436 rice bags respectively vide stock sheets dated February 19, 2009. The management was suspicious about the extra ordinary procurement hence a high level enquiry was constituted by the PASSCO (HO). The enquiry committee proved that a quantity of 73,186 bags was procured during ban period as it was not possible to take proper samples of the rice in such a short time. Based on the recommendations of enquiry committee, the authority terminated the services of concerned employees. The authority also directed to take fresh samples of the rice purchased during ban period in the presence of G.M (Field), G.M (S&C) and G.M (Commercial). As per the analysis report, the contrasting varieties ranged from 10% to 89% against the standard limits of 7% to 10%. This resulted into loss of Rs 411.260 million due to purchase of sub-standard rice in violation of purchase agreement.

The matter was pointed out to the management on September 8, 2009 and the Ministry on October 10, 2009. The management in its reply dated September 24, 2009 intimated that services of the officers involved in the case had been terminated and legal action would be taken by H.R Department in due course of time. The reply was not convincing as the legal procedure was to be initiated to recover the loss by lodging FIR against the responsible, employees.

The DAC in its meeting held on November 16, 2009 directed the management to hold the inquiry for non-initiation of legal action against the concerned employees within a period of one month. No progress was received till finalization of this report.

82. Un-justified payment of price differential - Rs 28.256 million

Rule-30 of the Public Procurement Rules, 2004, stipulates that all bids shall be evaluated in accordance with the evaluation criteria and other terms and conditions set forth in the bidding documents. Rule-38 of PPR stipulates that contract be awarded to the lowest bidders within validity period. Clause 4 of the terms and conditions of tender documents stipulates that offer will not be considered if it is ambiguous and conditional.

Contrary to the above, PASSCO accepted the rate of Rs 57.02 per jute bag provisionally after negotiation with the bidders i.e. representative of Pakistan Jute Mills Association (PJMA) on January 7, 2008. This acceptance of provisional rate was on the basis of the rate already settled by PJMA with TCP. But on the same time these provisional rates were to be changed on the basis of rates of the Food Department, Government of the Punjab and other agencies.

Initially PASSCO made provisional payment to PJMA @ Rs.57.02 per bag on the basis of rates of TCP. On April 11, 2008, a difference of Rs 1.88 per bag was paid on the basis of rate settled with Food Department, Government of the Punjab (i.e. Rs 58.90 per bag rate of Food Department – Rs 57.02 per bag the rate of TCP/provisional settled rate). This resulted in unjustified payment of differential of Rs 28.256 million to Jute Mills on account of procurement of 15,030,000 bags.

The matter was pointed out to the management on September 8, 2009 and the Ministry on October 10, 2009. The management in its reply dated September 26, 2009 intimated that keeping in view the urgency of bags, it was unanimously agreed that PASSCO should accept the provisional price offered by PJMA and issued the acceptance letter on the same day. The reply was not convincing as PASSCO management was well aware of the procurement targets of the coming year and should have made appropriate arrangements well before the start of procurement season to avoid the cartel of Jute Mills. The PPRs did not allow the acceptance of provisional rates. In past, the PASSCO management always used to

fix final rates after negotiation with the Pakistan Jute Mills Association which was not done during 2008-09.

The DAC in its meeting held on November 16, 2009 directed the management to place the case before the BOD for appropriate action. No progress was received till finalization of this report.

83. Loss due to non utilization of godowns/premises of mill owners - Rs 23.980 million

PASSCO and the rice mills owners entered into an agreement; on December 4, 2008. According to clause 7-C, PASSCO will appoint Chowkidars for the safe watch and ward of the stocks, for which payment will be made by the mill owners. Further Clause 8 provides that premises of the mills, its godowns (storage of rice, or any other dead stock items) and offices shall remain in full use and at the disposal of PASSCO free of cost till August 31, 2009.

Contrary to the above, PASSCO did not utilize the godowns and premises of mill owners from January 2009 to August 2009 and shifted stocks to hired godowns and made payment of Rs 23.980 million. Due to non-utilization of the godowns of mill owners, a loss of Rs 23.980 million was sustained by the government.

The matter was pointed out to the management on September 8, 2009 and the Ministry on October 10, 2009. The management in its reply dated September 24, 2009 intimated that stocks were shifted to the hired godowns as the mills had not proper storage facility. Moreover stocks were shifted for proper watch and ward. The reply was not convincing as according to the agreement mill owners were bound to provide proper storage facility till the expiry of contract. Further the security staff was to be appointed by PASSCO and salaries were to be paid by the mill owners. Hence the whole cost incurred on storage of rice till August 31, 2009 was to be recovered from the millers.

The DAC in its meeting held on November 16, 2009 showed its concern for shifting of rice stock to hired godowns and directed the management to provide justification for shifting of rice at PASSCO owned/rented godowns. No progress was intimated till finalization of this report.

84. **Irregular re-employment of officer after dismissal – Rs 4.800 million**

According to Establishment Division OM dated January 8, 1979, a person whose services have been terminated as a result of disciplinary action against him will not be re-employed without obtaining the orders of the President.

PASSCO appointed a Purchase Inspector on April 15, 1978 and promoted him as Purchase Officer on July 1, 1980 and Dy. Project Manager (D) from June 30, 1982. The officer was posted as DPM (D) on April 14, 1983 for wheat crop 1983 at Haveli Project. The officer was placed under suspension on May 25, 1983 vide letter dated June 2, 1983. The allegations were proved in inquiry proceedings and he was terminated from the PASSCO services from June 26, 1983. After three years he made a revision petition through MINFAL in June 1986, which was rejected by M.D, PASSCO on September 7, 1986. The officer also appealed for his re-instatement which was turned down by the Board in its 51st meeting held on May 15, 1991.

The officer requested the Managing Director, PASSCO on November 7, 1992 for his fresh appointment as DPM (D) in Grade 16 which was approved by the Managing Director in total disregard to the fact that BOD had turn down his request for reinstatement. The appointment was made without observing the codal formalities like advertising the post, written test and interview. After re-employment the officer was served with multiple explanations, show cause notices, enquiries and other disciplinary actions. Board of enquiry investigated the case of Khanpur Zone, Crop 1995 and recommended for imposition of recovery of Rs 265,038 along with major penalty of termination from service against the officer for damaged wheat but the same was not implemented. This resulted in an irregular payment of Rs 4.80 million on account of pay and allowances to the officer from November 1992 to October 2009.

The irregularity was pointed out to the management on September 8, 2009 and the Ministry on October 10, 2009. The management in its reply dated September 25, 2009 stated that M.D was empowered to terminate and re-employ the officers up to BPS-19. The reply was not convincing as M.D as well as BOD rejected the appeals in September, 1986 and May, 1991 respectively on the basis of corrupt practices of the officer.

The DAC in its meeting held on November 16, 2009 directed the management to conduct enquiry at the MINFA level and submit the report within one month. No progress was received till finalization of this report.

85. Irregular expenditure due to re-employment - Rs 3.485 million

As per Cabinet Secretariat letter dated December 4, 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 the Government, requires approval of the Prime Minister. All cases of re-employment are subject to the following conditions:

i. Non-availability of suitable qualified or experienced officer to replace the retiring officer,
ii. The officer is a highly competent person with distinction in his profession/field,
iii. The re-employment does not cause a promotion blockage; and
iv. Retention of retiring officer for a specified period is in the public interest.

Contrary to the above, PASSCO, Head Office, Lahore re-employed Resident Engineer on March 28, 2005 and General Manager Commercial on May 18, 2009 after superannuation. This resulted in an irregular payment of Rs 3,485,000 till October, 2009.

The irregularity was pointed out to the management on September 8, 2009 and the Ministry on October 10, 2009. The management in its reply dated September 17, 2009 stated that M.D was authorized to appoint the officer up to BPS-19 and the re-employment was approved by the BOD. The reply was not convincing as Managing Director as well as BOD were not competent authority to approve any re-employment of superannuated officers without prior approval of the Prime Minister.

The DAC in its meeting held on November 16, 2009 showed its concern on re-employment of superannuated officers and advised to submit the case to Ministry for regularization. No progress was received till finalization of this report.

86. **Loss due to imprudent purchase and disposal of four Suzuki Mehran cars - Rs 0.334 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.

PASSCO purchased four Suzuki Mehran VXR Model in December, 2007 by incurring a cost of Rs 1,745,200 but did not operate the vehicles and sold after 18 months for Rs 1,411,000, resulting into a loss of Rs 334,200.

The matter was pointed out to the management on September 8, 2009 and the Ministry on October 10, 2009. The management in its reply dated September 26, 2009 stated that during the paddy crop 2007-08, no purchase was made and the vehicles could not be used and were disposed of . The reply was not convincing as the vehicles were purchased without any requirement and subsequently auctioned on loss.

The DAC in its meeting held on November 16, 2009. The Committee was not satisfied with the explanation of the management and directed them to justify the purchase/disposal of vehicles and place the case before the Board of Directors for action/specific approval. No progress was received till finalization of this report.

MINISTRY OF HOUSING AND WORKS

NATIONAL CONSTRUCTION LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

87. National Construction Limited was incorporated on November 16, 1977 under Companies Act, 1913 (now Companies Ordinance 1984) as an unlisted public company. The principal activities of the Company are to carry out the business as construction consultants, advisors, structural engineers, builders, architects, contractors, job contractors, designers and to engage in other allied activities.

87.1 The working results of the Company for the year 2008-09 as compared to the previous years are tabulated as under:

(Rs in million)

	2008-09	% Inc/(Dec)	2007-08	% Inc/(Dec)	2006-07
Contract income	1,396.957	(15)	1,647.332	(2)	1,672.754
Cost of work done	1,321.869	(11)	1,492.676	2	1,460.471
Operating profit/(loss)	75.088	(51)	154.675	(29)	212.283
Other income	15.964	211	5.129	1	5.054
Profit/(Loss) before taxation	90.399	(42)	156.804	(28)	217.337
Provision for taxation	56.728	(52)	117.319	19	98.293
Profit/(loss) after taxation	33.67	(15)	39.485	(67)	119.044
Accumulated Profit/(loss)	24.602	-	(9.776)	(80)	(50.026)
Earnings per shares (Rs)	1.69	(15)	1.98	(67)	5.97

Source: Annual Audited Accounts

The contract income decreased by 15% from Rs 1,647.332 million in 2007-08 to Rs 1,396.957 million in 2008-09. The operating profit margin decreased from 9% in 2007-08 to 5% in 2008-09. Earnings per share decreased by 15% to Rs 1.69 (2007-08: Rs 1.98). Efforts need to be made to improve the profitability of the Company.

87.2 The Company had not revalued its leasehold land since May 30, 1993 which was in contravention of IAS-16 “Property, Plant and Equipment”, which needs to be explained.

AUDIT PARAS

88. **Non-recovery of participating interest share-Rs. 5.388 million**

Under clause 8.3 of the contract if the performance of contract results in a loss, the loss shall be borne by the parties in proportion to their respective participating interests. The participating interests between NCL and M/s. Hussain Cotex Joint Venture with 25% and 75% shares respectively.

National Construction Limited entered into a joint venture agreement dated July 31, 2004 with M/s. Hussain Cotex Limited, Lahore for the development of sub sector G-14/4 Islamabad. The work commenced from September 15, 2004 and its date of completion was June 30, 2007. The contract value was Rs 181.128 million. 73% work was to be executed by M/s. Hussain Cotex Limited where as 27% work was to be executed by NCL.

The consultant M/s. NESPAK vide letter dated July 23, 2007 pointed out certain shortcomings/deficiencies to NCL-Hussain Joint Venture as the work was not completed as per contractual obligation. The project sustained a loss of Rs 7.184 million as shown in Profit & Loss Account of the Project prepared up till March 31, 2008 by the project management.

NCL was required to recover the proportional loss of Rs 5.388 million (i.e. 75 % of the total loss) from M/s. Hussain Cotex Ltd but no such action was initiated whereas the project has been suspended since 2007.

The matter was pointed out to the management on October 10, 2009 and the Ministry on November 24, 2009. In reply dated October 21, 2009. The management stated that under clause 8.1 of contract agreement, the share of profit and loss was to be determined after completion of the project. NCL was making all efforts to approach M/s. HCL for finalization of accounts.

Reply was not convincing as the project was suspended since 2007 and management could not succeed in obtaining the participatory share of loss. Moreover, the accounts of the project were not finalized.

The DAC meeting was held on January 22, 2010. The Committee directed the management to pursue the case till recovery and get it verified from Audit. No progress was reported till finalization of this report.

89. Unauthorized payment due to irregular appointment – Rs 0.507 million

In pursuance of Cabinet Secretariat letter dated December 4, 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 the Government, requires approval of the Prime Minister. All cases of re-employment are subject to the following conditions/criteria:

i. Non-availability of suitable qualified or experienced officer to replace the retiring officer,
ii. The officer is a highly competent person with distinction in his profession/field,
iii. The re-employment does not cause a promotion blockage; and
iv. Retention of retiring officer for a specified period is in the public interest.

Contrary to the above, National Construction Limited, Islamabad re-employed G.M (L&I) in grade-I after his superannuation vide letter dated April 2, 2008 on contract basis for a period of six months w.e.f April 5, 2008. This resulted in an un-authorized payment of Rs 507,240 @ Rs 84,540 per month along with a Company car with driver and fuel for official and domestic use.

The matter was pointed out to management on October 10, 2009 and the Ministry on November 24, 2009. In its reply dated October 21, 2009, the management stated that Managing Director is competent to give extension in service to the employees of Grade I to Grade V. Moreover, extension in service of the said officer was also approved by Chairman NCL / Secretary (H&W). Reply is not convincing as the management action was against Government policy.

The DAC meeting was held on January 22, 2010. The Committee directed to obtain *ex-post facto* approval of competent authority and also directed to observe the rules strictly in future.

PAKISTAN HOUSING AUTHORITY

90. Pakistan Housing Authority was established under resolution of Cabinet Division dated May 19, 1999 and further reorganized by resolution of the Ministry of Housing and Works dated March 8, 2000. The main objectives of the Authority is to provide shelter to low income groups.

Annual Audited Accounts of the Authority for the years 2003-04 to 2008-09 were not furnished by November 30, 2009.

AUDIT PARAS

91. **Unauthorized retention of income tax deducted at source - Rs 3.842 million**

Under clause 12 (i&ii) of section 151 (2) of Income Tax ordinance 2001 it is liable for tax deducting authority that tax so deducted during the month shall be deposited in the State Bank of Pakistan or in authorized branch of National Bank of Pakistan within seven days of the following month through consolidated challan.

Pakistan Housing Authority, Islamabad deducted a sum of Rs 3.842 million on account of income tax from the advance paid to the building contractors, consultants, suppliers and salary paid to staff during the years 2007-08 and 2008-09. The deducted amount was required to be deposited into Government treasury within seven days but was not deposited up to December 2009.

The matter was reported to the management on November 16, 2009 and the Ministry on November 24, 2009. Management in its reply dated January 4, 2010 stated that they were waiting the reports of the external auditors and tax liabilities would be cleared on certification of accounts. The reply was not acceptable as tax deducted should had been deposited within seven days.

The DAC meeting was held on January 22, 2010. The management informed the Committee that the tax liability as pointed out by Audit was from provisional

Accounts. The DAC directed the management to reconcile the accounts on top priority basis. No progress was intimated till finalization of this report.

92. Non-transparent procurement of store of Rs 2.219 million involving excess payment – Rs 0.851 million

As per Public Procurement Rule-9, procuring agency shall announce in appropriate manner all proposed procurements without any splitting or regrouping and annual requirements would be advertised in advance on Authority's website as well as on the website of the procuring agency. Rule-12 stipulates that the procurement should be advertised in print media having value more than two million rupees and rule 42 (C) (IV) says that repeat orders should not exceed 15% of the original procurement.

Contrary to the above, Pakistan Housing Authority (PHA) collected quotations for printing of brochures and placed work order on M/s. Adgroup on June 17, 2008 for printing of 10,000 brochures valuing Rs 0.920 million at the rate of Rs 80 plus 15% sales tax. Subsequently the management placed four repeat orders on the same firm valuing Rs.1.299 million for additional quantity of 5,000, 2,000, 2,000 and 5,000 (140 % higher than original order) from July 4, 2008 to September 8, 2008 at the rate of Rs 80 plus 16% sales tax.

PHA had already entered into an agreement with M/s. Pakistan Post Office Foundation (PPOF) at the rate of Rs 57 per brochure including taxes. The management splitted the work order and allowed higher rates to favour the firm in violation of Public Procurement Rules-2004. This resulted in a non-transparent procurement of store of Rs.2.219 million (Rs.0.920 + 1.299 million) involving an excess payment of Rs.0.851 million as worked out below:

Date of work order	Per broacher rate with tax Rs	Rate of PPOF with tax Rs	Difference Rs	Quantity	Excess payment Rs
17.06.2008	92.00	57.00	35.00	10,000	350,000
04.07.2008	92.80	57.00	35.80	5,000	179,000
13.07.2008	92.80	57.00	35.80	2,000	71,600
24.07.2008	92.80	57.00	35.80	2,000	71,600
08.09.2008	92.80	57.00	35.80	5,000	179,000
				Total:	**851,200**

The matter was reported to the management on November 16, 2009 and the Ministry on November 24, 2009. Management in its reply dated January 4, 2010 stated that printing of applications cum brochures was expeditiously required and it was not possible to go for open advertisement and under PP Rule-42 (C) (V) direct contracting is permissible in case of emergency.

The reply was not convincing as Public Procurement Rule 42(C) (IV) permit repeat order up to 15% of the original procurement only in case of emergency. The procurement of brochure cannot be treated as an emergency item and the management was required to plan the printing under PPR-9.

The DAC meeting was held on January 22, 2010. The management informed the Committee that due to emergency and directives of the Prime Minister, press advertisement was not possible. The Secretary, Housing and Works waived off the press advertisement. The DAC directed the management to furnish the revised reply with facts and figures. Audit was of the view that the rules cannot be relaxed without the concurrence of Finance Division as financial implications were involved. No progress was received till finalization of this report.

93. **Irregular expenditure on foreign tours - Rs 0.539 million**

Cabinet Division issued policy instructions regarding official visits abroad vide D.O letter dated February 19, 2003 which were reproduced by Finance Division vide their U.O No. 2(4)EF Exp. 2007-369 dated March 24, 2007. As per these instructions it has been made incumbent upon all officials of Ministries/Divisions/ Departments/Corporations/Autonomous bodies to ensure prior clearance of the Ministry of Finance (EF Wing) for visits abroad involving Government of Pakistan fund or funds of the concerned Autonomous bodies/Corporations after approval of the Minister in-charge and availability of budget.

Pakistan Housing Authority spent a sum of Rs 0.539 million on foreign tours of their officers during the year 2008-09 without getting prior clearance/NOC from Finance Division. This resulted in an irregular expenditure of Rs.0.539 million.

The matter was reported to the management on November 16, 2009 and the Ministry on November 24, 2009. Management in its reply dated January 4, 2010 stated that no government funds were involved. Hence NOC from Finance

Division was not required. The reply was not acceptable as NOC was mandatory irrespective of involvement of Government of Pakistan funds or funds of the concerned Autonomous Bodies/Corporations.

The DAC meeting was held on January 22, 2010. The Committee did not agree with the contention of the management and directed the management to get the expenditure regularized from the competent authority. No progress was intimated till finalization of this report.

MINISTRY OF INDUSTRIES AND PRODUCTION

( )

EXPORT PROCESSING ZONES AUTHORITY

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 1997

94. Export Processing Zones Authority (EPZA) was established in 1980 by the Government of Pakistan under Export Processing Zones Authority Ordinance (IV of 1980) with the mandate to plan, develop and operate Export Processing Zones in Pakistan in order to invite foreign investment. Karachi Export Processing Zone (KEPZ) was the first venture of EPZA, which was set up in 1984.

KEPZ was developed with a grant of Rs 362 million by GoP. The first phase comprising 211 acres was developed with this grant, which was released through ADP from 1981-1989. From then onwards, EPZA has managed all affairs from its own resources. KEPZ phase-1 has been fully allotted. The Authority has developed phase-II comprising 94 acres from its own resources EPZA also intends to acquire 200 acres of land for Phase-III for state of art modern Information Technology Park.

At present, there are ten export processing zones, namely (1) Karachi, (2) Sialkot, (3) Risalpur, (4) Gujranwala, (5) Gwadar, (6) Saindak, (7) Reko Dig, (8) Al-Tawarique, (9) Duddar and (10) Khalifa Coastal. A regional office is also established at Lahore. Out of ten zones planned by EPZA, only four are presently operational.

94.1 The DAC in its meeting held on August 26, 2008 directed EPZA to submit its accounts as per the following timelines:

- Accounts for the first five years (till June 30, 1997) by June 2009
- Accounts for the next five years (till June 30, 2002) by December 2009
- Accounts for the remaining five years (till June 30, 2007) by June 2010

94.2 The management of EPZA failed to provide their annual audited accounts for the year 1998-99 onwards by November 30, 2009.

94.3 The working results of the Authority for the year 1996-97 as compared with those of the previous years are given below:

(Rs. in million)

	1996-97	% Inc/(Dec)	1995-96	% Inc/(Dec)	1994-95	% Inc/(Dec)	1993-94
Revenue	98.490	23.8	79.581	24.3	64.007	17.0	54.694
Interest Income	49.116	26.6	38.802	18.4	32.784	22.9	26.659
Other Income	4.378	263.1	1.206	(32.8)	1.795	(17.3)	2.171
Amortization of Deferred Income	9.194	(8.1)	10.011	(35.6)	15.535	(4.0)	16.187
Total Income	**161.179**	**24.36**	**129.602**	**13.6**	**114.123**	**14.5**	**99.712**
Administrative & General Expenses	(90.677)	11.2	(81.563)	(9.9)	(90.535)	26.5	(71.561)
Surplus for the year	**70.502**	**46.8**	**48.039**	**103.7**	**23.587**	**(16.2)**	**28.150**

(Source: - Annual Audited Accounts)

The overall working results of the Authority for the year under review were satisfactory

94.4 Debtors stood at Rs 28.867 million as on June 30, 1997 as against Rs 19.242 million in the preceding year 1995-96, registering a significant increase of 50%, which needed to be justified.

AUDIT PARAS

95. Non-recovery of Annual Ground Rent and Utility Charges - US $ 0.988 million (Rs 81.006 million)

Clause-18 of the Lease Agreement between Export Processing Zones Authority (EPZA) and its Lessees provides that the lessees in addition to the Annual Ground Rent (AGR) shall pay Electric, Gas and Water Charges and surcharges for late payment to the Lessor (EPZA) on or before the date mentioned on the bills to the concerned departments / authorities.

Moreover, Clause-29 of the Lease Agreement provides that the AGR in respect of Lessee shall be collected in advance before the tenth of July every year.

A sum of US$ 2.056 million (equal to Rs 168.570 million) was outstanding against investors of the Karachi Export Processing Zone (KEPZ) of EPZA on

account of AGR, Electricity and Water Charges as on June 30, 2009 as detailed below:

S. No.	Particulars	Amount (US$ in million)	Amount (Rs. in million)
1	Annual Ground Rent	1.964	161.000
2	Electricity Charges	0.084	6.910
3	Water Charges	0.008	0.660
	Total	2.056	168.570

The record supplied to Audit did not contain ageing of the outstanding dues; hence the period of accumulation could not be ascertained. However, the heavy outstanding amount of Rs 168.570 million indicated ineffective receivables' management prevailing in the Organization.

The non-recovery was pointed out to the management in October 2009 and reported to the Ministry in November 2009, but no reply was received.

The matter was discussed in the DAC meeting held on December 26, 2009. The management informed that out of seven units, five units were in litigation and recovery on account of AGR could be made only after decision of Sindh High Court, as those units were not making the payments; therefore, recoveries against Electricity and Water Charges only had been made in those cases. They added that overall US$ 1.068 million had been recovered / adjusted from Security Deposit out of total recoverable amount of US$ 2.056 million. They further added that the amount under litigation was US$ 0.963 million (i.e., 96% of the balance recoverable amount).

Audit pointed out that ageing of the balance receivable amount should be made available. The DAC directed the management to produce ageing of the dues and get the recovered / adjusted amount verified from Audit. The DAC further directed the management to pursue the court cases for early execution. However, no progress was intimated by the management till the finalization of this report.

96. Non-completion of projects worth US$ 0.725 million and non-recovery of penalty – US$ 0.270 million (Rs 23.000 million)

Clause-8 of the License Agreement between Export Processing Zones Authority (EPZA) and its Lessees binds the investor to complete construction and start

running his planned production unit within a period of 18 months from the date of approved plan.

Moreover, Clause-11 provides that the building and construction of the planned production unit must be completed up to a minimum extent of 50% of complete plan within one-year period from the date of the approved plan. In case of non-compliance of the agreed upon clause regarding completion of production unit, a non-construction penalty @ US$ 5.00 per sq. meter per month was agreed to be paid by the Lessee under Clause-10 of the License Agreement.

EPZA Karachi management approved two projects in the year 2006 as viable units. However, the units remained partially constructed as illustrated below:

S. No.	Date of Approval	Line of production	Envisaged Investment (US$ in million)	Construction status as on 30-11-2009
1	08-06-2006	Second hand / used clothing	0.375	Under construction (25% completed)
2	26-04-2006	Natural sausage casings (outer covering of sausages)	0.350	Under construction (35% completed)

The above state of affairs indicated lack of proper monitoring of the projects in order to ensure compliance of the terms and conditions of the License Agreement by the investors. Moreover, the record did not indicate the recovery of US$ 0.270 million (equal to Rs 23.000 million) from the defaulting investors on account of non-construction penalty @ US$ 5.00 per sq. meter per month.

The irregularity was pointed out to the management in October 2009 and reported to the Ministry in November 2009, but no reply was received.

The matter was discussed in the DAC meeting held on December 26, 2009. The management informed that clause of the agreement was not practicable as it was not business oriented and the investors, who had suffered set back in their invested projects due to economic crisis world over, were not expected to pay penalties of Rs 23 million. The management added that the Board was competent enough to decide changes in the license agreement.

Audit pointed out that the Board of Directors could not over-ride the rules; moreover, the amendment in the lease agreement had not been provided to Audit. The DAC directed the management to furnish a revised reply containing all aspects to Audit. However, no revised reply was received till the finalization of this report.

PAKISTAN INDUSTRIAL DEVELOPMENT CORPORATION (PVT.) LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

97. Pakistan Industrial Development Corporation (Private) Limited was incorporated in Pakistan on January 1, 1985 under the Companies' Ordinance, 1984. Pursuant to an order of Federal Government, the business, project, properties and all the shares held by Ex-Pakistan Industrial Development Corporation in the capital of the managed companies and subsidiaries were transferred to and vested in the Company with effect from April 1, 1985. The Company was established to setup / manage and / or run a project / undertaking or business.

The Government of Pakistan, Ministry of Industries and Production through letter No.1(I)PS/AS-1/07 dated August 24, 2007, took a step to consolidate and improve management of Pakistan Automobile Corporation Limited (PACO) by merging it with PIDC as a wholly owned subsidiary. The Government of Pakistan, through Ministry of Industries' letter No.16(2)/2008-I/GCP (Pt-I) dated September 11, 2008, took another step by merging Ghee Corporation of Pakistan (Private) Limited (GCP) with PIDC.

97.1 The under mentioned units of PIDC had closed their operational activities. The decision about their liquidation / privatization had already been taken but implementation of the same was awaited. Early action was required to be taken to avoid recurring expenditure on running the offices of these units and to save deterioration of their properties. It is worth mentioning that one of the under liquidation units, *viz.*, Sindh Engineering (Pvt.) Limited, had started disposing-of its assets and as per audited accounts for the year 2008-09, it had earned Rs 144.526 million on account of Profit on Disposal of Assets held for Sale.

1	Associated Cement Rohri	Privatization Commission sold assets of the Company on January 3, 2005. The Company was placed under liquidation on June 28, 2005, which is still in process.
2	Ghee Corporation of Pakistan (Pvt.) Ltd.	Closed since June 1997. The Company was placed under liquidation on May 29, 2009, which is still in process.
3	Morafco Industries Limited	Closed since May 1997. The Company is under privatization with the Privatization Commission since 1990, but could not be privatized.

4	Pakistan Motorcar Company (Pvt.) Limited	Operation closed since 1992, however, liquidation is still in process.
5	Republic Motors (Pvt.) Limited.	Operation closed since 1986; however, liquidation is still in process.
6	Sindh Engineering (Pvt.) Limited	The Board of Directors of the Company at a meeting held on April 17, 2009 decided in principle to windup the Company voluntarily. However, progress was awaited.

97.2 The working results of the Corporation for the year ended June 30, 2009 as compared with those of the previous years are given as under:

(Rs. in million)

	2008-09	**% Inc/(Dec)**	**2007-08**	**% Inc/(Dec)**	**2006-07**	**% Inc/(Dec)**	**2005-06**
Interest, property and dividend income	1,058.674	71.6	616.858	(20.3)	774.000	(41.6)	1,325.580
Expenses	(187.072)	29.3	(144.648)	82.3	(79.500)	19.7	(66.400)
Operating profit/(loss)	**871.602**	**84.6**	**472.210**	**(32.0)**	**694.500**	**(44.8)**	**1,259.180**
Other income	-	-	-	-	498.000	345.9	202.540
Other charges	(200.640)	(60.9)	(513.956)	-	-	-	-
Profit/(loss) before Taxation	**670.962**	**-**	**(41.746)**	**(79.8)**	**1,192.500**	**12.9**	**1,461.720**
Profit / (loss) for the year	530.848	-	(190.499)	-	1,073.100	(20.3)	1,346.540

(Source: Annual Audited Accounts)

The over all working results of the Corporation during the year under review were satisfactory.

PAKISTAN STEEL MILLS CORPORATION (PVT.) LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

98. Pakistan Steel Mills Corporation (Private) Limited (PSM) was incorporated in Pakistan on July 2, 1968 as a Private Limited Company and is wholly owned by the Government of Pakistan. The Corporation is engaged in the manufacturing and sale of iron and steel products. Pakistan Steel Mills is the Country's largest Steel Industrial undertaking.

98.1 The working results of the Corporation for the year 2008-09 as compared with those of the previous years are given below:

(Rs. in million)

	2008-09	% Inc/ (Dec)	2007-08 (Re-stated)	% Inc/ (Dec)	2006-07	% Inc/ (Dec)	2005-06 (Re-stated)
Sales-Net	33,183.769	(18.3)	40,624.399	35.7	29,937.328	46.1	20,492.155
Cost of Sales	(59,035.548)	57.7	(37,427.018)	42.6	(26,241.075)	24.1	(21,142.403)
Gross Profit/(Loss)	(25,851.779)	-	3,197.381	(13.5)	3,696.253	-	(650.248)
Operating Expenses	(3,916.467)	63.5	(2,395.135)	51.1	(1,584.856)	3.4	(1,532.501)
Operating Profit/(Loss)	(29,768.246)	-	802.246	(62.0)	2,111.397	-	(2,182.749)
Finance Cost	(464.373)	2046.5	(21.634)	11.9	(19.338)	23.7	(15.628)
Other Operating Income	1,272.246	(48.5)	2,469.247	(0.6)	2,484.374	(28.9)	3,493.267
Profit (loss) before Tax	(28,960.373)	-	3,249.859	(29.0)	4,576.433	253.4	1,294.890
Taxation	2,434.083	-	(1,168.677)	(17.5)	(1,417.220)	287.9	(365.337)
Net Profit/ (Loss) after Tax	(26,526.290)	-	2,081.182	(34.1)	3,159.213	239.9	929.553

The Gross Profit of Rs 3.197 billion as on June 30, 2008 was converted into Gross Loss of Rs 25.852 billion as on June 30, 2009. This significant gross loss was attributed to the following operational lapses:

i. Actual production during the year 2008-09 at 64% was even lesser than the planned production at 75% of sanctioned capacity. The low planned and even lower actual production contributed in decline in sales volume during the year 2008-09. The basis and timings for development and execution of the production plan needs to be elaborated.

ii. The per metric ton raw material consumption cost increased by 136.1% during the year 2008-09, i.e., from Rs.25,043 in the preceding year 2007-08 to Rs.59,043 during the year 2008-09. This indicated procurements of raw material at higher prices during the year 2008-09, which needs justification.
iii. The net sales during the year 2008-09 were even below the cost of raw material consumed by Rs 8.663 billion. This indicated that sale prices set were unable to absorb even the cost of direct material. In this regard PSM's procedure for planning, establishment of sales prices and sales plan needs to be explained and rationalized.

98.2 The Corporation suffered a net loss of Rs 26.526 billion in the year 2008-09 against profit of Rs 2.081 billion in the preceding year 2007-08. The net loss was also due to increase in operating expenses by 63.5% over the preceding year, involving increase in Admin Expenses by 40.8% (2008-09: Rs 2.179 billion vs. 2007-08: Rs 1.548 billion) and Other Operating Expenses by 143.3% (2008-09: Rs 1.355 billion vs. 2007-08: Rs 0.557 billion) that mainly covered increase in provision for Slow Moving Stores and Spares of Rs 160.736 million during the year 2008-09 and Exchange Loss of Rs 970.328 million (2007-08: Rs 364.172 million).

98.3 Instead of generating cash, PSM utilized the available cash amounting to Rs 7.058 billion during year 2008-09. Due to cash shortages, PSM had to borrow an amount of Rs 2.804 billion from Employees' Fund; and Rs 3.028 billion from Banking Company. Moreover, sub-ordinate loan became overdue by Rupees one billion and Trade Payables increased by 282.7% (2008-09: Rs 11.488 billion vs. 2007-08: Rs 3.002 billion). Overall increase in current liabilities was 226.7% during the year 2008-09, *i.e.*, Rs 7.154 billion in the preceding year 2007-08 to Rs 23.374 billion during the year 2008-09.

PSM's cash management critically affected its ability to meet immediate liabilities during the year 2008-09 as reflected by Quick Ratio, which was 0.34 times; Absolute Cash Ratio was 0.12 times. Interval Measure indicated that cash available was sufficient for 47 days to meet regular expenses. Immediate efforts need to be made to overcome this situation.

98.4 External Auditors raised five qualifications in their report for the year 2008-09, which are indicated below:

a) There were allegations of fraud in media and under process inquiries by Federal Investigation Agency, Supreme Court of Pakistan and Standing Committee of Senate. Since the outcome of such investigations and possible legal proceedings could not be determined until completion of such process, the impact of these inquiries could not be determined, if any, on the financial statements, specifically at cost of sales.

b) Non-compliance of IAS-40 "Investment Property" that unallocated land should be classified as Investment Property instead of an item of Property, Plant and Equipment. The area of land should have been classified, as investment property, but it was not identified so; therefore, the impact of this non-compliance could not quantified.

c) No formal estimation of useful life of each part of plant was made separately since inception and a single rate of 5% is charged to whole plant for depreciation; while IAS-16 requires review of useful life of each year for each part of Property, Plant and Equipment. No physical verification of immoveable fixed assets including Plant and Machinery was made since inception; therefore, impact of this matter on carrying value of operating assets could not be determined.

d) The stock carrying value of Rs 298 million was lying in bins, silos, coal tower and shop floors as on June 30, 2009. The management does not have practice of performing physical stock taking of the aforesaid stock.

e) There was no system of carrying physical count and valuing the scrap material in the Corporation. As a result, such material was reflected in the financial statements at zero value.

The qualifications expressed by External Auditors made the reasonableness of the accounts as doubtful in above listed areas. Corrective measures for removal of the qualifications were not taken by the management till the finalization of this report. Improvement in this regard needs to be expedited.

AUDIT PARAS

99. Irregular utilization of Employees' Funds – Rs 7.514 billion

Section-3 of the Pakistan Steel Mills (PSM) Employees Provident Fund Regulations 1971 provides that the object of the Fund is to accumulate for the benefit of the staff of the Corporation, who have joined the Fund contributing certain sums as a future provision for them and for their families.

PSM utilized a sum of Rs 7.514 billion from Employees' Funds at a mark-up of 14-19% (Rs 89.560 million) during the first six months of financial year 2008-09 as a loan. The amount was withdrawn from the Fund from September 3, 2008. The withdrawal continued till December 22, 2008 despite the Board of Directors (BoD) directives on November 26, 2008 to immediately re-deposit the already withdrawn amount. Audit was of the view that withdrawing the amount from the 'Employees Fund' for operational use could put the Employees hard earned money at risk since PSM was incurring massive losses as evident from the half yearly accounts dated December 31, 2008 showing an accumulated loss of Rs 7.168 billion.

The matter was reported to the management in March 2009 and to the Ministry in June 2009. The management in its replies on May 11, 2009 and September 3, 2009 stated that the investment was made under Clause-15 and Section-102 of the Fund Regulations and Companies Ordinance, 1984 respectively. They added that the investment was made under Point - 'c' from the Deed of Trust wherein it was stated that investment would be made to provide benefits under the rules of the Fund. Moreover it was stated that instead of investing in a Commercial Bank @7%, it was loaned to PSM @14%.

The reply was not tenable, since Clause-15 and Section 102 of Companies Ordinance direct the investment in Securities or Post Office Savings Bank, National Savings, Federal Government Securities, deposits in NCBs and NBP or in an established financial institution. Point (c) from the Deed of Trust binds the trustees to make investments to provide benefits under the rules of fund and does not justify the management's action. Moreover the instructions of BoD had been complied with partially as only Rs 903 million out of the total withdrawn amount had been deposited back by the management.

The matter was discussed in the DAC meeting held on December 26, 2009. The management informed that due to abnormal circumstances / liquidity crunch, this extra ordinary step had to be taken with the objective to ensure survival of the Organization. They added that the interest rate on this borrowed amount from the Employees Provident Fund was higher than the prevailing bank rates. They further added that a part of the reported amount in the observation pertained to Gratuity (Rs 3.610 billion), which can be utilized by the management under the rules in such circumstances. Moreover, a sum of Rs 1.263 billion had been refunded to Provident Fund along with interest of Rs 19.241 million. The management further stated that the Board of Directors had endorsed this extra ordinary action under the given circumstances when the banks refused to extend financing to the Organization. The management added that the Trustees of the Provident Fund had already approved this action and further added that the advance taken from the Fund shall be refunded at the earliest.

Audit pointed out that the borrowing from the trust money was not covered under the rules and added that the earning of profit cannot be justified when the risk of losing principal amount was there. The weak financial position was evident from the fact that no commercial bank was ready to finance the Organization.

The DAC recommended the Para for placing before the PAC.

100. **Sale of steel products below cost – Rs 7.151 billion**

As a matter of prudent business practice, the manufacturing cost of main products needs to be controlled to earn reasonable profit margin to ensure sustainability of the Organization.

Pakistan Steel Mills (PSM) sold a quantity of 345,651 M/Tons of its main products during the period July 2008 to January 2009 at a total sale price of Rs 18.188 billion, while the cost of sales of the same was Rs 25.339 billion. Thus, PSM sustained a loss of Rs 7.151 billion on sales of products below cost.

The product-wise details are as under:

(Rs. in million)

S. No.	Name of Product	Quantity (M/Tons)	Amount of Sales	Cost of Sales	Loss
1	Pig Iron (Local)	10,099	379.824	562.909	183.085

2	Cast Billet	43,421	1,843.861	2,713.871	870.010
3	Billet	96,680	4,160.619	6,592.289	2,431.670
4	Finished Slab (Local)	2,531	121.834	751.460	629.626
5	HR Sheet/HR Coil (L)	136,450	8,042.050	9,860.076	1,818.026
6	CR Coil/ Strips (Local)	41,318	2,629.369	3,421.677	792.308
7	Galvanized Coil	15,152	1,010.615	1,436.954	426.339
	Total	**345,651**	**18,188.172**	**25,339.236**	**7,151.064**

It is evident from the above table that the manufacturing cost of the products was not controlled to make the sales with a margin of profit for sustainability, which indicated loose internal controls prevailing in the Organization.

The matter was reported to the management in April 2009 and referred to the Ministry in December 2009. The management in its reply dated May 18, 2009 stated that the Organization was dependent upon import of raw materials whereas the prices thereof in international market surged during the year 2008-09. They added that there was a recession in the international steel prices, which fell by 68% during middle of the year 2008. They further added that PSM sales dipped from Rs 5 billion to Rs 1 billion from July 2008 to November 2008 due to overall economic slowdown and low volume of steel exports. They justified the sale below cost on the ground that monthly expenditure to sustain the Mills was approx. Rs 4.5 billion, whereas huge inventory of finished stocks of Rs 7 billion and raw material of Rs 10 billion had piled up and the option was either to shut down the Mill or shed-off the huge piled inventory of the stocks by reducing sale prices at par with international market; and accordingly the prices were adjusted downward by 35% resulting into increase in sales from Rs 1 billion in October 2008 to around Rs 4 billion in January 2009. They finally concluded that PSM would achieve break even in the months of May-June 2009.

The reply was not tenable, as no breakeven was achieved and the Corporation sustained a loss of Rs 26.526 billion by close of financial year 2008-09.

The matter was discussed in the DAC meeting held on December 26, 2009. The DAC observed that the Para would stand.

101. **Shortage in the balances of Raw material – Rs 2.477 billion**

Para-7 of the Work Instructions of Pakistan Steel Mills (PSM) for Store Department issued on September 29, 2002 provides that it is responsible to record

the consolidated transition, through Stores Requisitions (SRs) provided by consuming complexes, and would feed the data on the same day. They will also check validity and reconcile the data side by side with Stores Account every month. No un-reconciled balance / data will be carried forward to the next month.

In PSM, physical verification of the basic raw material was carried out in May and June 2009. As a result of physical verification, huge quantity of raw material was found short as on June 30, 2009. The details were as under:

Raw material	**Physical Balances as on 30-06-2009** (M/Ton)	**Book Balances** (M/Ton)	**Shortages** (M/Ton)	**Rate** (Rs. per M/Ton)	**Total value** (Rs. in million)
Coal	111,736	127,365	(15,629)	22,577	352.856
Coke	166,585	185,253	(18,668)	42,146	786.782
Imported Coke	13.660	24,831	(11,171)	55,894	624.392
Lump Iron Ore	12,098	85,358	(73,260)	9,675	708.791
Quartzite	2,289	5,801	(3,512)	1,079	3.789
				Total	2,476.610

The shortages of raw material valuing Rs 2,476.610 million indicated negligence in securing the assets of the Organization.

The matter was taken up with the management in October 2009 through a preliminary observation memo. The management in its reply dated November 12, 2009 stated that it was actually differences between physical and book balances arrived at as per provisional activities reports. They added that the matter was investigated through a high power committee and as per its recommendations, the stores accounts in respect of Coal, Coke and Iron Ore had been corrected accordingly; whereas, the matter of differences between physical and book balances of Quartzite was still under investigation. The reply was not tenable because non-observing of standing work instructions by the Stores Department caused such a large scale shortages of raw material. Further the details of adjustment of book balances were not elaborated.

The matter was discussed in the DAC meeting held on January 9, 2010. The management informed that the verification of these stocks is carried out at the end of the financial year as being observed for the last 20 years. They added that it was not practicable to conduct physical verification frequently during the year due to cumbersome nature of material. They added that after physical verification as on

June 30, 2009, the shortages between book and physical balances were investigated by a high-powered committee and the reason was found as under reporting.

Audit pointed out that provisions of manual are to be observed as the Public Money was involved. The management informed that the consumption norms was within 1.45 ton of coal per ton of coke, which was immaterial in view of the magnitude of the stock of over hundreds of thousands tons. They added that under reporting was due to improper functioning of weighbridges, which were being replaced.

The DAC directed the management to implement the report of the high-powered committee over the shortages.

102. **Irregular award of shipment contract by ignoring the lowest bidder - US$ 38.857 million (Rs 2.351 billion)**

Rule- 40 of Public Procurement Rules, 2004 provides that negotiations with the bidders are not allowed. Further under Rule-31, once the bid has been opened, the bidder is not allowed to modify or change his bid.

Pakistan Steel Mills (PSM) opened tenders for Contract of Affreightment (COA) to procure iron ore on June 21, 2007. The bidders submitted their offers with varying rates *vis-a-vis* three different ports Mormugao, Goa, India (First Port), Bandar Abbas, Iran (Second Port) and Dampier, Australia (Third Port). As per submitted bids, M/s Emirates Trading Agency (ETA), UAE was the lowest with US$18.69 and US$ 19.81 for the first and the second ports respectively. M/s Shadab were the lowest at US$ 39.71 for the third port.

Pakistan National Shipping Corporation (PNSC), the second lowest bidder (at the rate of US$ 19.29 per M/Ton for the shipment from the First Port), approached the management and reduced their bid to US$ 18.59. Consequently, PSM awarded the contract to PNSC in July 2007 for shipment from the First Port at a total cost of US$ 38.857 million (equal to Rs 2.370 billion @ US$ 1.00 = Rs61.00) after negotiation on the reduce bid of US$ 18.59 per M/Ton.

It is worth mentioning that Public Procurement Regulatory Authority (PPRA) was consulted by PSM before award of contract to PNSC through a letter dated June 25, 2007. The PPRA advised through a letter dated June 28, 2007 as follows:

> "Negotiations are prohibited under Rule 40 of Public Procurement Rules 2004. Preference to Domestic or national suppliers is covered under Rule-24. However, once the bid has been opened, the bidder is not allowed to modify his bid under Rule-31 of the Public Procurement Rules 2004. PSM may decide the case keeping in view the mentioned Public Procurement Rules 2004."

The award of contract to PNSC was a violation of PPRA Rules and also negated the advice of PPRA. The non-observance of Rules for transparent award of contract at the cost of sanctity of tender indicated mis-procurement.

The irregularity was pointed out to the management on March 19, 2009 and to the Ministry on June 13, 2009. The management through its reply of September 3, 2009 stated that prior dismal performance of M/s ETA; PNSC being the National Flag Carrier and Merchant Marine Policy were the reasons for awarding contract to PNSC. The reply was not tenable as M/s ETA, the lowest bidder was among the nine prequalified ship owners as evaluated by the management before opening of financial bids. As regards preference to PNSC, the management did not quote any specific regulation-providing award of contract to PNSC by ignoring the lowest bid.

The matter was discussed in the DAC meeting held on December 26, 2009. The management informed that since PNSC is a Government owned organization and no foreign exchange payment is made in their case; therefore, the lower offer after opening of financial bids was accepted.

Audit pointed out that it was against sanctity of tenders and added that PPRA had advised to follow the rules; hence the action of the management was irregular. The management clarified that their action was in conformity with the Pakistan Maritime Policy, 2001 which provided preference of the National Flag Carrier, and that was 2nd lowest bidder by 60 cents but subsequently reduced the rates by 70 cents to become the lowest bidder. The management added that they had saved foreign exchange besides lowering the cost of charter. Audit pointed that once PPRA Rules were observed by the management for the bidding process, it should have been observed in letter and sprit, especially when the advice from PPRA was contrary to the action of the management. The management clarified that the Ordinance on maritime was observed by them. Audit pointed out that in such case the bidding under PPRA had over riding effect.

The DAC observed that the irregularity had occurred and recommended the Para for placing before PAC.

103. Extra expenditure on shipment of material due to imprudent policy of procurement – US$ 18.390 million (Rs 1.122 billion)

Rule-10 (1) of GFR provides that every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money, as a person of ordinary prudence would exercise in respect of his own money.

In Pakistan Steel Mill (PSM), the contracts for procurement/import of bulk material for a period of five years as per 5th Generation Plan/Program 2003-08 were awarded in March 2003. The tenders contained the procedure for supply in first year on Cost and Freight Free Out (CFFO) basis, whereas the remaining four years supply on Free on Board (FOB) basis; i.e., the supplier had to arrange vessels at their cost for delivery in first year and PSM had to arrange vessels for transportation of the material for remaining four years. Since the suppliers, with the advantage of making shipments to various consignees all over the world, were in better position to obtain freight rates from the ship owners, they quoted rates including freight for supplies to PSM for the first year at much lower rates as compared with the freight rates agreed to by PSM with various ship owners including PNSC.

An illustration of higher freight rates paid by PSM is given below:

S. No.	Port of delivery	Freight included in C&F price quoted by suppliers		Freight agreed by PSM in FOB contract			Difference		
		Supplier	Freight rate (US$ per M/Ton	Ship owner	Quantity	Freight rate (US$ per M/Ton)	Amount		% increase
							US$ per M/Ton	Total (US$ in million)	
1.	Mormugao, Goa, India	M/s Sesa Goa, India	7.658	PNSC	350,000	18.590	10.932	3.826	142.8
2.	Bandar Abbas, Iran	M/s NISCO	6.570	M/s Emirates Trading Agency, Dubai	1,100,000	19.810	13.240	14.564	201.5
							Total	**18.390**	-

The management due to imprudent procedure incurred heavy extra expenditure on the freight causing loss of US$ 18.390 million (equal to Rs 1.122 billion @ US$ 1.00 = Rs.61.00) in above two illustrative cases.

The matter was taken up with the management in March 2009 and with the Ministry in June 2009. The management in its reply of September 03, 2009 stated that the previous generation was ending by June 2003 and new contract was starting in July 2003, hence if freight rates were not included in bids then there would have been problem in the shipment of July, August and September in that year. They added that PSM had left an option for itself to decide the freight in subsequent years on the basis of suppliers' performance.

The reply was not tenable as the PSM could not compete with the freight rates of suppliers for obvious reasons as detailed above, hence leaving the discretion of contracting with ship owners was an exercise at the cost of funds of the Organization.

The matter was discussed in the DAC meeting held on December 26, 2009. The management informed that as per Five Years Generation Policy, they observe CFFO rates in first year and FOB rates for remaining four years because in the first year, they would not be able to get the charterers due to in process bidding for supply contracts. They added that without knowing the port of loading of the lowest bidders being evaluation in process, they cannot charter vessels in anticipation; and only after ascertaining the lowest evaluated bidder the CFFO contract comes into operation from the 2nd year of the generation policy period.

The DAC decided to keep this Para at MFDAC level to revisit the Para by Audit. Upon review, the Para was finalized for placing before PAC as non-continuation of CFFO rates for remaining four years of the long-term supply contract resulted into much higher freight at the cost of funds of the Organization.

104. Undue favour to a firm by irregular registration as a "Trader" and "Consumer" at the same time

Para "m" of the Selling Arrangements for Pakistan Steel Products-2008, notified by Pakistan Steel Mills (PSM) on October 22, 2008 provides that no customer shall hold "Consumer" and "Trader" dealerships at the same time". Moreover

Para "8(i)" thereof provides that Consumers will be provided priority over Traders for allocation of material.

A scrutiny of list of total dealers in PSM as on March 2, 2009 revealed that a firm, viz., M/s Abbas Group was awarded dealership of PSM as "Consumer" and "Trader" at the same time. Due to irregular registration, the management extended undue favour to the firm, which managed to purchase heavy quantity of steel billets (highly demanded product of PSM in the market) during November, 2008 to February 2009 as detailed below:

S. No.	Category	Name	Address	Quantity Sold (M/tons)
1.	Consumer	Abbas Engineering Industries (Pvt.) Limited	123-Old Clifton, Karachi	4,401.820
2.	Consumer	Abbas Steel Industries (Pvt.) Limited	123-Old Clifton, Karachi	4,726.650
3.	Consumer	Al-Abbas Steel (Pvt.) Limited	123-Old Clifton, Karachi	3,833.100
4.	Trader	Abbas Steel Group (Pvt.) Limited	123-Old Clifton, Karachi	5,742.790
			Total	**18,704.360**

The matter was reported to the management in April 2009 and referred to the Ministry in June 2009. The management in its reply dated May 18, 2009 stated that dealerships were awarded subject to fulfillment of certain laid down pre-qualification requirements and acceptance by the applicant of standard terms and conditions of dealership. They added that survey teams verify the credentials of the applicant including their premises. They further added that the four firms in question were private limited companies with different National Tax Number and General Sales Tax Certificates.

The reply was not tenable, as the addresses of all the four firms were same, which should have been detected during the survey. It was worth mentioning that the bank statement for the period April 2008 to November, 2008 of M/s Abbas Steel Group (Pvt.) Limited (Trader) showed that frequent payments on account of purchase of steel products were made from its bank account to PSM on behalf of other three firms registered as consumer dealers with the same address.

The issue was discussed in the DAC meeting held on July 23, 2009. The DAC directed the management to get its contention verified from Audit. The

verification by Audit on November 3, 2009 revealed that the companies in question registered in PSM with similar address and similar name were owned by proprietors from one family, which led to monopolization in allocation of products. The same should have been scrutinized during survey for the award of dealership, which was not done by the management.

105. Undue favour to dealers by inadequately publicizing the credit scheme – Rs 644.565 million

Rule-23 of Public Procurement Rules, 2004 provides that any information necessary for bid evaluation shall be provided to bidders in a timely manner and on equal opportunity basis.

Pakistan Steel Mills (PSM) sells products through its dealers on payment or against credit facility with mark-up charges. In October 2008, PSM announced Free Credit Scheme (FCS) for 60 days without mark-up vide its circular dated October 22, 2008. The facility was available till November 29, 2008. Lateron the scheme was extended vide a circular dated November 12, 2008 for 90 days with availability till December 31, 2008. However, the management did not adequately publicize the facility as the circular was addressed to all zonal incharge / heads within the Organization. The Sales Section on the website of PSM during that period had remained closed. Resultantly, majority of the prospective buyers remained uninformed about the facility, which raised doubt that the move was to extend undue favour to some parties only. The record revealed that only seven dealers / customers availed the facility by December 31, 2008 and a large quantity of 16,803.520 M/Tons of steel products valuing Rs 644.565 million was sold to them on 90 days credit. This indicated the violation of the rules, which sets the principle of equal opportunity for all prospective bidders with reference to any incentive or condition.

The irregularity was pointed out to the management in April 2009 and to the Ministry in June 2009. The management in its reply dated May 18, 2009 stated that they had displayed the FCS incentives on their notice boards and also on their website. They added that PSM's L/C Customers seldom exceed 10% and usually 6 to 7% of registered customers do their business.

The reply was not tenable, as the Sales Section of the website was closed from November 17, 2008 to February 10, 2009; hence, the facility despite being provided first time, was not publicized. The contention of the management that historically only 6 to 7% of dealers had their business with PSM; itself shows ineffectiveness of marketing and sales wings of the Organization.

The matter was discussed in the DAC meeting held on December 26, 2009. The management informed that as per policy in the event of lower sales, the change in the procedure is advertised on the Website. They added that the credit facility through L/C was advertised in the Website and seven dealers availed that scheme. Audit pointed out that the Website was closed at that time; however, the management clarified that the Website was in operation. Audit pointed out that during slump period, more efforts for publicity including press advertisement was necessary as only seven dealers had benefited out of total 923. Management clarified that as per norms of business, a few among the registered dealers place purchase orders even in more attractive packages. Upon a query from DAC, the management informed that as per their business practice, there was no policy to advertise the schemes in newspapers. Audit pointed out that it was not a normal scheme under the abnormal decline period.

The DAC recommended the Para for placing before the PAC.

106. **Allotment of land below market value – Rs 509.460 million**

As per valuation report dated March 30, 2005 carried out by Pakistan Steel Mills (PSM) through an evaluator, the value of PSM's undeveloped land was Rs 3.000 to Rs 3.500 million per acre. Accordingly the value per sq. yard came to Rs.723 on the basis of one acre = 4,840 sq. yards.

A Memorandum of Understanding (MoU) was signed between Government of Pakistan (GOP) and Al-Tuwairqi Group of Companies (ATG), Saudi Arabia on May 6, 2004 for setting up a steel-manufacturing unit in the vicinity of PSM. Clause-3 of the MoU required PSM to provide its 219 acres land to ATG @ Rs.245 per sq. yard.

PSM's Board of Directors in its meeting held on June 19, 2004 approved the allotment of 219 acres of undeveloped land. A joint survey was carried out on January 1, 2005 to ascertain the exact area for payment. An area of 220.210 acres

(1,065,816 sq. yards) was allotted to Tuwairqi Steel Mills adjacent to PSM. The lease deed for 60 years was executed on February 28, 2005 on payment of Rs 261.125 million @ Rs.245 per sq. yard. The possession of land was taken over by the Company in March 2005.

It is worth mentioning here that the rate of Rs.245 per sq. yard was fixed on the ground that "the land is not leveled, undeveloped and not in a downstream industrial estate, and consequently significant civil works would be required to be undertaken within a short period of time by the Project Company". Thus the Company was given land at a much lower rate in contravention of the evaluated price of Rs.723 per sq yard. Resultantly PSM sustained loss of Rs 509.460 million (Rs.723 ─ Rs.245 = Rs.478 x 1,065,816 sq. yards = Rs 509.460 million).

The loss was reported to the management in October 2009. The management in its reply dated November 12, 2009 stated that the rate for undeveloped land was fixed at Rs.245 per sq. yard as per the Clause-3 of the MoU. They added that the rate was also approved by the Board of Directors of PSM. The reply was not tenable, as the land should have been allotted at the evaluated price.

The matter was discussed in the DAC meeting held on January 9, 2010. The management informed that MoU had been signed on May 28, 2004 on behalf of President of Pakistan through Ministry of Industries and M/s Al-Tuwairqi (100% Saudi Arabia owned) with the agreed price of land, whereas signing of lease agreement took place on February 28, 2005. Any subsequent increase in the land cannot be taken as a basis to ignore the agreed price in MoU. The management added that they had to comply with the MoU, which was signed in the national interest for bringing foreign investment. The management further clarified that subsequent evaluation of land value was carried out during process of privatization of PSM, which had nothing to do with the allotment of land to M/s Al-Tuwairqi. They added that the land allotted to M/s Al-Tuwairqi was undeveloped land; therefore, the MoU contained the rates of undeveloped land prevailing at that time. The management clarified that the rate of Rs.245 fixed in MoU was on the basis of Rs.550 per sq. yard fixed for the developed land and after deducting the charges for development works. Upon a query, the management informed that for example two plots of developed land had been allotted by PSM in the year 2004 to other two industries @ Rs.550 per sq. yard.

Audit pointed out that fixing of the rate was within the purview of PSM management and the draft MoU had been moved by PSM itself. Had the market value of the land been worked out properly before signing MoU, the PSM would not have suffered the loss due to the difference of value. Audit further pointed out that at the time of lease agreement with M/s Al-Tuwairqi, the rates for developed land were revised to Rs.900 per sq. yard w.e.f. January 5, 2005.

The DAC recommended for placing the Para before PAC.

107. Non-forfeiture of security deposit of defaulting dealers against non-lifting of allocated quantity – Rs 23.920 million

Clause-5 of "Standard Terms and Conditions of Sales Contract" in Pakistan Steel Mills (PSM) provides that:

> "The material shall be offered to buyers in parts or full as and when received from Production Department. The Notice of Readiness (NoR) will be served through telex/fax/courier or through personal contract to obtain Delivery Order (D.O.) within Seven (07) working days from the date of issuance of the notice and to lift the material within Seven (07) working days from the issuance of the D.O. failing which the seller reserves the right to forfeit security amount in full or prorata to the quantities remained un-lifted."

Contrary to the above, PSM issued NoRs during the period July 2008 to February 2009 for a total quantity of 1,296,298.000 M/Tons of different products, out of which NoRs of 389,943.000 M/Tons (30% approx.) of different products were expired. The dealers failed to lift the full quantity of quota allocated to them. The expiry of NoRs indicated that allocations were made by the management in excess of requirement of the defaulting dealers, thus depriving the genuine buyers. Moreover, the position of NoRs was required to be up-dated on daily basis on PSM Website to bring transparency; however, the website was kept suspended during the intervening period w.e.f. November 17, 2008 to February 10, 2009.

The management did not take any action as per contractual terms against the defaulting dealers by depriving the PSM of its right of forfeiture of security on prorata basis amounting to Rs 23.920 million (approx).

The matter was reported to the management on April 9, 2009 and referred to the Ministry on June 26, 2009. The management in its reply dated May 19, 2009 stated that NoRs were expired during the period of severe economic down turn

and every industry was in complete turmoil. They added that PSM was experiencing acute shortage of liquid funds and imposition of penalty would have been counter-productive and would have further discouraged the dealers.

The reply was not convincing as apart from the limited period of so called recession in economy, the management had never taken action against the dealers as per terms of contract agreement for the default in lifting of allocated quantity.

The issue was discussed in the DAC meeting held on July 23, 2009. The DAC directed the management to revise the rules to make it more transparent and provide a factor for storage cost. Audit verified on November 3, 2009 that PSM had not amended its rules in connection with defaulting dealers. Thus, the practice of delayed lifting of the allocated products persists.

108. Unabsorbed fixed cost due to shortages of raw material - Rs 277.320 million

As per Pakistan Steel Mills (PSM) letter No. PP&C/Audit/Req/1384 dated October 9, 2009 the recommended minimum levels for the consumption of the basic raw material during the year 2008-09 were set as follows:

Iron Ore	90 days
Coal	40 days
Coke	30 days

In PSM, the raw material management was not according to the recommended minimum levels set for the consumption during the year 2008-09. The stocks of Coke and Coal were kept above the recommended levels, whereas the stock of Iron Ore remained far below. Since adequate quantity of Iron Ore was not available during the period from October 2008 to June 2009, Blast Furnace of Iron Making Department (IMD) faced a down time of total 974 hours 25 minutes.

Non-availability of raw material for IMD during the said period had a multiplier effect as "Molten Metal" manufactured by IMD for Steel Making Department (SMD) was also not produced adequately. Therefore, SMD faced a down time of 728 hrs 16 minutes during the period. Resultantly PSM suffered losses on account

of unabsorbed fixed cost of both departments as detailed below:

Department	Down time (hours & minutes)	Total fixed cost (Rs. in million)	Fixed cost per hour (Col. 3÷365)	Unabsorbed cost (Rs. in million) (Col. 2x Col. 4)
IMD	974 25	1,209.909	138,117	134.560
SMD	728 16	1,717.452	196,056	142.760
			Total	**277.320**

Had the management restricted the procurement of Coke and Coal to the recommended level, the loss of Rs 277.320 million could have been minimized by utilizing financial resources in procurement of Iron Ore up to recommended level. This was indicative of mismanagement of raw material inventory.

The matter was reported to the management in October 2009; however, no reply was received.

The issue was discussed in the DAC meeting held on January 9, 2010. The management informed that the stock level for coal (two to three sources) was fixed for 40 days but the sources then had been increased from 4 to 5, hence the level fixed in the beginning year 1970 had also to be revised. They added that due to financial constraints they could not procure raw material (iron ore) to maintain the recommended level of stock.

The DAC observed that loss had occurred due to running of the units at lower production and decided that the Para would stand.

109. **Less charging of Annual Ground Rent – Rs 2.035 million**

According to the standard terms and conditions for allocation of land in the downstream industrial estate of Pakistan Steel Mills (PSM), the Annual Ground Rent (AGR) would be payable in advance at the beginning of each calendar year and is liable to yearly increase of 5% or revision by the competent authority from time to time.

The Board of Directors of PSM in the meeting held on June 19, 2004 had approved the allotment of 219 acres (approx) land to Tuwairqi Steel Mills as per standard terms and conditions prevalent at PSM. However, AGR @ Rs.2.50 per sq. yard was fixed in the Lease Deed for the entire lease period of 60 years without any subsequent yearly increase.

The rates of AGR were revised in PSM from Rs.2.50 per sq. yard in January 2006 to Rs.3.197 per sq. yard in January 2009; however; the Company was paying AGR @ Rs.2.50 per square yard. Thus PSM suffered a loss of Rs 2.035 million up to January 2009 due to defective clause of the Lease Deed. The cumulative effect of less charging of the AGR over the entire period of lease would be in billions of rupees.

The loss was reported to the management in October, 2009; who in their reply dated November 12, 2009 stated that as per Lease Deed executed between PSM and Tuwairqi Steel Mills, AGR, was fixed @ Rs.2.50 per square yard. As no provision existed for 5% annual increase in draft Lease Deed, therefore, the same was executed without said provision.

The reply was not tenable, as the PSM Board of Directors had approved the allotment of land to Tuwairqi Steel as per standard terms and conditions prevalent at PSM. Therefore, the management should have finalized the Lease Deed accordingly.

The matter was discussed in the DAC meeting held on January 9, 2010. The management informed that there was no provision in the MoU signed with the party for annual increase in ground rent of the land. Audit pointed out that the management should have signed the lease agreement on standard terms and conditions in compliance with the Board directives.

The DAC observing non-provision of annual increase in the rent as irregularity, concluded that the Para would stand.

110. Irregular sharing of duty / taxes levied by a foreign government - US$ 2.130 million (Rs 181.142 million)

Clause 16; ‘Taxes’ of a contract agreement dated July 2, 203 between Pakistan Steel Mills (PSM) and an India based supplier provided that any new duty or tax

or increase in any existing duty or tax levied by the seller's government upon the Iron Ore or the sale, transportation thereof, during the term of the contract shall be borne and paid by the seller.

Contrary to above, the Supplier approached PSM in May 2007 to share 50% amount of duty imposed by Indian Government on the export of Iron Ore (lump and fine) @ US$ 4.00 and US$ 1.40 per M/Ton respectively. It was estimated by PSM that the demand of the Supplier would result into financial impact of US$ 2.130 million (approximately) from March to June 2008. The Board of Directors (BoD) of PSM after detailed deliberation on the issue and after finding that the demand was contrary to the contract, did not allow PSM to accede to the request of the Supplier. Later on Price Negotiation Committee of PSM in its meeting held on March 8, 2008 agreed to get the remaining shipments from the Supplier and to pay the amount of duty / taxes effective from March 2007 as demanded by the Supplier subject to approval of BoD. Subsequently the BoD in its meeting held on March 19, 2008 endorsed the decision of Price Negotiation Committee. The acceptance of non-contractual demand of the Supplier by the management resulted into assumption of liability of extra expenditure of Rs 181.142 million, which was a loss to the Organization.

The matter was reported to the management on April 10, 2009 and referred to the Ministry in June 2009. The management in its reply dated May 19, 2009 stated that the sharing of duty was accepted in view of comparison of spot price received at that time for fine ore. They further added that the matter was in process to be finalized at Pakistan Steel and the amount had not been finalized for payment to the Supplier.

The reply was not tenable, as the comparison of long term supply contract rates with spot rates was irrelevant in this case which had clear contractual provisions for the liability of duty / taxes.

The matter was discussed in the DAC meeting held on July 23, 2009. The management informed that amendment in the contract was made with the approval of BoD and PSM benefited from this move. The DAC directed the management to get its contention verified from Audit. As per verification dated November 3, 2009, it was found that the contract had not been changed. Moreover, the BoD's Resolution dated March 16, 2008 allowing the payment caused a liability over PSM in contravention of provision of the contract.

111. **Award of 50% of procurement contract to 2nd lowest bidder – Rs 14.820 million**

Rules-38 of Public Procurement Rules, 2004 provides that the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulation or policy of the Federal Government, shall be awarded the procurement contract within the original or extended period of bid validity.

Pakistan Steel Mills (PSM) invited tenders on July 20, 2008 for procurement of 150,000 M/ Tons Iron Ore (lump) on Cost & Freight Free Out (CFFO) basis with plus/minus 10%. The shipment schedule was from September, 2008 to December, 2008. Five parties participated in the bidding and three were technically qualified. As the offer of Indian based qualified firm was conditional in respect of quantity, the commercial offers of two bidders, one Iranian based and the other Indian based suppliers, were opened.

As per quality adjusted price for lowest hot metal cost, Iran based firm was declared first lowest @ Rs.44,056.18 per M/Ton and India based firm was declared 2nd lowest @ Rs.44,241.43 per M/Ton. The management, instead of awarding the whole procurement contract to the 1st lowest bidder, split the procurement by awarding 50% quantity, *i.e.*, 80,000 M/Tons each to both bidders at their offered rates. Thus, PSM had to bear extra cost of Rs 14.820 million due to the decision of awarding contract to the 2nd lowest bidder, which was a loss.

The matter was reported to the management on April 6, 2009 and referred to the Ministry on November 17, 2009. The management in its reply dated May 18, 2009 stated that the Price Committee had discussed the issue concluding that PSM could not be dependent upon a single source and decided to split the quantity on equal ratio of 50% of the tendered quantity because of already two contracts signed with other two Iran based suppliers; therefore, the committee decided to diversify the source of supply of Iron Ore (lump) from Iran to India.

The reply was not convincing as the schedule of delivery and the capability of bidders to supply the requisite material in time was considered at the time of technical evaluation of the bids and after that exercise, the commercial offers were opened. The splitting of the tendered quantity on the ground that the first lowest bidder belonged to a country, where two earlier supply contracts were signed, was not justified.

The matter was discussed in the DAC meeting held on July 23, 2009. The management informed that they were not in a position to rely on a single source; hence the procurement was arranged from two sources. Audit, however, contended that the rules should have been followed. The DAC directed the management to get the process of procurement verified from Audit. The verification by Audit on November 3, 2009 revealed that the procedure about diversifying supply sources stated by the management was relevant in procurement cases where PSM enters into long-term contracts for a period ranging from 3 to 5 years, which was not applicable in this case of spot procurement.

112. Irregular registration of firms by awarding additional dealership for sale of steel products

Clause-2 of Standard Terms and Conditions for Dealership framed by Pakistan Steel Mills (PSM) provides that the dealership shall be awarded on one proprietor–one dealer ship basis. Additional dealership in the name of same proprietor, his servants or any person or relative such as wife, son(s), daughter(s) who are not actually conducting business for income tax or any Government levies or any other purpose shall not be allowed.

Contrary to above, PSM awarded a number of dealerships to proprietors / firms bearing same addresses. A few instances are given below which is illustrative and not exhaustive:

S. No.	Customer Code	Name	Address
1.	1106	Jamal Pipe Industries (Pvt) Ltd.	88-Railway Road, Lahore
2.	1446	Lamal Tube Mills (Pvt) Ltd.	88-Railway Road, Lahore
3.	4062	Hala Steel Corporation	211, Jilani Centre behind Liaqut Bazar, M.A. Jinnah Road, Karachi.
4.	3988	Hala Trading House	215, Jilani Centre behind Liaqut Bazar, M.A. Jinnah Road, Karachi.
5.	4054	Shahzad Enterprises	215, Jilani Centre behind Liaqut Bazar, M.A. Jinnah Road, Karachi.
6.	4061	Sufyan International	215, Jilani Centre behind Liaquat Bazar, M.A. Jinnah Road, Karachi.
7.	3425	Tasleem Steel	Ireland Road, Off Lawrence Road, Karachi

8.	0416	Taufique Steel	Ireland Road, Off Lawrence Road, Karachi
9.	1317	Ansari Corporation	2/4, Fazal Park Shad Bagh, Lahore
10.	1440	Ansari Steel Traders	2/4, Fazal Park Shad Bagh, Lahore
11.	1853	Malik Traders	75-Steel Sheet Market, Industries Area, Lahore
12.	1692	Maqsood Brothers	75-Steel Sheet Market, Industries Area, Lahore
13.	1184	Malik Corporation	80, Steel Sheet Market, Loha Market Lahore
14.	1852	Naseem International	80, Steel Sheet Market, Loha Market Lahore
15.	1791	Mohid Enterprises	4-Montgomery Road, Lahore
16.	1951	Nazstahl Enterprises	4-Montgomery Road, Lahore

The objective for registration with PSM as dealers with different names appeared to be obtaining more quotas of PSM products for sale and enjoying credit facility for greater period. The irregular award of dealership depicted loose internal controls prevalent in the Organization.

The irregularity was reported to the management on March 17, 2009 and referred to the Ministry on June 26, 2009. The management in its reply dated May 18, 2009 stated that the said firms were different entities with different proprietors with different NTN and GST Certificates. The reply of the management was not tenable, as objective of the standard policy had been defied by the management through awarding the dealership to the additional persons existing at a same address.

The matter was discussed in the DAC meeting held on July 23, 2009. The DAC directed the management to get its contention verified from Audit. The verification by Audit on November 3, 2009, revealed that the companies registered in PSM with similar address and similar name, were owned by proprietors from one family. This tantamount to monopolization in allocation of products, which was not catered for while scrutiny in preparing survey reports before the award of dealerships.

PAKISTAN STEEL FABRICATING COMPANY (PVT.) LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2006

113. Pakistan Steel Fabricating Company (Private) Limited (PSFCL), wholly-owned subsidiary of the Pakistan Steel Mills Corporation (Private) Limited, was incorporated in Pakistan on June 28, 1975, under the Companies Act, 1913 (now the Companies Ordinance, 1984). The principal activity of the Company is the fabrication of steel structure, production of paints and other related activities.

The accounts were prepared on going concern assumption over management expectation that PSM would continue to provide finance for current and future operations of the Company. However, formal arrangements in this regard were not available.

113.1 External Auditors issued disclaimer of opinion over results of PSFCL. Some significant disclaimer of opinion are indicated below:

i. Dispute over treatment of Rs 100 million from Privatization Commission,
ii. Inappropriate record regarding Operating Fixed Assets amounting to Rs 55.028 million,
iii. Assurance over Stock-in-Trade of Rs 66.24 million could not be obtained due to unavailability of satisfactory records,
iv. Difference of Rs 150.39 million against payable to Pakistan Steel Mills in PSFCL accounts and as per PSM's confirmation,
v. Cash and bank balances of Rs 1.867 million were remained unconfirmed by banks, and
vi. Provision for gratuity was not made on the basis of Actuarial Valuation.

All above observations needed remedial measures for removal of disclaimer.

113.2 The management of PSFCL failed to provide their annual audited accounts for the year 2006-07 to 2008-09 by the prescribed date, *i.e.*, November 30, 2009. However, the audited accounts up to the year 2005-06 were submitted by the Company till the finalization of this report.

113.3 The working results of the Company for the year 2005-06 as compared with those of the previous years are given below:

(Rs. in million)

	2005-06	% Inc/(Dec)	2004-05	% Inc/(Dec)	2003-04	% Inc/(Dec)	2002-03
Net Sales	53.902	(13.1)	62.052	(31.5)	90.592	63.8	55.291
Cost of Goods Sold	(49.885)	(7.7)	(54.062)	(13.4)	(62.448)	38.5	(45.101)
Gross Profit	**4.017**	**(49.6)**	**7.990**	**(71.6)**	**28.144**	**176.2**	**10.190**
Other Income	3.491	2670.6	0.126	(97.3)	4.635	1319.8	0.334
Operating Expenses	(10.108)	43.9	(7.024)	25.2	(5.612)	(15.9)	(6.683)
Operating Loss	**(2.600)**	**(338.2)**	**1.092**	**(96.0)**	**27.217**	**608.8**	**3.841**
Prior Year Adjustment	-	-	(0.622)	-	-	(100.0)	(64.332)
Profit/(Loss) before Taxation	**(2.600)**	**(653.4)**	**0.470**	**(98.3)**	**27.217**	**(145.0)**	**(60.491)**
Taxation	2.440	**(112.7)**	(19.146)	**(129.2)**	65.599	-	(0.282)
Profit / (Loss) after Taxation	**(0.160)**	**(99.1)**	**(18.677)**	**(120.1)**	**92.816**	**(252.7)**	**(60.773)**
Accumulated Loss brought forward	(579.434)	3.3	(560.757)	(14.2)	(653.573)	10.2	(592.800)
Accumulated Loss carried forward	**(579.594)**	**0.03**	**(579.434)**	**3.3**	**(560.757)**	**(14.2)**	**(653.573)**

(Source: Annual Audited Accounts)

Sales declined by 13.1% and Operating Expenses increased by 7.7% during the year 2005-06. The Current assets of PSFCL were in short of Current Liabilities by 64.5% (Rs 352.702 million). Cash and Bank Balance stood at an amount of Rs 1.907 million, registering a decrease of Rs 8.288 million over preceding year 2004-05. Deficit of Financial Assets over Financial Liabilities reached to Rs 616.03 million with an increase of Rs 29.972 million (5.11%) over preceding year 2004-05. The situation raises doubts over PSFCL's status as a Going Concern.

113.4 Cost of raw material consumed increased by Rs 31.780 million during the year 2005-06 (155.6% of preceding year 2004-05), purchases were increased by Rs 37.147 million (176.85% of preceding year 2004-05), but sales were declined by 13.14%. This resulted in blockage of Rs 32.620 million during the year 2005-06. This position needs justification.

SMALL AND MEDIUM ENTERPRISES DEVELOPMENT AUTHORITY

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2008

114. Small and Medium Enterprises Development Authority (SMEDA) was established under the Prime Minister of Pakistan office notification dated October 13, 1998. SMEDA Ordinance was promulgated on August 12, 2002. SMEDA was subject to rules and regulations of Federal Government till August 11, 2002 and thereafter rules approved by SMEDA Board and vetted by the Government of Pakistan.

SMEDA was principally working as an apex policy making body for economic and commercial development of Small and Medium Enterprises (SMEs). The objectives of the Authority are to provide a fresh impetus to Pakistan's economy through launching aggressive SMEs support programs.

114.1 The working results of the Authority for the year 2007-08 as compared to the previous years are as under:

(Rs in million)

	2007-08	% Inc/ (Dec)	2006-07	% Inc/ (Dec)	2005-06
Grant received from Government of Pakistan	155.018	16	134.000	11	121.000
Other income	0.382	(12)	0.432	43	0.302
Total income	155.400	16	134.432	11	121.302
Expenditure					
Salaries, wages and other benefits	101.466	24	81.589	26	64.997
Traveling and vehicle running	19.721	(09)	21.666	29	16.805
Repair and maintenance	2.578	(04)	2.680	(6)	2.856
Depreciation	5.459	(26)	7.386	(6)	7.831
Consultancy	1.407	26	1.120	35	0.830
Other expenditure	34.480	02	33.909	9	31.242
Total expenditure	165.111	11	148.350	19	124.561
(Deficit)/surplus of income over expenditure	(9.711)	(30)	(13.918)	327	(3.259)

Source: Annual Audited Accounts

The above table indicates that total expenditure increased to Rs 165.111 million in 2007-08 from Rs 148.350 million in 2006-07 registering an increase of 11%. Total deficit for the year 2007-08 decreased to Rs 9.711 million from Rs 13.918 million in 2006-07. As SMEDA is dependent on grants by Federal

Government it should adopt measures to avoid deficit and make itself a viable entity.

114.2 The miscellaneous expenditure increased from Rs 2.648 million in 2006-07 to Rs 8.758 million in 2007-08 registering an increase of 231 %. This increase was due to payment of Rs 6.65 million to Threadline Gallery (TLG) in pursuance of letter of Ministry of Industries and Production dated June 10, 2008. Accrued liabilities increased from Rs 3.679 million in 2006-07 to Rs 9.521 million in 2007-08 registering an increase of 158%. The abnormal increase in creditors and other liabilities needs to be looked into.

114.3 The expenses on salary, wages and other benefits increased from Rs 81.589 million in 2006-07 to Rs 101.466 million in 2007-08 registering an increase of 24%. The increase was due to revision of pay and allowances. Neither pay scales nor subsequent increases were submitted to Ministry of Finance for vetting.

114.4 Advances to suppliers amounting to Rs 1.029 million had been classified as doubtful which resulted in losses due to non-recovery of the same. Management was advised to show more vigilance in these areas to avoid such losses in future.

114.5 Cash and bank balances increased by 153% from Rs 5.57 million in 2006-07 to Rs 14.09 million in 2007-08. The surplus cash could be used for generating income from a viable investment, which needs to be explained.

114.6 Currently, SMEDA is facing legal proceedings initiated by the previous landlord of the head office building for recovery of rent amounting to Rs 5 million. The relevant case files, lawyer's opinion and details of the lawsuit were not provided to Audit for scrutiny.

AUDIT PARAS

115. i. **Non-transparent purchase of software – Rs 0.421 million**
ii. **Excess payment – Rs 0.171 million**

As per rule 12 of the Public Procurement Rules, 2004, procurement over rupees two million shall be advertised at Authority's website. As per rule-42(c), a procuring agency shall only engage in direct contracting for the acquisition of spare parts or supplementary services only from the original manufacturer provided that the same are not available from the alternate sources.

Contrary to the above, Small and Medium Enterprises Development Authority (SMEDA), Lahore collected bids in May 2006. M/s. Technobiz quoted the lowest rate i.e Rs 249,970. SMEDA purchased antivirus software for Rs 420,900 from M/s. Technobiz on June 22, 2007. This resulted in non-transparent purchase of software for Rs 420,900 involving an excess payment of Rs 170,930.

The matter was reported to the management and Ministry on October 13, 2009. The management in its reply dated January 14, 2010 stated that the tender was opened in May 2006 and on the basis of evaluation of bids M/s. Technobiz was selected. The reply was not acceptable as management provided only forwarding letter (email) regarding tender document to PPRA, but response on website on PPRA was not received. Further comparative statement showed that lowest bidder quoted Rs 249,970 but the payment was made to the firm Rs 0.421 million.

The DAC meeting was held on January 23, 2010. The Committee was not satisfied with the upward revision of the quoted rate and non-observing the PPRs by the management and directed them to furnish revised reply with full facts and figures. No progress was received till finalization of this report.

116. **Irregular expenditure due to unauthorized allocation of vehicle – Rs 0.335 million**

In accordance with the Cabinet Division letter dated February 6, 2003 the allotment of official vehicles to the Ministers and their Private Secretaries was responsibility of their respective Ministry.

SMEDA allocated a Toyota Corolla XE car bearing No.LXL-2273 to Director office Ministry of Industries and Production Islamabad. POL and repair & maintenance charges of the vehicle were born by SMEDA during 2008-09. Vehicles are provided to all Ministers by the Government and the expenses of POL/Repair & Maintenance charges of vehicles are borne by Ministry. SMEDA provided car un-authorizedly to the Director Office of the Ministry and incurred an irregular amount of Rs.335,101 on account of POL/repair & maintenance charges.

The matter was reported to the management and Ministry on October 13, 2009. The management in its reply dated January 14, 2010 stated that since the Federal Minister, I&P/ex-officio Chairman of SMEDA, Board of Directors, was competent authority to keep SMEDA car for his use with fuel and maintenance. The reply was not acceptable as all the Ministers have been allocated vehicles by Cabinet Division and were not entitled for vehicles of the subordinate office.

The DAC in its meeting held on January 23, 2010, directed the management to regularize the matter from the competent authority. No progress was received till finalization of this report.

UTILITY STORES CORPORATION OF PAKISTAN (PVT) LIMITED

AUDIT COMMENTS
ON THE ACCONTS FOR THE YEAR ENDED JUNE 30, 2008

117. Utility Stores Corporation of Pakistan (Pvt) Limited was incorporated on September 3, 1971 as a private limited company under Presidential Order issued vide President Secretariat U.O No.D-91 (S)C.III 171 dated March 26, 1971. The Corporation was established to:

i. Undertake the procurement of essential consumer goods from domestic and external services; and
ii. Ensure the availability of quality goods in adequate and regular quantities and market them at lower price than market price, through a chain of store operations

117.1 The working results of the Corporation for the year 2007-08 as compared to previous years are given below:

(Rs in million)

	2007-08	% Inc/ (Dec)	2006-07	% Inc/ (Dec)	2005-06
Sales	46,798.873	138	19,656.340	58	12,441.508
Cost of goods sold	43,504.435	136	18,470.728	59	11,622.412
Gross profit	3,294.438	178	1,185.612	45	819.096
Operating expenses					
Selling & distt exp.	1,461.854	169	543.457	60	339.69
Admn expenses	89.584	99	44.999	30	34.545
Financial charges	57.288	392	11.649	119	5.311
Operating profit	1,685.712	188	585.508	33	439.549
Other operating income	639.417	872	65.817	45	45.433
Profit before taxation	2,325.129	257	651.325	34	484.982
Provision for taxation	237.588	387	48.779	(22)	62.207
Profit for the year	2,087.541	246	602.546	43	422.775
Accumulated profit b/f	2,181.543	2221	94.002	(30)	134.715

Source: Annual Audited Accounts

Sales of the Corporation increased by 138.09% from Rs 19,656.340 million in 2006-07 to Rs 46,798.873 million in 2007-08 and gross profit margin increased by 1.01% in 2007-08. There was increase of 156% in miscellaneous expenditure (2008: Rs 177.630 million, 2007: Rs 69.181 million) which needs to be justified.

117.2 Selling and distribution expenditure increased from Rs 543.457 million in 2006-07 to Rs 1,461.854 million during 2007-08 which constituted an increase of 168.99%. The main reason of increase was abnormal increase in postage, telegram & telephones and advertisement & sales promotion expenses which increased by 167.80% and 220.20% respectively. Reasons for this abnormal increase may be elucidated.

117.3 The salaries and other benefits of Managing Director increased by 240% (2008: Rs 3.005 million, 2007: Rs 0.883 million). Abnormal increase in the salary and other benefits of the Managing Director needs to be justified.

117.4 As per external audit report, an amount of Rs 264.371 million was lying recoverable against the store in-charges as a result of shortage of stock discovered by the Corporation. The amount needs to be recovered and disciplinary action be taken against the said in-charges at the earliest.

117.5 As per external audit report, credits in the bank statements amounting to Rs 100.649 million had been clubbed with other liabilities due to un-reconciled corresponding effect in cash in transit and had not been traced till June 30, 2008. The said amounts were required to be deposited as sale receipts by regional offices. Management reconciled Rs 44.743 million in the subsequent period. The management is required to reconcile the balance amount.

AUDIT PARAS

118. Loss due to procurement of rice at higher rates – Rs 118.931 million

Rules-12 (2) and 20 of Public Procurement Rules, 2004 stipulate that all procurement opportunities over two million rupees should be advertised on the Authority's web site 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 rule 14,

the deviation from the requirement is permissible under following circumstances with prior approval of the Authority :

i. The proposed procurement is related to national security and its publication could jeopardize national security; and
ii. The proposed procurement advertisement in any manner, relates to disclosure of information, which is proprietary in nature or falls within the definition of intellectual property which is available from a single source.

Contrary to the above, Utility Stores Corporation of Pakistan (Pvt) Limited purchased 30,098.500 M.ton rice in 2007-08 without wide advertisements and same were procured through hand collected quotations obtained by the purchase committee. Rice was purchased at higher rates than the lowest rates collected by the purchase committee by stating that the lowest parties were unable to supply the required quantity and remaining quantity was purchased from the second/third lowest bidders. The violation of the Public Procurement Rules, resulted in purchase of required quantity of rice at higher rates and caused loss of Rs 118.931 million to the Corporation.

The matter was reported to the management on April 2, 2009 and the Ministry on November 19, 2009. The management in its reply stated that case for exemption of PRs is under process with PPRA. As regards procurement of rice at higher rates through purchase committee, it was replied that sometimes parties quoted rates for limited quantity and sometimes purchase committee rejected the lowest rates due to substandard quality. The reply was not convincing because the Corporation deviated Public Procurement Rules without exemption from PPRA and quotations were collected by the purchase committees without keeping in view the required quantity and standard.

The DAC meeting was held on January 23, 2010. The Committee directed the management to inquire the case and submit report within one month. Progress of the enquiry was not intimated till finalization of this report.

119. **Shortage of stock - Rs 57.083 million**

Under para (a) and (b) of Circular dated October 21, 2008, in case of detection of any shortage, misappropriation/embezzlement at any store of Region for any reason whatsoever, the concerned Zonal Manager, Regional Manager, Accounts

Officer and Area Manager shall render himself liable for disciplinary action and summary proceedings under the provision of special powers ordinance.

Utility Stores Corporation, Regional Office Multan, conducted surprise inspection on November 24-27, 2008 and found shortage in stock of goods valuing Rs 57.083 million. Show Cause notices was issued to the Regional Manager, Multan on January 5, 2009 and Charge Sheets was issued on March 30, 2009 to the officers along with the co-accused Zonal Manager, Assistant Accounts Officer and Junior Area Manager. The employees were reinstated on April 16, 2009 by the Ministry of Industries and Production and inquiry proceeding was stopped without making good loss of Rs 57.083 million from the concerned employees.

The matter was reported to the management on October 8, 2009 and the Ministry on November 24, 2009. The management stated in its reply dated January 18, 2010 that disciplinary action was under process against Zonal Manager and Regional Manager and they had been served Show Cause Notices. It was also stated that damaged/expired stock of Rs 10.754 million has been lifted by the concerned parties, the balance stock of Rs 2.670 million was under replacement and the case was in the Court of Law.

The reply was not tenable as loss had not been make good and disciplinary action was stopped and the accused officials were let to continue on the same positions.

The DAC meeting was held on January 23, 2010. The Committee was not satisfied with the explanation of the Corporation and directed the management to recover the amount and get it verified from audit. No progress was received till finalization of this report.

120. **Loss due to theft/burglary – Rs 30.468 million**

As per para (b)(vi) of USC circular letter dated January 24, 2007, store in-charge will detail the night watchman, who will look after the store properly. This will be done by sharing the night watchman/chowkidar engaged by the shopkeepers of market/ area.

A number of regional officers of Utility Stores Corporation reported loss of Rs 30.468 million in the year 2008-09 due to theft/burglary incidents at 147

stores. FIRs were lodged with police, formal enquires were conducted and insurance claims of Rs 30.468 million were also lodged by the management with National Insurance Company (NIC) but could not been materialized. Abnormal theft / burglary incidents indicated that instructions/orders issued by the Head Office were not adhered to by the regional managers in order to secure the stores.

The matter was reported to the management on October 7, 2009 and the Ministry on November 24, 2009. Management stated in its reply dated January 18, 2010, that each and every store was not functioning near market, most of the stores were located on insolated places and USC cannot engage/hire full time Chowkidars due to financial problems. Further, claims were lodged with NIC and action would be finalized against each incumbent if found guilty at the time of final settlement of claim by NIC on case to case basis taking into account circumstances of loss/ground realities.

Reply of the management was not convincing as most of stores are functioning in market of the cities/towns and night watchman could be engaged by sharing the Shopkeepers of market/areas.

The DAC in its meeting held on January 23, 2010, directed the management to follow up the case with M/s.NIC for recovery. No progress was intimated till finalization of this report.

121. **Loss due to less receipt of insurance claims- Rs 29.158 million**

Under Para-11.01 of the USC Stores Operational Manual, all the Warehouses and Stores were insured against the risk of fire, theft and burglary to safe guard the interest of the Corporation and to avoid any financial loss. Therefore, loss against such incidents was required to be recovered from the National Insurance Company (NIC) through insurance claims.

The management of Utility Stores Corporation (HO), Islamabad lodged loss claims of Rs 57.332 million with National Insurance Company (NIC) against burglary/ looting occurred at 119 outlets during the period from July 2007 to October 2008. But claims of Rs 28.174 million only were admitted by the NIC. However, the management did not investigate the reasons for non-acceptance of

actual claims by the Insurance Company. Thus Corporation sustained loss of Rs 29.159 million (Rs.57.332 million - Rs 28.174 million).

The matter was reported to the management on October 7, 2009 and the Ministry November 24, 2009. Management stated in its reply dated January 18, 2010 that as per terms and conditions of contract with NIC, the claims were paid by them after deducting routine shortage of Store In-charges and profit margin at rate of seven percent (7%) on the store loss.

Reply was not acceptable as details of shortage of the Store In-charges and seven percent (7%) profit margin calculated at the time of claims on receipt of claims was made available by the management. From the statement of the management, it was not cleared that loss of Rs.29.158 million was not accepted by the NIC due to the routine shortages of Stores. No efforts were made to recover the shortages from the Store In-charges.

The DAC meeting was held on January 23, 2010. Management informed that all the due claims have been received from NIC and the deduction was due to less coverage of insurance claim. The DAC directed the management to submit revised reply with facts and figures about the balance recovery to the effect that it pertains to routine shortages. No progress was received till finalization of this report.

122. **Loss due to theft and fire incidents etc – Rs 11.406 million**

As per SOP of USC regarding disciplinary measures, on detection of shortage more than Rs 50,000, Incharge Store will be removed from the Store and issued recorded warning and shortage will be recovered in lump sum. On repetition, Incharge Store will be terminated and amount will be recovered. On embezzlement like misappropriation of stock, mis-utilization of sale proceeds, theft, fraud and black marketing, Incharge Store/Warehouse will immediately be suspended and inquiry be convened to fix responsibility.

Further under para (a) of Circular Order dated October 21, 2008 issued by the Managing Director, USC, in case of detection of any shortage, misappropriation / embezzlement at any store of any Region, the concerned Zonal Manager, Regional Manager, Accounts Officer and Area Manager shall render himself

liable for disciplinary action. As per para 2-11 of the USC Store Operational Manual, Stock Control System was required to be maintained at Regional level to co-relate the stock with the sale output.
Contrary to the above, various regional offices did not observe the instructions and did not perform their duties as per their job description. This led to loss of Rs 11.406 million due to theft/fire incidents etc. as detailed below:-

A. In USC Shikarpur Region, the General Manager Vigilance pointed out shortage of Rs 6,832,580 out of which only an amount of Rs 424,405 was recovered. The Regional Manager was placed under suspension and order for regular inquiry was issued on July 4, 2009. Thus, Corporation sustained a loss of Rs 6.408 million (Rs.6,832,580-424,405).

B. In USC Rahim Yar Khan Region, an incident of theft in Store at Jugno Chowk, Rahim Yar Khan was reported during midnight of March 18 - 19, 2009. As per fact finding inquiry conducted by General Manager, Vigilance and General Manager, Audit on April 7, 2009. USC sustained a loss of Rs 2.862 million due to poor monitoring/negligence of Regional Manger, Accounts Officer and concerned Area Manager. Further, theft was turned as a bogus story of Store In-charge to hide embezzlement/ misappropriation of the funds.

C. Managing Director, USC issued an explanation dated July 10, 2009 to the Regional Manager Bannu, on detection of shortage/ embezzlement of Rs 2,135,816 against Store Incharge, USC Lakki. In reply, the accused stated that fire at store was occurred on 27&28 May, 2009 due to short circuiting and stock valuing Rs 2,135,816 was destroyed by burning, no embezzlement was involved. However, store In-charge was removed from store and FIR was lodged against defaulter being fire case. Thus Store In-charge was favoured under the pretext of fire incident.

Total = A+B+C = Rs 6.408 million + Rs 2.862 million + Rs 2.136 million = Rs 11.406 million

The matter was reported to the management on October 8, 2009 and the Ministry on November 24, 2009. Management in its reply dated January 18, 2010 stated that FIR against concerned Store In-charges had been lodged to recover the loss and disciplinary action has also been taken against the concerned Regional

Manager and Area Manager etc. Reply was not satisfactory as the loss has not yet been made good from the Store In-charges as well as from the concerned staff.

The DAC meeting was held on January 23, 2010. The Committee was not satisfied with action taken by the management and directed them to follow up the recovery vigorously. Compliance was awaited till finalization of this report.

123. **Theft of stores - Rs 5.781 million**

Under para 11.02 (b) of USC Stores Operational Manual, the claim on NIC will be raised by the Head Office against theft / burglary / fire on the basis of accounts prepared at the sales value. The claims were required to be submitted to NIC complete in all respect by Regional Manager within 15 days from the date of occurrence of the incident.

A theft incident at Warehouse Rawalpindi of Utility Stores Corporation was reported by the management to police authorities on January 25, 2009 without indicating actual loss. However, loss of Rs 5.781 million was pointed out by the Regional Manager, Rawalpindi vide letter dated February 19, 2009. Accordingly case of dacoity was brought to the notice of National Insurance Company, Islamabad on January 26, 2009 for conducting insurance survey. In response, NIC returned the claim with the instructions to submit to surveyor complete in all respect together with claim documents. Surveyor visited the Warehouse on January 26, 2009 but requisite documents were not submitted by the management.

Subsequently NIC demanded the claim form along with certain documents / information to finalize the survey report, but management failed to submit the insurance claim documents to NIC till September, 2009. Thus due to non-recovery of stores through police and non-pursuance of insurance claim from NIC, the Corporation may suffer a loss of Rs 5.781 million.

The matter was reported to the management on October 7, 2009 and the Ministry on November 24, 2009. Management in its reply dated January 18, 2010 stated that all the relevant information and documents were collected and claim had been lodged with NIC which was under process. The reply was not satisfactory as Insurance claim has been lodged by the management with NIC vide Claim dated December 21, 2009 i.e. after about 11 month of the incidents.

The DAC in its meeting held on January 23, 2010 directed the management to follow up the case with M/s. NIC for the recovery of outstanding amount. No progress was received till finalization of this report.

124. **Loss due to sale of rice on lower than purchase price – Rs 5.486 million**

Under para 6.01 of USC Accounting Manual, Regional Manager of each region will plan in such a way that they maintain an inventory level on the average of one month supply at their Warehouse excluding ghee, atta. A system of minimum and maximum, re-order level will be established and reviewed once in every quarter. Further, as per sale policy of USC, prices of commodities are fixed / revised on the basis of purchase price keeping in view retail market position.

A The management purchased 512,500 Kg Sella Rice at an average price of Rs 91.62 per Kg, at a total cost of Rs 46.955 million in July and August 2008. But, total quantity of rice could not be sold with profit margin as 154,890 Kg was available in the store in October 2009, even after expiry of more than a year. Subsequently the market price of rice decreased to Rs 75 per kg and USC sale price was Rs 70 per kg. Out of total quantity, the management sold 176,440 Kg at price less than the purchase price at a total value of Rs 14.027 million. This resulted into loss of Rs 2.138 million.

B The remaining quantity of 154,890 Kg was to be sold by the management at the rate not more than Rs 70 per Kg. Thus USC is likely to suffer a loss of Rs 3.348 million in addition to above loss.

Thus a total loss of Rs 5.487 million (A+B) would be sustained by USC due to purchase of rice in excess of demand and its sale on lower than the purchase price.

The matter was reported to the management on October 8, 2009 and the Ministry on November 24, 2009. Management replied that stocks were purchased as per demands of USC Regions but due to sharp decreasing trend of prices the stocks could not be liquidated and on the decision of Board of Directors dated August 27, 2009, the price was reduced and loss sustained by the Corporation would be

written off. The reply was not convincing as the stock should had been purchased as per actual requirement.

The DAC meeting was held on January 23, 2010. The DAC directed the management to get the loss written off from Board of Directors. No progress was received till finalization of this report.

ENAR PETROTECH SERVICES (PVT) LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

125. The Company was incorporated in July, 1974 as a private limited company and is working under the Ministry of Industries and Production. The Company provides complete range of services including design engineering, project management and construction supervision for executing projects in oil and gas sector. The Company also offers project development/planning services and undertakes sectoral/feasibility studies, technology evaluations and environmental impact assessments.

125.1 The working results of the Company for the year 2008-09 as compared to the previous years are as under :

(Rs in million)

	2008-09	% Inc / (Dec)	2007-08	% Inc / (Dec)	2006-07
Income from services	129.504	7	121.516	8	112.161
Cost of services	104.837	12	93.611	10	84.912
Gross profit	24.667	(12)	27.904	2	27.249
Administrative and general expenses	17.38	(9)	19.076	2	18.714
Financial expenses	0.294	254	0.083	232	0.025
Net profit from operations	11.214	12	10.046	18	8.51
Other income	3.927	222	1.218	238	0.36
Net profit before taxation	10.919	10	9.962	12	8.87
Taxation	3.778	(1)	3.824	23	3.104
Net profit after taxation	7.141	16	6.138	6	5.766
Accumulated profit/(loss) B/F	29.475	26	23.337	32	17.571
Accumulated profit/(loss) C/F	36.616	24	29.475	26	23.337

Source: Annual Audited Accounts

Gross profit decreased from Rs 27.904 million in 2007-08 to Rs 24.667 million in 2008-09 and net profit from operations increased from Rs 10.046 million in 2007-08 to Rs 11.214 million in the year 2008-09. Net profit increased from Rs 6.138 million in 2007-08 to Rs 7.141 million in 2008-09. The profitability of the Company needs to be maintained in future.

125.2 Cash and bank balances in PLS deposits increased from Rs 0.853 million on June 30, 2008 to Rs 10.410 million on June 30, 2009 registering an increase of 1122%. As per financial statements for the year ended June 30, 2009 it was evident that this increase in cash and bank balances was due to maturity of Term Receipts for six months which were deposited in PLS Account instead of Term Deposit Account. The Company should have invested the said amount in Term Deposit account as it carried high mark up of 12% instead of placing it in PLS Account.

HEAVY MECHANICAL COMPLEX (PVT) LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

126. Heavy Mechanical Complex (Pvt.) Limited was incorporated under the Companies Act, 1913 (now Companies Ordinance 1984) in July, 1975. The Company was put under direct control of Ministry of Industries and Production vide Administrative Order No. 6(12) PR-1/2007 dated July 3, 2007 with a new Board of Directors.

The main activities of the Company are :

i. Manufacture, supply and installation of machinery for cement, sugar, oil, gas and energy sector;
ii. Production of ferrous and non- ferrous metals and alloys castings and forging.
iii. Manufacture and supply cranes, boilers, defense and construction equipment.

126.1 The working results of the Company for the year 2008-09 as compared to the previous years are tabulated as under:

(Rs in million)

	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07	% Inc/ (Dec)	2005-06
Sales	1,915.725	25	1,530.514	(13)	1,767.755	2	1,737.021
Cost of sales	1,898.630	41	1,347.073	(15)	1,584.773	6	1,500.203
Gross profit	17.095	(91)	183.441	-	182.982	(23)	236.808
Operating expenses	184.643	23	150.706	23	122.554	(30)	175.057
Operating profit/(loss)	(167.548)	-	32.735	(46)	60.428	(2)	61.760
Net profit/(loss)	(285.844)	-	3.151	(68)	9.962	(53)	21.011
Accumulated profit/(loss) c/f	(2,876.242)	10	(2,609.140)	(1)	(2,633.116)	(1)	(2,666.217)

Source: Annual Audited Accounts

The Company sustained net loss of Rs 285.844 million due to which the net loss ratio was calculated as 14:92. Accumulated loss of the Company exceeded its equity and reserves by Rs 489.133 million as on June 30, 2009 (2008: Rs 222.031 million) and the Company continued to rely on the support of

the Federal Government. These factors have a bearing on the Company's ability to continue as a going concern.

126.2 The gross profit ratio of the Company during 2005-06 was high from the remaining years i.e. 13.63%. Decrease in gross profit ratio was recorded in 2006-07 but it again increased in 2007-08 and a decrease by 0.90% was recorded in 2008-09. Gross profit ratio decreased in 2008-09 due to huge increase in cost of sale that was Rs 1,898.630 million as compared with Rs 1,347.073 million in 2007-08. Efforts for increase in sales and control over cost of sales are stressed upon the management.

AUDIT PARA

127. Blockage of funds due to cancellation of purchase order – Rs 7.475 million

As per clause 4 of Purchase Orders dated March 11, 2000 of M/s. Islamabad Electric Supply Company Ltd, (IESCO) on HMC, 50% quantity was to be delivered within two months and remaining 50% within four months from the date of issuance of purchase order.

M/s. Islamabad Electric Supply Company Ltd. placed two purchase orders dated March 11, 2000 on Heavy Mechanical Complex (Pvt.) Limited (HMC) for supply of 10 and 20 switches 3 ways and 4 ways respectively. Subsequently HMC could only manufacture 5 switches each at the rate of Rs 793,500 for 4 ways and Rs 701,500 for 3 ways. Due to non-delivery of the switches within stipulated period, M/s. IESCO cancelled the purchase order. This resulted blockage of funds amounting to Rs 7.475 million due to non-disposal of the switches.

The matter was reported to the management on March 5, 2009 and the Ministry on October 8, 2009. The management in its reply dated March 31, 2009 stated that they were trying to sell these switches to M/s. IESCO or some other prospective user. The reply was not convincing as the switches were lying in HMC since eight years and expenditure incurred on these switches had gone waste.

The DAC in its meeting held on January 23, 2010, directed the management to dispose of or sell the switches to WAPDA. No progress was intimated till finalization of this report.

STATE ENGINEERING CORPORATION (PVT) LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

128. State Engineering Corporation (Pvt) Limited (SEC) was incorporated in 1973 under the Companies Act 1913 (now Companies Ordinance 1984) with a paid up capital of Rs 836 million fully subscribed by the Federal Government.

Objectives of Corporation are:

i. To promote industrial self-reliance and build a sound technical/industrial base in the country;
ii. To upgrade facilities for maximum possible indigenization and maintenance of technological edge over other domestic competitors;
iii. To induct local and foreign private sector partners, whenever possible, to promote joint ventures with them for achieving higher operational efficiencies.

The following heavy and light engineering companies are functioning under the control of State Engineering Corporation (Pvt) limited:

i. Pakistan Machine Tool Factory (Pvt) limited
ii. Pakistan Engineering Company (Pvt) limited
iii. Heavy Electrical Complex (Pvt) limited

128.1 The working results of the Corporation for the year 2008-09 as compared to the preceding years are given below: -

(Rs in million)

	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07	% Inc/ (Dec)	2005-06
Income							
Service charges	26.300	176.84	9.500	(34.74)	14.558	36.79	10.642
Interest	6.402	116.13	2.962	39.72	2.120	(11.48)	2.395
Total income	32.702	162.41	12.462	(25.28)	16.678	27.92	13.037
Expenditure							
Operating expenses	25.897	0.84	25.681	(62.27)	68.066	61.89	42.043
Operating profit/(loss)	6.805	-	(13.219)	(74.28)	(51.388)	77.16	(29.006)
Other income	7.524	(81.16)	39.952	392.20	8.117	538.12	1.272
Profit/(loss) before taxation	14.325	(46.39)	26.733	-	(43.271)	56.02	(27.734)

Taxation	2.948	204.54	0.968	3220	0.040	(50)	0.080
Profit/(loss) after taxation	11.381	(55.82)	25.765	-	(43.311)	55.73	(27.811)
Accumulated profit/(losses)	(1,576.020)	(0.71)	(1,587.40)	(1.6)	(1,613.17)	2.75	(1,569.86)

Source: Annual Audited Accounts

Profit after taxation decreased by 55.82% in 2008-09 to Rs 11.381 million during 2008-09 as against profit of Rs 25.765 million in 2007-08. However, accumulated loss amounted to Rs 1,576.02 million as on June 30, 2009. This indicated unsatisfactory performance of the Company.

AUDIT PARAS

129. Irregular payment of bonus – Rs 1.018 million

According to Finance Division OM dated March 18, 2002, the bonus would be paid on operational profit of the organization only excluding income from other sources and Managing Directors and members of Board of Directors will not be entitled to receive bonuses.

State Engineering Corporation sustained operating loss of Rs 13.219 million in 2007-08 but paid Rs 1,017,907 on account of bonus to their officers including Chairman of BOD, equal to two months basic pay. This resulted in irregular payment of Rs 1.018 million.

The irregularity was pointed out to the management on April 2, 2009 and the Ministry on October 8, 2009. In replies dated May 30, 2009 and January 14, 2010, the management stated that the SEC was established under Companies Ordinance 1984 and the Board of Directors of the Corporation is fully competent to approve such payments to its employees. Further, it was ex- gratia and not bonus, which was paid after approval of Board of Directors. The reply was not convincing as Board of Directors was not competent to approve payment of bonus by ignoring the government policy.

The matter was discussed in DAC meeting held on January 23, 2010. Audit informed the Committee that the management sought approval of the Board of Directors indicating profitability, whereas the Corporation had been suffering operational losses since 2004, and its accumulated losses came to Rs 1,587

million as on June 30, 2008. Further, the Chairman of the Corporation drew an amount of Rs 92,470 in violation of the above instructions. The management informed that SEC was paying bonus since last many years including the Chairman of the Board of Directors. The DAC was not satisfied with the explanation of the management and directed to get clarification from Finance Division regarding payment of bonus when the Corporation was sustaining operational losses. No progress was received till finalization of this report.

130. **Overpayment to the chairman due to wrong fixation of pay – Rs 0.440 million**

Establishment Division vide letter No. 1/47/2007-E-6 dated September 7, 2007 appointed Chairman of State Engineering Corporation on contract for a period of two years on standard terms and conditions.

In the absence of clear cut indication of the grade, the officer was required to draw salary as per his last pay drawn as shown on LPC plus deputation pay if admissible. But SEC management made payment as per SED-I grade (Senior Executive Director-I). The SED-I scale had more benefits than M-I scale. Resultantly the said officer received excess amount of Rs 440,000 on account of his pay and perquisites.

The matter was reported to the management on April 4, 2009 and the Ministry on October 8, 2009. In reply dated May 30, 2009 it was stated the SEC had already taken the matter through its controlling Ministry for seeking approval of the competent authority towards grant of proposed payment of salary and other perquisites on provisional basis to the officer concerned.

Reply was not acceptable as the notified terms and conditions by Establishment Division were silent about the emoluments. But instead of getting the matter clarified, the officer drew as per SED-I scale which was more than M-I scale. In the absence of clear cut indication of the scale in the appointment order, payment was to be made on the basis of LPC. The recovery, thus, would work out even more than Rs 440,000.

The DAC in its meeting held on January 23, 2010, directed the management to get the *ex-post facto* approval from the Establishment Division for the regularization of the case. No progress was received till finalization of this report.

HEAVY ELECTRICAL COMPLEX (PVT) LIMITED

131. The Company was incorporated as a private limited company on December 9, 1991, fully owned by State Engineering Corporation (Pvt) Limited, Ministry of Industries and Production, Government of Pakistan. The Company is engaged in manufacturing of new power transformers as well as repairing of damaged power transformers.

The management of the Company failed to furnish Annual Audited Accounts for the year 2008-09 by November 30, 2009.

AUDIT PARAS

132. **Loss due to defective repair/rehabilitation of power transformers – Rs 28.668 million**

Under warranty clause 13, in the event of power transformers found defective or not conforming to the specifications, Heavy Electrical Complex (Pvt) Limited (HEC) will be responsible for all losses and defects within a period of 24 months from the date of delivery. Furthermore, unacceptable goods shall be substituted with the acceptable goods at HEC's expenses and costs.

HEC received three service work orders from WAPDA/NTDC during October 26, 2002 to November 24, 2004 for repair/rehabilitation of three power transformers. HEC repaired and delivered the same to WAPDA during June 28, 2005 to February 21, 2006. The transformers were damaged during warranty period. WAPDA National Transmission & Despatch Company Limited (NTDC) constituted an enquiry committee to find out the reasons of damages. As per committee report dated July 15, 2006, HEC was found responsible for the substandard repair. Accordingly WAPDA contacted HEC for free of cost repair, but HEC did not carry out free of cost repairs. Ultimately WAPDA/NTDC adjusted a sum of Rs 28.668 million from the sales invoices raised by HEC against other work orders.

The matter was reported to the management on April 2, 2009 and the Ministry on October 8, 2009. In reply dated April 19, 2009, the management stated that HEC

was not involved by WAPDA/NTDC in the inquiry process to determine the causes of damage and unilaterally adjusted its claim. Moreover, transformers were not in custody of HEC and a considerable time had passed and it was not possible for HEC to investigate the matter to determine whether the repair was defective or there was some other problem which rendered the transformers non-operational.

Reply was not convincing as no action was initiated by HEC to resolve the complaint received from WAPDA which led to loss.

The DAC in its meeting held on January 23, 2010 directed the management to remove the defects of transformers and get the refund of the deducted amount from WAPDA. No progress was intimated till finalization of this report.

133. **Loss due to payment of late delivery charges – Rs 4.398 million**

As per clause 9 of contract between LESCO and HEC, the ex-works delivery of material shall be made within 180 days from the date of issuance of Notification of award dated March 10, 2006.

The management of Heavy Electrical Complex signed a contract on June 14, 2006 effective from March 10, 2006 with Lahore Electric Supply Company Limited (LESCO) for production and delivery of five power transformers up to September 9, 2006. The management could deliver the transformers up to January 15, 2007. As per clause 18.1 of Section-II of bidding documents LESCO deducted late delivery charges of Rs 4.398 million on HEC. Thus, the HEC sustained a loss of Rs 4.398 million.

The matter was reported to the management on March 31, 2008 and the Ministry on October 20, 2009. In reply dated November 8, 2008 the management stated that there were certain reasons of delay i.e. very short schedule of delivery by the clients, raw materials were imported and company had no sufficient funds. The contention of the management was not acceptable because the management of HEC should be well-aware of these bottlenecks before entering into such type of contracts.

The issue was discussed in the DAC meeting held on January 23, 2010. The Committee was not satisfied with the explanation of the management and directed them to take effective steps for waiving of L.D. charges from LESCO. No progress was received till finalization of this report.

PAKISTAN MACHINE TOOL FACTORY (PVT) LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

134. Pakistan Machine Tool Factory (Pvt) Limited (PMTF) was established with technical collaboration of M/s. Oerlikon Buhrle of Switzerland. It was incorporated on July 23, 1974 as a private limited company under the Companies Act, 1913 (now Companies Ordinance 1984). The Company is engaged in manufacturing and marketing of machine tools transmission components for trucks and tractors, die-casting and other classified defence based products. PMTF is wholly owned by the Government of Pakistan and its working is controlled through State Engineering Corporation (Pvt) Limited.

134.1 The working results of the Factory for the year 2008-09 as compared to the previous years are given as under:-

(Rs in million)

	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07
Sales	1,196.947	30	918.059	3	894.420
Cost of good sold	919.137	24	743.722	(4)	775.015
Gross profit	277.810	59	174.337	46	119.405
Operating expenses	227.135	47	154.821	2	151.071
Operating profit/(loss)	50.675	160	19.516	-	(31.666)
Other income	11.843	64	7.221	(8)	7.833
Financial charges	69.985	44	48.743	7	45.392
Profit/(loss) before taxation	(7.467)	(66)	(22.006)	(68)	(69.225)
Provision for taxation	(13.348)	(37)	(21.076)	22	17.222
Profit/(loss) after taxation	5.881	-	(0.930)	(98)	(52.003)

Source: Annual Audited Accounts

Sales of the Company increased to Rs 1,196.947 million in 2008-09 from Rs 918.059 million in 2007-08 registering an increase of 30%. The local sales of the company decreased by 27% which showed Company was losing its share in local market which needs to be improved.

134.2 Finished goods stock increased to Rs 235.548 million as on June 30, 2009 from Rs 155.074 million as on June 30, 2008 registering an increase by 52%. The

aging and item wise breakup of finished goods were not available to analyse its aging.

134.3 Trade debts amounting to Rs 18.830 million were outstanding for a period exceeding three years and no provision was made for the same in the financial statements. This needs to be explained by the management.

134.4 Cash and bank balances of the Company increased from Rs 10.932 million to Rs 66.248 million during the year. This surplus cash is currently placed in current accounts with banks whereas it could be used to generate income by making a viable investment or at least placing it in savings or other accounts, under the guidelines issued by Finance Division vide their memo dated July 2, 2003.

PAKISTAN ENGINEERING COMPANY LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

135. Pakistan Engineering Company Limited (PECO) was incorporated in Pakistan on February 15, 1950 under Companies Act 1913 (now Companies Ordinance 1984) as a public limited company. The Company is principally engaged in the manufacturing and sale of engineering products. The major products of the Company are electricity transmission and communication towers, bicycles, electric motors, pumps and steel rolled products. The Company has closed down all its divisions except structure division, and is principally engaged in the manufacturing and sale of electricity transmission and communication towers only.

State Engineering Corporation Limited and Rotocast Engineering Company (Private) Limited hold 25% shares in the Company each, while 27% of the shares are held by the general public. National Investment Trust off loaded the shares of the Company to the general public thus changing the threshold of the government reducing it from strategic position of 51% shares to only 37%.

135.1 The working results of the Company for the year 2008-09 as compared to the previous years are tabulated below :

(Rs in million)

	2008-09	% Inc/ (Dec)	2007-08	%Inc/ (Dec)	2006-07
Sales	1,361.633	31.32	1,036.919	5.43	983.499
Cost of sales	1,035.306	26.92	815.731	7.29	760.33
Gross profit / (loss)	326.327	47.53	221.188	(0.89)	223.16
Selling and distribution expenses	14.168	66.84	8.492	(15.94)	10.10
Freight and Forwarding expenses	22.182	98.78	11.159	(9.05)	12.26
Administrative and general expenses	41.807	20.62	34.660	(3.07)	35.75
Total expenses	78.157	43.91	54.311	(6.57)	58.13
Operating profit before financial charges	248.170	48.71	166.877	1.12	165.03
Other charges	0.501	(52.47)	1.054	(90.27)	10.83
Financial charges	82.551	899.41	8.260	(3.85)	8.59
Other income	44.309	135.89	18.784	(70.33)	63.30
Workers profit participation fund	8.256	4.80	7.878	8.21	7.28

Profit/(loss) before tax	201.171	19.41	168.469	(16.45)	201.62
Provision for taxation	67.223	13.89	59.022	(46.55)	110.42
Profit/(loss) after tax	133.948	22.39	109.447	(64.93)	312.04
Accumulated profit/(loss) C/F	(1,056.203)	(9.65)	(1,168.990)	(6.12)	(1,245.196)
Earnings per share Rs	23.540	22.41	19.230	(64.93)	54.840

Source: Annual Audited Accounts

Sales increased to Rs 1,361.633 million during the year 2008-09 from Rs 1,036.919 million in the 2007-08 registering an increase of 31.32%. This increasing trend needs to be maintained.

135.2 A few items of expenditures had shown an abnormal increase during the year 2008-09 as compared with previous year. These included financial charges which increased by 899% from Rs 8.26 million in 2007-08 to Rs 82.551 million in 2008-09. Similarly, freight & forwarding expenses increased by 99% and selling & distribution expenses increased by 67% during the year. Furthermore, selling & distribution expenses include service charges which increased by 104% as compared with last year. The increase in expenditure needs to be justified.

135.3 The actual production of the Company as compared with assessed capacity was poor. Pumps Section, Electric Motor Section and Rolled Material Section were operating at 4% to 9% of the assessed capacity which needs to be justified.

	Unit	**Capacity Assessed**	**% Capacity Achieved**	**2008-09**	**% Inc/ (Dec)**	**2007-08**
Pumps/ turbines	No.	4,000	9.28	371	445.59	68
Electric Motors	No.	6,500	4.20	273	-	-
Rolled Material	Tons	30,000	4.47	1,342	(55.88)	3,042
Steel Fabrications (STR)	Tons	30,000	44.29	13,286	32.61	10,019

(Annual accounts Note: 49)

135.4 Stock in trade increased to Rs 445.460 million during 2008-09 as compared with Rs 268.784 million in 2007-08 showing an increase of 66%. This increase was mainly due to increase in stock of finished goods included in stock in trade which increased to Rs 106.978 million in 2008-09 as compared with Rs 28.936 million in 2007-08 showing an increase of 270%. This indicated that management could not sell its finished products or the production plan was unrealistic and did not conform to the actual demand or stock had been over-

valued to increase gross profit. Management is stressed upon to minimize its investment in stocks to reduce storage costs and avoid losses due to obsolesce of finished goods, and give reasons of such high stock levels.

135.5 As per audit report issued by the external auditors for the year ended June 30, 2009, interest expense amounting to Rs 75 million (2007-08: Rs 75 million) had not been charged to the profit and loss account thus the profit was overstated by Rs 75 million. In case the interest expense was charged to the profit and loss account, profit after tax of the Company would had decreased to Rs 58.948 million from Rs 133.948 million.

135.6 The Company has not been making provision for the last many years for accumulated interest amounting to Rs 271.798 million on above mentioned loans on the plea that initially there was no mention of interest and matter was under consideration with a committee constituted by Finance Division. Audit would emphasize the management to either settle all the pending matters regarding settlement of Government loans without further delay or proper provisions may be made in the accounts.

135.7 As per note-23.1 to the financial statements for the year ended June 30, 2009, loans from the Privatization Commission were Rs 481 million whereas the Privatization Commission has confirmed receivable of Rs 1,516 million (2008: Rs 1,452 million) which included principal loan liability of Rs 612.922 million and markup of Rs 903.796 million, which needs to be reconciled/explained.

NATIONAL FERTILIZER CORPORATION OF PAKISTAN (PVT) LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

136. 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 subsidiaries including two institutes of engineering and one marketing company.

136.1 The working results of the Corporation for the year 2008-09 as compared to the previous years are given below:

(Rs in million)

	2008-09	% Inc/(Dec)	2007-08	% Inc/(Dec)	2006-07
Income:					
Dividend	4.243	(41)	7.200	(96)	184.698
Interest, mark up and charges on loans to subsidiary companies	42.106	238	12.463	116	5.777
Profit on bank deposits and Government securities	737.559	38	533.750	(24)	701.349
Other income	0.576	(94)	9.588	2172	0.422
Total income	784.485	39	563.001	(37)	892.246
Expenses and other charges					
Administrative and general expenses	118.140	36	87.112	(32)	128.943
Donations	29.453	118	0.025	(90)	0.250
Write off- receivable from GOP	191.432	--	--	--	3,379.150
Financial charges/bank charges	0.004	(60)	0.010	67	0.006
Total expenses	309.576	255	87.147	--	(3,508.340)
Profit before taxation	474.908	(0.2)	475.854	--	(2,616.103)
Taxation	165.000	01	163.235	--	-
Profit after taxation	309.908	(01)	312.619	--	(2,616.103)

Source: Annual Audited Accounts

Dividend income of the organization decreased to Rs 4.243 million in 2008-09 from Rs 7.200 million in 2007-08 registering decrease of 41%. On the other hand unrealized loss on revaluation of investment in shares increased to Rs 132.785 million in 2008-09 from Rs 89.439 million in 2007-08 registering an increase of 49%. The 41% decrease in dividend income and 49% increase in unrealized loss on revaluation of investment needs to be elucidated.

136.2 Income of the Corporation increased to Rs 784.485 million in 2008-09 from Rs 563.001 million in 2007-08 registering an increase of 29%. This increase was offset due to write off Rs 191.432 million receivable from the Government of Pakistan regarding sale of Hazara Phosphate Fertilizer (Pvt.) Limited. Reasons/ justification for the write off along with approval of the Board of Directors may be elaborated.

136.3 All production companies of the Corporation had been privatized leaving two institutes and one marketing company, which are running independently. In the presence of marketing company namely National Fertilizer Marketing Limited, there is no role of National Fertilizer Corporation, as such, its winding up is suggested.

AUDIT PARA

137. Irregular purchase of generators - Rs 1.243 million

As per Rule 12 of Public Procurement Rules-2004, the procuring agency shall advertise procurement on Authority/procuring agency's websites in case of procurement up to rupees two million.

NFC, Head Office, Lahore incurred an expenditure of Rs 1,242,890 on purchase of two generators in August 2007 and May 2009 without calling tender under above rule. Thus purchase of generators was considered irregular.

The matter was pointed out to the management on November 18, 2009 and the Ministry on November 23, 2009. In its reply dated January 14, 2010, management informed that generators were purchased on emergent basis after obtaining quotations from three parties. The reply was not convincing as the management had to follow the Public Procurement Rules 2004.

The DAC in its meeting held on January 23, 2010 directed the management to regularize the matter from competent authority. No progress was received till finalization of this report.

NATIONAL FERTILIZER MARKETING LIMITED

138. National Fertilizer Marketing Limited (NFML) is a subsidiary of National Fertilizer Corporation of Pakistan (Pvt.) Limited. It operates on 'No profit no loss' basis as the total expenditure incurred by the Company in marketing of fertilizers is reimbursed as incidentals by associated companies of National Fertilizer Corporation.

Annual Audited Accounts of the Company for the year 2008-09 were not provided on due date.

AUDIT PARAS

139. Retention of huge payable due to non-adjustment – Rs 900 million

As per Articles of Association of NFML "NFML is a non profiting organization". Ministry of Food and Agriculture vide letter dated July 21, 2008 notified the price of fertilizer as follows:

		Rs per bag
1.	Cost of fertilizer to be paid to TCP	538.00
2.	Transportation charges (incidental)	66.00
3.	Dealer margin, Administrative expense	21.00
	End selling price	**625.00**

National Fertilizer Marketing Limited (NFML) received a quantity of 1,365,307 M.ton fertilizer during the year 2008-09 from Trading Corporation of Pakistan (TCP) at a base rate of Rs 538 per bag. TCP invoiced the above quantity on the same rate. The price of Urea was increased several times during the year 2008-09 as follows:

Sr. No.	Existing price	New price	Date of effect
	Rs. per bag		
1.	625	635	02.09.08
2.	635	650	12.09.08
3.	650	660	19.12.08
4.	660	670	02.01.09
5.	670	710	12.02.09

NFML received demand drafts from dealers on the above rates and received fertilizer from TCP at the base rate of Rs 538 per bag. NFML earned profit ranging from Rs 10 to Rs 85 per bag which was against its mandate. This resulted in cash reserves of Rs 7.07 billion as on June 30, 2009 out of which an amount of Rs 3.548 billion was invested in saving account and earned mark-up of Rs 325 million. An amount of Rs 900 million was shown in provisional accounts for the year 2008-09 as payable to TCP. The management did not make effort for reconciliation/adjustment and finalization of this amount with TCP. Resultantly, assets of the Company were overstated to that extent.

The matter was brought to the notice of management on November 11, 2009 and the Ministry on November 24, 2009. The management in its reply dated January 14, 2010 stated that selling prices were increased with the approval of government and payments to TCP were released as per their invoices and deferential amount was retained till its approval by the government and claimed by TCP.

The DAC in its meeting held on January 23, 2010 directed the management to reconcile the accounts with TCP and remit the balance amount to the quarters concerned. No further progress was received till finalization of this report.

140. **Non-reconciliation of stocks – Rs 237.053 million**

Clause 4.5 of agreement dated August 30, 08 executed between NFML and Utility Stores Corporation of Pakistan (USC) stipulates that USC will make payment to NFML on the basis of fortnightly status report in the shape of crossed cheques or through on line banking. Further, as per clause 2.2, the Merchandiser shall submit fortnightly status report to the Marketing Company showing receipt, sale and stock position on the prescribed format.

NFML provided 225,383.50 M.ton Urea to USC during the period from August 30, 2008 to March 14, 2009 and raised a bill of Rs 2,971 million. However, an amount of Rs 2,734 million was received from USC till September, 2009 leaving a recoverable balance of Rs 237.053 million. The management of USC denied paying the balance amount on the pretext that balance quantity was not received on any of their stores. A series of meeting were held between the officers of both

the organizations, but the matter remained un-resolved. This resulted in non-recovery of Rs 237.053 million from USC due to non-reconciliation of accounts.

The matter was brought to the notice of management on November 11, 2009 and the Ministry on November 24, 2009. Management in its reply dated January 14, 2010 informed that recovery was being pursued with USC but no response had been received.

The DAC in its meeting held on January 23, 2010 directed the management to reconcile the accounts with M/s. USC and recover the outstanding amount. No progress was reported till finalization of this report.

141. **Loss due to shortage of fertilizer in godowns – Rs 11.609 million**

According to Code DP2 of NFML Distribution Manual, Distribution Department is responsible for physical inflow and outflow of fertilizer, maintain proper record of receipt and dispatch and reconcile on monthly basis.

A shortage of 15,896 bags of fertilizer valuing to Rs 11.609 million was found at various stores/godowns of NFML on annual stock taking on June 30, 2009. Neither any recovery from the concerned staff was made nor legal action was initiated against them. This resulted in loss of Rs 11.609 million due to non-reconciliation of stock and loose internal controls.

The matter was brought to the notice of the management on November 11, 2009 and the Ministry on November 24, 2009. The management in its reply dated January 14, 2010 stated that cases had been registered with FIA and efforts were also under-way for recovery from employees responsible.

The DAC in its meeting held on January 23, 2010 directed the management to recover the amount of shortages from the concerned stores in-charge. No progress was received till finalization of this report.

142. **Loss due to non-encashment of demand drafts – Rs 0.640 million**

According to code DP2 of NFML Distribution Manual, at the end of the day all the DDs be checked by Assistant Manager (Accounts) and sent to Regional Office who remits the same to Head Office for collection from the respective banks.

NFML, Lahore received nine demand drafts for Rs 639,850 from clients during January to February 2009 through dealers against the sale of fertilizer. These demand drafts (DDs) were expired due to late presentation in the banks. Further, the clients made written requests to the banks to block the payment of demand drafts on the pretext that the subject DDs had been lost. The Finance Department of NFML intimated on August 20, 2009 to the Marketing/Distribution Department that the amount of nine DDs dishonoured by the banks, be recovered from the active dealers. DDs were lying un-reconciled/unrecovered in the Accounts Department till audit in November 2009. This resulted in loss due to non-encashment of DDs from the banks.

The matter was brought to the notice of the management on November 11, 2009 and the Ministry on November 24, 2009. The management in its reply dated January 14, 2010 stated that respective regional offices were directed to initiate legal action against the purchasers and pursue the cases with Police for recovery.

The DAC in its meeting held on January 23, 2010 directed the management to recover the amount from concerned dealers. No progress was received till finalization of this report.

NFC INSTITUTE OF ENGINEERING AND FERTILIZER RESEARCH (PVT) LIMITED, FAISALABAD

AUDIT COMMENTS ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

143. The Company was incorporated on June 26, 1984 as a private limited company under the name "Fertilizer Research and Development Institute (Pvt) Limited". Subsequently, the name of the Company was changed to NFC Institute of Engineering and Fertilizer Research (Pvt) Limited on January 15, 1998. The Company is engaged in educational programmes leading to higher degree in the fields of Chemical Engineering since 1998, Electrical Engineering in 2003, Mechanical Engineering during 2004 and Computer Sciences since 2007. It is affiliated with the University of Engineering and Technology, Lahore. The Company is also engaged in research and development activities with reference to fertilizer industry.

143.1 The working results of the Company for the year 2008-09 as compared to the previous years are as under :

(Rs in million)

	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07
Income					
Tuition fee	74.790	7	70.086	9	64.594
Other income	30.258	11	27.145	588	3.948
Total income	105.048	8	97.231	15	84.349
Expenses					
Research and development	6.614	16	5.723	5	5.474
Admn. and gen. expenses	20.484	8	18.925	20	15.782
Teaching expenses	65.142	16	56.246	35	41.535
Total expenses	92.241	14	80.894	29	62.474
Excess of income over expenditure	12.807	(21)	16.337	(24)	21.558

Source: Annual Audited Accounts

Income of the Institute increased to Rs 105.48 million in 2008-09 from Rs 97.231 million in 2007-08 registering an increase of 8% while the teaching and administrative and general expenses increased to Rs 65.143 million and Rs 20.484 million in 2008-09 from Rs 56.246 million and Rs 18.925 million in 2007-08 registering an increase of 16% and 8% respectively which needs to be elucidated.

143.2 The development fund increased to Rs 705 million as on June 30, 2009 from Rs 292 million as on June 30, 2008 registering an increase of 141%. The development fund needs to be utilized promptly for improving educational facilities for research and development work and employment of more Ph.D scholars.

143.3 The capital work in progress of buildings increased from Rs 157.808 million on June 30, 2008 to Rs 525.994 million on June 30, 2009. The early completion of the buildings is stressed upon the management.

NFC INSTITUTE OF ENGINEERING AND TECHNOLOGICAL TRAINING (PVT) LIMITED, MULTAN

AUDIT COMMENTS ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

144. The Company was incorporated on June 26, 1984 as a private limited company under the name "NFC Technical Training Center (Pvt) Limited". Subsequently, the name of the Company was changed to "NFC Institute of Engineering and Technological Training (Pvt) Limited" on August 30, 1994. The Institute is engaged in educational and training programmes leading to higher degrees in the field of engineering. Institute is affiliated with Baha-ud-Din Zakaria University, Multan.

144.1 The working results of the Company for the year 2008-09 as compared to the previous years are given below :

(Rs in million)

	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07	% Inc/ (Dec)	2005-06
Income							
Tuition fee and other income	161.348	5	152.981	8	142.029	16	122.086
Expenditure							
Teaching	65.975	9	60.342	2	58.014	9	53.091
Training	5.708	16	4.924	(1)	5.348	17	4.569
Admn. and general expenses	20.803	49	13.964	(6)	14.025	16	12.097
Bank charges	0.021	11	0.019	73	0.011	(42)	0.019
Total expenditure	92.507	17	79.249	3	77.398	11	69.776
Surplus	68.841	(7)	73.732	14	64.631	24	52.310
Taxation	-	-	0.469	2	0.460	7	0.431
Surplus after taxation	68.841	(6)	73.263	14	64.171	24	51.879

Source: Annual Audited Accounts

Income of the Institute increased to Rs 161.348 million in 2008-09 from Rs 152.981 million in 2007-08 registering an increase of 5%. The total expenditure also increased to Rs 92.507 million in 2008-09 from Rs 79.249 million in 2007-08 registering an increase of 17%. The expenses under the heads Teaching and Training increased by 9% and 16% respectively in 2008-09 as compared with 2007-08. Expenses of the institute increased more rapidly than income. The expenditure needs to be managed effectively.

MINISTRY OF INFORMATION AND BROADCASTING

( )

ASSOCIATED PRESS OF PAKISTAN CORPORATION

145. Associated Press of Pakistan (APP) was taken over by the Government of Pakistan through APP Ordinance 1961, and later on it was converted into a Corporation vide Ordinance dated February 19. 2002. Its main objectives are efficient flow of information, supply of un-biased and reliable news to news papers and news agencies.

Annual Audited Accounts of the Corporation for the years 2003-04 to 2008-09 were not furnished by management till November 30, 2009.

AUDIT PARA

146. **Irregular appointment of a news editor – Rs 2.442 million**

As per schedule-IV of Service Rules-2004 of Associated Press of Pakistan Corporation (APPC), the prescribed qualification for the post of Sub-Editor/ Reporter was second class or Grade-C master's degree in Journalism / Mass Communication or in Social Sciences upto 5 years experience in an institution of print/electronic media.

Contrary to the above, APPC appointed a graduate as News Editor at APPC Urdu service, on contract basis initially for a period of one year on consolidated pay of Rs 15,000 per month w.e.f February 4, 2003. The officer was promoted as Chief News Editor (CNE) Urdu Service with increased salary of Rs 30,000 per month w.e.f October 8, 2004. Subsequently, it was learnt that the News Editor now Chief News Editor (CNE) was not having a genuine graduation degree as verified by the Baha-ud-Din Zakaria University, Multan vide letter dated January 8, 2005.

The subject appointment was discussed in the Sub Committee of the Senate Standing Committee on Information and Broadcasting on July 9, 2008 which directed the APPC to terminate the officer as he had furnished a fake degree of B.A and failed to fulfill the qualifications prescribed for the post. The management terminated him on March 9, 2009 i.e. after eight months of the decision of the Senate Standing Committee and again re-employed him on contract basis for one year on consolidated salary of Rs 40,000 per month w.e.f

April 10, 2009 and his salary was increased to Rs 50,000 w.e.f June 1, 2009. Due to undue favour, an expenditure of Rs 2.442 million incurred on pay and allowances of the officer for the period from February 4, 2003 to June 30, 2009 was considered irregular.

The matter was reported to the management on September 26, 2009 and the Ministry on December 5, 2009. The management in its reply stated that the services of the officer were terminated on the recommendation of the Senate Standing Committee in March 2009 and later on his services were restored w.e.f April 10, 2009.

The DAC in its meeting held on December 22, 2009 directed the management to re-verify the degree from the University and if found fake, initiate legal action against the concerned officer. No progress was received till finalization of this report.

PAKISTAN BROADCASTING CORPORATION

147. The Corporation was established under Pakistan Broadcasting Corporation Act, 1973. The primary goal of the Corporation is to provide broadcasting service for general reception in all parts of Pakistan and the territorial waters thereof and on board ships and aircrafts, and other countries and places for the purposes of disseminating information, education and entertainment through programmes which maintain a proper balance in their subject matter and a high general standard of quality and morality.

Annual Audited Accounts of the Corporation for the year 2008-09 were not furnished by November 30, 2009.

AUDIT PARAS

148. **Blockage of funds due to non-commissioning of transmitters – Rs 101.343 million**

Pakistan Broadcasting Corporation (PBC) entered into an agreement on April 18, 2007 with M/s. Thomson Broadcast, Switzerland valuing Swiss Francs CHF 1.757 million equal to Pak Rs 101.343 million (@ per CHF=Rs. 57.68) for supply of two 100-KW transmitters and some equipment. Under clause 12 of the agreement, the warranty period of one year shall commence after provisional acceptance test of the equipment, however such warranty period shall not exceed 18 months beyond the date of shipment.

PBC procured two 100 KW transmitters for World and External Services, Landhi Karachi. The equipments were received and provisional acceptance test was completed in May 2008. The equipment remained uninstalled due to non-procurement of its Antenna/Ariel System. Due to ill planed procurement, the delivery of services could not be rendered and the funds to the tune of Rs 101.343 million were blocked and warranty period of transmitters had since expired.

The matter was reported to management on October 12, 2009 and the Ministry on November 24, 2009. The management in its reply dated December 19, 2009 stated that transmitters were imported in the first instance whereas the

antenna/aerial system was to be purchased in the second phase in the Public Sector Development Programme budget. The required funds were still to be provided by the Government.

The DAC in its meeting held on December 22, 2009 directed the management to pursue the release of funds and ensure installation of transmitters. No progress was received till finalization of this report.

149. **Non-recovery of marketing rights - Rs 49.072 million**

Pakistan Broadcasting Corporation (PBC) executed an agreement on January 1, 2000 with M/s. Clarity Communication Pakistan (CCP), Karachi for marketing rights of Commercial time on FM-101 (8 units) from January 1, 2000 to May 31, 2003. The amount of agreement was Rs 46 million per annum (net of taxes). This agreement was renewed for the next three years for the period from June 1, 2003 to May 31, 2006 with value of Rs 53.500 million per annum (net of taxes).

The management made 2nd renewal of the agreement from June 1, 2006 to May 31, 2009 with value of Rs 56.100 million per annum. However clauses of bank guarantee, monthly advance payment and yearly escalation had not been included in the agreement.

The company failed to pay monthly installments to PBC. The management did not make concrete efforts for recovery of balance amount, after expiry of contract period. A sum of Rs 49.072 million was outstanding against CCP as on June 30, 2009.

The matter was reported to management on October 12, 2009 and the Ministry on November 24, 2009. The management in its reply dated December 19, 2009 stated that M/s. Clarity Communication Pakistan was the lowest in the tender; however, they did not agree to provide the bank guarantee. Director General PBC approved the contract without bank guarantee.

The DAC in its meeting held on December 22, 2009 directed the management to hold an independent enquiry to ascertain reasons for not including bank guarantee clause in the agreement despite default by the party in previous agreement. No progress was received till finalization of this report.

PAKISTAN TELEVISION CORPORATION LIMITED

150. Pakistan Television Corporation came into existence on November 26, 1964 under the Companies Act, 1913 (now Companies Ordinance 1984). All shares of the Corporation are held by the Government of Pakistan. The 2nd Channel (set up with the help of Government of Japan) for educational purposes started its operation in November 1992. The operation of Channel-3 established in 2003, has since been closed.

Annual Audited Accounts of the Corporation for the year 2008-09 were not provided by November 30, 2009.

AUDIT PARAS

151. Excess deduction of services charges by WAPDA on account of collection of TV License Fee - Rs 273.747 million

As per Clause 5 of the agreement dated July 1, 2004 between Pakistan Television Corporation (PTVC) and Water and Power Development Authority (WAPDA), service fee @ Rs 5 per bill for domestic and commercial consumers on the basis of billing was required to be deducted by WAPDA.

WAPDA deducted T.V. License fee charges @ Rs 5 per bill on 216,180,560 electricity bills generated/issued to consumers during 2007-08 and 2008-09. However, out of 216,180,560 consumers, there were 161,431,143 consumers who actually paid TV license fee through electricity bills, which was received by PTVC. Hence WAPDA deducted excess amount of Rs 273.747 million during the years 2007-08 and 2008-09 on account of service fee as detailed below:

Sr.#	Description		No. of bills / (Rupees)
i.	Total bills issued/generated by WAPDA		216,180,560
ii.	Service fee deducted @ Rs 5 per bill	(i x ii)	(Rs) 1,080,902,800
iii.	Total bills having TV license fee		161,431,143
iv.	Services fee due to be deducted	(iii x iv)	(Rs) 807,155,715
v.	Excess payment charged by WAPDA	(ii – iv)	(Rs) 273,747,085

The matter was reported to the management on October 23, 2009 and the Ministry on November 11, 2009. The management in its reply dated December 11, 2009 stated that agreement was made under stress of WAPDA that WAPDA would claim service charges on the basis of collection of bills. PTVC had to accept the terms and conditions of WAPDA to avoid loss of monthly TV Licenses fee installment for the month of July 2004.

The reply was not acceptable because WAPDA Distribution Companies should charge service fee on the basis of bills pertaining to consumers holding TV Licenses liable to pay TV license fee. The said clause was not in the interest of PTVC and efforts should be made for its revision.

The DAC in its meeting held on December 23, 2009 upheld the audit view point and was not satisfied with the explanation given by the management and directed them to approach WAPDA for recovery and revision of the clause of the agreement.

152. **Non-recovery of utilization charges - Rs 80.500 million**

PTVC entered into an agreement on December 7, 2007 with M/s. Global Digital Networks (Pvt) Ltd (GDN) and M/s. Sound View Broadcasting (Pvt) Ltd (SVB). As per agreement, M/s. GDN/SVB will pay an amount of US $ 250,000 per annum up to January 15, 2008 as minimum guaranteed amount for utilization of UK specific beam. Similarly, US $ 500,000 shall be paid up to March 1, 2008 as minimum guaranteed amount for six months for USA specific beam out of total amount of US $ 1,000,000 per annum.

Under the agreement M/s. GDN/SVB was liable to pay an amount of US $ 100,000 for UK specific beam out of minimum guaranteed amount of US $ 250,000 by January 15, 2008 against which the firm paid US $ 150,000. USA specific beam was to be commenced from March 1, 2008 but it was launched on August 13, 2008 after a delay of five and a half months. The firm also did not pay US $ 1,000,000. No legal action was initiated by the Corporation. This resulted in loss of revenue to the Corporation amounting to US $ 1,150,000 (equivalent to Pak/Rs 80.500 million @ Rs 70 =1 $).

The matter was reported to the management and the Ministry on October 13, 2009. The management in its reply dated December 11, 2009 intimated that as per separate agreement M/s. GDN/SVB were bound to supply certain equipments for USA specific beam by February 1, 2008 which caused delay in completion of project for which legal proceedings had been initiated. The reply was not convincing as the project was delayed due to fault on the part of M/s. GDN/SVB and legal proceedings were delayed till September 2008 by PTVC.

The DAC in its meeting held on December 23, 2009 directed the management to conduct a fact finding enquiry within a month and fix responsibility on the persons involved in such serious lapses. No progress was intimated till the finalization of the report.

153. **Non-recovery on account of provision of uplink facility - Rs 65.272 million**

Being commercial organization the management of PTVC was required to safeguard its interest by making proper agreements containing therein certain clauses which protect the interest of PTVC prior to supply any services to private parties.

PTVC provided uplink facility to M/s. Indus Entertainment (Pvt.) Limited at a monthly rent of US $ 32,000 from October 12, 2002 as per acceptance letter dated August 10, 2002. The deal was subject to signing of agreement by M/s. Indus Entertainment (Pvt.) Limited. PTVC on June 28, 2006 sent a draft agreement but the same was not signed by the party. PTVC continued to provide uplink facility without any agreement till April 30, 2007, despite default in payment. Resultantly default amount piled up to US $ 796,000 equal to Pak. Rs 65.272 million. The party paid eleven cheques for Rs 10.861 million which were dishonored but no legal action was initiated against the party. The management on November 1, 2008 intimated the Senate Standing Committee that they were considering to lodge F.I.R. against the party. Undue favour was extended to the party by providing uplink facility without agreement resulting in default of US $ 796,000 equal to Pak Rs 65.272 million (@ Rs 82 = 1 US $.)

The matter was reported to the management on October 23, 2009 and the Ministry on November 11, 2009. The management in its reply dated December 11, 2009

intimated that request of M/s. Indus Entertainment (Pvt) Limited at monthly rent of US $ 32000 was approved by the Board of Directors in its meeting held on October 29, 2002. The facility was discontinued on December 13, 2004 due to default in payment, resultantly the default was partially cleared and the facility was restored. The firm again went into default, and the facility was stopped from May 1, 2007. However, the civil suit has been filed against the firm for recovery of outstanding dues. The reply was not convincing as the facility was continued despite heavy defaults and legal action was delayed.

The DAC in its meeting held on December 23, 2009 directed the management to conduct an enquiry and fix responsibility and submit report to Principal Accounting Officer within a month. No progress was intimated till finalization of this report.

154. Undue favour to a programme production company – Rs 52.225 million

Pakistan Television Corporation (PTVC) entered into an agreement with M/s. Sports Star International (SSI) on October 21, 2002 for grant of license by PTVC to SSI to obtain PTVCs programmes in its archives for telecasting. As per Clause 3.2 of the agreement, PTVC shall issue invoice for each calendar month in the first week of next month to SSI for payment within 30 days. Clause 9.1 further provides that in case payment is not made in time by SSI, PTVC will serve a notice for ceasing the supply of further programmes. If after 30 days of serving of the notice, the payment has not been received, further supply will be stopped within a period of 60 days, failing which the PTVC shall terminate the agreement.

PTVC supplied programmes to SSI, but did not receive the agreed amount in installment as per schedule and the management continued to supply programmes to the second party which resulted in accumulation of outstanding dues to Rs 52.225 million on the expiry of agreement in 2005. In August 2007, the PTVC entered into another agreement with SSI and purchased 30 televised archive programmes valuing Rs 49.400 million from SSI. The private production programmes were purchased by the M.D himself without involvement of various committees such as concept/idea evaluation committee, progamme preview committee and price negotiation committee. The PTVC adjusted its receivable of Rs 52.225 million against the payable of Rs 49.400 million. However, the

management failed to intimate the revenue generated by televising the said programmes. Since these programmes were already telecasted on Prime TV and ATV, therefore they could not fetch much income. This resulted in undue favour of Rs 52.225 million with the party.

The matter was taken up with the management on April 2, 2009 and the Ministry on October 7, 2009. The management in its reply dated June 15, 2009 stated that despite efforts M/s. SSI did not pay US $ 878,805 (Rs 52.225 million). The case was also pursued through the Ministry. Finally, it was decided that the programmes be purchased from the party against outstanding amount. The reply was not convincing as due installments were not collected timely and receivables were continued to accumulate and adjustment of receivables was made by purchasing unattractive/televised programmes.

The DAC in its meeting held on July 14, 2007 directed the management to conduct a fact finding enquiry for acceptance of televised programmes and submit report to Audit. DAC meeting was again held on December 23, 2009. The Committee took serious notice of non-compliance of previous directives and reiterated its earlier decision and directed the management to submit report to Principal Accounting Officer by January 2010. No progress was intimated till finalization of this report.

155. Unauthorized expenditure due to revision of pay scales – Rs 48.211 million

According to Finance Division letter No. F.4(8)R-4(2004) dated July 19, 2004, any proposal for revision in the salaries, allowances and perquisites of the supervisory and executive staff of public sector Corporations/Autonomous/Semi Autonomous Bodies and organizations is required to be carried out by the Board of Directors/Governors with prior approval of the Finance Division (Regulation Wing). Further, Finance Division U.O No. F.4(15)R-4/2004 dated July 31, 2007 stipulates that in the light of legal opinion of the Law, Justice and Human Rights Division, all the Regulatory Authorities may be directed to comply with the course of action decided in the meeting by submitting their salary structures to the standing committee of the Finance Division for consideration.

Contrary to above instructions, Pakistan Television Corporation (PTVC) allowed 45% increase in pay of its employees, including officers and executives with effect from July 1, 2008 with the approval of Board of Directors (BOD). An amount of Rs 48.211 million was paid to officers during July 1, 2008 to June 30, 2009. This resulted in an unauthorized expenditure of Rs 48.211 million incurred on pay and allowance of officers of group 7 and above.

The irregularity was reported to the management on October 23, 2009 and the Ministry on November 11, 2009. The management in its reply dated December 11, 2009 stated that PTVC is a public limited company and its affairs are run by its Board of Directors which derives powers from Articles of Association and Memorandum of Association duly approved by Registrar Joint Stock Companies. Therefore the BOD is competent to fix pay and remunerations to its employees. The reply was not convincing as the Board of Directors is a recommendatory body and prior approval of Finance Division was not obtained.

The DAC in its meeting held on December 23, 2009 directed the management to obtain the concurrence/approval of the Finance Division. No progress was received till finalization of this report.

156. Loss due to procurement of programmes already aired - Rs 16.459 million

Being commercial organization the management of PTVC is required to safeguard the interest of PTVC by initiating profitable operations.

Pakistan Television Corporation purchased 76 programmes (already aired), through a committee during 2007-08, for telecasting in matinee and late night. Out of these programmes, 28 could not earn even its cost of Rs 29.212 million. Resultantly, PTVC sustained a loss of Rs 16.459 million on telecast of these programmes (cost Rs 29.201 million - income Rs 12.742 million).

The matter was reported to the management on October 27, 2009 and the Ministry on November 11, 2009. The management in its reply dated December 11, 2009, intimated that the said programmes were acquired for newly introduced slots of Matinee Time & Shabrama on non-commercial time of 3.00 PM and 10.00 PM respectively. These programmes were purchased mostly from M/s. Sports Star

International in order to adjust the outstanding dues against the party. Since these programmes were already telecasted at Prime TV and ATV, therefore it could not fetch much income. The reply was not convincing as the commercial viability of the programmes was not kept in view while selecting these programmes.

The DAC in its meeting held on December 23, 2009 directed the management to hold an enquiry for poor selection of programme with reference to selection criteria. No progress was received till finalization of this report.

157. Irregular expenditure due to procurement of imported vehicles - Rs 10.061 million

According to the Prime Minster Secretariat U.O. No. 1601/DS (A III)/2005 dated July 11, 2005 and Cabinet Division O.M. No. 6-7 (i) 02-M-II dated October 6, 2007 ban on purchase of new vehicles from local manufacturers was lifted but ban on purchase of imported vehicle will continue to be adhered to.

Pakistan Television Corporation purchased four imported vehicles (1 KIA Sportage and 3 Toyota Hilux 4x4 Double Cabin) at a cost of Rs 10.061 million during 2007-08 from M/s. Hamdani Twin City Motors and M/s. Toyota Capital Motors, Islamabad, respectively. The purchase was made without prior approval of the Prime Minister. The expenditure of Rs 10.061 million, therefore, was considered irregular.

The matter was reported to the management on October 27, 2009 and the Ministry on November 11, 2009. The management in its reply dated December 11, 2009 intimated that PTVC had to purchase three Double Cabin Pickups and one van for transportation of DSNG equipment for live coverage of General Election 2008. In this regard, PTVC had advertised in national dailies for inviting price quotations from local manufacturers but due to non-availability of Suzuki Grand Vitara Van, KIA Sportage Van was purchased. The reply of management was not tenable because PTVC was not empowered to purchase imported vehicles without prior approval of the Prime Minister.

The DAC in its meeting held on December 23, 2009 directed the management to obtain *ex-post facto* approval from the competent authority. No progress was received till finalization of this report.

158. **Non-recovery on account of technical services - Rs 9.518 million**

PTVC was established with the aim to run its affairs on commercial basis. Being commercial organization, the management was required to safeguard its interest prior to providing service to a private party.

International Relation Division of PTVC provided certain types of technical/up-linking facilities to 09 foreign clients from December 1997 to April 2006. No formal agreement was entered into with the clients to safeguard the public interest. The parties went into default, but PTVC continued to provide its services to them. This resulted in non-recovery of Rs 9.518 million from foreign clients on account of provision of technical services.

The non-recovery was pointed out to the management on April 2, 2009 and the Ministry on October 7, 2009. The management in its reply dated June 15, 2009 stated that PTVC provided technical facilities on the written request of the clients and they were pursuing the recovery. The reply was not convincing as the PTVC dues were outstanding against the parties.

The DAC in its meeting held on December 23, 2009, directed the management to pursue recovery through Embassy. No progress was received till finalization of this report.

159. **Irregular expenditure on award of consultancy - Rs 5.106 million**

In terms of para-4 (i) (iv) (v) of Establishment Division U.O. No. 11-3/2001-MS-W III dated January 25, 2002, consultancy should be widely advertised indicating the requirement, range of compensation and various facilities. Further, for consultancies relating to development projects, the Competent Selection Board of the client organization including a representative of the Planning Division shall recommend a panel of at least three names to the competent authority.

Pakistan Television Corporation awarded the consultancy services of designing and linking of newly established Chaghi News Centre to a person at a monthly pay of Rs 425,535 for a period of one year vide agreement dated May 12, 2007. The consultancy was neither advertised in newspaper nor proper procedure for appointment was adopted. An amount of Rs 5.106 million was paid to the

consultant from May 12, 2007 to May 11, 2008. This resulted in an irregular expenditure of Rs 5.106 million.

The matter was reported to the management on October 28, 2009 and the Ministry on November 11, 2009. Management in its reply dated December 11, 2009 stated that since PTVC was working in isolation and this was specialized work which could be done by specialized persons, therefore, the appointment was recommended by the Managing Director and approved by the Secretary/Chairman PTVC. The reply was not convincing because selection of consultant was made without adopting the presented procedure.

The DAC in its meeting held on December 23, 2009 directed the management to regularize the expenditure from Cabinet Division. No progress was received till finalization of this report.

160. **Irregular payment due to appointment on the basis of fake degree - Rs 2.407 million**

The PTVC Board in its 163rd meeting held on October 26, 2004 prescribed MBA (Marketing) as minimum qualification for appointment of Resource Persons/ Consultants in Sales/Marketing with at least five years experience in reputable Media Organization.

Contrary to the above, PTVC management appointed Manager Marketing on contract basis for a period of 3 years on August 7, 2007 at a monthly salary of Rs 100,000, plus car lease Rs 10,500 per month, mobile Rs 4,000 per month and petrol 200 liters per month. The officer joined duty on August 25, 2007. As per record available in his personal file, the educational qualification of the officer was BBA (Finance) from Lahore School of Economics. On verifying the degree, the concerned Institution vide its letter dated February 21, 2008 confirmed that the officer concerned did not complete the course and was not awarded degree.

The officer was appointed in PTVC in contravention of the prescribed criteria and qualification and without advertisement in the website as well as in print media for information of interested applicants. The prescribed qualification, as approved by the Board, for the said post was MBA (Marketing), however, the appointment was made on the basis of a photocopy of a fake transcript of BBA (Finance)

which happened to be a lower qualification. As per record placed in personal file the educational qualification of the officer was only Matriculation. The officer remained on pay roll of the Corporation till March 2009. Thus, the payment of Rs 2,407,081 from August 25, 2007 to March 31, 2009 @ Rs 114,500 per month plus cost of petrol of 19 months @ Rs 55 per liter made to the officer was considered irregular.

The matter was reported to the management on April 2, 2009 and the Ministry on October 7, 2009. Management in its reply dated October 21, 2009 intimated that the matter was being pursued as per directives of the DAC dated July 16, 2007.

The DAC in its meeting held on July 16, 2007 and December 23, 2009 showed its concern for non-submission of enquiry report to Principal Accounting Officer as per its directive dated July 16, 2007. Moreover, the management was not empowered to appoint a person on fake qualification degree. The Committee did not agree with the management and directed to initiate action under law against the officer for submission of fake degree. No progress was received till finalization of this report.

MINISTRY OF KASHMIR AFFAIRS AND GILGIT-BALTISTAN

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NORTHERN AREAS TRANSPORT CORPORATION (PVT) LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

161. Northern Areas Transport Corporation (NATCO) was incorporated on February 23, 1989 as a private limited company. It took over business of Northern Areas Transport Corporation (Pvt) Limited (having its registered office at Gilgit) w.e.f. July 1, 1989. The Company is wholly owned by the Government of Pakistan. The Company is primarily engaged in providing transportation facilities in Northern Areas of Pakistan.

161.1 The working results of the Corporation for the year 2008-09 as compared to the previous years are tabulated below :

(Rs in million)

	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07
Revenue	737.715	60.97	458.306	27.625	359.103
Fleet expenses	611.653	62.38	376.685	27.472	295.503
Traffic expenses	44.239	50.96	29.305	10.264	26.577
Workshop expenses	9.182	40.20	6.549	4.03	6.295
Total	665.074	61.21	412.539	25.630	328.375
Gross profit	72.55	58.52	45.767	48.94	30.728
Admn. Expenses	23.618	35.69	17.406	13.412	20.102
Financial expenses	3.862	240.26	1.135	646.710	0.152
Total	27.48	48.22	18.54	(8.45)	20.253
Operating profit / (loss)	45.069	65.54	27.226	159.929	10.474
Other income	28.644	32.72	21.582	83.426	11.766
Profit/loss before taxation	73.533	50.66	48.808	119.450	22.240
Profit after taxation	73.533	50.66	48.808	119.450	22.240

Source: Annual Audited Accounts

The revenue of the Corporation increased by 60.97% from Rs 458.306 million in 2007-08 to Rs 737.715 million in 2008-09. The main reason for increase in revenue was increase in passenger booking by 32.78% (2009: Rs 367.382 million, 2008: Rs 276.67 million) and in cargo operations by 105.76% (2009: Rs 367.211 million, 2008: Rs 178.46 million).

161.2 Revenue from cargo operations increased by 105% during the year 2008-09 whereas freight expenses on cargo operations increased by 256.57% (2009: Rs 232.371 million, 2008: Rs 65.167 million). The abnormal increase in freight expenses needs to be justified.

MINISTRY OF LABOUR AND MANPOWER

EMPLOYEE'S OLD AGE BENEFITS INSTITUTION

162. Employees' Old-Age Benefits Institution (EOBI) is a body corporate, established under Employees' Old-Age Benefits Act, 1976. The Institution's prime objective is to provide pensions and old-age grants to the insured persons covered under the scheme. It operates 31 regional offices and 32 field offices located at various parts of the country.

EOBI Fund was established under Section-17 of Employees' Old-Age Benefits Act, 1976 wherein all contributions paid under this Act, and all other moneys received by or on behalf of the Institution are paid into it while expenditure incurred by the Institution necessary for the purpose of this Act are charged to the same.

The management of EOBI failed to provide their annual audited accounts for the year 2008-09 by the prescribed date, *i.e.*, November 30, 2009.

AUDIT PARAS

163. Non-recovery of contributions from defaulting employers – Rs 1.364 billion

Section-9(1) of Employees' Old Age Benefits Act, 1976 stipulates that contributions shall be payable every month by the employer to the Institution in respect of every person in his insurable employment, at the rate of 5% of his wages in the prescribed manner.

In Employees' Old Age Benefits Institution (EOBI), 6,946 active employers out of a total of 39,221 all over Pakistan defaulted in paying contributions to the Institution during the period from July 2006 to March 2009. The amount involved in the default period accumulated to Rs 1.364 billion as on June 30, 2009. Accumulation of heavy amount of dues indicated unsatisfactory performance of regional offices as well as weak and ineffective controls exercised by the management.

Non-recovery of dues was taken up with management in September, 2009 and reported to the Ministry in November, 2009, but no reply was received.

The matter was discussed in the DAC meeting held on December 12, 2009. The management informed that the dues were basically not arrears but pertained to the period of last two to three months, which were normally received in due course of time; and they had already taken recovery action. Audit pointed out that outstanding amount included certain arrears pertaining to July 2006 onwards. The DAC directed the management to pursue recoveries and to furnish progress of recovery to Audit.

164. Loss of capital gain due to non-disposal of right shares – Rs 80.146 million

Rule-4 of Employees' Old-Age Benefits (Investment) (Amendment) Rules, 2007 provides that the Institution may at any time sell or realize any of its investments at such price, and reinvest all or part of the proceeds in such manner as it deems fit.

M/s. Engro Chemical Pakistan Ltd offered right shares to Employees' Old-Age Benefits Institution (EOBI) in March 2008. EOBI opted to buy right shares and paid Rs 132.316 million for subscription on June 7, 2008 details as under:

Right Shares offered (No.)	Last date for payment	Price per Right Share (Rs.)	Market price per share as on June 30, 2008 (Rs.)	Capital gain (Rs. in million)
756,090	June 16, 2008	175	281	80.146

Engro's share price prevailing in the market during the period immediately after the said purchase was much higher than the price paid by the Organization as evident from the above table. It would have been prudent to dispose-of the shares without delay in the wake of the worldwide trend of declining share prices. The management, however, decided not to dispose-of the shares. Had the shares been sold timely at the market price, capital gain of Rs 80.146 million could have been realized. It is worth mentioning that subsequently the price of same share had declined to Rs.128 per share as on June 30, 2009, thus the management caused an opportunity loss to the Organization,

The loss was pointed to the management in September 2009 and reported to the Ministry in November 2009, but no reply was received.

The matter was discussed in the DAC meeting held on December 12, 2009. The management clarified that the Right Shares were physically not received by June 30, 2008 and actually received on July 8, 2008; hence the sale on June 30, 2008 was not possible. They further clarified that by the time of physical delivery of shares, the market value had depreciated and by taking into account the previous stock held by the Organization, the average cost was much above the then prevailing market value.

Audit pointed out that a substantial gain would have been realized, had the management sold the shares when these were received on July 8, 2008, as market value on that date was Rs.269 per share whereas the same were purchased at Rs.175 per share. The management informed that their total portfolio had accumulated to Rs 177 billion by observing prevailing policy. They added that by retaining the shares procured at cheaper cost, the per unit cost of whole portfolio lowers down and the Organization had no liquidity problems; hence there was no need to sell.

Audit pointed out that there should be a benchmark to sell particular shares for realization of gains, otherwise, the stage to avail opportunity from rising market would not come at all. As regards contention of the management about non-selling of shares on the ground of no liquidity problem, Audit referred the disposal of Engro shares by the management during the period March 14, 2008 to July 2, 2008 as evident from their reply dated December 9, 2009. The management apprehended that in such a situation of rising market, the action for selling shares would also be objected to by Audit on the grounds of difference between the rates on the date of sale and subsequent period of higher market value. Audit did not agree to the contention of the management.

Finally, the chair was of the view that action of the management was sound and the shares should not have been sold; however, Audit stressed upon placing the Para before PAC for decision. Therefore, the DAC remained inconclusive over this Para.

MINISTRY OF LIVESTOCK AND DAIRY DEVELOPMENT

KORANGI FISHERIES HARBOUR AUTHORITY

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2008

165. Korangi Fisheries Harbour Authority (KoFHA) was established in 1982 under the Korangi Fisheries Harbour Authority Ordinance No.XVI of 1982 with the objective of planning, construction, operation and maintenance of Korangi Fisheries Harbour near Port Qasim in Karachi.

165.1 The management of KoFHA failed to provide their annual audited accounts for the year 2008-09 by the prescribed date, *i.e.*, November 30, 2009. However, the audited accounts for the year 2007-08 were submitted by the Authority till the finalization of this report.

165.2 The working results of the Authority for the year 2007-08 as compared with those of the previous years are as under:

(Rs. in million)

	2007-08	% Inc/ (Dec)	2006-07	% Inc/ (Dec)	2005-06	% Inc/ (Dec)	2004-05
Operating Income	3.970	(86.7)	29.790	(31.5)	43.470	218.5	13.650
Operating Expenses	(68.155)	14. 4	(59.555)	5.7	(56.338)	2.8	(54.810)
Operating Loss	**(64.185)**	**115.7**	**(29.765)**	**131.4**	**(12.868)**	**(68.8)**	**(41.160)**
Financial Charges	(24.180)	0.1	(24.178)	(2.8)	(24.889)	(2.9)	(25.640)
Grant from Federal Government	28.002	15.8	24.174	8.7	22.234	4.1	21.360
Other Income	5.828	20.7	4.834	46.4	3.301	61.6	2.040
Loss for the year before Appropriation	**(54.535)**	**118.7**	**(24.935)**	**104.2**	**(12.222)**	**(71.9)**	**(43.400)**
Transfer of Development Cess Fund	-	-	(15.960)	(45.9)	(29.500)	-	-
Loss for the year after Appropriation	**(54.535)**	**33.4**	**(40.895)**	**(2.0)**	**(41.722)**	**(3.9)**	**(43.400)**

(Source: Annual Audited Accounts)

The Organization suffered a net loss of Rs 54.535 million during the year under review. Income from Berthing Charges, Development Fee, Commission on Fish Auction, Annual Ground Rent and Utility Charges, indicated a declining trend, registering an overall decrease of 86.7% during the year under review. Operating Expenses were at 1,716% of operating income as compared with 200% in the preceding year 2006-07, indicating a further deterioration in Company's

operating performance. The adverse state of operation required remedial measures to make the Organization self-sustaining.

165.3 As the Authority borne the loss, self-financing could not be done from its operations, which resulted in high gearing ratio from 4.78 in the preceding year 2006-07 to 10.13 in the year under review. Financing was mainly done through returns on long-term investments and other income, which increased by 20.70% (year 2007-08: Rs 5.828 million, year 2006-07: Rs 4.834 million) and Grant from Federal Government (year 2007-08: Rs 28.003 million, year 2006-07: Rs 24.175 million) and Long term Loan (year 2007-08: Rs 541.790 million, year 2006-07: Rs 516.550 million).

165.4 During the year under review, current ratio deteriorated from 0.16 to 0.033 and absolute cash ratio also showed a declining trend from 0.15 to 0.02.

AUDIT PARA

166. Fraudulent payment of salary and leave encashment – Rs 0.662 million

Para-23 of GFR provides that every Government officer should realize fully and clearly that he will be held responsible personally for any loss sustained by Government 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 other government Officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

In Korangi Fisheries Harbour Authority (KoFHA), an ex- Managing Director, a BS-21 officer, fraudulently drew pay and allowances and leave encashment during the year 2008-09 as detailed below:

(Rs. in million)

	Payments from KoFHA		Payments from Govt. of Sindh	
S. No	**Particulars**	**Amount**	**Particulars**	**Amount**
1	Pay & Allowances from August 8, 2008 to December 4, 2008	0.270	Pay & Allowance from July 1, 2008 to December 4, 2008	0.349

2	Leave Encashment	0.313	Leave Encashment	0.294
	Total	**0.583**		**0.643**

The officer was entitled to draw salary for the period August 8, 2008 to November 30, 2008 from KoFHA. However, he continued drawing salary from Government of Sindh during the same period despite joining duty in KoFHA. Hence, the salary for that period was double drawn fraudulently. Similarly, the officer got leave encashment for 180 days each from both KoFHA and Government of Sindh. As such, an amount of Rs 0.662 million (salary Rs 0.349 million from A.G. Sindh plus leave encashment Rs 0.313 million from KoFHA) was over drawn.

The fraud was pointed out to the management in September 2009 and reported to the Ministry in November 2009; but no reply was received.

The matter was discussed in the DAC meeting held on December 14, 2009. The management informed that recovery of the paid amount of Leave Encashment had been made from the retired officer; whereas as per written statement of the retired officer, the cheque for salary drawn from Government of Sindh had not been deposited by him in his bank account, which stood expired. The DAC directed the management to confirm the non-deposit of the issued cheque pertaining to double drawn salary. However, no progress was reported till the finalization of this report.

OVERSEAS PAKISTANIS DIVISION

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OVERSEAS PAKISTANIS FOUNDATION

167. Overseas Pakistanis Foundation is a Company limited by guarantee incorporated under the Companies Ordinance 1984. All the operations of the Foundation are managed by the Board of Governors appointed by the Federal Government. The main objectives of the Foundation are to advance the social welfare of Pakistanis working overseas and their families in Pakistan, by identifying their problems and by contributing to their solutions, to establish, maintain aid vocational training institutions for providing training in such trades as are in demand overseas; and to establish, housing societies, colonies, townships for overseas workers and their families in Pakistan and Azad Jammu & Kashmir.

Annual Audited Accounts of the Foundation for the year 2007-08 and 2008-09 were not furnished by November 30, 2009.

AUDIT PARAS

168. **Non-transparent award of work – Rs 2,404.192 million**

As per Rule 12(2) of Public Procurement Rules, 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. Rule 22 (2) further provides that a procuring agency shall specify the manner and method of submission and receipt of bids in an unambiguous and clear manner in the bidding documents. Board of Governors (BOG) of Overseas Pakistanis Foundation (OPF) in its meeting held on January 28, 2008 resolved that development of all OPF Housing Schemes including OPF Housing Scheme Zone-V, Islamabad, would be done by OPF in a transparent manner after completion of all formalities.

OPF pre-qualified five contractors for award of development work of Zone-V Housing Scheme, Islamabad after calling tender in the Press on February 20, 2008. No financial bids were called from pre-qualified firms and the work was awarded to M/s. FWO on September 9, 2008 in violation of the rules. This resulted in non-transparent award of work amounting to Rs 2,404.192 million.

The matter was taken up with the management on September 29, 2009 and the Ministry on November 11, 2009. The management in its reply dated December 10, 2009 stated that as M/s. FWO is a Government owned organization under the administrative control of Pakistan Army and BOG approved the contract in its 109th meeting. The reply was not convincing as the work was awarded in a non-transparent manner without generating healthy competition.

The DAC in its meeting held on December 17, 2009 showed its concern and was not satisfied with the explanation put forth by the management and directed to initiate action against those who deviated the rules. No progress was intimated till finalization of this report.

169. **Extra cost due to late finalization of contract – Rs 40.590 million**

The OPF Board of Governors (BOG) in its meeting held on February 24, 1998 approved the construction of OPF Girls College, Rawalpindi on a plot measuring 23 Kanals allotted by the Government of Punjab in 1998 at a cost of Rs 336,156.

The OPF management invited tenders for construction of building of Girls College, Rawalpindi from pre-qualified contractors. The tenders were opened on August 28, 1999 and M/s. MAAK SONS was the lowest bidder with total cost of Rs 27.527 million. The bids were cancelled on the plea that earnest money of the lowest bidder was short against the required 2%. OPF invited tenders in September 2002, February 2005 and in April 2005 but the bids were cancelled due to one or other reason despite having sufficient funds during that period.

OPF BOG in its 100th meeting held on June 29, 2006 resolved for re-tendering by inviting pre-qualification of contractors through advertisement in the press. The redesigning was carried out by M/s. NESPAK and engineer estimates were revised to Rs 80.619 million. The tenders were invited from pre-qualified contractors which were opened on January 27, 2007. M/s. Progressive International, Lahore was the lowest bidder at a bid of Rs 68.117 million and work order was issued on July 17, 2007 to M/s. Progressive International at a total cost of Rs 68.117 million. Due to late finalization of the contract, OPF had to incur an extra cost of Rs 40.590 million (Rs 68.117 million – Rs 27.527 million).

The matter was reported to the management on September 29, 2009 and the Ministry on November 11, 2009. Management in its reply dated December 10, 2009 intimated that due to procedural requirements the construction was delayed. The reply was not convincing as the management took eight years to finalize the contract due to which extra cost had to be incurred.

The DAC in its meeting held on December 17, 2009 showed its concern and was not satisfied with the explanation put forth by the management and directed to initiate action against those who were responsible for laxity in contract management.

170. **Non-possession of land – Rs 32.790 million**

The Board of Governors of OPF in its 47th meeting held on February 27, 1994 decided to establish a housing scheme at Islamabad.

Overseas Pakistanis Foundation (OPF) purchased 5,810 kanals land valuing Rs 3,195 million through M/s. Tariq Siraj and Associates in 1994 and 1999. Due to non-confirming of the power of attorney of the landlord concerned from Revenue Department as it proved fake later on, 593 kanals land valuing Rs 32.790 million could not be possessed by OPF and the owner of land had filed a suit in the court of law. The decision is still awaited. This resulted in loss of Rs 32.790 million due to non- possession of land.

The matter was reported to the management on January 1, 2008 and the Ministry on May 30, 2009. The management in its reply dated May 5, 2008 intimated that due to litigation, the possession of land was not with OPF, a reference against the dealer had been initiated in the NAB for recovery of Rs 32.790 million.

The issue was discussed in DAC meeting held on November 10, 2009. OPF briefed the DAC that the case is *sub judice*. The DAC directed the management that an inquiry should be initiated to fix responsibility for not confirming of power of attorney of the landlord beforehand. No progress was received till finalization of this report.

171. **Non-encashment of performance guarantee – Rs 13.624 million**

The management of OPF awarded a contract for construction of building of OPF Girls College, Rawalpindi to M/s. Progressive International, Lahore. As per Clause 32.1 of the bidding documents "the successful tenderer within seven days after receipt of letter of acceptance shall furnish performance security in the form of an irrevocable bank guarantee of ten percent (10%) of the contract amount or an insurance bond of twenty percent (20%) of the contract price from any of the approved Insurance Company." It was clearly mentioned in the performance guarantee that the employer (OPF) shall be the sole and final judge for deciding whether the contractor had duly performed his obligations under the contract or had defaulted in fulfilling the obligations and the guarantor (bank or insurance company) shall pay without objection any sum or sums up to the amount stated above on first written demand from the OPF forthwith and without any reference to the contractor or any other person. As per work order dated July 17, 2007 the contractor was required to complete the construction work within 546 days from August 2, 2007 to January 29, 2009.

OPF management awarded the civil work of OPF Girls College to M/s. Progressive International, Lahore at a cost of Rs 68.117 million. The contractor furnished performance guarantee of Rs 13.624 million (20% of the total contract value) issued by M/s. EFU General Insurance Limited, Lahore. The contractor could only manage excavation up-till April 2008. The work was suspended in April 2009 and since then construction work could not be restarted till September 2009. The contractor failed to complete the work even in the extended period, the management was required to encash the performance guarantee valuing Rs 13.624 million. The management had not encashed the performance guarantee till October, 2009.

The matter was reported to the management on October 9, 2009 and the Ministry on November 11, 2009. The management in its reply dated December 10, 2009 stated that encashment of performance bond was lodged timely by OPF but the contractor got a stay order from the court. The reply was not convincing because OPF failed to encash the performance bond in April, 2009 as the contractor failed to meet the deadline.

The DAC in its meeting held on December 17, 2009 showed its concern and was not satisfied with the explanation put forth by the management and directed to

initiate action against those who were responsible for laxity in contract management.

172. **Payment of fraudulent claim - Rs 4.988 million**

As per Memorandum of Association of Overseas Pakistanis Foundation (OPF) the objectives of the Foundation are to advance the social welfare of the Pakistanis working overseas and their families in Pakistan, by identifying their problems and by contributing to their solution. To facilitate the affectees of Gulf War, the task for collection of compensation claims was assigned to the OPF by the United Nations Compensation Commission (UNCC). 44,498 affectees of different categories filed the claims with OPF, which were submitted to UNCC for processing.

Mr. Muhammad Rafiq Zia S/o Bagh Ali lodged a claim with OPF ('A' Category) on May 12, 1992 for US $ 4,000. The claim was approved by the UNCC and OPF released the payment vide cheques dated November 10, 1998 and December 3, 1999. In 2003 the OPF started the collection of late claims for 1992 on the advice of UNCC. The claimant lodged a duplicate claim with OPF for US $ 82,160 by tampering his name and passport number. The Assistant Director (ERC) pointed out the irregularity, however the Joint Director (ERC) stated that observation of AD (ERC) regarding tampering with the documents was not correct. The Managing Director approved the case on February 2, 2006. This resulted in an irregular payment of Rs 4,988,561 equal to US $ 84,634.

The matter was reported to the management on September 29, 2009 and the Ministry on November 11, 2009. The management in its reply dated December 10, 2009 stated that the claimant had got claim fraudulently concealing the fact. The case had been referred to NAB and FIA for recovery. Departmental inquiry had been ordered. Audit was of the view that undue favour has been granted by accepting a tampered claim.

The DAC in its meeting held on December 17, 2009 showed its concern and was not satisfied with the explanation put forth by the management and directed to initiate action against those who were responsible for tampering with the documents. No progress was received till finalization of this report.

173. **Non-recovery of advance rent – Rs 0.841 million**

OPF Girls College, Islamabad entered into an agreement on January 5, 2005 with a landlady for establishing a Fashion Designing Unit. As per clause 7 of the agreement, two months prior notice was to be served on either side in case of the vacation of the premises before the expiry of lease period.

The management made payment of Rs 1,320,000 to the landlady as advance rent of one year from January 5, 2005 to January 4, 2006 @ Rs 110,000 per month. The college management served 2 months notice to the landlady for premature vacation of hired premises on March 16, 2005. The house was vacated in the same month. As per agreement, the landlady was required to refund the rent of Rs 840,967 relating to un-utilized period from May 16, 2005 to January 4, 2006 but she did not refund the said amount.

The matter was reported to the management on October 31, 2009. The management in its reply dated December 10, 2009 stated that CDA served a notice on February 21, 2005 that the building did not fall under Building Control Regulations 1993 for operation of educational institution being residential area. Resultantly the building had to be vacated before expiry of contract period. A committee had been constituted to probe into the matter and submit recommendation for early recovery. Reply was not convincing as the Fashion Designing Unit should be established with the prior NOC from CDA.

The DAC in its meeting held on December 17, 2009 showed its concern and was not satisfied with the explanation put forth by the management and directed to initiate action against those who were responsible for non-obtaining of NOC from CDA and non-recovery of the advance rent. Progress in this regard was not received till finalization of this report.

174. **Payment to an impostor – Rs 0.657 million**

As per Memorandum of Association of OPF the objectives of the Foundation are to advance the social welfare of the Pakistanis working overseas and their families in Pakistan, by identifying their problems and by contributing to their solutions. To facilitate the affectees of Gulf War, the task of compensation claims was assigned to the OPF by the United Nations Compensation Commission (UNCC).

OPF approved a UNCC claim against A&C category in favour of Mr. Muhammad Iqbal for Rs 509,437 and Rs 147,312 respectively. When the actual claimant visited OPF in June, 2006, it was noticed that payment had already been made to another person with the same name. Audit was of the view that payment of Rs 656,744 was made to an imposter due to weak internal controls.

The matter was reported to the management on September 29, 2009 and the Ministry on November 11, 2009. The management in its reply dated December 10, 2009 intimated that the case was referred to NAB for recovery and departmental enquiry had also been initiated to fix the responsibility.

The DAC in its meeting held on December 17, 2009 showed its concern and was not satisfied with the explanation put forth by the management and directed to initiate action against those who were responsible to safeguard the public interest. No progress was intimated till finalization of this report.

MINISTRY OF PETROLEUM AND NATURAL RESOURCES

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PAKISTAN PETROLEUM LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

175. Pakistan Petroleum Limited (PPL) was incorporated in 1950 with the main objectives of conducting exploration, prospecting, development, and production of oil and natural gas resources. In July 2004, Government of Pakistan disinvested its equity equivalent to 15% of paid-up capital of the Company through Initial Public Offering. The Company was listed on all Stock Exchanges of Pakistan on September 16, 2004.

At present, the Company holds working interest in 34 exploration licenses (19 PPL operated and 15 partner-operated blocks, including 3 offshore blocks in Pakistan and one international joint venture in Yemen). During the year under review, two discoveries, namely, Maramzai in Tal Block and Rehman in Kirthar Block have been made which flowed gas / condensate and gas respectively during initial testing.

175.1 The working results of the Company for the year 2008-09 as compared to the previous years are given below:

(Rs. in million)

	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07	% Inc/ (Dec)	2005-06
Sales	61,580.072	34.7	45,716.789	19.1	38,382.645	20.9	31,756.712
Field expenditure and royalties	(20,624.486)	27.2	(16,210.385)	17.1	(13,841.367)	16.2	(11,915.882)
Operating profit	40,955.586	38.8	29,506.404	20.2	24,541.278	23.7	19,840.830
Total others charges	(3,196.898)	48.6	(2,151.991)	(18.7)	(2,649.530)	128.9	(1,157.291)
Other income	4,149.732	34.2	3,092.142	25.4	2,465.022	63.7	1,505.990
Profit before taxation	41,908.420	37.6	30,446.555	25.0	24,356.770	20.6	20,189.530
Taxation	(14,205.629)	32.3	(10,739.157)	41.5	(7,588.996)	11.8	(6,788.532)
Profit after taxation	27,702.791	40.6	19,707.398	17.5	16,767.774	25.1	13,401.001

(Source: Annual Audited Accounts)

The overall working results of the Company were satisfactory during the year under review.

PAKISTAN STATE OIL COMPANY

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

176. Pakistan State Oil Company Limited (PSO) is a public limited company incorporated in Pakistan under the Companies Act 1913 (now Companies Ordinance, 1984) and is listed on Karachi, Lahore and Islamabad Stock Exchanges. The principal activities of the Company are procurement, storage and marketing of petroleum and related products. It also blends and markets various kinds of lubricating oils.

176.1 The working results of the Company for the year 2008-09 as compared with those of the previous years are given below:

(Rs. in million)

	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07	% Inc/ (Dec)	2005-06
Net Sales	612,696	24	495,279	42	349,706	17	298,250
Cost of Products Sold	(609,685)	31	(465,255)	38	(337,447)	20	(281,043)
Gross Profit/(loss)	**3,010**	(90)	**30,024**	145	**12,259**	(29)	**17,207**
Operating Expenses	(10,815)	17	(9,283)	54	(6,013)	(18)	(7,337)
Other operating income	1,452	4	1,397	9	1,279	34	951
Other income	777	147	314	(26)	424	(4)	443
Operating Profit/(loss)	**(5,577)**	(125)	**22,451**	182	**7,950**	(29)	**11,264**
Financial Charges	(6,232)	356	(1,368)	18	(1,158)	30	(884)
Share of Profit of associates	452	54	294	(11)	330	(68)	1,039
Profit/(loss) before Taxation	**(11,357)**	-	**21,377**	200	**7,122**	(38)	**11,419**
Taxation	4,658	-	(7,324)	201	(2,432)	(38)	(3,894)
Profit /(Loss) after Taxation	**(6,699)**	-	**14,054**	200	**4,690**	(38)	**7,525**

(Source: Annual Audited Accounts)

Increase of 31% in Cost of Products Sold during the year 2008-09 was not in harmony with increase in Net Sales by 24%, which needed justification.

176.2 Post tax Loss of Rs 6.699 billion for the year 2008-09 was attributable to increase in Finance Cost by 356% and Inventory Loss (due to reduction in oil prices) by Rs 18.990 billion, in comparison with preceding year 2007-08. Since huge quantity of oil was imported to meet the demand, devaluation of rupee by 20% approx. during current period also contributed towards the loss.

176.3 The Company had shown modest increase of less than half percent in total sales volume and only 1.13% in market share. It needs to adopt aggressive strategy to enhance its market share and volume.

176.4 Market value of the Company's shares (year 2008-09: Rs.213.65 per share) fell by 48.79% due to significant losses. Earnings per Share (EPS) declined by 148% and posted a loss per share of Rs.39.05. This resulted in negative Price Earning (P/E) Ratio of 5.47% for the year 2008-09, registering a decline of 207.25% over preceding year 2007-08. These were not encouraging indicators to investors, hence required remedial measures.

176.5 Trade Debts at the end of the preceding year 2007-08 were Rs 33.90 billion, which rose to Rs 80.051 billion as on June 30, 2009. There was a net increase of Rs 46.61 billion, *i.e.,* 137.5% higher than previous year. Decline in debtor turnover (12.57 times) by 48.9% indicated that collection of credit sales declined by 95.7% as compared with preceding year 2007-08. Immediate steps need to be taken to control accumulation in receivables.

176.6 Decline in creditors' turnover (at 6.32 times) by 34.17% during the year 2008-09 indicated that efficiency of prompt payment for credit purchases declined by 51.9%. This may lead to penalties and / or late payment charges.

176.7 Net change in cash and cash equivalents reflected excess use of cash by Rs 4.319 billion in operation over cash generated from operations for the period. This resulted in cash deficit of Rs 11.510 billion at the end of the year 2008-09, registering 60.1% increase in deficit over preceding year 2007-08. Cash position of the Company slipped down in the year 2008-09 by 31.3% as reflected in "Absolute Cash Ratio" (0.022 times) that reflected limitation to meet short term commitments.

AUDIT PARAS

177. Untraceable fixed assets – Rs 325 million

Rule-151 of GFR provides that the head of an office or any other officer entrusted with stores of any kind should take special care for arranging their safe custody, keeping them in good and efficient condition and protecting them from loss, damage or deterioration. 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 balance and the payment to suppliers, etc.

In Pakistan State Oil (PSO), verification and reconciliation of fixed assets was carried out in the year 2008-09. The report indicated that out of total 42,001 fixed assets, 16,402 having book value of Rs 325 million could not be physically traced. This was also discussed in the 182nd meeting of the Board of Management (BoM) held on April 22, 2009. The BoM directed the management to examine the cases involving Rs.100,000 and above, fix responsibility for misplacement, theft or loss. However, in disregard of the directives, no action seemed to have been taken by the management till audit in November 2009.

The matter was taken up with the management and the Ministry in November 2009; however, no reply was received.

The case was discussed in the DAC meeting held on December 18, 2009. The management informed that they had carried out the exercise of physical verification for the first time. The extent of loss had been substantially reduced on second check, which had been reviewed and written off with the approval of BoM. DAC directed the management to fix the responsibility on the officials causing such loss. However, no progress was intimated by the management till the finalization of this report.

178. Irregular award of contract for installation of Retail Automation System – Rs 312 million

The Purchase Policy, June 2002 (Section-03, 2.1, 4.1 & 4.2) of Pakistan State Oil Company Limited (PSO) provides that indenting department shall originate Purchase Requisition for items over Rs.5000 and after obtaining financial approval according to the prescribed limit, shall forward it to Procurement Service Department. Open tender through press advertisement shall be made for procurement over Rs 10 million. The bidders will be required to deposit 5% of the bids as earnest money and the successful bidder to submit bank guarantee for 5% of the contract value in case of contracts exceeding Rs 5 million.

PSO awarded a contract for installation of Retail Automation System to a firm, M/s Zaqsoft in September 2003 at a cost of Rs 0.240 million per outlet. The purpose of Retail Automation System was to automate and control the point of sale terminal used for PSO Cards Transactions. Retail Automation System was installed at more than 1,300 Retail Outlets (petrol stations) across the country costing more than Rs 312 million.

From the report of Retail Automation System Investigation & Re-evaluation Committee, which was constituted by the management to investigate the matters of "Retail Automation Project" on July 7, 2009; it transpired that the contract was awarded to a firm in violation of procurement policy framed by the Organization as follows:

- No Purchase Requisition / Cost estimate was generated
- No tendering process was executed
- No vendor prequalification based on technical and financial strength was carried out
- No competitive bidding was held
- No formal technical evaluation of the offered system was carried out; and
- No commercial price negotiations were held as per rules

The report further stated that during tendering of a similar project in 2007 (i.e., after 4 years of agreement with the firm), unit price of pump controller system offered by the lowest bidder @ Rs 0.177 million was much lower than the existing pump controllers being installed by the firm.

It was also evident from the report that the performance of the firm was highly unsatisfactory indicating that the vendor did not possess the capacity to execute the project.

The whole scenario illustrated that the award of contract was not transparent and it was awarded on exorbitant rates; the interest of the Company was not safeguarded at the time of awarding the contract and the management failed to implement internal controls in their Organization in awarding the contract.

The irregularity was pointed out to the management and the Ministry in November 2009; however, no reply was received.

The matter was discussed in the DAC meeting held on December 18, 2009. The DAC being not satisfied with the clarification of the management observed that irregularity had occurred.

179. Expenditure on rent / maintenance of unutilized land – Rs 7.264 million

Rule-23 of GFR provides that every Government Officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part.

Pakistan State Oil (PSO) requested for allotment of land measuring 25 acres on 50 years lease for the purpose of construction of a bulk storage terminal for petroleum, chemical, petrochemical and LPG. The provisional allotment of land was made in 1997 in favour of PSO. However, despite lapse of more than 11 years, the management could not utilize the land for the purpose it was obtained and had paid Rs 7.264 million on account of land rent and maintenance charges.

Subsequently, PQA canceled the allotment of the plot on September 16, 2008 for failure on the part of PSO to raise construction. PSO filed a suit against PQA amounting to Rs 960 million in the Honorable Sindh High Court. Irrespective of the outcome of the litigation, the expenditure of Rs 7.264 million incurred by the management was a loss to the Organization due to non- utilization of land for 11 years since its acquisition in 1997, which indicated neglect in the management of assets.

The loss was pointed out to the management and the Ministry in November 2009; however, no reply was received.

The matter was discussed in the DAC meeting held on December 18, 2009. The DAC being not satisfied with the clarification of the management decided that the Para would stand.

180. Irregular expenditure on air travel – Rs 1.804 million

Government of Pakistan Finance Division (Regulation Wing) through a letter No.F.8 (2)-R. 10/2008-584 dated July 23, 2008 provides that Federal Ministers,

Ministers of State, Federal Secretaries and Additional Secretaries Incharge of Ministries / Divisions, all the Chairmen and Executives / Members of the Boards of Public Sector Organizations will also be entitled to travel in Economy Plus Class on PIA's domestic routes in order to ensure uniform adoption of austerity measures.

In Pakistan State Oil Company (PSO), the Executive Members, Board of Management (BoM) and Managing Director (MD) were allowed to travel in Business Class during the year 2008-09 in violation of government directives as detailed below:

S. No.	Designation	Total Traveling Expenses (Rs. in million)
1	BoM Members	1.062
2	Managing Director	0.742
	Total	**1.804**

Audit was of the view that the difference between the expenditure of Economy Plus and Business Class needed to be worked out by the management and recovered from the concerned officers.

The irregularity was pointed out to the management and the Ministry in November 2009; however, no reply was received.

The matter was discussed in the DAC meeting held on December 18, 2009. The management clarified that the GoP instructions were submitted to the BoM, which allowed travel in Business Class as the Company has been established under the Companies Ordinance, 1984. The DAC was not satisfied with the explanation by observing that BoM cannot override GoP policy.

SAINDAK METALS LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

181. Saindak Metals Limited incorporated as a private limited company was formed for exploration, mining and metallurgical processing of copper, gold and other minerals at Saindak in District Chaghi, Balochistan. The Company was originally incorporated as Resource Development Corporation (Private) Limited, but later on the Company was converted into public limited company on January 16, 1996.

The Company had leased out its main plant to M/s MCC Resource Development Pvt. Limited (MRDL) of China for a period of ten years under the terms of lease contract dated November 30, 2001. The Plant was handed over to MRDL on October 2, 2002.

181.1 The working results of the Company for the year 2008-09 as compared with those of the previous years are as under:

(Rs. in million)

	2008-09	**% Inc/ (Dec)**	**2007-08**	**% Inc/ (Dec)**	**2006-07**	**% Inc/ (Dec)**	**2005-06**
Income	1,285.46	(49.5)	2,546.58	52	1,675.15	259.8	465.528
Depreciation, administrative & other Expenses	(856.186)	(9.9)	(950.709)	(7.07)	(1,023.03)	(10.2)	(1,138.70)
Operating profit/(loss)	**429.276**	(73)	**1,595.87**	144.7	**652.121**	-	**(673.175)**
Financial charges	(0.016)	(100)	(50.821)	(126.6)	(191.396)	(57)	(445.124)
Voluntary separation Scheme	-	-	-	-	-	-	(0.675)
Other income	443.074	26.24	350.954	5.8	331.65	-	7.897
Prior year adjustment	-	-	-	-	-	-	(231.2)
Profit/(loss) before Taxation	**872.334**	(53.9)	**1896.00**	139.3	**792.375**	159.1	**(1,342.28)**
Income tax expenses	(11.459)	800	(1.273)	(84.8)	(8.376)	259.9	(2.328)
Profit for the year	**860.875**	(55)	**1,894.73**	141.7	**783.999**	-	-
Accumulated losses	(14,267.89)	(6)	(15,105.27)	11.1	(16,999.99)	(4.4)	(17,783.99)

Source: Annual Audited Accounts

During the year under review, income reduced by 49.5% mainly due to decline in share of profit from MRDL, from Rs 2,515.977 million in preceding year 2007-08 to Rs 1,247.809 million in 2008-09. The massive decline in the share of profit needs justification.

181.2 Provision of Rs 12 million was made against accrued mark-up from banks, which needed elaboration.

181.3 No movement was witnessed in Trade Debts amounting to Rs 660 million during the year 2008-09. The amount was receivable from MRDL against stores and spares. Efforts need to be made for early recovery of the debt.

181.4 Collector of Customs had raised a claim of Rs 23.8 million against the Company, whereas the Company had claimed a net refund of Rs 131.200 million from Collector of Customs. No provision was made in the books of account as it was reported in contingencies and commitments.

SUI SOUTHERN GAS COMPANY LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

182. Sui Southern Gas Company Limited (SSGCL) is a public limited company incorporated in Pakistan and is listed on the Karachi, Lahore and Islamabad Stock Exchanges. The main activity of the Company is transmission and distribution of natural gas in Sindh and Balochistan. The Company is also engaged in certain activities related to the gas business including the manufacturing and sale of gas meters and construction contracts for laying of pipelines.

182.1 The working results of the Company for the year 2008-09 as compared with the previous years are given as under:

(Rs. in million)

	2008-09	% Inc/(Dec)	2007-08	% Inc/(Dec)	2006-07	% Inc/(Dec)	2005-06
Net sales	108,151,087	44.9	74,625.569	8.0	69,084.403	4.2	66,303.588
Cost of Gas Sold	(102,388.858)	47.9	(69,238.236)	9.6	(63,157.107)	6.0	(59,594.477)
Gross profit	**5,762.229**	7.0	**5,387.333**	(9.1)	**5,927.296**	(11.7)	**6,709.111**
Transmission, distribution and selling cost, administrative and other operating expense	(10,855.493)	33.8	(8,114.643)	21.9	(6,655.741)	(1.4)	(6,749.199)
Other operating income	6,109.947	7.1	5,707.221	115.2	2,651.960	(15.8)	3,150.774
Operating profit / (loss) before finance cost	**1,016.683**	(65.9)	**2,979.911**	54.9	**1,923.515**	(38.2)	**3,110.686**
Other non operating income	3,809.808	115.0	1,772.395	48.9	1,190.456	100.0	-
Finance cost	(4,409.792)	86.0	(2,370.674)	33.3	(1,778.740)	27.9	(1,390.460)
Profit/(loss) before taxation	**416.699**	(82.5)	**2,381.632**	78.4	**1,335.231**	(22.4)	**1,720.226**
Taxation	(159.210)	(88.6)	(1,390.560)	33.1	(1,044.846)	26.1	(828.509)
Profit/(loss) after taxation	**257.489**	(74.0)	**991.072**	241.3	**290.385**	(67.4)	**891.717**

(Source: Annual Audited Accounts)

Net Sales of the Company increased by 44.9% during 2008-09, as compared with the previous year; Cost of Gas Sold increased by 47.9%, which was almost in line with the increase in Net Sales. Though Gross profit of the Company increased

by 7%, operating profit fell significantly by 65.9%. Main reasons attributed to this variance included:

i. Exchange loss on payment of gas purchases was Rs 2.003 billion in the year 2008-09, as compared with Rs 0.795 billion in the preceding year 2007-08, showing an increase of Rs 1.208 billion. This required adoption of remedial measures to avoid foreign currency fluctuation risk.

ii. Finance Cost increased by 86% from Rs 2.371 billion in the preceding year 2007-08 to Rs 4.410 billion during the year 2008-09, due to increase in long term financing from Banking Companies and Government of Sindh. These loans were obtained on higher rate of interests. The Debt Equity ratio indicated that SSGCL's reliance on debt was continuously increasing year by year. This was a sign of serious financial risk. Further, Trade Debts were Rs 32.568 billion as on June 30, 2009, which were Rs 20.045 billion at the end of the preceding year 2007-08. Considering critical cash position, efforts towards recovery of receivable need to be made to avoid dependence over costly borrowings.

182.2 SSGCL borne Liquidated Damages amounting to Rs 265.5 million. These expenses included claim for alternative fuel costs, interest on the amount of claim and cost of the arbitration. This needs to be justified.

182.3 Company's operating ratios deteriorated during the year 2008-09 due to increase in expenses. Return on Capital Employed was 0.9% in the year 2008-09, as compared with 3.9% in the preceding year 2007-08. Return on Equity was 2.7% in the year 2008-09, as compared with 9.6% in the preceding year 2007-08. Both ratios declined during the year 2008-09, which indicated lack of the Company's ability to generate revenue from its internal and external resources.

182.4 Net volume of difference of gas purchase and sales after adjusting internal consumption in the Company's operations is termed as Un-accounted for Gas (UFG). Among other disallowances made by OGRA, the excess UFG was added to Gas Development Surcharge by reducing the profit. Actual UFG for the year 2008-09 was 33,501 MMCF representing 7.9% against the target fixed by OGRA at 4.8%. In financial terms, this caused disallowances of Rs 2,818 million during the year 2008-09 as compared with Rs 762 million in the preceding year 2007-08. Such a high percentage of excess UFG over the standard fixed by OGRA, needs clarification.

182.5 **Liquidity Ratio**

i. "Current Ratio" represents the ability of a company to repay short-term commitments promptly. Ideal ratio is 2:1. High ratio indicates existence of idle current assets. SSGCL Current ratio was 1.03 in 2008-09, and 1.08 in the preceding year 2007-08. This meant that the Company's current assets were not substantial enough to cover its current liabilities. The situation may become worse and the Company may face liquidity crunch in the near future, which needed adequate strategy for improvement.

ii. "Absolute Cash Ratio" represents the ability to meet immediate liabilities. Ideal ratio is 1.33:1. Cash position of the Company slipped down from 0.13 in the preceding year 2007-08 to 0.02 in the year 2008-09. It reflected the Company's inability to meet short-term commitments. The Company needs to adopt adequate strategy to improve its cash position in order to meet immediate liabilities.

183. **Systemic Issue - delay in completion of procurement cycle**

Procurement cycle covers the period between requisition issued from the department and delivery of goods from the suppliers to whom the purchase order is issued. The steps involved in completion of procurement cycle are:

- Requisition from the Department
- Press Tender
- Bid Opening
- Technical Evaluation
- Financial Evaluation
- Approval for award of contract
- Issuance of Purchase Order
- Delivery of consignment by the supplier

Audit requested the management to provide Manual / SOP for the Purchases to see time schedule allowed for each of the above steps, but the same was not provided till the close of audit in September 2009. It was indicative that no formal time frame had been determined for the different steps of the procurement cycle. Whereas, other organizations had the same Manual / SOP even PPL & PSO working under the same administrative ministry had framed SOP for better internal controls. In the absence of relevant Manual /SOP, there were no checks to control the procurement cycle in SSGCL. An illustrative list of sample cases of procurement is given below:

Tender Enq. No	Requisition Date	Press Tender Date	Bid Opening Date	Technical Evaluation date	Purchase Order	Days consumed
LP/2209	15-11-07	05-12-07	25-02-08	08-04-08	08-08-08	264
LP/2915	27-08-08	12-09-08	10-10-08	15-10-08	27-11-08	93
LP/2492	14-05-08	18-06-08	31-06-08	23-10-08	12-06-09	390
LP/2779	25-07-08	11-08-08	27-08-08	09-09-08	24-10-08	90
LP/3400	12-01-09	01-02-09	19-02-09	11-03-09	01-04-09	80
LP/2385	10-04-08	20-04-08	08-05-08	14-07-08	08-08-08	150
LP/2491	14-05-08	18-05-08	31-07-08	09-10-08	11-11-08	174
LP/3150	27-10-08	09-01-08	27-11-08	05-01-09	02-03-09	125
LP/2591	09-04-08	04-05-08	07-07-08	10-08-08	06-01-09	166

The above position depicted that the management took abnormally long time, *i.e.,* up to 390 days in completion of procurement cycle (excluding delivery period). This adverse state of affairs required remedial measures.

The matter was taken up with the management in September 2009 and reported to the administrative Ministry in November 2009, but no reply was received.

The issue was discussed in the DAC meeting held on December 18, 2009. The DAC directed the management to remove the bottlenecks to improve the procurement system.

184. Systemic Issue - irregular adoption of single envelope procedure – Rs 593.775 million

Rule-37(a) of Public Procurement Rules 2004 provides that single stage two envelope bidding procedure shall be used where the bids are to be evaluated on technical and financial ground and price is taken into account after technical evaluation. Rule-36 (B) provides that in such case of procurement, the bid shall comprise a single package containing two separate envelopes. Each envelope shall contain separately the financial proposal and the technical proposal. The envelope marked “Technical Proposal” shall be opened first and the other marked “Financial Proposal” shall be retained without being opened. After completion of technical evaluation, the financial proposal of only successful bidders shall be opened.

Contrary to the above, Sui Southern Gas Company Limited (SSGCL) adopted single envelope system for award of contracts involving technical evaluation. A scrutiny of 50 sample cases of procurement contracts worth Rs 593.775 million for the year 2008-09 revealed that despite technical evaluation carried out by the management the tenders were based on single envelope. The violation of the rules raised apprehension about biased technical evaluation in the presence of disclosed financial bids, making the process of procurement non-transparent.

The irregularity was pointed out to the management in September 2009 and reported to the Ministry in November 2009, but no reply was received.

The matter was discussed in the DAC meeting held on December 18, 2009. The DAC directed the management to adopt two envelopes procedure across the board in all tenders where technical evaluation is involved and the procurement is of complex nature.

AUDIT PARAS

185. Non-recovery against Take or Pay (ToP) claim – Rs 1.177 billion

An agreement dated April 10, 1995 was executed between Sui Southern Gas Company Limited (SSGCL) and Jamshoro Power Company Ltd. (JPCL), formerly WAPDA, for supply of gas. As per article II (1) of the agreement, JPCL agreed to buy and accept a quantity of not less than 62 MMCF of quality natural gas per day at its Jamshoro Power Station. In case the consumer failed to accept minimum quantity of 53 MMCF of quality natural gas per day the agreement obligated JPCL to pay for such quantity at the rate specified by the agreement.

During the period from April 2000 to November 2005, SSGCL raised claims amounting to Rs 1.177 billion on account of short take of gas, which remained non-recovered from JPCL till audit in September 2009. No effective steps seemed to have been taken by the management for recovery, as no meeting had been held since March 2007 in this respect. The huge accumulation of account receivable had caused serious financial crunch due to which the management had to avail loans from the banks at high interest rates.

The non-recovery was pointed out to the management in September 2009 and reported to the Ministry in November 2009, but no reply was received.

The matter was discussed in the DAC meeting held on December 18, 2009. The management informed that they were pursuing JPCL for recovery of claimed amount. However, same company had also certain claims against SSGCL (see Para for Rs 381.374 million below). The DAC directed the management to resolve the outstanding issue under intimation to Audit. However, no progress was intimated by the management till the finalization of this report.

186. **Loss due to short supply of gas – Rs 381.374 million**

An agreement dated April 10, 1995 was executed between Sui Southern Gas Company Limited (SSGCL) and Jamshoro Power Company Ltd. (JPCL), formerly WAPDA, for supply of gas. As per article II (2) of the agreement, if the Seller (SSGCL) fails to supply to the Consumer (JPCL) a minimum quantity of 53 MMCF of Quality Natural Gas per day then the Seller shall pay to the Consumer with respect to the short fall at the rate specified in the Agreement.

JPCL lodged a claim against SSGCL amounting to Rs 590.852 million for short supply of gas for the period 2004 and 2005. After instructions from Privatization Commission, a meeting between the parties was held in June 2006. The following position emerged after the meeting:

(Rs. in million)

Total Claim by JPCL		590.852
Claim accepted by SSGCL	381.374	
Claim not accepted by SSGCL	121.555	
Claim under further scrutiny	87.923	
Total		**590.852**

As a result of the meeting, the claim of JPCL to the extent of Rs 38 million was accepted, which was a loss to the Organization due to short supply / non-maintenance of gas pressure. However, the management despite lapse of three years had been unable to resolve the issue.

The matter was reported to the management in September 2009 and referred to the Ministry in November 2009; however, no reply was received.

The issue was discussed in the DAC meeting held on December 18, 2009. The claim of JPCL was co-related with the claim of SSGCL; therefore, DAC's directives were same as in case of Para for Rs 1.177 billion above.

187. **Non-recovery of outstanding dues from defaulting consumers – Rs 1.393 billion**

Rule-38(1) of GFR provides that it is primarily the responsibility of the departmental authorities to see that all revenue or other debts due to government, which have to be brought to account, are correctly and promptly assessed, realized and credited to Public Account.

Moreover, it is policy of Sui Southern Gas Company Limited (SSGCL) to disconnect gas supply to consumers when age of debt is greater than 180 days or outstanding amount is greater than Gas Supply Deposit (GSD).

SSGCL was supplying gas to certain customers against whom Rs 1.393 billion were outstanding for a period ranging from 3 to 36 months as on June 30, 2009.

The details were as follows:

(Rs. in million)

	Amount
Commercial Defaulters	75.763
Chronic Defaulters	1,260.000
Industrial Defaulters	57.799
Total	**1,393.562**

Despite a lapse of more than 90 days, supply of gas to the defaulting customers had not been disconnected and recovery of dues was not made.

The non-recovery was pointed out to the management in September 2009 and reported to the Ministry in November 2009, but no reply was received.

The matter was discussed in the DAC meeting held on December 18, 2009. The management informed that industrial and commercial consumers were adequately covered by Gas Supply Deposit (GSD); however, in case of domestic consumers

they were facing problem in recovery. The DAC directed the management to supply details about industrial and commercial consumers and also directed to pursue the recoveries. However, no progress was reported till the finalization of this report.

188. **Outstanding recovery of mark-up from WAPDA – Rs 589.920 million**

Article VI, Clause 8 of the agreement dated April 10, 1995 between Sui Southern Gas Company Limited (SSGCL) and WAPDA provides that if payment of bills issued by the Company is not made within the specified due date, mark-up at the Bank rate plus 3% shall be paid on all arrears and past due payments.

In SSGCL, an amount of Rs 6.133 billion was outstanding against WAPDA on account of gas bills as detailed below:

(Rs. in million)

	Total gas bill receivable	**Interest receivable**	**Total**
Jamshoro	3,679.628	406.612	4,086.240
Kotri	1,567.128	183.308	1,750.436
Sukkur	0.222	----	0.222
Quetta	296.367	----	296.367
Total	**5,543.345**	**589.920**	**6,133.265**

Strenuous efforts were required to recover the amount from WAPDA without further delay.

The matter was reported to the management in September 2009 and referred to the Ministry in November 2009, but no reply was received.

The matter was discussed in the DAC meeting held on December 18, 2009. The management informed that principal amount of Rs 5.543 billion had been recovered. The remaining amount of Rs 589.920 million representing interest was outstanding, which was being persued for recovery. The DAC directed the management to persue recovery under intimation to Audit. However, no progress was reported by the management till the finalization of this report.

189. **Defective gas sale agreement with a Power Company and non-invoking of *Force Majeure* clause – Rs 357 million**

According to Article 1.23 of Gas Sale Agreement (GSA) dated March 31, 1996 between Sui Southern Gas Company Ltd. (SSGCL) and Habibullah Coastal Power Company (HCPC) Pvt. Ltd. SSGCL agreed to supply gas to HCPC for 20 years at the minimum quantity of 21 MMCF of gas product on daily basis for 365 days a year, plus the additional allocation of gas, subject to availability of 4MMCF/day. Article 13.2 of GSA provides that if by reason of event(s) of *Force Majeure*, a party is wholly or partially unable to carry out its obligations under the agreement, the affected party shall give the other party prompt notice of the event(s) of *Force Majeure.* Furthermore, Article 10.2(c) provides that SSGCL must indemnify HCPC against WAPDA claim for short supply of electricity and will also bear the cost of alternative fuel, if the supply of gas is less than the agreed supply.

SSGCL was under obligation to supply at least 21 MMCF gas to HCPC for 365 days a year. The Company did not fulfill its obligation and made short supplies of gas during the period 2001 to 2005. However, at no stage did the SSGCL issue notice to HCPC for event of *Force Majeure*, as provided in the agreement. HCPC lodged a claim on January 24, 2007 against SSGCL in International Chamber of Commerce (ICC), International Court of Arbitration in respect of alternative fuel cost consumed by HCPC due to short supplied gas. The Company defended its case on the grounds that the short supplies were due to event of *Force Majeure.* The case was, however, decided in HCPC favour and a decree of Rs 266 million was awarded against SSGCL. In addition to this loss, the management also incurred an expenditure of Rs.91 million on legal charges and international traveling in connection with the litigation.

Audit was of the view that while the agreement was totally lopsided in favor of HCPC, the management also showed utter negligence in protecting the interest of the Organization during execution of the contract. The condition requiring un-interrupted supply of gas for 365 days was extremely difficult to fulfill. Normal supply of gas in extreme cold weather, particularly in Balochistan, was a tall order due to load shedding of gas and freezing element in pipelines. The Organization's predicament was compounded by the management's failure to issue notices for event of *Force Majeure*. Resultantly, the Organization had to bear a loss of Rs 357 million.

It is worth mentioning that as a remedial measure, in later agreements for gas supply, condition for short supplies for a period of 30 days to a maximum of 90 consecutive days during a year, had been incorporated by the management. However, this preventive measure was not adopted earlier and the Organization had to suffer the loss due to deficient agreement.

The matter was taken up with the management in September 2009 and referred to the Ministry in December 2009; however, no reply was received.

The case was discussed in the DAC meeting held on December 18, 2009. The DAC directed the management to submit the reply (being awaited) in a week's time. The management in its reply dated January 19, 2010 stated that the GSA was finalized 13 years ago. Then, it was not possible for SSGCL to visualize and anticipate rapid depletion of gas reserves within a decade, leading to gas load shedding. Moreover, the Company complied with Article-13.2 of the GSA and issued *Force Majeure* notices a number of times during the concerned period.

The reply was not tenable, as GSA was to be remained effective for a long period of 20 years. Therefore, due diligence required careful consideration of all possible scenarios before finalizing the terms of the agreement. As far as *Force Majeure* notices were concerned, no documentary evidence was produced to Audit to ascertain that the same were issued on timely basis.

190. **Provision of difficult condition in tendering – Rs 4.376 million**

Rule-32 of Public Procurement Rules, 2004 provides that no procuring agency shall introduce any condition, which discriminates between bidders or that is considered to be met with difficulty. In ascertaining the discriminatory or difficult nature of any condition reference shall be made to the ordinary practices of that trade, manufacturing, construction business or service to which that particular procurement is related.

Sui Southern Gas Company Limited (SSGCL) purchased aluminum die cast body of G-4 Gas Meters (upper / lower casing) costing Rs 20.261 million from a firm, M/s Ali Machine Tool Company in August 2008, which was the highest bidder.

Following four (4) pre-qualified bidders had submitted their bids in response to advertisement dated April 20, 2008:

(Amount in Rupees)

Description	Quantity	Price per unit			
		M/s Ali Machine Tool Company	M/s PMTF	M/s Pak Precise Engineering	M/s Sigma Industries
Components for G-4 meters case lower (un-machined and unpainted)	40,000	203.01	235.33	207.05	192.00
Components for G-4 meters case upper (un-machined and unpainted)	40,000	306.03	269.67	230.28	208.00
Grand Total		**509.40**	**505.00**	**437.33**	**400.00**

After opening of the bids, the management through a letter dated May 12, 2008 requested the bidders for submission of samples by May 31, 2008 to enable evaluation of the bids. M/s Sigma Industries, the lowest bidder protested through a letter dated May 28, 2008 by stating that preparation of sample would take at least 3 months and would cost over Rs 4 million. They added that the condition was surprising in the wake of experience of SSGCL staff for supply of those parts for over 25 years. Surprisingly, M/s Ali Machine Tool Company submitted the sample on very next day, *i.e.*, May 13, 2008, which indicated that the supplier had prior knowledge of specification/drawing of the sample.

On the other hand, the SSGCL was also aware of that difficulty of the supplier as a note dated August 15, 2008 from Meter Plant Wing of the Organization justifying their action, indicated that the new dies were being developed in above case of tendering and three out of four suppliers had refused to develop the dies until a guaranteed order was placed. It was added in the note that the guaranteed order was not possible; however, they had given 70 to 75 days to bidder to submit the sample but due to heavy investment required to make dies, the response was poor. However, no such period for providing sample was actually given to the bidders as per referred letter dated May 12, 2008. Thus, by extending undue advantage to the highest bidder; the Company had to bear extra expenditure of Rs 4.376 million which was a loss to the Organization.

The irregularity was pointed out to the management in September 2009 and reported to the Ministry in November 2009, but no reply was received.

The matter was discussed in the DAC meeting held on December 18, 2009. The DAC recommended the Para to be placed before PAC.

SUI NORTHERN GAS PIPELINES LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

191. Sui Northern Gas Pipelines Limited (SNGPL) was incorporated as a private limited company in 1963 and converted into a public limited company in January 1964 under the Companies Act 1913, (now Companies Ordinance 1984) and is listed on all the three Stock Exchanges of the country.

SNGPL is the largest integrated gas company serving more than 3.417 million consumers in Northern and Central Pakistan through an extensive network in Punjab and NWFP. The Company has over 46 years of experience in operation and maintenance of high pressure gas transmission and distribution systems. It has also extended its activities to undertake the planning, designing and construction of pipelines, both for itself and other organizations.

191.1 Sector-wise break up of gas sales (volume) is as under:

Sector	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04
General industries	22%	19%	22%	34%	24%	25%
Power	18%	27%	25%	32%	39%	38%
Commercial and domestic	29%	24%	26%	23%	25%	26%
Captive power	11%	11%	10%	-	-	-
CNG	11%	10%	7%	-	-	-
Fertilizer	8%	7%	8%	9%	8%	10%
Cement	1%	2%	2%	2%	1%	1%
Total	100%	100%	100%	100%	100%	100%

The sector-wise distribution of gas indicated that ratio of gas sales in general industries decreased from 34% in 2005-06 to 22% in 2008-09 due to which there was a shutdown in industrial units which affected national economy and created un-employment at large scale. The negative impact was increased due to less sales of gas to power sector which was 27% in 2007-08 and decreased to 18% in 2008-09.

191.2 SNGPL is entitled to a 17.5% return on its average net operating assets (excluding assets financed through government grants and customers contributions). The Regulator reduced the total return of 17.5% to 3.74%, due to

increased Unaccounted for Gas (UFG) to 8.05% against the bench mark of 5.15% allowed by OGRA. The UFG without Gas Sold but not Billed (GSNB) for year 2004-05 was 12.11%, whereas the limit prescribed by OGRA was 6%. The UFG in the years 2005-06, 2006-07, 2007-08 and 2008-09 was 9.37%, 11.40%, 11.24% and 11.00% respectively against the targets of 5.85%, 5.70%, 5.55% and 5.15% which caused a net loss of Rs.3.041 billion in 2004-05, Rs.2.814 billion in 2005-06, Rs.4.741 billion in 2006-07, Rs.5.699 billion in 2007-08 and Rs.8.164 billion in 2008-09 as worked out here under:-

Year	**Actual % of UFG**	**Actual loss MMCF**	**Prescribed % of UFG by OGRA**	**Allowable loss as per prescribed limit**	**Loss due to excessive UFG**	**Avg. rate at cost price per MCF** (Rs)	**Total loss** (Rs. In million
	%	MMCF	%	MMCF	MMCF		
2004-05	12.11	38,829	6	19,238	19,591	155.24	3,041.307
2005-06	9.37	40,441	5.85	25,249	15,192	185.22	2,813.862
2006-07	11.40	48,571	5.70	24,286	24,285	195.22	4,740.918
2007-08	11.24	52,736	5.55	25,293	27,443	207.65	5,698.539
2008-09	11.00	52,960	5.15	24,695	28,265	288.83	8,163.780
		233,537		**118,761**	**114,776**		**24,458.406**

Further probe into the matter revealed that there was an abnormal increase in UFG in some areas, but management had failed to pay special attention to the concerned areas. The abnormal increase in UFG loss in category domestic and commercial consumers was over and above the prescribed target at different distribution areas during the year under reference especially in Bahawalpur, Gujranwala, Multan, Peshawar, Lahore and Islamabad.

191.3 The working results of the Company for the year 2008-09 as compared to the previous years are tabulated below:

(Rs in million)

	2008-09	**% Inc/ (Dec)**	**2007-08**	**% Inc/ (Dec)**	**2006-07**
Gas sales quantity (MMCF)	584,895	(2)	597,913	4	576,658
Gas sales value	160,714.737	30	123,404.537	1	122,091.652
Add. Differential Margin / (Less gas development surcharge)	8,219.094	995	750.496	(92)	(9,514.600)
Net sales	168,933.831	36	124,155.033	10	112,577.052
Rental services income and deferred credit etc.	3,286.956	36	2,409.968	15	2,092.735
Total income	172,220.787	36	126,565.001	10	114,669.787
Cost of gas sold	151,337.339	39	109,107.461	10	99,168.250

Operating cost	13,829.952	49	9,302.737	26	7,421.617
Depreciation	5,880.082	22	4,831.315	5	4,583.427
Total expenses	169,837.365	39	123,241.513	13	111,173.294
Operating profit	1,173.414	(50)	3,323.488	36	3,496.493
Other operating income	1,210.008	(16)	1,446.568	(22)	1,855.118
Financial and other charges	653.182	(17)	789.247	103	1,102.039
Profit before taxation	1,730.240	(57)	3,980.809	(6)	4,249.572
Taxation	799.704	(46)	1,484.541	(6)	1,571.307
Profit after taxation	930.536	(63)	2,496.268	(7)	2,678.343

Source: Annual Audited Accounts

The Company earned a profit of Rs 1,730.240 million before tax in 2008-09, as compared to Rs 3,980.809 million in 2007-08. The decrease in profit was mainly due to increase in cost of gas sold by 39% and operating cost by 49% during the year 2008-09 as compared to previous year. The cost of gas purchased from southern system increased from Rs.87.511 billion in 2007-08 to Rs.112.696 billion in 2008-09 which indicated upward trend in cost of goods sold by 29% as compared to previous year. The cost equalization adjustment also increased by 114% as compared to previous year.

191.4 Earnings per share (EPS) decreased from Rs 4.55 per share in 2007-08 to Rs 1.69 during the year under review. The decrease in EPS was due to increase in operating cost and due to abnormal increase in Unaccounted for Gas (UFG) which could not be controlled by the SNGPL. There was a difference of Rs.4.601 billion (Rs 2.711 billion in 2007-08) between gas purchased and sale OGRA applied a cut of Rs 2.775 billion in 2008-09 against Rs 0.624 billion in 2007-08 due to failure to control the UFG up to prescribed target of 5.15%. SNGPL should investigate the reasons of non-control of UFG losses.

191.5 Gas Development Surcharge (GDS) of the Company increased from Rs 2.046 billion in 2005-06 to Rs 9.515 billion in 2006-07 and converted into differential margin of Rs.0.750 billion in 2007-08 and to Rs.8.219 billion in 2008-09. Under the provisions of World Bank loan 3352-PAK the Company was required to earn a return on operating fixed assets at least 17.5%. Any surplus or deficit on account of GDS was recoverable or payable to the Government of Pakistan as differential margin or GDS.

191.6 The return on average operating fixed assets was constantly decreasing due to increase in cost differential adjustments for gas cost equalization. Under this policy the Company with a higher weighted average cost of gas would raise a demand to the other company of the amount necessary to equalize the cost of gas for both the companies (SNGPL and SSGCL).The cost differential increased from Rs 5.346 billion in 2006-07 to Rs 13.217 billion in 2007-08 and further increased to Rs.28.321 billion in 2008-09 showing a net increase by 429.76% as compared to 2006-07.

191.7 The current ratio of the Company decreased from 1.19 in 2007-08 to 0.80 in 2008-09, the drastic decrease in current ratio needs to be explained.

191.8 The age-wise analysis of the debtors indicated that the debtors increased to Rs 25.706 billion as on June 30, 2009 from Rs 18.757 billion as on June 30, 2008. Thus there was an increase of 37.05% in debtors as compared to previous year which showed that Company had failed to recover its dues within due dates hence the Company should re-consider the existing policies / rules to safeguard from default amount.

191.9 The trade payable increased from Rs 27.416 billion in 2007-08 to Rs 49.786 billion in 2008-09 which indicated an increase of 81%. The working capital management of the company is questionable. As at June 30, 2009 the company had a cash and bank balance of Rs 1.317 billion. The DAC in its meeting held on June 11, 2009 had already directed the Company to transfer funds amounting to Rs 7.138 billion to assignment account against unutilized cash of KPP schemes. Detailed analysis of working capital revealed that the Company had not devised a strategy to repay the amount unutilized against KPP schemes. The Company had not disclosed in its financial statements as on June 30, 2009 a commitment of 7.138 billion in respect of above mentioned KPP schemes which was required under part-II clause-10 (iii) of fourth schedule of Companies Ordinance 1984.

191.10 SNGPL did not have a formal internal IT audit function to review the IT activities and to ensure that controls exist and were effective. The SNGPL had not established information security function independent from IT department. Consequently system administrators themselves were responsible for the security of their systems. The segregation of duties in the information systems area and

separate incompatible duties of systems administrator and security administrator is stressed upon.

AUDIT PARA

192. Non-filing of recovery suits against disconnected consumers within three years – Rs 35.913 million

Clause 14.30 (b) of the sales manual stipulates, that claim through legal recourses becomes time barred after three years. Clause 19.3 of billing manual states that period of limitation of three years starts from the date of first default.

Sui Northern Gas Pipelines Limited (SNGPL), Peshawar Area could not file recovery suits against six industrial and 58 commercial consumers for Rs 15.676 million pertaining to the period from July, 1996 to June, 2001. Billing Department timely forwarded those cases to Sales Department, but due to non-availability of relevant record, the recovery suits could not be filed within the stipulated time. Similarly 368 cases of domestic consumers involving a default of Rs 20.237 million pertaining to the period from January, 2005 to June, 2005 were time barred, and no recovery suit was filed. An enquiry into the matter was also conducted by the Senior Sales Officer, but no action was taken against the concerned staff.

The matter was reported to the management on August 21, 2008 and the Ministry on July 6, 2009. The management in its reply dated November 19, 2009 intimated that concerned billing and sales officers were served with a warning and advisory notes. The reply was not convincing as management had taken a lenient action and no step was taken to recover the loss in question.

The DAC in its meeting held on December 31, 2009 directed the Company to place the matter before the Board of Directors for consideration and decision be communicated to Audit. Further the Company was directed to take measures to improve its internal control system. No progress was received till finalization of this report.

OIL AND GAS DEVELOPMENT COMPANY LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

193. Oil and Gas Development Company Limited (OGDCL) was established in 1961 as a public sector Corporation which was converted into a public limited joint stock company on October 23, 1997. In October 2003, Government of Pakistan (GoP) divested 4.98% of its shareholding in the Company through an Initial Public Offering (IPO). OGDCL is listed on all the three stock exchanges of Pakistan. In December, 2006, Government of Pakistan further divested 9.5% of the total shares of the Company through Secondary Offering in the form of Global Depository Shares (GDSs) to international institutional investors. GDSs are listed on London Stock Exchange. Therefore, OGDCL has become the first Pakistan Exploration and Production (E & P) Company listed on London Stock Exchange. In addition, Government of Pakistan also divested 0.50% of the total shares to the general public in February, 2007. Accordingly, Government of Pakistan owns 85.02% of the shares of the Company as on June 30, 2009.

Exploration and Development:

Company's portfolio consisted of 44 exploration licenses. OGDCL was operating in 35 exploration blocks (22 blocks with 100% share and 13 blocks as operated Joint Ventures including 4 offshore blocks covering an area of 68,310.92 sq.km. In 2008-09 Company spudded 30 new wells against target of 32 wells including 14 exploratory appraisal and 16 development wells. The Company's share in the Oil and Gas production of the country was 59% and 23% respectively.

193.1 The product wise sale of the Company during the year 2008-09 as compared to the previous years was as under:

Name of Product	Unit	2008-09	% Inc/(Dec)	2007-08	% Inc/(Dec)	2006-07
Crude Oil	Barrel	14,438,000	(3.98)	15,037,000	7.95	13,929,860
Gas	Mmcf	364,038	3.29	352,454	4.45	337,430
Liquefied petroleum gas (LPG)	M.ton	79,145	(36.93)	125,482	(10.04)	139,480
White petroleum products	Barrel	148,000	(72.94)	547,000	(38.89)	895,147
Sulphur	M.ton	24,673	(15.11)	29,065	74.69	16,638

The above comparison showed decrease in sale of crude oil, LPG, white petroleum products and sulphur by 3.98%, 36.93%, 72.94% and 15.11% respectively while there was an increase in sale of gas by 3.29% during 2008-09 as compared to the year 2007-08.

193.2 The financial results of the Company for the year 2008-09 as compared to the previous years are tabulated below:

(Rs in million)

	2008-09	% Inc/(Dec)	2007-08	% Inc/(Dec)	2006-07
Sales	**130,829.579**	**4**	**125,908.304**	**26**	**100,261.1 91**
Royalty	15,155.667	(12)	17,320.187	59	10,877.443
Operating expenses	22,673.893	16	19,613.345	06	18,497.388
Transportation charges	1,522.489	3	1,472.615	35	1,087.931
Gross Profit	**91,477.530**	**5**	**87,502.157**	**25**	**69,798.249**
Exploration and Prospecting expenditure	7,459.560	13	6,612.836	(11)	7,406.280
General and Admn. Expenses	1,332.982	7	1,248.640	(03)	1,285.476
Finance cost	926.027	73	536.799	19	449.561
WPPF	4,259.364	(3)	4,387.411	37	3,213.617
Share of profit in associate-net of taxation	57.503	29	44.680	-	-
Provision for impairment loss	-	-	319.283	-	-
Operating profit	**77,557.100**	**4**	**74,441.868**	**30**	**57,443.315**
Other income	3,370.823	(13)	3,865.536	7	3,615.231
Net Profit before tax	**80,927.923**	**3**	**78,307.404**	**28**	**61,058.546**
Provision for tax	25,388.282	(25)	33,969.293	120	15,428.762
Net profit after tax	55,539.641	25	44,338.111	(03)	45,629.698
Earnings per share (Rs)	**12.91**	**25**	**10.31**	**(03)**	**10.61**

Source : Annual Audited Accounts

The financial performance of the Company was satisfactory which may be maintained in future.

193.3 Trade debts increased by 38% to Rs 56.140 billion as on June 30, 2009 as against Rs 40.705 billion of the previous year while overall sales had increased by 4% only. The credit policy of the Company needs to be reviewed to secure the interest of the Company.

193.4 Stores and spares increased from Rs 13.178 billion as on June 30, 2007 to Rs 16.615 billion as on June 30, 2008 and Rs 17.464 billion as on June 30, 2009. Provision for slow moving and obsolete stores increased from Rs 871.030 million in 2007-08 to Rs 1,122.898 million in 2008-09 which needs justification.

AUDIT PARAS

194. Non-transparent procurement of store valuing Rs 674.427 million involving excess payment – Rs 78.195 million

In terms of Para 4.1 of OGDCL Foreign Procurement Procedure (Manual), the procurement should be made according to the prescribed International Tendering Procedure and equipment will be press tendered inviting sealed bids which will be opened by Tender Opening Committee. For emergent requirement a gallop international tender should be floated giving maxim 10-15 days time for submission of bids. As per Para 4.2, limited international bidding is to be adopted in case of certain items which are to be purchased only from selected and reputable manufacturers. In terms of Para 42 (c) of the Public Procurement Rules, 2004, a procuring agency shall only engage in direct contracting if only one manufacturer or supplier exists for the required procurement.

OGDCL did not adopt the prescribed international tendering procedure and procured 1,200 Membrane Elements (MEs) for US$ 4,068,000 @ US$ 3,390 per ME from M/s. UOP N.V. Noorderlaan Antwerp, Belgium vide purchase order dated September 11, 2006. For another quantity of 1,200 MEs, international bidding process was adopted during November, 2007. Three bids were received, M/s. W.R. Grace & Co., USA quoted the lowest rate of US$ 3,185 per ME and the management issued letter of intent (LOI) dated September 20, 2009, but it did not place order on M/s. W.R. Grace & Co. even after a lapse of 22 months. Meanwhile OGDCL procured additional 1,200 MEs from M/s. UOP for US $ 4,578,504 @ US $ 3,815.42 per ME vide purchase order dated September 1, 2008. This resulted in non-transparent purchase of 2,400 MEs for Rs 674.427 million (US $4,068,000 + 4,578,504 = 8,646,504 x Rs 78) involving excess payment of Rs 78.195 million as worked out below:

Date of purchase order	Quantity of MEs purchased	Rate (US $)	Lowest rate Ignored (US $)	Loss (US $)
11.09.2006	1200	3,390.00	3,185.00	246,000
01.09.2008	1200	3,815.42	3,185.00	756,504
			Total:	**1,002,504**
			Amount @ Rs 78 per $	**Rs 78,195,312**

The matter was reported to the management on November 20, 2009 and the Ministry on November 24, 2009. In reply dated December 24, 2009, the

management stated that the Membrane Element was of proprietary item and there was the only one supplier i.e. M/s. UOP, Belgium and for its procurement the requirement press advertised in November, 2007. Three firms participated and after technical / financial evaluation of bids and testing of the samples, the order was placed on the lowest bidder i.e. M/s. W.R. Grace & Co. @ US$ 3,185 per element in September, 2009. In the meantime M/s. UOP took over M/s. W.R. Grace & Co. and procurement of MEs was made @ US $ 3,815.42 per ME.

The reply was not convincing as M/s. UOP was not the only supplier of membrane elements as in response to the press advertisement, three firms participated; out of which the lowest rate of US $ 3,185 of M/s. W.R. Grace & Co. was approved but kept on hold and meanwhile procurement was made @ US $ 3,815.42 i.e. at higher rate by 19.8%. The Company i.e. M/s. W.R. Grace & Co. was taken over by M/s. UOP N.V. Noorderlaan Antwerp, Belgium during September, 2009 while the lowest bid of M/s. W.R. Grace & Co. was received during November, 2007.

The DAC in its meeting held on December 31, 2009 directed the management to produce the record for audit verification. During verification the facts stated by audit were found correct.

195. **Loss identified in stock verification of assets – Rs 164.210 million**

As per Clause 9 of OGDCL store procedure of January, 1986 all Heads of Departments/Deputy Chief Admin Officers, Operation Managers and Party Chiefs are required to send annual stock taking returns of assets held on June 30 of each year on proper performa and implement the procedure.

Physical verification of assets of Oil and Gas Development Company Limited, was carried out through Syed Hussain Zafar Naveed and Company Chartered Accountants, who submitted their report in August, 2008. According to their report, assets worth Rs 164.210 million were not physically available at certain locations. Thus the Company had to sustain a loss of Rs 164.210 million due to non recovery of the shortage.

The loss was reported to the management on October 15, 2009 and the Ministry on November 11, 2009. The management in its reply dated December 24, 2009 stated that the assets worth Rs 164.210 million having book value of Rs 1.881 million

were untraceable and written off with the approval of the Board of Directors. The reply was not convincing as it involved a huge number of missing items and required a prior inquiry before writing off the book value.

The DAC in its meeting held on December 31, 2009 directed the management to hold full-fledge inquiry and appropriate action be taken against the defaulters within one month. No progress was received till finalization of this report.

196. **Irregular payment of legal fee - Rs 25.209 million**

In terms of Ministry of Law, Justice and Human Rights letter dated January 1, 2005, the Corporations, Autonomous/Semi autonomous Bodies/ Authorities and Government controlled organizations may continue their present arrangements in assigning to their counsel cases pending adjudication before various Courts of Law or where appeals are to be filed in the Appellate Courts within the limitation period. However, where the fee exceeds Rs 100,000, approval of the Ministry should be sought before the payment.

Contrary to the above, the management of Oil and Gas Development Company Limited appointed legal advisors for different court cases on exorbitant fee without approval of the Ministry of Law and Justice. An amount of Rs 4.805 million and Rs 20.404 million was paid as legal fee during 2007-08 and 2008-09 respectively. The relevant record was not produced on demand. This resulted in an irregular payment of Rs 25.209 million (Rs 4.805 million + Rs 20.404 million).

The irregularity was reported to the management on October 28, 2009 and the Ministry on November 11, 2009. The management in its reply dated December 24, 2009 stated that under Article 67 (1) of Article of Association of OGDCL and section 196 of Companies Ordinance 1984 the Board of Directors is empowered to exercise all powers available to them under the law.

The DAC meeting was held on December 31, 2009. The Company intimated the operational difficulties faced by them in view of the aforementioned instructions from the Ministry of Law and Justice which did not seem workable in view of day to day operations. The DAC directed the management that the matter be placed before the Committee consisting of representatives from Finance, Audit and

Ministry of Law and Justice regarding powers under the Companies Ordinance 1984. No progress was received till finalization of this report.

197. **Loss due to theft of vehicles and other assets - Rs 8.103 million**

As per Clause 2 of OGDCL Store Procedure notified vide dated September 27, 1990 store and assets lost due to theft, dacoit, riot etc. the management is required to hold a departmental enquiry and lodge an FIR.

Assets of OGDCL worth Rs 8.103 million were stolen from various locations of the Company during 2000 to 2006. It was observed that neither proper enquiry of the theft cases was finalized nor efforts for recovery of assets were initiated. The Company thus sustained a loss of Rs 8.103 million.

The loss was reported to the management on September 19, 2009 and the Ministry on November 24, 2009. The management in its reply dated December 24, 2009 stated that FIRs were lodged for all the cases in due time and at their respective police stations and were being pursued.

The DAC meeting was held on December 31, 2009. The DAC directed the management to hold an internal inquiry and fix the responsibility on the defaulters and report the outcome to Audit within two months. No progress was received till finalization of this report.

198. **Non- imposition of liquidated damages - Rs 3.748 million**

In terms of clause 47.1 of the tender documents and other conditions of contract if the contractor fails to complete the work within stipulated period, liquidated damages @ 0.2% for each day of delay in completion of the works subject to maximum of 10% of the contract price shall be recovered from him.

OGDCL awarded a contract agreement dated July 5, 2005 to M/s. Aziz Builders for construction of Officer's Camp at Chanda Field for Rs 37.484 million. As per work order dated August 24, 2005, the work was required to be completed within 12 calendar months effective from the date of taking over possession of the site. Maximum time allowed for mobilization and taking over possession of the site

was 14 days from the date of issue of work order. Thus the entire work was to be completed upto July 19, 2006. The performance of the contractor remained poor. Despite repeated extensions, the contractor failed to complete the work. The period of contract was extended up to September 30, 2008 and December 31, 2008 in two phases. 43% work was lying incomplete upto 10th running bill (Rs 21.358 million÷Rs 37.484 million x 100). The management was required to impose liquidated damages amounting to Rs 3.748 million (10% of the total cost of Rs 37.484 million) but no action was initiated.

The matter was reported to the management on November 17, 2009 and the Ministry on November 24, 2009. The management in its reply dated December 24, 2009 stated that the Company had submitted the performance bond for encashment which adequately covered the liquidated damages as referred by the Audit.

The DAC meeting was held on December 31, 2009. The DAC was informed that the necessary formalities to invoke the guarantee had been taken. The Committee was not satisfied with the progress of the management and directed to initiate action and submit report. No progress was received till finalization of this report.

199. **Loss due to payment of demurrage charges – Rs 2.827 million**

In terms of para 10 of the terms and conditions of L.C, if clean documents are not negotiated within negotiated period of the L.C. or documents are withheld by bank on account of any discrepancy, the demurrage charges, if any incurred and paid by OGDCL will be realized from the beneficiary directly by raising debit advice or by deducting the amount paid from the L.C. value or by en-cashing performance bond to the extent of demurrage amount. The demurrage paid by OGDCL due to transshipment as well as due to inconsistency in bill of lading and manifest will be recovered from beneficiary.

OGDCL paid a sum of Rs 3.746 million on account of demurrage charges to Karachi Port Trust against different contracts during 2007-08. The demurrage charges amounting to Rs 3.746 million were required to be recovered from the contractors concerned, but no such action was initiated. The OGDCL sustained a loss of Rs 3.746 million.

The matter was reported to the management on April 2, 2009. In reply dated April 22, 2009 the management stated that a sum of Rs 0.864 million had been recovered and Rs 0.055 million regularized by the standing demurrage committee, while cases for recovery of balance amount of Rs 2.827 million were under process.

The DAC meeting was held on December 31, 2009. It was intimated by the Company that Rs 0.953 million had been recovered and balance would be recovered in due course of time. The DAC directed the management to recover the balance amount and get it verified from Audit. No progress was received till finalization of this report.

200. **Appointment without prescribed qualification/experience – Rs 1.800 million**

As per advertisement published in Newspapers on April 19 2009, the General Manager (Projects) to be appointed in OGDCL should had at least 20 years experience in oil and gas field projects and minimum 10 years of experience at senior management position. The prescribed qualification for the post of G.M. (Projects) was Masters in Petroleum / Mechanical/ Electrical Engineering.

OGDCL appointed a General Manager (Projects) at monthly salary of Rs 400,000 on contract for a period of three years vide letter dated July 15, 2009. He joined the OGDCL on August 27, 2009. His curriculum vitae (CV) and other documents revealed that the officer possessed Bachelor degree in petroleum instead of Master degree in petroleum. The officer did not possess the requisite experience in the field of Oil and Gas Field Projects as prescribed in press advertisement. This resulted in an irregular payment of Rs 1.800 million on account of salary for four and a half months due to irregular appointment.

The matter was reported to the management on November 17, 2009 and the Ministry on November 24, 2009. Management in its reply dated December 24, 2009 stated that the concerned officer was appointed due to his diversified experience from which the Company could benefit effectively. The reply was not convincing as the appointment criteria was not followed.

The DAC meeting was held on December 31, 2009. The management intimated that although the officer applied for a higher post, he was, however adjusted against the lower post keeping in view his qualification and experience. The DAC directed that the matter be verified with reference to the departmental contention.

201. **Non-recovery from Executive Director (Security) - Rs 1.141 million**

The Board of Directors of OGDCL, in its 99th meeting held on November 27, 2008 created a post of Executive Director, Security (equivalent to BPS-21) vide Board secretariat letter dated December 29, 2008. As per LPC issued by the AGPR on March 5, 2009 in respect of ex-Joint Director General (BPS-21) office of the National Security Advisor, a sum of Rs 1.141 million was recoverable from him on account of overpayment of TA/DA advance, unauthorized purchases/ transfer grants and pay advance. He joined Oil and Gas Development Company Limited, on deputation vide Notification dated December 16, 2008 as Executive Director (Security). His salary was fixed Rs 125,035 but no recovery was made from the officer concerned.

The matter was reported to the management on October 22, 2009 and the Ministry on November 11, 2009. The management in its reply dated December 24, 2009 stated that the unsettled amount pertained to the period when the officer was on deputation to Ministry of Foreign Affairs and efforts were being made to resolve the matter as the officer was objecting the amount reflected in his LPC.

The DAC in its meeting held on December 31, 2009, directed the management to recover the outstanding amount from the salary of the officer. No progress was received till finalization of this report.

PAKISTAN MINERAL DEVELOPMENT CORPORATION (PVT) LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

202. Pakistan Mineral Development Corporation (Pvt) Limited was incorporated on June 17, 1974 as a private limited company wholly owned by the Government of Pakistan. The Company is engaged in the business of mining, exploration, development and exploitation of mineral deposits e.g salt, coal and silica sand. The salt and coal projects were taken over by the Corporation from PIDC in 1974. The Corporation holds 50% shares of Lakhra Coal Development Company Limited for which equity funds of Rs 25 million were provided by the Government.

The main objective of the Company is to extract coal and salt from the mines obtained on lease from the Provincial Government. The product is subsequently sold in the market. Main buyers of the PMDC products are dealers and industries. Following are the main units of the Corporation:

Salt Projects: Salt Mines Khewra, Warcha, Kalabagh and Salt Quarries Jatta Bahudar Khel.

Coal Projects: Lakhra, Sharigh, Degari and Sor Rang Collieries.

Other Mineral Projects: Silica Sand and Duddar Zinc Lead Project.

202.1 The working results of the Corporation for the year 2008-09 as compared to the previous years are as under :

(Rs in million)

	2008-09	% Inc/(Dec)	2007-08	% Inc/(Dec)	2006-07
Sales	1,134.513	(2.02)	1,157.855	25.25	938.820
Cost of sales	904.126	8.58	832.668	21.66	684.403
Gross Profit	230.387	(29.15)	325.187	27.82	254.417
Admin expenses	114.540	37.71	83.173	5.85	78.574
Selling expenses	48.380	(6.21)	51.582	(2.61)	52.967
Total operating exp.	162.920	20.90	134.755	2.44	131.541
Operating Profit	67.467	(64.57)	190.432	54.98	122.876
Other income	79.690	55.37	51.292	306.18	12.628
Workers Profit Participation fund	(7.358)	(39.12)	(12.086)	78.39	(6.775)
Net Profit before taxation	139.799	(39.12)	229.638	78.39	128.729
Provision for taxation	(46.228)	(163.01)	(73.369)	74.23	(42.110)
Net Profit after taxation	93.571	(40.12)	156.269	80.41	86.619

Allocation for depletion reserve	17.626	(47.71)	33.707	70.09	19.817
Dividend paid	30.000	50.00	20.000	(20.00)	25.000
Transfer to general reserve	40.000	(60.00)	100.000	400.00	20.000
Un appropriated profit	5.945	132.05	2.562	(88.25)	21.80
Accumulated Profit / (loss) B/F	77.723	3.41	75.161	40.86	53.359
Accumulated profit / (loss) C/F	83.668	7.65	77.723	3.41	75.161

Source : Annual Audited Accounts

Sales of the Corporation decreased to Rs 1,134.513 million in 2008-09 from Rs 1,157.855 million in 2007-08 registering decrease by 2%. The cost of sales increased by 9% in 2008-09 resultantly gross profit decreased to Rs 230.387 million against Rs 325.187 million in the previous year. Efforts need to be made to improve the sales and decrease cost of sales.

202.2 The working results of the projects of the Corporation for the year 2008-09 as compared to the previous years are as under :

(Rs in million)

Projects	**Gross profit**		
	2008-09	**2007-08**	**2006-07**
Khewra	14.887	39.307	23.548
Warcha	127.520	119.625	111.326
Jatta / B. Khel	1.583	1.542	1.138
Kalabagh	5.979	6.726	7.107
Total Salt Mines	149.969	167.200	143. 119
Degari	1.725	(3.270)	(7.406)
Sor Range	77.117	128.670	57.153
Sharigh	20.755	19.546	21.181
Lakhrah	(19.210)	12.945	40.113
Total Coal Mines	80.387	157.891	111.237
Silica Sand	0.031	0.096	0.077
Total Projects	230.387	325.187	254.237

Lakhrah coal project sustained a loss of Rs 19.210 million in the year 2008-09 against the gross profit of Rs 12.945 million in the year 2007-08. This abnormal decrease in gross profit of the project needs justification.

LAKHRA COAL DEVELOPMENT COMPANY LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

203. Lakhra Coal Development Company Limited (LCDCL), Karachi was incorporated on February 6, 1990 as an unlisted public company. The principal activity and object of the company is to develop and operate coal mines and limestone quarry in Pakistan. The Company is an associate / Joint Venture of PMDC, WAPDA and Government of Sindh, with the Company holding 50% by PMDC and 25% shares each by WAPDA and Government of Sindh respectively.

203.1 The working results of the Company for the year 2008-09 as compared to the previous years are as under :

(Rs in million)

	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07
Sales	254.932	(14.93)	299.701	23.37	242.930
Cost of sales	222.411	(12.50)	254.160	22.62	207.281
Gross profit	32.521	(28.26)	45.541	27.75	35.648
Administrative expenses	28.428	47.10	19.325	27.95	15.104
Operating profit	12.632	(87.61)	33.027	28.00	20.545
Other income	8.539	25.37	6.811	(28.10)	9.474
Financial charges	0.104	(81.75)	0.570	578.57	0.084
	12.528	**(61.40)**	**32.457**	**8.42**	**29.935**
Workers profit participation fund	0.626	(61.43)	1.623	8.41	1.497
Profit before taxation	11.902	(61.40)	30.834	8.42	28.438
Taxation	0.989	(91.74)	11.973	62.87	7.351
Profit after taxation	10.913	(42.14)	18.861	(10.56)	21.088
Un-appropriated profit brought forward	24.315	(52.68)	51.388	11.45	46.106
Un-appropriated balance	-	-	-	-	46.106
Profit available for appropriation	35.227	(49.85)	70.250	4.54	67.194
Appropriations: depletion reserve	2.627	(55.73)	5.935	2.23	5,805
Dividend paid at Rs 2 (2008: Rs 2) per share	10.00	(75)	40.00	300.00	10.00
	12.627	**(72.51)**	**45.935**	**190.63**	**15.805**
Un-appropriated profit carried forward	22.600	(7.05)	24.315	(52.68)	51.388
Basic and diluted earnings per share (Rs)	2.18	(42.17)	3.77	(10.66)	4.22

Source : Annual Audited Accounts

Administrative expenses increased by 47% which mainly resulted in decrease in operating profit to Rs 12.632 million during the year 2008-09 against

Rs 33.027 million in 2007-08. The management may take necessary steps to cut down increasing trend of administrative expenses.

203.2 Trade debts increased to Rs 23.704 million as on June 30, 2009 as against Rs 17.663 million as on June 30, 2008. The recovery of trade debts needs to be monitored to improve the financial position of the Company.

AUDIT PARA

204. Irregular retention of officer beyond the age of superannuation - Rs 1.255 million

In pursuance of Cabinet Secretariat letter No. F.No.2/10/2007-E-1 dated December 4, 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 etc under administrative control of the Government, requires approval of the Prime Minister. All cases of re-employment are subject to the following conditions/criteria:

i. Non-availability of suitable qualified or experienced officer to replace the retiring officer.
ii. The officer is a highly competent person with distinction in his profession/field.
iii. The re-employment does not cause a promotion blockage and
iv. Retention of retiring officer for a specified period is in the public interest.

A Manager (Admn) on deputation from PMDC in Lakhra Coal Development Company Limited (LCDCL), Karachi retired on December 31, 2002 on superannuation. The LCDCL Board in its meeting held on September 18, 2002 allowed him to continue the services for a period of one year on contract basis vide LCDCL letter dated December 31, 2002. The officer concerned however served in LCDCL from January 1, 2003 to July 19, 2007 and an amount of Rs 1.255 million was paid to him on account of fixed pay and bonus. The management retained the officer without the approval of the Prime Minister hence the payment made during the period was considered irregular.

The irregularity was reported to the management on April 11, 2008 and the Ministry on September 1, 2009. The management in its replies dated May 10,

2008 and November 11, 2009 stated that Board of Directors approved the appointment hence no further approval was required. Reply was not tenable because the Board was not competent authority in this regard.

The DAC in its meeting held on December 31, 2009 directed the management to get the matter clarified from the Establishment Division. No progress was received till finalization of this report.

GOVERNMENT HOLDINGS (PVT) LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

205. Government Holdings (Pvt.) Limited, was incorporated as a private limited company on January 15, 2000 under the Companies Ordinance, 1984. The Company is fully owned by the Government of Pakistan and all the members of the Board of Directors are nominated by the Government of Pakistan.

The main objects of the Company are:

i. To acquire shares of the companies or interest of Government of Pakistan in the existing and new oil and gas joint ventures and to hold and enjoy all interests, rights, contracts and privileges vested in or connected with the title of such shares.
ii. To take over, acquire, renew, utilize and hold any exploration, prospecting, development and production concessions and to establish and operate oil and gas wells and other undertakings for the extraction of oil and gas.

The Company has more than 50 joint ventures with different national and multinational companies of oil and gas sector in different parts of Pakistan. The Company is playing non-operative role in these joint ventures.

205.1 The operational results of the Company for the year 2008-09 as compared to the previous years are as under:

(Rs in million)

	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07
Net Sales	29,177.027	26	23,192.297	39	16,639.273
Operating expenses	2,260.497	59	1,421.651	0.09	1,420.326
Depreciation	520.218	(30)	744.935	19	626.335
Royalty	3,394.399	26	2,690.792	42	1,901.300
Amortization of exploration and Development	585.704	(19)	721.084	60	450.768
	6,760.819	**21**	**5,578.462**	**27**	**4,398.729**
Gross Profit	**22,416.209**	**27**	**17,613.835**	**44**	**12,240.544**
General and Admn. Expenses	68.076	30	52.207	63	32.039
Operating Profit	**22,348.133**	**27**	**17,561.628**	**44**	**12,208.505**
Other income	640.327	(39)	1,050.381	49	703.510
Profit before taxation	22,988.459	24	18,612.009	44	12,912.015
Taxation	8,523.827	14	7,446.366	80	4,146.099
Net Profit after taxation	**14,464.633**	**30**	**11,165.643**	**27**	**8,765.916**

Source : Annual Audited Accounts

Sales of the Company increased by 26% (2009: Rs 29,177.027 million, 2008: Rs 23,192.297 million), whereas the cost of sales increased in less proportion i.e. by 21% (2009: Rs 6,760.819 million, 2008: Rs 5,578.762 million). This resulted in increase in gross profit by 27% (2009: Rs 22,416.209 million, 2008: Rs 17,613.835 million). As there was a consistent increase in sales as well as gross profit, so the operational performance of the Company was satisfactory. Although the Cost of Sales increased in less proportion than the Sales, however, the operating expenses increased by 59% (2009: Rs 2,260.497 million, 2008: Rs 1,421.651 million), which was greater than increase in Sales (26%). The detail of operating expenses was not provided in the notes to the accounts, so the reasons of abnormal increase may be intimated to Audit alongwith the detailed annexure of the individual expenses.

205.2 Amortization of exploration assets decreased by 19% (2009: Rs 585.704 million, 2008: Rs 721.084 million), whereas the exploration and development assets (producing fields) increased by 31% (2009: Rs 8,793.615 million, 2008: Rs 6,693.424 million). The reasons for decrease in amortization expenses need to be stated.

205.3 Trade debts increased by 100% (2009:Rs. 15,371.346 million, 2008: Rs 7,675.126 million), whereas Sales were increased by 26%. This resulted in adverse debtors' turnover ratio (2009: 1.90 times, 2008: 3.02 times). The management is stressed for recovery of debtors.

AUDIT PARAS

206. Unauthorized payment of pay and allowances – Rs 2.630 million

Government Holdings (Pvt) Limited appointed a CFO/Director Finance in MP-II Scale w.e.f October 16, 2006 on contract for two years upto October 15, 2008 vide Ministry of Petroleum and Natural Resources letter dated September 19, 2006. The officer requested on July 9, 2008 for renewal of his contract for further three years, which was not finalized till August 2009 i.e. the date of audit.

Contrary to the above, Managing Director (GHPL) made unauthorized payment of Rs 2.630 million on account of pay and allowances for period from October 2008 to August 2009 without the renewal of contract.

The matter was reported to the management on August 4, 2009 and the Ministry on October 10, 2009. In replies dated September 7, 2009 and November 2, 2009, the management stated that the case for renewal of contract had been sent by the Ministry of Petroleum and Natural Resources to the Prime Minister Secretariat and final approval was awaited. The reply was not convincing as approval for renewal of contract was required before expiry of the contract.

The DAC meeting was held on December 31, 2009. The management explained the reasons for retention of the officer; however, Committee observed that proper procedure was not adopted and directed the management to get it regularized from the competent authority. No progress was received till finalization of this report.

207. **Irregular payment of leave encashment - Rs 1.189 million**

Ministry of Finance (Regulation Wing) vide OM dated April 21, 2008 clarified that officers serving in management position scales (MP-I, II and III) were not entitled for encashment of unspent leave. The clarification was conveyed by the Ministry of Petroleum and Natural Resources to the Managing Director, GHPL vide letter dated April 23, 2008.

Managing Director and Director Finance, (CFO) of Government Holdings (Private) Limited (GHPL) were working in MP-I and MP-II scales respectively. According to the instructions of Finance Division they were not entitled to avail leave encashment facility, but the officers had drawn an amount of Rs 1.189 million as leave encashment in December 2008.

The matter was reported to the management on August 4, 2009 and the Ministry on October 10, 2009. In replies dated September 7, 2009 and November 2, 2009, the management stated that leave encashment was given to the employees as per GHPL Service Rules duly approved by the BOD. The reply was not tenable as the Ministry of Finance had given clarification that officers in management position (MP-I, II and III) were not entitled for encashment of unspent leave.

The DAC in its meeting held on December 31, 2009, directed the management to regularize the leave encashment from Finance Division within 15 days. No progress was received till finalization of this report.

208. **Irregular payment of additional charge allowance beyond six months – Rs 1.156 million**

As per F.R 49 the work of vacant post should as far as possible be distributed among more than one Government Servants of the same status and designation in the Division/Department. The Government Servant entrusted with full additional charge of the vacant post, if this additional charge lasts for more than one month, be granted special pay with the prior approval of the Secretary for the actual period but not more than six months. Immediately on the expiry of six months of the full additional charge, the particular post shall be treated as abolished and its duties automatically becoming a part of the normal duties of other existing posts of the same category in the Division/Department concerned.

Government Holdings (Private) Limited paid additional charge allowance @ 20% of pay to three officers after assigning duties of other posts from 2006 to 2008. A sum of Rs 1.156 million was paid to them up to August, 2009. Contrary to the above rules, the payment of the additional charge allowance after one month was allowed by the Managing Director, GHPL without approval of the Secretary and the payment beyond six months was also not covered.

The matter was reported to the management on August 4, 2009 and the Ministry on October 10, 2009. In replies dated September 7, 2009 and November 6, 2009 it was stated that referred fundamental rules were applicable in Government Department and dual charge allowance given by the Company to the officers was in accordance with GHPL Service Rules. Reply was not satisfactory as it was not mentioned in the Service Rules of the Company that Managing Director, GHPL was empowered to allow additional charge for un-limited period with 20% additional charge allowance. Such temporary arrangement was required to be discontinued within short period after filling of the posts.

The DAC in its meeting held on December 31, 2009, directed the management to regularize the additional charge allowance from the Establishment Division. No progress was received till finalization of this report.

PLANNING AND DEVELOPMENT DIVISION

( )

NATIONAL LOGISTIC CELL

209. 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 toll collection, construction and other engineering related activities. It is an attached department of Planning and Development Division.

Annual Audited Accounts of the Cell for the years 2007-08 and 2008-09 were not furnished by November 30, 2009.

AUDIT PARAS

210. Unauthorized award of contracts – Rs 1.177 billion

According to delegation of financial powers of NLC, following powers have been delegated to the respective authorities for sanction of contracts:

Sr.#	Authority	Power for sanction of contract
1.	NLB	Rs 100 million
2.	OIC, NLC	Rs 100 million
3.	DG, NLC	Rs 30 million
4.	COO	Rs 20 million

Chief Operating Officer (COO) of National Logistic Cell (NLC), Freight Services, Karachi was competent to award Hire Motor Transport (HMT) contract up to Rs 20 million whereas he awarded 22 HMT contracts having value above Rs 20 million each during the year 2007-08. This resulted in unauthorized payment of Rs 1.177 billion due to award of contracts beyond delegated power.

The matter was reported to the management and the Ministry on April 2, 2009. The management in its reply dated May 2, 2009 stated that all such contracts were being processed for obtaining *ex-post facto* approval and Audit would be informed accordingly.

The issue was discussed in the DAC meeting held on November 25, 2009. The Committee was not satisfied with the explanation of the management and directed them to fix responsibility. No progress was furnished till finalization of this report.

211. **Loss due to damage of vehicles/goods – Rs 153.397 million**

As per clause 166(3) of National Insurance Company (Re-organization) Ordinance 2000, all insurance business relating to any public property or to risk or liability appertaining to any public property shall be placed with NIC only and shall not be placed with any other insurer.

Contrary to the above, National Logistic Cell (NLC), Freight Service, Karachi did not insure its vehicles and goods from National Insurance Company (NIC). During the disturbance of 27-28 December 2007, after the sad demise of Mohtarma Benazir Bhutto, vehicles and goods valuing Rs 153.397 million were damaged/ burnt and no compensation could be recovered. This resulted in loss of Rs 153.397 million due to damage of vehicles and goods.

The matter was discussed in the DAC meeting held on July 22, 2009. The management informed the Committee that the matter was under active consideration with the government for recovery of losses. The DAC directed the management to make efforts for early recovery of losses. No progress was intimated till finalization of this report.

212. **Investment in violation of policy – Rs 115.972 million**

NLC Board of Directors approved the investment policy of NLC in its 37th meeting held on September 8, 2003 that investment may not be made in stock and carry over transactions. Furthermore, the Prime Minister of Pakistan being Chairman of NLC issued further instructions in their 38th meeting held on January 7, 2005 that the public sector companies should not trade in stock. He further directed that a strategy should be worked out in NLC in consultation with Secretary Finance to disinvest from the stock market.

National Logistic Cell (NLC) invested Rs 115.972 million by acquiring 26,563,689 shares of Japan Power Generation Limited (JPGL) during the year 2006. The shares were acquired through a consortium comprising four companies. The holding of NLC in the consortium was 36.42% which was 17.02% of total stock of JPGL. The company was in loss at the time of investment and sustained a

net loss of Rs 268.577 million during the year 2005-06. The Financial Analyst of NLC stated that JPGL had not earned profit since its inception. The company had recorded a net loss of Rs 206.473 million for the quarter ended September 30, 2008. NLC could not earn even a single rupee from its investment till December 2008. NLC availed loan facility of Rs 2,604.096 million from different banks during the year 2005-06. In the presence of a huge loan liability, the investment of Rs 115.972 million in a company which was near to default was not justified and against the investment policy.

The matter was reported to the management on April 2, 2009 and the Ministry on October 7, 2009. In its replies dated May 2, 2009 and November 6, 2009, the management stated that JPGL had not earned profit since its inception. NLC made investment in JPGL with the view of short term stabilization, long term recovery and re-profile the debt.

The DAC in its meeting held on November 25, 2009 directed the management to submit report as per PAC directive in case of Para 214 for the year 2005-06 and fix the responsibility for the loss sustained by NLC. No progress was intimated till finalization of this report.

213. **Irregular employment of consultants - Rs 14.851 million**

According to para-17 (b) of NLC, SOP for Employees Service Rules, advisors or consultants over 60 years of age can be engaged and will be treated as re-employment for which explicit orders of Prime Minister would be obtained prior to re-employment.

National Logistic Cell (NLC) hired the services of seven army officers/ consultants during the period from October 2006 to February 2008 beyond the age of 60 years at different posts on contract basis for a period of two years. The consultants were engaged without prior approval of the Prime Minister. This resulted in irregular payment of Rs 14.851 million on account of pay and allowances up to February 28, 2008.

The irregularity was reported to the management on April 2, 2009. In its reply dated May 2, 2009 the management stated that in order to achieve the targets, the organization was compelled to engage the superannuated employees having

capabilities and characteristics. The reply was not acceptable because the management violated the rules/procedure.

The matter was reported to the Ministry on October 7, 2009. The management in its reply dated November 6, 2009 stated that the officers had been laid off and case for *ex-post facto* approval had been referred to the Planning and Development Division.

The DAC in its meeting held on November 25, 2009 directed the management to get *ex-post facto* approval from the competent authority. No progress was received till finalization of this report.

PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

214. The Institute was established on June 4, 1957 as "Institute of Development Economics". It was renamed as "Pakistan Institute of Development Economics" on May 1, 1964. The administrative control of the Institute was transferred to the Planning and Development Division for proper functioning and improving its academic performance.

The affairs of the Institute are governed by its Board of Governors. The sources of finance of the Institute are government grants, gifts, endowments, self generation sales, royalties of the publications and receipts for professional services.

214.1 The working results of the Institute for the year 2008-09 as compared to the previous years are as under :

(Rs in million)

	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07
Income	144.239	5	137.379	60	85.861
Expenditure	143.304	24	115.427	43	80.736
Excess of income / (deficit) over expenditure	0.935	(96)	21.952	328	5.125

Source: Annual Audited Accounts.

Income of the Institute increased by 5% while expenditure increased by 24% which decreased the excess of income to Rs 0.935 million in 2008-09 from Rs 21.952 million during 2007-08. It indicated increase in expenditure disproportionate to the increase in income. This tendency may be checked to improve the financial health of the Institute.

214.2 Income from "Training Course Fee" reduced from Rs 1.522 million (2007-08) to Rs 1.238 million (2008-09) registering a decrease of 19%. This showed that the management had not given due attention towards achieving one of its main objective of arranging more Training Courses.

214.3 The grants received during 2007-08 included an amount of Rs 19.248 million on account of "Reconstruction of PIDE" Project. The schedule of expenditure against this grant was not provided to Audit to assess the effective and correct utilization of grants.

MINISTRY OF PORTS AND SHIPPING

GAWADAR FISH HARBOUR

AUDIT PARA

215. Continuation of service of an officer after superannuation – Rs 1.772 million

Government of Pakistan, Establishment Division through an O.M. No.3/16/99-CP-6 dated May 26, 1999 circulated directives that no officer is allowed to continue in office after superannuation unless prior approval of the competent authority is obtained in advance. In case of unauthorized over-stayal, the financial liability for such an irregularity shall rest upon the head of the department and the officer concerned himself.

In Gawadar Fish Harbour (GFH), a BS-18 officer had reached the age of superannuation on May 25, 2005; however, he was allowed to continue in office by four years till June 30, 2009 without any prior approval of the Prime Minister (the competent authority). The officer had drawn Rs 1.772 million on account of pay and allowances during the period of over-stayal after superannuation.

The continuation of service of the employee was irregular and the recovery action needed to be taken in pursuance of the directives. However, no action was taken by the management till audit in November 2009.

The irregularity was pointed to the management and Ministry in November 2009.

The matter was discussed in the DAC meeting held on December 19, 2009. The management informed that they were making efforts to regularize the case with post-facto approval. The DAC expressed displeasure over the continuation of employment after superannuation and directed the management to obtain post-facto approval. However, no progress was intimated by the management till the finalization of this report.

PAKISTAN NATIONAL SHIPPING CORPORATION

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

216. Pakistan National Shipping Corporation (PNSC), its subsidiary companies and an associate (together "the Group") were incorporated under the provisions of the Pakistan National Shipping Ordinance, 1979 and Companies Ordinance, 1984 respectively. The Group is principally engaged in the business of shipping, including charter of vessels, transportation of cargo and other services - including technical services to 3rd parties and renting out its properties to tenants under lease agreement.

The Group owns 55% of the share capital of Pakistan Co-operative Ship Stores and 100% of the remaining eighteen subsidiary companies. All fully owned subsidiaries of the Group operate one vessel / tanker each except seven subsidiaries, which currently do not own any vessel / tanker.

216.1 The working results of the Corporation for the year 2008-09 as compared with those of the previous years are given below:

(Rs in million)

	Unit	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07	% Inc/ (Dec)	2005-06
Cargo ships	No.	11	-	14	-	16	-	15
Voyages Completed (including Charter vessels)	No.	637	(4.8)	669	(0.3)	671	2.9	652
Cargo carried by Owned and Chartered Vessels	M/ Ton	8.683	(8.1)	9.451	5.5	8.960	(4.8)	9.409
Operating Revenue								
Freight (Net)	Rs. (m)	6,005.781	1.5	5,915.303	(9.8)	6,554.591	6.7	6,145.271
Chartering Revenue	"	5,390.341	13.2	4,761.142	97.0	2,416.960	44.8	1,668.918
Rental Income	"	78.277	1.5	77.083	(34.4)	117.573	6.5	110.425
Total	"	**11,474.349**	**6.7**	**10,753.528**	**18.3**	**9,089.124**	**14.7**	**7,924.614**
Operating Expenses								
Fleet Expenses- Direct and Indirect	"	(8,411.781)	15.6	(7,277.061)	4.8	(6,495.702)	11.0	(6,255.047)
Admin and General Expenses	"	(519.807)	16.8	(445.027)	(4.9)	(468.030)	21.5	(385.297)
Total	"	**(8,931.588)**	**15.7**	**(7,722.088)**	**4.2**	**(7,413.734)**	**11.6**	**(6,640.344)**
Operating Profit/ (Loss)	"	**2,542.761**	**(16.1)**	**3,031.440**	**80.9**	**1,675.390**	**30.5**	**1,284.270**
Other Income	"	825.417	1.3	814.973	(13.6)	943.526	184.6	331.499

Share of net loss in Associate	"	-	-	-	-	-	-	(4.992)
Other Expenses including Finance Cost	"	(373.267)	3.9	(359.252)	62.7	(220.862)	20.5	(183.225)
Profit/ (Loss) before Taxation	"	**2,994.911**	**(14.1)**	**3,487.161**	**45.4**	**2,848.056**	**68.0**	**1,427.552**
Profit/ (Loss) after Taxation	"	**2,312.822**	**(5.6)**	**2,448.880**	**4.8**	**2,336.873**	**83.3**	**1,274.597**

(Source: Annual Audited Accounts)

During the year 2008-09, cargo handling was reduced by 8% as a result of reduction in voyages by 5% and reduction in number of vessels from 14 to 11. Reasons for reduction in number of vessels and voyages need to be elaborated. PNSC was handling a fleet of old age vessels, which needed to be replaced by new ones. This would help PNSC to be less dependent on chartered vessels, causing heavy out flow of Foreign Exchange.

216.2 Increase of 15.6% in Direct Fleet Expenses during the year 2008-09 as compared with preceding year 2007-08, was mainly because of depreciation charged at vessel's fleet. Remaining expenses showed no major fluctuation despite reduced operating activity, which needs justification.

216.3 During the year 2008-09, PNSC got various categories of its assets revalued, recognizing total revaluation deficit of Rs 5,974 million (revaluation resulted: Lease Hold Land having deficit of Rs 37 million, Building on Lease Hold Land other than PNSC H.O. Building, at deficit of Rs 7 million, Vessels Fleet at deficit of Rs 5,921 million and Beach Hut recognizing a deficit of Rs 9 million). This huge deficit especially in case of Vessels Fleet needed elaboration.

216.4 All current liquidity ratios (Current Ratio at 5.29 times; Quick Ratio at 5.03 times and Absolute Cash at 4.27 times) showed an abnormal security of liabilities against available assets during the year 2008-09. Therefore, the management needs to execute efficient plans for utilization of its liquid assets, which stood at abnormally high side.

AUDIT PARA

217. **Loss due to lack of due diligence in concluding Charter Party agreements - US$ 3.337 million (Rs246.938 million)**

According to Clause-4 of Time Charter agreements dated August 19, 2009 dated September 03, 2009 between Pakistan National Shipping Corporation (PNSC), "the Owners" and Seafront Marine S.A., "the Charterers", for charter of the vessels, "Chitral" and "Islamabad"; the latter were required to pay for the use and hire of the said vessel at the rate of US$14,500 per day prorata including overtime. Furthermore, first hire plus bunker on board value was to be paid within five banking days after delivery.

Moreover, Clause-5 provided that payment of the said hire should be made in New York in cash in United States Currency every 15 days in advance, and for the last 15 days or part of the same approximate amount of hire, and should same not cover the actual time, hire is to be paid for the balance day by day, as it becomes due, if so required by Owners, otherwise failing the punctual and regular payment of hire, or bank guarantee or deposit, or any breach of this Charter Party, the Owners shall be at liberty to withdraw the vessel from the service of the Charterers.

PNSC chartered out M.V. Chitral and Islamabad to M/s Seafront Marine for "three months ± one month (90 days minimum period of contract)" and "five months plus one month (150 days minimum period of contract)" respectively. The vessels were delivered to the Charterers on August 24, 2008 and September 06, 2008 respectively. Contrary to the provision in standard form of Charter Party agreement, the condition of bank guarantee from the Charterers was struck off from the agreement. The first invoice in both cases amounting to US$ 0.213 million each was paid by the Charterers in time. However, the Charterers defaulted in paying subsequent invoices i.e., US$ 0.808 million and US$ 0.418 million respectively. The management, upon advice of its solicitors, withdrew the vessel 'Chitral' in November 2008 and 'Islamabad' in October 2008.

PNSC lodged following claims against the Charterers in August 2009 on the grounds of breach of conditions of contract as well as repudiation of the contract as a whole:

i.	M.V. Chitral	US$ 1.233 million
ii.	M.V. Islamabad	US$ 2.104 million
	Total	**US$ 3.337 million**

It is worth mentioning that the whereabouts of the Charterers became unknown after the default in payments. The main difficulty, PNSC faced in recovering the dues, was due to non-provision of the clause for security of their claims against Charterers through a bank guarantee, a fact also pointed out by the solicitors. Audit was of the view that the management did not exercise due diligence before entering into both agreements. Thus, the Organization was deprived of her dues of sizeable amount to the extent of US$ 3.337 million (equal to Rs246.938 million @ US$ 1.00=Rs74) as the chances of recovery were remote.

PORT QASIM AUTHORITY

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2003

218. 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.

The management of PQA failed to provide their annual audited accounts for the year 2003-04 to 2008-09 by November 30, 2009.

218.1 The working results of the Authority for the year 2002-03 as compared with those of the previous years are given below:

(Rs. in million)

	2002-03	% Inc/(Dec)	2001-02	% Inc/(Dec)	2000-01	% Inc/(Dec)	1999-00
Revenue:	2,047.541	13.3	1,807.118	3.8	1,741.268	0.6	1,730.430
Port Opération	1,776.179	11.0	1,600.198	5.5	1,517.561	0.5	1,509.164
Industrial and Commercial Estate	271.363	30.9	206.920	(7.5)	223.708	1.1	221.265
Expenditure	(1,532.522)	7.3	(1,427.767)	(4.2)	(1,491.121)	67.4	(890.915)
Operating Surplus	**515.019**	35.1	**379.350**	51.6	**250.147**	(70.2)	**839.514**
Interest Income	284.821	(16.2)	339.788	12.1	302.987	21.5	249.382
Other Income	7.505	16.7	5.722	21.7	4.699	(53.3)	10.066
Financial Charges	-	-	(47.923)	192.2	(16.399)	(78.7)	(74.726)
Other Charges	(368.521)	(15.4)	(435.046)	752.3	(51.045)	33.7	(38.164)
Net Profit before Prior Year Adjustment	**438.824**	81.4	**241.891**	(50.7)	**490.389**	(50.3)	**986.072**
Prior Year Adjustment	(113.626)	-	152.876	628.0	20.998	-	(99.760)
Net Surplus for the Year	**325.198**	(17.7)	**394.767**	(22.8)	**511.387**	(42.3)	**886.312**

(Source: Annual Audited Accounts)

Operating Profit for the year 2002-03, augmented by 30.9% in Industrial and Commercial Operation and 11% in Port Operations except operations at FOTCO

Terminal, which declined by 20.0%. However, net profit declined by 17.7%, which exhibited negative reflection in Net Profit Margin (at 15.88% declined by 27.3%), Return on Equity (at 3.77% declined by 21.1%), and Return on Assets (at 0.035 times declined by 21.4%), mainly due to:

i. Increase in expenditure of Rs 104.755 million (7.3% of 2001-02). This comprises of increase in Salaries and wages of Rs 64.916 million (13.6% of 2001-02) and Hire Charges for Tugs of Rs 41.271 million (91.6% of 2001-02) despite capital expenditure of Rs 177.309 million incurred during the year 2002-03, on construction of two tugs. The increases needed clarification.
ii. Prior Year Adjustments resulted in loss of Rs 113.626 million, which was fully charged in 2002-03. No disclosures were available in accounts about nature and impact of these items on prior period balances (except certain Fixed Assets items). Disclosure requirements of IAS-8 were not complied. Abnormal trend of continuous prior year adjustments needs clarification with detailed impact thereof.

218.2 Decline in Working Capital Ratio by 10.5% during 2002-03, depicted decline in PQA's ability to generate revenue per rupee of Working Capital. Liquidity Ratios (Current Ratio at 4.98 times increased by 21.3%; Quick Ratio at 4.92 times increased by 21.7%) indicating abnormally high current assets' retention trend. "Interval Measure" explained that PQA retained cash balances, during the year 2002-03, which was in excess of its day-to-day requirements, *i.e.,* 4 years (approx) requirements instead of general trend of one-year requirement. Current assets (specially, cash and cash equivalents) needed to be utilized for effective investment instead of maintaining these underutilized.

218.3 Record of Peripheral Development Charges (PDC) was completed and reconciled upto 85% of PDC amount *i.e.,* remaining amount of Rs 300.547 million out of Rs 2,003.650 million had remained un-reconciled as on June 30, 2003.

218.4 Investments included Rs 110.993 million on accounts of Contributory Provident Fund, General Provident Fund and Pension Scheme. The Authority had not established separate legal entity through Trust Deeds for these Funds. Assets and Liabilities related to these Funds were at entity's name and were reflected in its Financial Statement. The position needs to be clarified.

218.5 Other Receivable as on June 30, 2003, included Bank Guarantee of Rs 9.731 million, which was static from preceding year 2002-03. The matter needs to be clarified.

AUDIT PARAS

219. Abnormal Delay in Preparation and Submission of Accounts

Under Section-57 and Section-63 of the Port Qasim Authority Act, 1973, the Authority shall maintain its annual accounts, get audited its accounts by not less than two auditors and shall submit the accounts to the Federal Government as soon as possible after the end of every financial year but before the last day of December next following a report of its affairs.

The annual audited accounts of PQA for the years 2005-06 to 2008-09 became due but the audited accounts were not submitted to the Government till finalization of this report.

Audit observed constant violation of said provisions of PQA Act by the management. The examination of PQA's Accounting system revealed the following internal control weaknesses that caused abnormal delay in preparation and submission of accounts.

Non-existence of Policies and Manuals: Since its establishment in the year 1973, Port Qasim Authority had been unable to formalize its accounting and financial policies and operating manuals. This caused non existence of standardized system of book keeping in Finance and other Departments of PQA such as Industrial Management Department, Port Operations Department, Stores department, etc. The absence of policies and manuals resulted in scattered, incomplete, un-reconciled and contradictory information/data for preparation and audit of accounts.

Non-Technical Manpower: It was observed that PQA lacked qualified staff in Finance and Accounts Departments, where only nine out of twenty-eight officers possessed the prescribed qualifications.

Practice of Using Dual Basis of Accounts: PQA compiled its accounts on accrual basis but for certain revenue items it was following accounting practices on cash basis. Besides, the Authority did not maintain separate subsidiary ledgers and records in respect of each party. This resulted in incomplete position of receivables and payables.

Booking of Transactions in Aggregate Form: Transactions should be booked on real time basis i.e. at the time when these occur. Contrary to this, in PQA transactions were recorded with one aggregated entry of all monthly transactions.

Improper Computerization: No concerted efforts had been made by the management for computerization and integration of related reports of various Departments with Finance Department. Besides, PQA was using both manual as well as computerized reports of distinct areas and accounts. As a result, the financial information was not only delayed but its authenticity and accuracy also became doubtful.

Among other reasons, one of the reasons for abnormal delay in preparation of PQA's annual accounts was that the External Auditors certified the annual accounts for the year 2001-02 on June 17, 2006 with eight qualifying remarks. The management was unable to respond to the satisfaction of auditors, as no corrective action had been taken by the management despite lapse of more than four years. Some significant qualifying remarks, their implications and current status are discussed in detail in the following paras.

a. Physical Verification of Stores and Spares and Fixed Assets - Rs 5,457 million

It was observed by the External Auditors that physical verification of moveable Fixed Assets was not carried out during the year 2001-02 and there was no formal review of useful lives of Operating Fixed Assets. Consequently, the depreciation on certain Fixed Assets was not adequately estimated.

The Operating Fixed Assets stood at Rs3,875 million as on June 30, 2002 which were increased to Rs5,457 million as on June 30, 2008 (as per draft accounts 2007-08). The Authority undertook an exercise of physical verification of Fixed Assets through a chartered accountant firm in July 2007 but the same was not finalized. Interim report of said physical

verification was not made available to Audit. The Fixed Assets Register was not prepared by the Authority. Consequently, title, completeness and valuation of certain operating Fixed Assets and Rated Depreciation charged thereon for the years under review could not be ensured.

The matter was reported to the management/ministry in September 2009. The management in its reply dated October 21, 2009 stated that the specific work of physical verification of Fixed Assets/Stores and spares was assigned in the year 2007. As stated by the management, the valuation of assets was in progress.
The reply itself substantiated audit contention that the management could not complete the valuation of operating assets even after three years of the appointment of the consultant. No reply for non-preparation of fixed assets register was given.

b. Inadequate Record to verify Un-Recognized PDC Rs 1,586 million and Revenue Recognized Rs 25 million

An amount of Rs1,586 million was appearing as unrecognized Peripheral Development Charges (PDC) and Rs 25 million was recognized as revenue during the year 2001-02 as amortization of such charges. The amount of un-recognized PDC was increased by 548% to Rs 10,274 million (draft accounts of the year 2007-08). The record maintained by the Authority in respect of the said amount was not enough to verify data on an accurate and timely basis. The following were the reasons:

- Neither policy, nor basis of calculation of Rs 25 million as revenue during the year 2001-02 was available.
- The management was unable to provide details of PDC collection, receivables and plot status in respect of each party/allottee. The party-wise detail of unrecognized PDC was not available as no Subsidiary Ledger(s) was maintained by the Authority.
- Regular and periodic reconciliation of PDC collected was not performed. The only reconciliation made was in the year 2005 regarding reconciliation of records of Industrial Management Department with Finance Department of PQA, reflecting a difference of Rs 3.250 million.

In the light of position stated above, reasonable assurance about the completeness and accuracy of such revenue recognized during the year 2001-02 and the liability appearing as of the balance sheet date could not be obtained. This highlighted the risk of unrecognized receivables, excess and duplicate recording of refunds, ignorance or waiver of charge of various penalties to the allottees (i.e. Non-Utilization Fee, Late Possession Fee @15% of PDC, Delayed Payment Penalty @5% per annum, etc.).

The matter was reported to the management/ministry in September 2009. The management in its reply dated October 21, 2009 stated that in order to address the qualifications of the External Auditors, a Chartered Accountant firm was hired for updated reconciliation of PDC with reference to revenue, receivables and payables.

The management's reply itself substantiated that the audit observation that the Authority did not have a policy of recognition of PDC. Moreover, it was also confirmed that party wise details were not maintained by the Authority till the finalization of this report.

c. Overstatement of Assets and Liabilities due to Non- Establishment of Separate Legal Entities

The External Auditors observed that the Authority operates various employees' benefit schemes for which it has not established separate legal entities through execution of trust deeds. The funds invested on behalf of employees' schemes were invested in the name of Authority and reflected in the Authority's financial statements. This resulted in overstatement of both the Assets as well as Liabilities.

The Authority had not reconciled separate employee-wise accounts of the Contributory Provident Fund and General Provident Fund and interest thereon with balances appearing in the General Ledger till the close of Audit in August 2009.

Actuarial valuation for pension benefit was carried out in the year 2002. As per Actuarial Review Report dated October 24, 2002 assets and liabilities were valued at Rs79 million and Rs315 million respectively, resulting in deficit (excess of future obligations over assets/resources) of Rs236 million. Above practices resulted in the following implications:

- Completeness and accuracy of Authority's Liability and relevant Expenses for the years could not be ensured.
- Non maintenance of separate funds was indicative of improper management of Authority's assets/resources in view of its liabilities, resulting in deficit of Rs236 million for pension fund only.

It was observed till the finalization of this report that neither the separate trusts were formed nor fresh actuarial valuation was performed even after eight years of previous actuarial report. It was further observed that no reconciliation of employee-wise accounts with the balances appearing in the Contributory Provident Fund and General Provident Fund was carried out.

The matter was reported to the management/ministry in September 2009. The management in its reply dated October 21, 2009 stated that creation of Trust Deeds of GP Fund, CP Fund and Pension Fund was under process. A Chartered Accountant Firm had been hired for reconciliation of these heads of accounts. After reconciliation, separate trusts would be formed. The reply was not acceptable as the action for formation of separate trusts should have been taken much earlier.

d. Recording of Revenue on Cash Basis

The External Auditors observed that the Authority was not following uniform accounting policies for preparation and maintenance of its accounts, i.e. it is using both cash and accrual basis accounting practices simultaneously for revenues. This accounting policy/procedure was not in accordance with the requirements of IAS-I, "Presentation of Financial Statements", whereby the revenue from services should be recognized when the services are rendered.

Cash basis accounting was used for revenues from certain Port Operations and Industrial & Commercial Estate. Accounting treatment of Estate revenue was qualified by External Auditors. However, PQA kept on following the same revenue recognition method till the finalization of the report.

The matter was reported to the management/ministry in September 2009. The management in its reply of October 21, 2009 stated that this issue pertained to implementation of accounting and internal control systems. The consulting Chartered Accountant Firm, after completion of reconciliation phase, would start the preparation of accounting and internal control system for the Authority.

The management's reply showed that no progress towards adoption of accounting on accrual basis had been made till the finalization of this report in August 2009.

e. Absence of Details Regarding Certain Accruals and Expenses relating to Channel Dredging-Rs436.950 million

Lack of adequate controls and absence of details regarding certain accruals and expenses particularly relating to channel dredging was observed by the External Auditors.

The expenditure on account of channel maintenance dredging increased from Rs436.950 million as on June 30, 2002 to Rs1,329 million as on June 30, 2008 (as per draft accounts 2007-08). The Authority was unable to provide financial record in respect of channel dredging for the years 2001-02 to 2007-08. The following details were also not made available:-

a. List of Capital Expenditure incurred during the period.
b. Year-wise stage of completion of the Capital Expenditure.
c. Capital Expenditure booked during the period

This implied that appropriate and complete record pertaining to Operational and Capital Expenditure was not maintained by the Authority. Consequently, the authenticity and completeness of the Operating/Capital Expenditure incurred during the period and recording of corresponding liabilities and adjustment to Assets could not be ensured.

The matter was reported to the Ministry in September 2009. The management in its reply dated October 21, 2009 stated that the financial statements of PQA were prepared on cash basis and the required record was provided to Audit.

The management furnished incomplete reply as it did not offer any comments on lack of adequate controls and absence of details regarding accruals and expenses. The management's reply regarding production of record to Audit was not tenable, as the specific record pertaining to channel maintenance dredging and financial record pertaining to LCs, year-wise breakup of mark-up, bank service charges etc. was not provided to Audit.
In the absence of above record, the authenticity and completeness of Operating Expenditure could not be ensured.

f. Incorrect Valuation of Stores/Spares – Rs 50.000 million

The External Auditors observed that stores and spares as on June 30, 2002 worth Rs 50.494 million were valued at current cost which was not in accordance with IAS-2 "inventories".

The value of stores and spares as on June 30, 2008 stood at Rs 50.162 million (As per draft accounts 2007-08). As per International Accounting Standard (IAS-2), the Financial Statements should disclose the accounting policies adopted in measuring inventories, including method used i.e. FIFO, LIFO, Weighted Average, but the Financial Statements of Authority did not disclose the cost formulas used for measuring the value of stores/spares.

The matter was reported to the management/ministry in September 2009. The management in its reply of October 21, 2009 stated that the valuation of store items was done on the basis of invoice value whereas for

revaluation detailed guidelines had been provided vide implementation order No. 1 dated 15-03-1980. The valuation was, therefore, made as per existing method. The management explained that as soon as their system was switched to IAS, the valuation would be made accordingly. The reply was not acceptable as the standard Accounting method should have been applied in accordance with relevant IAS.

The matter was discussed in the DAC meeting held on November 16, 2009. The DAC emphasized to complete the required action.

220. **Allotment of 20 Acres Plot for Warehouse to Middle Man Involving Benefit – Rs 380 million**

The main objective of the PQA's Land Policy is to offer industrial plots on favorable rates to attract genuine industrialist to establish industry.

It was observed that M/S Al-Shayan General Trading, Ajman, UAE applied on December 1, 2007 for allotment of 40 acres of land for setting up a warehouse in South Western Industrial Zone. However, a plot measuring 20 acres was allotted to the firm vide allotment letter dated April 16, 2007 @ Rs.2.5 million per acre totaling Rs 50 million. Later, the firm got the plot relocated to a prime location within the same zone where market value of one acre was approximately Rs 21.500 million/acre. After change in location the firm applied for bifurcation/sub-division of the plot into small pieces on August 06, 2007. As soon as the bifurcation was allowed, the firm sold all these plots to six parties through a property dealer viz M/s J.J Associates, Defence Karachi, on open market rates, deriving net benefit of Rs 380 million. Hence, PQA allotted the plot to a middle man who, by taking the benefit of flaws in PQA's Land Policy, made profit by selling plots in open market, which was injustice to genuine industrialists.

The management in its reply dated October 21, 2009 stated that the plot was allocated and subsequently bifurcated according to the laid down procedure.

The reply was not tenable as the intention of the party to make instant profit became clear when land of its choice of higher market value was allotted to him.

The bifurcation of plot was done within three months of allotment which indicated that the party was not interested in the establishment of industry.

The matter was discussed in the DAC meeting held on November 16, 2009. The management reiterated their earlier stand. DAC decided that the Board may restrict the plot size according to category and the land policy may be amended to allot plots only to genuine industrialists as per revised policy.

221. Hiring of tugs and boats in violation of Board of Directors policy for replacement - Rs 382.958 million

Board of Directors of PQA vide BR No. 114/2006 dated 17-06-2006 approved comprehensive plan for year wise replacement of existing PQA's own tugs and boats as follows:

Sr. No.	TYPE OF CRAFT	YEAR OF REPLACEMENT/ INDUCTION	QUANTITY
1	50-60 Ton Bullard Pull Tug (Replacement of Kadiro)	2005-06	1
2	20-Meter Pilot Boat (Replacement of Lahoot)	2006-07	1
3	50-60 Ton Bullard Pull Tug (Replacement of Gharo)	2006-07	1
4	20-Meter Pilot Boat (Replacement of Yaqoot)	2008-09	1

Despite approval of BoD, the management did not purchase PQA's own tugs/boats till the time of audit in August 2009 and incurred huge expenditure of approximately Rs 382.958 million yearly on account of hiring of tugs and boats.

Furthermore, the award of contract regarding hiring of tugs/boats was not transparent. In 2007, the PQA management invited a press tender for hiring of two tugs and one pilot boat with a pre-requisite that the tugs/boats should not be more than five years old. In response to bidding, only two firms M/s Smit Terminals, Holland and M/s Mew (Pvt.) Ltd. Karachi submitted their bids. M/s Smit offered two types of tugs with years of manufacture as 2000 and 2006; whereas, M/s MEW offered the tugs of years of manufacture 2006 and 2007 respectively. The offer of M/s Smit Terminals, Holland did not meet the tender requirement of age of

tugs/boats up to five years old and hence was technically rejected and the financial offer of M/s MEW was considered high in respect of the crafts meeting the tender requirements.

The evaluation committee on the pretext of emergent requirement of the port recommended negotiated tendering with the firms by relaxing technical conditions. M/s MEW showed its inability for negotiation as years of manufacture of its tugs/boats were 2006 and 2007. The management of PQA by relaxing the five years old condition of tugs/boats entered into negotiation with M/s Smit Terminals, Holland, the only bidder left and awarded the contract amounting to US$7.302 million to the firm.

The evaluation committee's decision regarding negotiated tendering on the pretext of emergent nature of procurement was considered irregular and unjustified as the tugs arrived after two months of awarding the contract. If there was some urgency, the management of PQA should not have opted for open bidding in the first place. Moreover, the relaxation of condition of age of five years of tugs/boats benefited only M/s Smith Terminals, Holland to whom the contract was awarded.

Thus, owing to non-implementation of replacement plan, the PQA management, instead of purchasing its own tugs/boats, was incurring huge annual expenditure of approximately Rs382.958 million on hiring.

The matter was discussed in DAC meeting held on November 16, 2009. The DAC showed concern on non-purchase of own tugs and boats despite directive of Board of Directors of PQA. The DAC directed implementation of Board's directive in this regard.

222. Non-Recovery of Peripheral Development Charges from allottees - Rs 609.582 million

In PQA, the allotments of industrial plots are made against charging of Peripheral Development Charges (PDC) on 50 years lease basis. According to Para-VI of the Broad Terms and Conditions of the Land Allotment Policy 2000 of PQA, PDC shall be paid as per following schedule:-

1	Down payment 25%	As earnest money along with application.

2	Progressive payment 25%	Within 30 days of provisional letter of allotment date. Then PQA shall issue a final letter of allotment.
3	Balance payment 50%	Within 120 days of issuance of final letter of allotment.

Moreover, Para-XXXV of the Terms & Conditions provides that if all the prescribed broad terms and condition are not followed by the allottee, then the allotment of plot shall be cancelled, 10% of total PDCs of whole plot area shall be forfeited against PQA administrative charges, and annual land rent will also be charged for the period the plot is retained.

i. In Eastern Industrial Zone (EIZ) of PQA, different sizes of 243 plots measuring 1 acre to 10 acres were allotted to 219 allottees during the period 2005 to 2008. The total cost of the PDC for the plots allotted to 219 allottees was Rs885.175 million. However, a sum of Rs 360.510 million was recovered leaving a balance amount of Rs524.665 million as on 30-06-2009.

ii. In the North Western Industrial Zone (NWIZ), different sizes of plots measuring 1 to 5 acres were allotted to 14 allottees at a total cost of PDC worth Rs87.500 million during the year 2007-08. The allottees failed to pay full amount of PDC within prescribed period and deposited Rs27.641 million leaving a balance of Rs 59.859 million as recoverable as on 30-06-2009.

iii. In Al-Watan Industrial Scheme plots were allotted to 43 allottees without recovery of amount of PDC to the tune of Rs 7.713 million. Besides, the rental charges from 742 allottees who did not pay rent from inception worked out to Rs 17.345 million. Thus, a total amount of Rs 25.058 million (Rs 7.713 million + Rs 17.345 million) was recoverable from allottees of Al-Watan Industrial Scheme up to June 30, 2009. The total outstanding on account of PDC amounted to Rs 609.582 million.

The management in its reply dated October 21, 2009 admitted that in the absence of all committed facilities which were to be provided by PQA as per terms of allotment orders, the final option of cancellation of plot could not be exercised. The recoveries were being made together with 15% mark up.

The reply was not plausible as party wise subsidiary ledgers were not being maintained in PQA for PDC, Land Rent, Maintenance charges etc. Therefore, the follow-up action for the recoveries was being done arbitrarily through individual allotment files. Moreover, non-provision of committed facilities by PQA despite lapse of considerable time reflected slackness on the part of management.

The matter was discussed in the DAC meeting held on November 16, 2009. The DAC directed to expedite the recovery of outstanding amount and computerization of record.

223. **Non-Recovery of Non-Utilization Fee from Allottees- Rs 35.520 million**

The Board of Directors of Port Qasim Authority resolved vide BR No. 09/2005 dated 25-01-2005 that a show cause notice to the allottees of South/North Western Industrial Zones be issued to start the work within one year. In case of their non-compliance, the non-utilization fee be imposed on the defaulters.

The PQA management did not recover Rs35.520 million from 79 defaulting allottees of North Western Industrial Zone (NWIZ) on account of NUF @ 10% of PDC w.e.f. 2006 i.e. after allowing them grace period of five years since the year 2000. Neither NUF was recovered by the management from the defaulting allottees nor the allotments cancelled despite directives of the Board of Directors of PQA in this regard.

The management in its reply dated October 21, 2009 stated that NWIZ was not fully developed as two facilities i.e. sewerage and storm water drain were yet to be provided. Bills/letters were issued to the parties but no sizeable recovery was made as the parties disagreed to pay NUF without complete provision of all committed facilities as per allotment letters.

The reply was not tenable as provision of all the basic facilities since 1991-92 was the responsibility of the management. Hence, it was gross negligence on the part of management.

The matter was discussed in the DAC meeting held on November 16, 2009. Reiterating their earlier stand, the management stated that unless the committed facilities i.e. road network, potable water supply, sewerage & storm water drain were provided, the recovery of late possession fee was not justified. However, NUF was being charged in the area of NWIZ where two facilities had already been provided. Audit stressed upon the recovery of amount besides fixing responsibility on the persons at fault. The DAC decided that Audit should verify that the NUF was fully recovered from the allottees of plots where the facilities were developed. However, the Authority did not provide any record for verification till the finalization of report.

224. **Non-Recovery from PQA Employees –Rs 7.00 million**

Rule 23 of GFR provides that every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part.

The Authority paid income tax of Rs7.00 million on behalf of employees of PQA and showed this amount in the annual accounts for the year 2001-02 as receivable from the employees. However, a provision for doubtful debts was made which had been carried over and shown also in draft accounts for the year 2007-08. Keeping a provision for full amount as doubtful debt indicated that the chances of recovery of amount were remote. However, no effective steps were taken by the management to recover the amount from the employees.

The management in its reply dated October 21, 2009 stated that the provision of Rs 7.00 million had been made in accounts as required by the External Auditors. The mechanism of recovery from employees was yet to be determined because a number of employees had retired/expired.

The reply was not tenable because the tax should have been deducted from employees' salaries when it became due. Moreover, the management did not take any steps for recovery till the close of audit.

The matter was discussed in the DAC meeting held on November 16, 2009. The management informed that efforts were being made to get the amount recovered. The DAC directed to make efforts for recovery of full amount.

MINISTRY OF SOCIAL WELFARE
AND SPECIAL EDUCATION

( )

PAKISTAN BAIT-UL-MAL

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

225. Pakistan Bait-ul-Mal is a fund established by the Federal Government under Pakistan Bait-ul-Mal Act, 1991 (amended) to provide financial assistance to needy people of Pakistan, met out of grants from Government, Semi-Government Organizations and voluntary donations.

225.1 The working results of the Formation for the year 2008-09 as compared to the previous years are tabulated below :

(Rs in million)

	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07
Revenue grants from Fed. Government.	1,255.230	(84)	7,818.172	47	5,331.690
PHRD grant	12.255	(70)	40.354	100	
Misc. Income	7.863	19	6.624	18	5.627
Profit investment/saving account.	110.021	25	87.759	(11)	98,652
Donation	0.610	-	-	-	-
WFP service charges	2.122	24	1.708	174	0.623
Total income	1,388.101	(83)	7,954.617	46	5,436.591
Food support programme	11.906	(6)	12.702	(99)	22,091.822
Child support programme	36.771	101	18.335	27	14.447
PHRD expenditure	3.952	39	2.835	100	-
Individual financial assistance (IFA)	708.268	(20)	887.524	123	398.208
Misc. project expenses.	339.189	(8)	366.927	23	299.401
Bugti Tribes	11.764	-	-	-	63.111
Internally displaced persons (IDPs)	498.306	-	-	-	-
Jinnah Burn Centre.	110.000	-	-	-	-
Institutional Rehabilitation (NGOs)	57.928	47	39.362	(21)	50. 060
Administrative expenses	326.071	55	210.035	18	178.072
Larkana Housing Scheme.	-	-	-	-	31.194
Total expenditure	2,104.156	37	1,537.721	(50)	3,095.151
Surplus/(deficit) for the year	(716.055)	-	6,416.896)	174	2,341.440
Prior year adjustments	(2,764.333)	41	(1,962.791)	(2)	(2,002.921)
Surplus B/F	8,510.162	110	4,056.057	15	3,517.538
Surplus C/F	5,029.774	(41)	8,510.162	121	3,856.057

Source: Annual Audited Accounts

The revenue grants of PBM decreased from Rs 7,818.172 million in 2007-08 to Rs 1,255.230 million in 2008-09. The receipt under Programme for Human Resource Development (PHRD) Grant also decreased by 70% from Rs 40.354 million in 2007-08 to Rs 12.255 million in 2008-09. The expenditure of PBM increased by 37% from Rs 1,537.721 million in 2007-08 to Rs 2,104.156 million in 2008-09. This increase was mainly due to increase in expenditure under the heads of Child Support Programme (CSP), Institutional Rehabilitation (NGOs) and administrative expenses. The increase under these heads needs justification.

225.2 Advances, deposits and other receivables included advances to suppliers Rs 8.235 million (2007-08: Rs 0.785 million) and other advances Rs 11.62 million (2007-08: Rs 6.796 million). The increase under these heads needs justification.

225.3 Permanent project advances increased from Rs 19.324 million in 2007-08 to Rs 33.495 million in 2008-09 registering an increase of 73%. The increase under the head needs justification.

225.4 Although, accrued and other payables decreased by 83% (from Rs 50.372 million in 2007-08 to Rs 8.430 million in 2008-09) yet a liability under the head Group Life Insurance and Benevolent Fund payable was appearing, early clearance of the said liability is stressed upon the management.

AUDIT PARAS

226. Disbursement under Food Support Programme (FSP) to invalid beneficiaries – Rs 926.655 million

As per clause 6.1.1 of Food Support Programme (FSP), on the false declaration or provision of wrong information, may result in recoveries and permanent ineligibility or debar from all PBM schemes. As per clause 6.8.1 of the policy, original Computerized National Identity Card (CNIC) and pass book of the beneficiary are necessary documents to be produced at the time of disbursement.

Pakistan Bait-ul-Mal, being executing agency was required to ensure the payment to the real beneficiaries by completing all formalities but payment of 12th

installment was made amounting to Rs 926.655 million (308,885 cases x Rs 3,000) without ensuring valid CNICs numbers in the Province of Punjab in 2007-08 as NICs/CNICs were fake due to having less than 11 digits (old NIC) and 13 digits (new CNIC). The detail of invalid beneficiaries of other provinces including Islamabad Capital Territory (ICT) was demanded, on November 11, 2008, but the same was not provided.

The irregularity was reported to the management on February 26, 2009 and the Ministry on October 8, 2009. The management in its reply dated July 15, 2009 stated that it was not possible to validate CNIC number before 2008 and they were to be revisited later. There was no missing CNIC number. In rural areas the policy of the District Food Support Steering Committee was flexible with regard to payment on old NICs. The management further stated that the NADRA itself was not in a position to verify or validate the number of Government employees. PBM tried its best not to benefit more than one family member. The reply was not convincing as the PBM was required to ensure the payment to the real beneficiaries.

The matter was discussed in DAC meeting held on July 29, 2009, wherein the Committee directed the PBM to verify the position at its own with regard to data provided by NADRA and relevant record be provided to Audit for verification. The DAC in its meeting held on October 26, 2009 showed its concern over non-completion of assignment within given time. The Committee directed the PBM to re-verify the position and necessary results be provided to Audit. No progress was received till finalization of this report.

227. **Withdrawl of FSP installment under duplicate accounts – Rs 66.702 million**

The PBM District Office is the secretariat of District Food Support Steering Committee (DFSSC) and is responsible for maintenance of Union Council wise computerized updated lists of FSP beneficiaries.

Pakistan Bait-ul-Mal (PBM) failed to develop computerized system. The management could develop a computerized software system for FSP prior to disbursement of 13th installment. The record disclosed that 43,157 accounts of

beneficiaries were duplicate. The payment on duplicate accounts resulted in fraudulent withdrawl of Rs 129.471 million from the Government treasury.

The irregularity was reported to the management on February 26, 2009 and the Ministry on October 8, 2009. The management in its reply dated July 15, 2009 stated that accounts declared duplicate had been marked for deletion/revision. Once the revisiting of record is completed and record of beneficiaries is finalized for removal from the FSP, it will be put up to District Food Support Steering Committee (DFSSC) for approval. The reply was not convincing as being executing agency, the PBM was required to frame a fool proof system for enrollment of beneficiaries to avoid duplication.

The DAC in its meeting held on July 29, 2009, directed the PBM to verify the duplicate accounts and provide relevant record to Audit for verification. DAC meeting was also held on October 26, 2009. Audit informed the Committee that an amount of Rs.62,769,000 relating to Sindh, Balochistan and Islamabad was verified. For duplicate accounts of NWFP and Punjab, the Committee directed the PBM to verify duplicate accounts and submit report for audit verification. No progress was received till finalization of this report.

228. **Embezzlement in Food Support Programme – Rs 14.601 million**

As per FSP policy the PBM was required to develop a computerized management system for the programme. According to clause 6.1.1 of the said policy false declaration or provision of wrong information may result in recoveries and permanent ineligibility or debar from all PBM schemes. As per Clause 6.8.1 of the policy original Computerized National Identity Card (CNIC) and pass book of the beneficiary are necessary documents to be produced at the time of disbursement.

Due to loose internal controls and violation of the procedure, in PBM District Nawabshah, an amount of Rs 14.601 million was embezzled in disbursement of 12th installment of FSP as detailed below :

i. Payment of Rs 363,000 (121 x Rs 3,000) was made to 121 beneficiaries who had no FSP number.

ii. Payment of Rs 2,262,000 was made to 754 beneficiaries who had similar FSP number.

iii. In 1,726 cases the payment was made to beneficiaries more than once, resulting in fraudulent withdrawal of Rs 10,932,000.

iv. In 348 cases payment was made to the beneficiaries having old NICs or incorrect CNICs resulting in irregular withdrawal of Rs 1,044,000.

The irregularity was reported to the management on February 26, 2009 and the Ministry on October 8, 2009. The management in its reply dated July 15, 2009 stated that the matter was taken up with DCO, Nawabshah being the Chairperson of DFSSC but no response was received.

The DAC in its meetings held on July 29, 2009 and October 26, 2009, directed the PBM to provide the relevant record to Audit for verification. No progress was received till finalization of this report.

229. **Mis-utilization of Individual Financial Assistance - Rs 7.240 million**

As per policy, selection of beneficiaries and activity monitoring involves steps like inviting prospective beneficiaries, selection of beneficiaries, assessment of proposal, activity monitoring and nature & quantum of assistance. Funds of Rs 206 million were distributed amongst the passed out students of Vocational Training Institute (VTI) by arranging functions in different cities of Pakistan.

The follow-up reports regarding grants to VTI were received in respect of eight districts only in PBM Head Office. The reports disclosed that in most of the cases the beneficiaries failed to utilize the grant for the specific purposes. This resulted in mis-utilization of financial assistance amounting to Rs 7.240 million as detailed below:

i. The District In-charge, Chakwal reported that in 298 cases, the beneficiaries were not available at given addresses. Thus, the amount of Rs 5,960,000 granted for these beneficiaries @ Rs 20,000 per beneficiary could not be spent for intended purposes.

ii. The District In-charge, Multan reported unsatisfactory utilization in 09 cases involving fund of Rs 180,000 @ Rs 20,000 per beneficiary.

iii. The District In-charge, Khanewal reported unsatisfactory utilization of grant by 14 beneficiaries involving funds of Rs 280,000 @ Rs 20,000 per beneficiary.

iv. The District In-charge, Gujrat reported that 41 beneficiaries had failed to utilize the amount of Rs 820,000 for the purposes for which it was granted.

The irregularity was reported to the management on February 26, 2009 and the Ministry on October 8, 2009. The management in its reply dated July 15, 2009 stated that the number of beneficiaries who mis-utilized the PBM grant was under re-verification and results would be submitted in due course of time. The reply was not convincing as the management was required to frame a criteria and procedure for payment to needy students.

The DAC in its meetings held on July 29, 2009 and October 26, 2009, directed the PBM to re-verify the cases and necessary record be provided to Audit for verification. No progress was received till finalization of this report.

230. **Provision of grant to non-viable NGOs – Rs 1.752 million**

One of the objectives of Pakistan Bait-ul-Mal is to provide grant-in-aid to registered Non-Government Organizations (NGOs) for their projects aimed at institutional rehabilitation of the poor and deserving persons of the society. As per policy the management of PBM was required to ensure that the NGOs should have adequate financial resources to share the capital cost of the project and the recurring expense. The management of PBM is also required to ensure that the NGOs should be able to ensure the sustainability of the project in future.

The management of PBM failed to assess the financial resources of certain NGOs and ensure the sustainability of the project in future while sanctioning the amount. Nine NGOs had closed their activities and the amount of Rs 1.752 million granted by the PBM had gone waste. Although, the NGOs had been blacklisted by the PBM but the amount granted to them could not be recovered.

The irregularity was reported to the management on February 26, 2009 and the Ministry on October 8, 2009. The management in its reply dated July 15, 2009 stated that the NGOs were functional and eligible for PBM grant at the time of sanction of grant. The services of most of the NGOs were monitored for five

years as per PBM decision. The reply was not convincing as the management failed to provide documentary evidence for monitoring the NGOs for five years. The DAC in its meeting meetings held on July 29, 2009 and on October 26, 2009, directed the PBM to intimate date of release of grants to Audit along with follow up reports for five years. No progress was received till finalization of this report.

231. **Misappropriation of FSP funds –Rs.1.182 million**

As per rule 3.6.2 of the FSP Procedure, District Food Support Steering Committee (DFSSC) was responsible to ensure transparent and smooth implementation of the policy.

The record of Food Support Programme maintained by Pakistan Bait-ul-Mal, District Office, Thatta was verified by NADRA whereby 394 CNICs were not found in NADRA's data base. PBM did not place the matter before DFSSC for deletion which may result in misappropriation of FSP fund to the tune of Rs 1.182 million.

The irregularity was reported to the management on February 26, 2009 and the Ministry on October 8, 2009. The management in its reply dated July 15, 2009 stated that the DCO, Thatta was asked to order an enquiry in the matter.

The DAC in its meetings held on July 29, 2009 and October 26, 2009 directed the PBM to enquire into the matter by constituting an enquiry committee comprising PBM, Distt. Management, and Postal Authority headed by a representative of Controlling Ministry. No progress was received till finalization of this report.

232. **Mis-utilization of grant-in-aid by NGO - Rs 0.655 million**

One of the objectives of Pakistan Bait-ul-Mal is to provide grant-in-aid to registered Non-Government Organizations (NGOs) for their projects established for rehabilitation of poor and deserving persons of the society. As per undertaking given by the NGO, in case of failure to utilize the grant-in-aid, the same would be refunded to the PBM.

Pakistan Bait-ul-Mal, District Office, Gujrat sanctioned a grant-in-aid of Rs 654,593 in favour of M/s. Anjuman Farogh-e-Taleem, for setting up Skill Training Centers at various villages of Gujrat. PBM and the NGO signed a contract on July 7, 2005. A payment of Rs 654,593 was made to the NGO for the purchase of medical/training equipments/furniture for these centers. During physical verification conducted by PBM at Gujrat it was reported on April 12, 2006 that there was a huge difference in equipment shown as purchased and physically available. PBM Gujrat, also reported on October 28, 2006 and May 29, 2007 that the centers were closed and the grant was not utilized properly and the items were not purchased as per approved list. The management had not taken any action against the NGO for recovery of mis-utilized grant.

The matter was reported to the management on February 26, 2009 and the Ministry on October 8, 2009. The management in its reply dated July 15, 2009 stated that PBM directed the NGO to refund the amount and the case was *sub judice*.

The issue was discussed in DAC meetings held on July 29, 2009 and October 26, 2009. The Committee directed the PBM to lodge FIR against the defaulting NGO and blacklist it for future grant from PBM. No progress was intimated till finalization of this report.

MINISTRY OF TEXTILE INDUSTRY

( )

NATIONAL TEXTILE UNIVERSITY

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED DECEMBER 31, 2008

233. The Government of Punjab with the help of leading textile industrialists formed an Institute of Textile Technology in Faisalabad in 1954. It was affiliated with University of Engineering and Technology, Lahore in 1965. Federal Government took over the control of Pakistan Institute of Textile Technology, Faisalabad with effect from July 1, 1976 and renamed it as National College of Textile Engineering, Faisalabad. The management of the College was transferred to All Pakistan Textile Mills Association (APTMA) in September, 1993. The College was upgraded as National Textile University vide Ordinance dated November 15, 2002. It was being controlled by Board of Governors (BoG) consisting of 17 members, 07 from APTMA, Vice Chancellors LUMS and UET, Secretary Ministry of Textile, Textile Commissioner, a representative from Government of Punjab, NWFP and Higher Education Commission.

Main purpose of the University is the promotion and dissemination of knowledge and technology in textile industry, determination of courses of study in textile education and to provide instructions, training, research, demonstration and service in the said areas of learning.

233.1 The working results of the University for the year ended December 31, 2008 as compared to the previous years are as under:

(Rs in million)

	2008	% Inc/ (Dec)	2007	% Inc/ (Dec)	2006
Income					
Fee	37.731	28	29.564	1	29.253
Grant from APTMA	4.500	(75)	18.000	-	18.000
Textile Cess	8.875	117	4.086	(9.20)	4.500
Other income	8.997	(42)	15.627	2	15.331
Total income	60.103	(11)	67.277	0.29	67.084
Expenditure					
Salaries, wages and other benefits	55.132	19	46.158	15	40.037
Student expenses	1.693	(14)	1.965	5	1.880
Depreciation and amortization	13.453	-	13.439	(1)	13.622
Other expenses	17.794	10	16.208	34	12.119

Total expenditure	88.072	13	77.770	15	67.658
Deficit for the year	(27.969)	117	(10.493)	1,728	(0.574)
Previous year deficit B/F	(35.261)	42	(24.768)	2	(24.194)
Accumulated deficit C/F to balance sheet	(63.230)	79	(35.261)	42	(24,768)

Source: Annual Audited Accounts

The University sustained a net deficit of Rs 27.969 million during the year 2008 as compared with deficit of Rs 10.493 million in the year 2007 showing increase by 117%. The expenditure increased to Rs 88.072 million in 2008 from Rs 77.770 million in 2007 and Rs 67.658 million in 2006, mainly due to increase in salaries, wages and other benefits, repair and maintenance and advertisement. The management could not take effective steps to control the expenditure and make the University a self sustaining organization.

233.2 The University received grant of Rs 10.110 million in 2005, Rs 31.608 million in 2006 and Rs 36.990 million in 2007 from Export Development Fund for the establishment of computer and garments manufacturing laboratories at the University but these grants could not be utilized up to December, 2009 which needs to be justified.

233.3 There were only five Ph.D qualified members in the teaching faculty which needs to be increased. As per HEC targets, the minimum qualification for university teachers must be Ph.D so that maximum research work is performed in the universities.

233.4 Title of free hold land valuing Rs 312.219 million was not transferred in the name of the University in Land Revenue Authorities record. Transfer of title in the name of University needs to be arranged at the earliest.

233.5 Capital work in progress increased from Rs 42.647 million as on December 31, 2007 to Rs 52.185 million as on December 31, 2008. Early completion of capital work in progress is stressed.

MINISTRY OF TOURISM

( )

PAKISTAN TOURISM DEVELOPMENT CORPORATION LIMITED

234. Pakistan Tourism Development Corporation Limited (PTDC) was incorporated on March 30, 1970 under the Companies Act, 1913 (now the Companies Ordinance, 1984) as a public corporation limited by shares. The principal objective of the Corporation is the promotion and development of tourism industry in Pakistan and to carry on business in Pakistan and elsewhere.

Annual Audited Accounts of the Company for the years 2007-08 and 2008-09 were not furnished by November 30, 2009.

AUDIT PARA

235. **Non-transparent hiring of building for office – Rs 6.316 million**

In terms of Rule-12 of PP Rules 2004 procurement above Rs 2 million shall be advertised on Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities shall be advertised in the media. Rule-13 provides that time for receipt of bids or proposals in no circumstances shall be less than 15 days.

Pakistan Tourism Development Corporation (PTDC) advertised the requirement of a house on rent, in Daily Jang on July 1, 2008. A number of parties approached PTDC for renting out their premises, but comparative statement was not prepared which could provide the particulars of inspected houses. Agreement was signed with the owner of House on July 3, 2008, only 2 days after the advertisement at a monthly rent of Rs 526,300 for a period of two years from July 4, 2008 to July 3, 2010. One year advance of Rs 6,315,600 was paid on July 10, 2008. The house was hired without giving response time to the landlords in order to get competitive rates. The Manager (P&A) in her note dated June 25, 2008 recommended the same house for hiring at a monthly rent of Rs 600,000. It was, thus, evident that hiring of said house was decided in advance as recommended by the Manager (P&A) before publishing of the advertisement. This resulted in non-transparent hiring of building for office for Rs 6.316 million.

Matter was reported to the management on September 19, 2009 and the Ministry on November 24, 2009. Management in its reply dated December 22, 2009 stated

that due to urgency the house was hired through negotiation despite the press advertisement. The reply was not convincing because the house was hired in a non-transparent manner against the public interest.

The DAC in its meeting held on December 24, 2009 directed the management to get *ex-post facto* approval from the competent authority . No progress was received till finalization of this report.

PTDC MOTELS NORTH (PRIVATE) LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

236. Pakistan Tourism Development Corporation, Motels North (Pvt) Limited was incorporated on March 19, 1977 under the repealed Companies Act, 1913 (Now Companies Ordinance, 1984). The Company is a wholly owned subsidiary of Pakistan Tourism Development Corporation Limited. The Company has most of its motels operating in northern areas.

Main objectives of the Company are:

i. To promote tourism industry in the country
ii. To run and manage motel business in Pakistan.

236.1 The working results of the Company for the years 2008-09 as compared to previous years are as under:

(Rs in million)

	2008-09	% Inc/(Dec)	2007-08	% Inc/(Dec)	2006-07
Revenue	76.164	(1.19)	77.079	(18.15)	94.174
Cost of sales	81.291	7.40	75.687	0.18	75.547
Gross Profit/(loss)	(5.127)	268.58	(1.391)	-	18.626
Administrative Expenses	17.684	18.07	14.977	(15.04)	17.628
Financial charges	0.268	0.11	0.251	(0.40)	0.252
Operating Profit/(loss)	(23.079)	66.80	(13.836)	-	0.745
Other income	0.028	(92.51)	0.374	3,640.00	0.010
Net Profit/(loss) before taxation	(23.051)	71.23	(13.462)	-	0.756
Provision for taxation	(0.766)	92.46	(0.398)	(24.05)	(0.524)
Profit/(Loss) after taxation	(23.817)	71.84	(13.860)	-	0.231

(Source: Annual Audited Accounts)

During the year, revenue decreased by 1.19% and direct cost increased by 7.40%, resultantly gross loss of the Company increased by 268%. During the year 2008-09 PTDC motels in Swat remained closed. This attributed to decrease in chairlift income which was nil during 2008-09 as compared with Rs 1.700 million during the preceding year, resultantly, loss before tax increased by 71.23%.

236.2 Administrative expenses increased from Rs 14.977 million in 2007-08 to Rs 17.684 million in 2008-09 due to increase in salaries and wages which was not justified due to declining business activities of the Company.

236.3 Amount due to associated companies increased from Rs 6.701 million as on June 30, 2008 to Rs 15.193 million as on June 30, 2009 which indicated that liabilities were not being settled in time. Efforts are required for early settlement of liabilities.

236.4 Current assets ratio of the Company showed decreasing trend from 0.81:1 in 2007-08 to 0.40:1 in 2008-09. The management is suggested to improve its liquidity position.

MINISTRY OF WATER AND POWER

( )

NATIONAL ENGINEERING SERVICES PAKISTAN (PVT) LIMITED

237. The National Engineering Services of Pakistan was incorporated in 1973 under the Companies Act 1913 (now Companies Ordinance 1984). It is wholly owned by the Government of Pakistan and engaged in engineering consultancy services in Pakistan and abroad.

Annual Audited Accounts of the Company for the year 2008-09 were not furnished by November 30, 2009.

AUDIT PARAS

238. **Irregular award of contracts- Rs 17.538 million**

As per rule 12(2) of the Public Procurement Rules- 2004 procurement over two million rupees should be advertised on the Authority's website as well as in other print media having wide circulation. The Establishment Division vide UO dated January 1, 2002 directed that in case expertise needed is not available in house or if available then justification for not undertaking the assignment internally may be spelled out.

National Engineering Services of Pakistan (NESPAK) awarded soil investigation work to various private firms on three different occasions. Neither the event was advertised in the press nor was justification for outsourcing these works found on record. The firms, whom the work was to be outsourced, were not pre-qualified under PPRs. This resulted in an irregular award of three contracts for Rs 17,537,827 (i.e. Rs 12,500,500 + Rs 2,043,450 + Rs 2,993,877).

The matter was reported to the management and Ministry on May 30, 2009. The management in its reply dated December 2, 2009 stated that NESPAK adopted PP Rules on May 26, 2008. The contract for the amount of Rs 12.501 million was entered in May 2006, two years before the said adoption. Furthermore, the other two contracts amounting to Rs 2.045 million and Rs 2.994 million were entered in March 2007, fifteen months before adoption of PP Rules. The reply was not acceptable as outsourcing was done without any justification and works were awarded without generating healthy competition to achieve economical rates.

The DAC meeting was held on January 15, 2001. The Committee was not satisfied with the explanation of the management and directed them to seek *ex-post facto* sanction of competent authority for regularization of expenditure. No progress was received till finalization of this report.

239. Irregular expenditure due to enhancement of POL ceiling – Rs 5.731 million

According to Finance Division letter No. F.4(8)R-4(2004) dated July 19, 2004, any proposal for revision in the salaries, allowances and perquisites of the supervisory and executive staff of public sector Corporations/Autonomous/Semi Autonomous Bodies and organizations is required to be carried out by the Board of Directors/Governors with prior approval of the Finance Division (Regulation Wing). Further, Finance Division U.O No. F.4(15)R-4/2004 dated July 31, 2007 stipulates that in the light of legal opinion of the Law, Justice and Human Rights Division, all the Regulatory Authorities may be directed to comply with the course of action decided in the meeting by submitting their salary structures to the standing committee of the Finance Division for consideration.

Management of NESPAK enhanced POL ceiling of its employees of Grade 8 (b), 8(c) and 9 from July 1, 2006 with the approval of Board of Directors. But the concurrence of Finance Division was not obtained. Resultantly, company had to bear extra burden of Rs 5.731 million from July 2006 to March 2008.

The matter was reported to the Management on April 30, 2008 and the Ministry on June 12, 2008. The management in its reply dated December 2, 2009 stated that BOD was the competent authority to enhance the POL ceiling. The reply was not acceptable as the Board of Directors is a recommendatory body and the approval of standing committee in this regard was necessary.

The DAC in its meeting held on January 15, 2010, observed that the enhancement of POL ceiling without referring it to the Finance Division was irregular and directed the management to get it regularized from the competent authority. No progress was reported till finalization of this report.

240. **i. Non-transparent award of work - Rs 1.534 million**
ii. Excess payment - Rs 1.738 million

As per PP Rule 12 (2), 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. Further, the Establishment Division vide UO dated January 1, 2002 directed that in case expertise needed is not available in house or if available then justification for not undertaking the assignment internally may be spelled out.

Contrary to the above, NESPAK did not invite tenders for topography and mapping through the advertisement in the press and called quotations from two parties. The rate quoted by M/s. Survey Tech was found the lowest for Rs 11,600 per KM for topographic and mapping of 115 KM and Rs 300 per acre for interchange area if required which was estimated for Rs 200,100. The work was approved by Managing Director for Rs 1,534,100 on June 27, 2006 but the work was completed for Rs 3,271,600. Further, the work was outsourced without any justification. This resulted in a non-transparent award of work amounting to Rs 1,534,100 involving an excess payment of Rs 1,737,600.

The matter was reported to the management and Ministry on May 30, 2009. The management in its reply dated December 2, 2009 stated that the work was of technical nature hence limited tender was called from pre-qualified firms.

The DAC meeting was held on January 15, 2001. The Committee was not satisfied with the explanation of the management and directed them to seek *ex-post facto* sanction of competent authority for regularization of expenditure. No progress was intimated till finalization of this report.

241. **Irregular expenditure due to award of work in a non-transparent manner - Rs 3.131 million**

As per rule 12(2) of the Public Procurement Rules - 2004 procurement over two million rupees should be advertised on the Authority's website as well as in other

print media having wide circulation. The Establishment Division vide UO dated January 1, 2002 directed that in case expertise needed is not available in house or if available then justification for not undertaking the assignment internally may be spelled out.

Highway and Transportation Division (H&TED) of NESPAK awarded survey work of New Balakot Site Bakriyal to M/s. H & S Survey and Engineering Company after calling the quotations instead of press advertisement. The outsourcing of the work in a non-transparent manner resulted in an irregular expenditure of Rs 3,131,000.

The matter was reported to the management and the Ministry on May 30, 2009. The management in its reply dated December 2, 2009 stated that the work was of technical nature hence limited tender was called from pre-qualified firms.

The DAC meeting was held on January 15, 2001. The Committee was not satisfied with the explanation of the management and directed them to seek *ex-post facto* sanction of competent authority for regularization of expenditure. No progress was intimated till finalization of this report.

242. Irregular expenditure due to insurance of vehicles from a private insurance company - Rs 1.133 million

As per Clause 166(3) of National Insurance Company (Re-organization) Ordinance 2000, all insurance business relating to any public property or to risk or liability appertaining to any public property shall be placed with NIC only and shall not be placed with any other insurer.

Contrary to the above, National Engineering Services of Pakistan (NESPAK) arranged insurance of their vehicles of Mega Irrigation Project and Earthquake Reconstruction and Rehabilitation (ERRA), Islamabad from private insurance company and incurred an irregular expenditure of Rs 1.133 during 2007-08.

The matter was reported to the management and Ministry on May 30, 2009. The management in its reply dated December 2, 2009 stated that vehicles were purchased for different development projects and after completion of the projects

it was not the property of the NESPAK. The reply was not convincing because these vehicles were insured by NESPAK.

The DAC in its meeting held on January 15, 2010 directed the management to get the matter regularized from competent authority. No progress was received till finalization of this report.

NATIONAL POWER CONSTRUCTION CORPORATION (PVT) LIMITED

AUDIT COMMENTS
ON THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2009

243. The Corporation was incorporated on July 18, 1974 under the Companies Act 1913 (now Companies Ordinance 1984). It is wholly owned by the Government of Pakistan and is engaged in power construction works in Saudi Arabia.

243.1 The working results of the Corporation for the year 2008-09 as compared to previous years are tabulated below :

(Rs in million)

	2008-09	% Inc/(Dec)	2007-08	% Inc/(Dec)	2006-07
Contract and other income	1,902.418	80	1,058.827	(75)	4,319.949
Contract and other expenses					
Material consumed	1268.387	81	701.311	(78)	3,249.676
Salaries, wages and other benefits	235.795	52	155.591	(13)	178.620
Subcontracts	49.378	202	16.350	(97)	609.213
Depreciation	17.585	26	13.983	0.5	13.910
Other expenses	236.331	98	119.333	(38)	193.452
Financial charges	27.272	26	21.715	72	12.590
Total expenses	1834.748	78	1028.283	(76)	4,257.461
Pre-tax profit	67.670	122	30.544	(51)	62.489

Source: Annual Audited Accounts

The income of the Corporation increased from Rs 1,058.827 million in 2007-08 to Rs 1,902.418 million in 2008-09 but it earned only 3% (Rs 30.544 million) and 4% (Rs. 67.670 million) pretax profit on total income in 2007-08 and 2008-09 respectively. Such level of profitability was insufficient for the Corporation to expand its business operation in future. This situation was due to constant nature of its expense to contract ratio which was 97% in 2007-08 and 96% in 2008-09. Management should make strenuous efforts to curtail the expenses and improve profitability of the Corporation.

243.2 Advances granted to contractors increased to Rs 90.527 million in 2008-09 as compared with Rs 4.398 million in 2007-08 registering an increase of 1,958%. Early adjustment/recovery is stressed on the management.

243.3 Tools, gauges and stores stood at Rs 49.479 million as on June 30, 2009 as against Rs 9.971 million as on June 30, 2008 registering an increase of 396%. It also included stores in transit of Rs 37.170 million, the status of its receipt need to be explained.

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SECTION –II

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COMMENTS ON INTERNAL CONTROLS

Introduction

Internal controls in any organization take the form of policies, procedures, rules, regulations, monitoring mechanism, etc. These controls guard against fraud, waste and inefficiency as well as ensure reliable and accurate operational and financial information for intelligent decision-making and prompt compliance with institutional policies and applicable laws and regulations. Internal controls are essential part of management's efforts to achieve its objectives and goals. A number of internal control weaknesses were seen during the audit of Public Sector Enterprises, of which a few are illustrated below:-

Receivables Management

Receivables management in almost all the organizations required immediate attention. Rising trend in receivables was noticed in a large number of organizations audited. While trade debts were not being collected within the stipulated period, late collection surcharge was also not levied on delayed payment. This adversely affects the liquidity position.

Inventory Management

Inventory management was another area where almost all organizations exhibited lethargic attitude with respect to purchases, physical verification and record keeping. Purchases were made without ascertaining the requirements thus blocking the capital. Obsolete inventories were not disposed of for years. In order to lower the costs of inventories, maximum retaining levels and reordering levels should be defined and purchases be made through open competition to avail the lowest prices. Furthermore, annual physical verification should be carried out.

Low Capacity Utilization

It was noticed that the Public Sector Enterprises were not adapting themselves according to the demands of the market. This leads to low capacity utilization due to non-availability of orders. Marketing Departments have to play a proactive role by informing the management about the changes in technologies and working of other potential competitors. The marketing departments have to keep a

close liaison with the customers regarding their needs and at the same time make efforts to find new customers.

Recommendation

Strengthening of internal controls is required in all organizations for their effective functioning and safeguards against fraud, inefficiency and waste. By doing so, the organizations can better achieve their desired objectives in a befitting and most economical manner.

Annexures

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ANNEXURE-I

NON-SUBMISSION OF ACCOUNTS

Annual audited accounts of Public Sector Enterprises for the year 2008-09 were to be provided to the Directorates General of Commercial Audit and Evaluation, Karachi and Lahore by November 30, 2009. Despite repeated requests, the organizations listed below failed to provide their annual audited accounts for the year 2008-09 as well as for the previous years by the prescribed date. While non-submission of accounts needs to be explained, efforts need to be made to finalize and provide the accounts immediately. None of these companies enjoy benefit of exemption under the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001.

S. No.	Name of Ministry/Division/Organization	Year of Accounts
	Cabinet Division	
1.	Oil and Gas Regulatory Authority	2006-07 to 2008-09
	Ministry of Commerce	
2.	Pakistan Tobacco Board	2007-08 to 2008-09
3.	Expo Lahore (Pvt) Limited	2008-09
	Ministry of Defence	
4.	PIAC Midway House (Pvt) Limited	2003-04 to 2008-09
	Ministry of Education	
5.	National Book Foundation	2007-08 to 2008-09
	Ministry of Environment	
6.	Pakistan Environmental Planning and Architectural Consultants (Pvt) Limited	2008-09
	Ministry of Housing and Works	
7.	Pakistan Housing Authority	2002-03 to 2008-09
	Ministry of Health	
8.	National Institute of Health	2007-08 to 2008-09
	Ministry of Industries and Production	
9.	Export Processing Zones Authority	1998-99 to 2008-09
10.	Pakistan Steel Fabricating Company (Pvt.) Limited	2006-07 to 2008-09
11.	Utility Stores Corporation of Pakistan (Pvt) Limited	2008-09

12.	Small and Medium Enterprises Development Authority	2008-09
13.	Heavy Electrical Complex (Pvt) Limited	2008-09
14.	National Fertilizer Marketing Limited	2008-09
	Ministry of Information and Broadcasting	
15.	Shalimar Recording and Broadcasting Company Limited	2003-04 to 2008-09 Not entertaining state audit.
16.	Associated Press of Pakistan Corporation	2003-04 to 2008-09
17.	Pakistan Broadcasting Corporation	2008-09
18.	Pakistan Television Corporation Limited	2008-09
	Ministry of Interior	
19.	National Database and Registration Authority	2005-06 to 2008-09 Not entertaining state audit.
	Information Technology and Telecom Division	
20.	Pakistan Software Export Board	2007-08 & 2008-09
	Labour and Manpower Division	
21.	Employees' Old-Age Benefits Institution	2008-09
22.	Overseas Employment Corporation (Pvt) Limited	2008-09
	Ministry of Livestock and Dairy Development	
23.	Korangi Fisheries Harbour Authority	2008-09
24.	Livestock and Dairy Development Board	2007-08 to 2008-09
	Overseas Pakistanis Division	
25.	Overseas Pakistanis Foundation	2007-08 to 2008-09
26.	Kaghan Brick Works Limited	2008-09
	Planning and Development Division	
27.	National Logistic Cell	2007-08 to 2008-09
	Ministry of Petroleum and Natural Resources	
28.	Pirkoh Gas Company (Pvt.) Limited	2008-09
	Ministry of Ports and Shipping	
29.	Gwadar Port Authority	2002-03 to 2008-09
30.	Gwadar Fish Harbour	1986-87 to 2008-09
31.	Port Qasim Authority	2003-04 to 2008-09
	Revenue Division	

32.	Pakistan Revenue Automation (Pvt) Limited	2002-03 to 2008-09
	Ministry of Science and Technology	
33.	Pakistan Science Foundation	2008-09
	Ministry of Tourism	
34.	Pakistan Tourism Development Corporation Limited	2007-08 to 2008-09
35.	Pakistan Tours (Pvt) Ltd	2008-09
	Ministry of Water and Manpower	
36.	National Engineering Services Pakistan (Pvt) Limited	2008-09

ANNEXURE-II

COMPANIES 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
	MINISTRY OF DEFENCE	
1.	Midway House (Pvt) Limited	Business closed since 2000, however, liquidation was in process.
	FINANCE DIVISION	
2.	Federal Bank for Co-operatives	Under liquidation since 2002
3.	Agricultural Marketing and Storage (Pvt) Limited	Under liquidation since 1993
	MINISTRY OF INDUSTRIES AND PRODUCTION	
4.	Pakistan Motorcar Company (Pvt) Limited	Operation closed since 1992, however, liquidation was in process.
5.	Republic Motors (Pvt) Limited	Operation closed since 1986, however, liquidation was in process.
6.	Associated Cement Rohri Limited	Operation closed since 1998. The Company was placed under liquidation on June 28, 2005, which was in process.

7.	Ghee Corporation of Pakistan (Pvt) Limited	Operation closed since June 1997
8.	Morafco Industries Limited	Operation closed since June 1997
	OVERSEAS PAKISTANIS DIVISION	
9.	Kaghan Brick Works Limited	Operation closed since 1996
	MINISTRY OF TOURISM	
10.	PTDC Motels South (Pvt) Limited	Operational activities closed since 1990

ANNEXURE-III

RECOVERIES MADE AND FINANCIAL IRREGULARITIES /

LOSSES OF PUBLIC MONEY CONDONED OR RECTIFIED

AT THE INSTANCE OF AUDIT

During the year 2009-10, audit inspection of Public Sector Enterprises of Federal Government was conducted and results thereof pin-pointing various types of financial irregularities and losses 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 losses / irregularities pointed out by Audit, made recoveries to the tune of Rs 1,282.918 million at the instance of audit as detailed below:

S. No.	Name of Ministry/Division	Brief particulars of recoveries	(Rs. in million)
	Ministry of Commerce		
1.	**Pakistan Re-insurance Company Ltd. (PRCL)**	Non-recovery of insurance premium amounting to Rs 122.640 million from a client insurance company was pointed out. The management recovered Rs 26.896 million	26.896
2.	-do-	Non-recovery of Rs 10.328 million from the tenant was pointed out. The management so far recovered Rs 8.829 million.	8.829
3.	**State Life Insurance Corporation of Pakistan**	Non-recovery of dues amounting to Rs 27.87 million from the tenants upon vacation of premises was pointed out.	

	(SLIC)	The management so far recovered Rs 7.520 million.	7.520

4.	**Trading Corporation of Pakistan (Pvt.) Ltd. (TCP)**	Non-recovery against shortages of 383.388 M/Tons of sugar worth Rs 11.080 million from the custodian of TCP Pipri Godown was pointed out. The management so far recovered Rs 9.000 million.	9.000
	Ministry of Defence		
5.	**Pakistan International Airlines Corporation (PIAC)**	An outstanding recovery of Rs 175.121 million against Pakistan Post Office was pointed out. The management so far made a recovery of Rs 126.182 million	126.182
6.	-do-	An amount of Rs 28.198 million recoverable from Pax agents was pointed out. The management so far recovered an amount of Rs 4.924 million	4.924
7.	-do-	An outstanding recovery of Rs 2.586 million on account of illegal / inadmissible passengers from Pax Agents was pointed out. The management so far recovered an amount of Rs 0.501 million	0.501
8.	**Skyrooms (Pvt.) Ltd.**	An amount of Rs 1.871 million recoverable from various airlines was pointed out. The management so far recovered an amount of Rs 1.695 million.	1.695
9.	-do-	An amount of Rs 0.287 million outstanding against various clients was pointed out. The management so far recovered an amount of Rs 0.183 million	0.183
10.	-do-	An outstanding amount of Rs 2.729 million against various parties was pointed out. The management so far recovered an amount of Rs 1.062 million	1.062

	Ministry of Education		
11.	National Book Foundation	Expected loss of Rs 14.040 million due to non-completion of supply order within stipulation period was pointed out. Out of total amount supply of Rs 13.754 million was received by the management leaving balance of Rs 0.286 million.	13.754
12.	-do-	Loss of Rs 259,751 due to damage and theft of books was pointed out. Amount of Rs 137,751 was recovered by the management leaving balance of Rs 122,030.	0.138
13.	-do-	Loss of Rs 111,346 due to non recovery of cost of books was pointed out. Out of total amount Rs 80,000 was recovered by the management leaving balance of Rs 26,346.	0.080
	Ministry of Environment		
14.	Pakistan Environmental Planning and Architectural Consultants (Pvt) Limited	Doubtful/bogus expenditure of Rs 625,000 was pointed out. Management recovered Rs 0.110 million at the instance of audit.	0.110
	Finance Division		
15.	SME Bank Limited	Non-recovery of Rs 16.549 million was pointed out by Audit. Out of which Rs 6.200 million were recovered by the management.	6.200
16.	-do-	Non recovery of Rs 0.875 million on account of HB Advance was pointed out by Audit. Entire amount was recovered by the management.	0.875

17.	SME Bank Limited	An amount of Rs 1.081 million against Asim Garments was pointed out. Out of which Rs 0.101 million was recovered at the instance of audit.	0.101
18.	Zarai Taraqiati Bank Limited	An amount of Rs 6.503 million on account of mis-utilization of loans was pointed out by Audit. Out of which Rs 3.029 million was recovered by the management.	3.029
19.	-do-	Blockage of funds of Rs 0.733 million due to non taking possession of acquired land was pointed out by Audit. Out of which land of Rs 0.368 million was adjusted by the management.	0.368
20.	-do-	Non-recovery of mis-utilization of loan of Rs 3.816 million from Amir Hussain Shah was pointed out. Entire amount was recovered by the management.	3.816
21.	-do-	Fraudulent drawl of loans amounting to Rs 1.300 million against bogus loanees and non-recovery of outstanding loan Rs 2.475 million was pointed out. An amount of Rs 2.626 million was recovered from 17 borrowers by the management.	2.626
22.	-do-	Non recovery of Rs 350,719 due to mis-utilization of loan was pointed out and borrower deposited Rs 17,0471 after availing remission.	0.017
23.	**-do-**	Non-recovery of Rs 760,000 from loanees was pointed out. Entire amount was recovered at the instance of audit.	0.760

	Ministry of Industries and Production		
24.	**Export Processing Zones Authority (EPZA)**	Non-recovery of Annual Ground Rent and Utility Charges from investors amounting to US$ 2.056 million was pointed out. The management so far recovered US$ 1.068 million equivalent to Rs 87.580 million.	87.580
25.	Utility Stores Corporation of Pakistan (Pvt) Limited	Loss due to shortage and misappropriation of Rs 102.638 million was pointed out. Entire amount was recovered by the management.	102.638
26.	-do-	Loss of Rs 98.609 million due to looting of store was pointed out by Audit. A recovery of Rs 27.007 million was made by the management.	27.007
	Ministry of Information and Broadcasting		
27.	Pakistan Television Corporation Limited	Non-recovery of Rs 1.146 million was pointed out by audit, out of which Rs 0.300 million was recovered by the management.	0.300
28.	Pakistan Television Corporation Limited	Non-recovery of commercial transmission charges Rs.2.316 million was pointed out. Out of which an amount of Rs 1.771 million was recovered at the instance of audit.	1.771
29.	-do-	Irregular credit sale of air time resulting into non recovery of Rs 31.875 million. Management recovered Rs 23.904 million leaving balance of Rs 7.971 million when pointed out by audit.	23.904

	Ministry of Kashmir Affairs and Gilgit-Baltistan		
30.	NATCO Gilgit	Embezzlement of Rs 1,130,830 due to short collection of amount from Cashier and Manager Mountain Filling Station was pointed out. Out of which Rs.932,000 was recovered by the management leaving balance of Rs 198,830.	0.932
	Labour and Manpower Division		
31.	Overseas Employment Corporation	Non-recovery of Rs 466,520 on account of Cash Guarantee was pointed out. Entire amount was recovered by the management.	0.467
	Overseas Pakistanis Division		
32.	Overseas Pakistanis Foundation	Non recovery of outstanding dues of Rs 3.840 million was pointed out. Entire amount was recovered by the management.	3.840
	Ministry of Petroleum and Natural Resources		
33.	OGDCL	Non recovery of Rs 3.989 million was pointed out by Audit. Out of which Rs 2.319 million was recovered by the management.	2.319
34.	-do-	Non recovery of Rs 4.194 million on account of Flood Relief was pointed out by Audit. Entire amount was recovered by the management.	4.194
35.	SNGPL	An amount of Rs 2.739 million from M/s Allied Engg. was recoverable. Out of which an amount of Rs 1.273 million was recovered when pointed out by audit.	1.273

36.	SNGPL	Rs.0.743 million due to risk and cost was recoverable. An amount of Rs 0.039 million was recovered at the instance of audit.	0.039
37.	-do-	Non-recovery of Rs 0.929 million on account of shortage of material was pointed out by Audit. Out of which Rs 0.485 million was recovered by the management.	0.485
38.	-do-	Rs.3.322 million recoverable was pointed out by Audit. Out of which Rs 0.722 million was recovered by the management.	0.722
39.	Pakistan Mineral Development Corporation Limited	An amount of Rs 0.805 million due to non-recovery of Royalty was pointed out. Out of which Rs 0.805 million was recovered by the management.	0.805
	Planning and Development Division		
40.	National Logistic Cell	Expected loss of Rs 14.970 million due to non-recovery of transportation charges from Government/Private parties was pointed out. Entire amount was recovered by the management.	14.970
41.	-do-	Rs.16.022 million due to non claim of transit shortage of Naphta from OGDCL was pointed out. Out of total amount Rs 3.746 million was recovered by the management leaving balance of Rs 12.276 million.	3.746
	Ministry of Ports and Shipping		
42.	**Pakistan National Shipping**	Non-recovery of freight amounting to Rs 215.028 million was pointed out. The	215.028

	Corporation	management recovered full amount.	
43.	**Gawadar Port Authority (GPA)**	Irregular retention of PSDP fund amounting to Rs 421.704 million was pointed out. The management refunded the entire amount.	421.704
44.	-do-	Non-deposit of auction proceeds in Government treasury amounting to Rs 39.510 million was pointed out. The management deposited the entire amount.	39.510
45.	-do-	Non-deposit of revenue to Government Account amounting to Rs 69.912 million was pointed out. The management refunded the entire amount.	69.912
	Revenue Division		
46.	Pakistan Revenue Automation (Pvt) Limited	Non-payment by NHA to PRAL Rs 8.614 million was pointed out. Entire amount was recovered by the management.	8.614
47.	-do-	Non-recovery of teaching and operation services charges of Rs 31.261 million from NHA was pointed out. Entire amount was recovered by the management.	31.261
	Ministry of Textile Industry		
48.	National Textile University	Loss of Rs 2.892 million was pointed out by Audit, Out of which Rs 0.181 million was recovered at the instance of audit.	0.181
	Ministry of Tourism		
49.	Pakistan Tourism Development Corporation Limited	Loss of Rs 1.050 million due to non receipt of lease amount on account of Keonjhar Lake Resort was pointed out. Entire amount was recovered by the	1.050

		management.	
		Total	**1,282.918**

ANNEXURE-IV

FINAL POSITION OF AUDIT PARAS AND MFDAC

The Directorates General, Commercial Audit and Evaluation, Karachi and Lahore on behalf of the Auditor-General of Pakistan, conducted the audit of federal organizations which maintain their accounts on commercial pattern.

As a result of audit conducted during 2009-10, various types of financial irregularities and losses of public money etc. were detected and reported to the Ministries/Divisions and organizations concerned. Out of them, 179 audit paras involving Rs 51,816.641 million on irregularities/losses and malpractices pertaining to various organizations have been printed in this report, while 92 lesser important irregularities/losses involving Rs 36,303.133 million as listed below were left for Departmental Accounts Committees. The same will be discussed with the respective Secretaries to the Ministries / Divisions by the Director General, Commercial Audit and Evaluation, Karachi & Lahore.

S. No.	AUDIT OBSERVATIONS	(Rs. in million)
	MINISTRY OF COMMERCE	
	National Insurance Company Limited (NICL)	
1.	Blockage of funds due to imprudent investment in shares	140.067
2.	Unadjusted advances against suppliers	6.570
3.	Irregular payment of claim under Burglary Business Premises Insurance	0.567
4.	Irregular payment of bonus to contract employees	0.451
	Pakistan Re-insurance Company Limited (PRCL)	
5.	Non-recovery of increase in rent from a Government organization	1.336
6.	Non-recovery of Facultative Re-insurance Premium	123.497
7.	Non-recovery of insurance premium	43.551
8.	Non-recovery of rent due to non-finalization of agreement	3.521
	State Life Insurance Corporation of Pakistan (SLIC)	
9.	Loss due to imprudent deposit of funds with banks	7.302
10.	Irregular acceptance of death claims	4.614
11.	Irregular appointment of an officer against forged educational certificate	2.011
12.	Non-recovery of a vehicle from a Government Organization	0.500
13.	Irregular allotment of official residential flats to the private tenants	-

	Pakistan Tobacco Board	
14.	Irregular expenditure on account of civil work	9.498
15.	Irregular promotion of officers resulting into overpayment	0.521
	MINISTRY OF DEFENCE	
	Pakistan International Airlines Corporation (PIAC)	
16.	Irregular expenditure in excess of approved budget	50.439
17.	Non-recovery of outstanding dues from travel agents	9.588
18.	Non-recovery of outstanding dues from defaulting general sales agents	1.916
19.	Untraceable aircraft parts – US$ 85,500	5.216
20.	Irregular purchase of laptops	1.725
21.	Irregular expenditure on repair of aircraft components abroad	1.291
22.	Irregular contract appointment of a Senior Product Officer	0.630
	Skyrooms (Pvt.) Limited	
23.	Award of contract by accepting rates after opening of bids	1.843
24.	Irregular advance payment for un-materialized purchase of generator	1.388
	MINISTRY OF DEFENCE PRODUCTION	
	Wah Industries Limited	
25.	Theft of stores from Shot Gun Ammunition Factory	0.287
	FINANCE DIVISION	
	State Bank of Pakistan	
26.	Irregular / uneconomical award by splitting works	3.040
27.	Procurement at higher rates by ignoring the lowest bid	0.817
	SME Bank Limited	
28.	Irregular appointment of Chief Manager	3.025
29.	Irregular payment on account of leave encashment	0.272
	Zarai Taraqiati Bank Limited	
30.	Non-recovery from defaulting loanees	2.315
31.	Infructuous expenditure due to mis-management	0.891
32.	Unjustified retention of Chief Information Officer	1.800
33.	Irregular appointments and payment	23.904

	MINISTRY OF FOOD AND AGRICULTURE	
	Pakistan Agricultural Storage and Services Corporation Limited	
34.	Irregular promotion resulted in overpayment	0.225
	MINISTRY OF HOUSING AND WORKS	
	National Construction Limited	
35.	Non deposit of income tax deducted at source	2.997
36.	Irregular enhancement of medical ceiling	0.325
37.	Non receipt of payment from COMSATS	18.844
38.	Loss due to non acceptance of labour escalation charges by the client	5.207
	Pakistan Housing Authority	
39.	Irregular payment of additional charge allowance	0.146
40.	Irregular payment on account of honorarium	12.860
	MINISTRY OF INDUSTRIES AND PRODUCTION	
	Export Processing Zones Authority (EPZA)	
41.	Loss due to purchase of buildings and structure of defaulting units	13.517
	Pakistan Steel Mills Corporation (Pvt.) Limited	
42.	Irregular payment of transportation charges	0.414
43.	Loss due to theft of store items	0.393
	Heavy Electrical Complex (Pvt) Limited	
44.	Irregular enhancement in house rent ceiling resulting in overpayment	0.102
45.	Irregular expenditure on account of honorarium paid to the Company Secretary	0.048
	Heavy Mechanical Complex (Pvt) Limited	
46.	Loss due to imposition of L.D charges by Pakistan Steel Mills	1.451
47.	Blockage of funds due to non disposal of stores	17.065
48.	Irregular award of contract	5.706
	MINISTRY OF INFORMATION AND BROADCASTING	
	Pakistan Broadcasting Corporation	
49.	Irregular payment due to appointment during ban period	1.340
50.	Irregular expenditure on account of foreign visits	2.305

51.	Loss due to missing of laptop	0.177
	Pakistan Television Corporation Limited	
52.	Irregular payment due to re-employment after superannuation	22.603
53.	Irregular procurement of imported vehicles	4.950
54.	Excess payment to contractor	1.163
55.	Non-recovery due to irregular commercial transmission	0.761
	Associated Press of Pakistan Corporation	
56.	Irregular expenditure incurred on procurement of vehicles	2.300
57.	Irregular grant of advance increment to the employees	0.210
	INFORMATION TECHNOLOGY AND TELECOM DIVISION	
	Pakistan Software Export Board	
58.	Irregular payment as additional / acting charge allowance	0.317
59.	Irregular grant of loans and non recovery	2.477
	MINISTRY OF LABOUR AND MANPOWER	
	Overseas Employment Corporation (Pvt) Limited	
60.	Irregular payment of room charges	0.220
	OVERSEAS PAKISTANIS DIVISION	
	Overseas Pakistanis Foundation	
61.	Irregular procurement of land	519.108
62.	Non-deposit of cost of land by the allottees	8.010
63.	Non-charging of surcharge	16.821
64.	Loss due to payment of low power factor penalty	1.451
65.	Award of work over and above the BOQs	23.204
66.	Irregular payment of honorarium to staff of Ministry	0.296
67.	Loss on account of Yaran-e-Watan Magazine	2.853
68.	Loss due to deterioration of development work of Chattarpari housing scheme	36.195
69.	Irregular payment of gas connection charges on behalf of allottees	4.026
	MINISTRY OF PETROLEUM AND NATURAL RESOURCES	
	Sui Southern Gas Company Limited	
70.	Expected loss due to unacknowledged gas theft cases	425.905
71.	Loss due to theft of gas by meter tampering	11.417

72.	Non-recovery of advertisement charges	9.020
	Sui Northern Gas Pipelines Limited	
73.	Loss due to non recovery of risk and cost	0.743
	Oil and Gas Development Company Limited	
74.	Overdue receivables	31,918.495
75.	Non recovery of late payment surcharge	2,611.066
	Pakistan Mineral Development Corporation (Pvt) Limited	
76.	Irregular payment of donations	0.500
77.	Loss due to non revision of royalty	3.432
78.	Loss due to payment of maximum demand indicator (MDI) charges at PMDC Collieries Degari	2.100
79.	Shortage of Salt at PMDC Warcha Mines	1.515
	Government Holdings (Pvt) Limited	
80.	Irregular appointment of a part time legal advisor	0.150
	PLANNING AND DEVELOPMENT DIVISION	
	National Logistic Cell	
81.	Irregular appointment of consultant and un-authorized enhancement in pay package.	2.436
82.	Loss due to unjustified enhancement of civil work rates	0.423
83.	Irregular payment on account of construction of nullah diversion	4.091
	MINISTRY OF PORTS AND SHIPPING	
	Gwadar Port Authority	
84.	Un-verifiable revenue collection in violation of the concession agreement	23.135
	Pakistan National Shipping Corporation	
85.	Irregular payment of bonus to officers	13.083
	MINISTRY OF SOCIAL WELFARE AND SPECIAL EDUCATION	
	Pakistan Bait-ul-Mal	
86.	Procurement of sewing machines at higher rates	0.241
87.	Supply of sub-standard cloth by the contractor	4.697
88.	Irregular procurement of furniture for Vocational/Dastakari Schools	14.421
89.	Loss due to procurement of BATA shoes at higher rates	2.047
90.	Irregular procurement of gadget material for Vocational/Dastkari schools	11.696

	MINISTRY OF TOURISM	
	Malam Jabba Resort Limited	
91.	loss due to non shifting of assets from Malam Jabba Resort	57.327
	MINISTRY OF WATER AND POWER	
	National Engineering Services Pakistan (Pvt) Limited	
92.	Non-transparent award of work	0.713
	Total:	**36,303.133**

ANNEX-V
(See Para-11)

Details of acceptance of claims against defaulted premium / expired insurance cases by Pakistan Re-insurance Company Limited

S. No.	Beneficiary	Period of default in premium payment	Date of occurrence of loss	Month/year of payment of claim	Amount of claim paid (Rs. in million)
1.	M/s. New Jubilee Insurance Company Limited on account of M/s. Novartis Pharma (Pakistan) Limited	Insurance period for 1-01-07 to 1-01-08; however, premium of Rs.86,837 was received in June 2008 for the period up to 25-05-08	December 28, 2007	July 2008	4.190
2.	M/s. New Jubilee Insurance Company Limited on account of Frontier Works Organization.	Insurance period for 27-03-06 to 26-03-08; however, premium of Rs 1.579 million was received in May 2008 for the period up to 26-03-08	June 26, 2007	May 2008	2.625
3.	M/s EFU General Insurance Co. Ltd. on account of M/s. Dewan Salman Fibres Limited	Insurance period 1-09-03 to 30-06-04; however, premium of Rs.596,699 was received on 6-10-04 for the period up to 30-06-04	June 23, 2004 (claim lodged on June 26, 2007)	May 2008	1.426
4.	M/s EFU General Insurance Co. Ltd on account of M/s. Dewan Salman Fibres Limited	Insurance period 30-06-05 to 30-06-06; however, premium of Rs.1,117,974 was received in March 2007 and July 2007	October 23, 2005	August 2008	5.426
5.	M/s Adamjee Insurance Co. Ltd. on account of National Highway Authority and M/s. Sumbu contractor Company Ltd.	Insurance period 1-01-06 to 1-01-08 plus maintenance period 1-01-08 to 1-01-09; however, the installment of premium Rs.435,507 due on April 2006 was received in September 2006 after occurrence of the loss.	August 8, 2006	March 2008	14.301

6.	M/s New Jubilee Insurance Co. Ltd., account of M/s. International Industries Limited	Insurances period 1-01-08 to 31-12-08; however, the premium of Rs.409.465 was received in 2009.	May 13 to 15, 2008	April 2009	1.668
7.	M/s EFU General Insurance Co. Ltd., on account of M/s. Hassan Ali Rice Export Company.	Warranty period expired on 6-08-08; however, the premium was received in June 2009.	May 7, 2008	June 2009	3.178
		Total			**32.814**

ANNEX-VI

(See Para-46)

Details of non-supplied auditable record by Pakistan International Airlines Corporation during the Audit Year 2009-10

S. No.	Requisition No. & date	Description
1	No.02/CAP-XIII/IT/2008 dated 10-07-2009	1. Personal Files of the Programmers along with job description. 2. Personal Files of the System Engineers along with job description. 3. Personal Files of the Network Engineers along with job description. 4. Personal Files of the System Administrators along with job description.
2	No.04/CAP-XIII/IT/2008 dated 10-07-2009	The document of SITA membership, stating the sector and the type o product obtained from SITA.
3	No.05/CAP-XIII/IT/2008 dated 13-07-2009	Summary of payment (D-15) of I.T. Department along with vouchers fo the years 2006, 2007 and 2008 with the requisition.
4	No.07/CAP-XIII/IT/2008 dated 13-07-2009	List of contract employees of I.T. Department for the years 2006, 200 and 2008 as per proforma attached
5	No.08/CAP-XIII/IT/2008 dated 13-07-2009	List of permanent employees of I.T Department for years 2006, 200 and 2008 as per proforma attached with requisition.
6	No.11/CAP-XIII/IT/2008 dated 15-07-2009	The files of: 1. System Software Rental 2. Mainframe HW MAINT 3. Mini/Micro HW MAINT 4. Support System Maintenance 5. E-Mail CHRGS 6. Stationary and Office Supplies – Store 7. Stationary and Office Supplies – Dir Pur 8. Computer Stationary 9. Services Hired 10. PIA Call Centre
7	No.13/CAP-XIII/IT/2008 dated 16-07-2009	List of the computer hardware / network components purchased during years 2006, 2007 and 2008 (along with requisition raised by th department).
8	No.14/CAP-XIII/IT/2008 dated 16-07-2009	1. Stock register of scrap material. 2. Register of compliance (for repair of systems / update of I.T equipments).

9	No.1/CAP-XIII/IT/2008 dated 15-07-2009	Internal Audit Report of I.T Department for the years 2006, 2007 and 2008.
10	No.15/CAP-XIII/IT/2008 dated 21-07-2009.	Detailed list of the employees who were deputed for OCS (Or Cooperation Services).
11	No.21/CAP--XIII/IT/2008 dated 12-08-2009	Report of Audit of I.T System.
12	No.24/CAP-XIII/IT/2008 dated 17-08-2009	Payment vouchers of Account No: 64100, 64020, 58060, 64110, 07531, 67020, 25024, 68030, 64160 64090, 64130
13	No.25/CAP-XIII/IT/2008 dated 17-08-2009	Files of following capital expenditure: 1. ERP Implémentation 2. MRO Implémentation 3. Business Continuity System 4. Call Centre Upgrade/Additional Services 5. E-Ticketing / E-Ticketing Infrastructure 6. Airport / Engineering Automation System & Equipment (CUSS, RFiD, Biometrics) etc. 7. Mobile System Application / Mobile Marketing System / Equipment 8. COSSAP Upgrade 9. Lotus Notes / Black berry / Oracle / Citrix, etc. 10. Queue Management System 11. Document Management System
14	No.26/CAP-XIII/IT/2008 dated 21-08-2009	Files of following capital works: 1. Web / Email / Internet Charges 2. AIMS Upgrade 3. Revenue Accounting System Hardware & Software Upgrade / Replacement 4. Network Development / Security 5. PCs/Printers/Peripheral Devices / Tk Printers/New Stations/ Server Replacement/Airline Equipment (Additional/Replacement/Upgrade) 6. Software Licence & Support (Oracle, Microsoft, ERP) 7. New Systems / Applications 8. Mainframe Re-hosting 9. Air-conditioning Unit Replacement

ANNEXURE-VII

RECEIPT & EXPENDITURE STATEMENT

(Rs in million)

		Expenditure	Income
	CABINET DIVISION		
1.	Printing Corporation of Pakistan (Pvt) Limited	197.36	156.39
2.	Oil and Gas Regulatory Authority	101.593	125.446
	MINISTRY OF COMMERCE		
3.	National Insurance Company Limited	1,692.685	3,205.889
4.	Pak Reinsurance Company Limited	1,751.149	2,890.149
5.	State Life Insurance Corporation of Pakistan	40,080.314	41,734.116
6.	Trading corporation of Pakistan	62,560.063	64,837.660
7.	Pakistan Tobacco Board	63.736	172.2
8.	Expo Lahore Pvt Ltd.		
	MINISTRY OF DEFENCE		
9.	Pakistan International Airlines Corporation	130,762.000	91,033.000
10.	Skyrooms (Pvt.) Limited	223.180	242.454
11.	Midway house Pvt. Limited		
	MINISTRY OF DEFENCE PRODUCTION		
12.	Karachi Shipyard and Engineering works	974.832	1,512.987
13.	Pakistan Ordnance Factory		
14.	Wah Industries Ltd		
	MINISTRY OF EDUCATION		
15.	National Book Foundation	186.103	190.715
	MINISTRY OF ENVIRONMENT		
16.	Pakistan Environment Planning and Architectural Consultants (Pvt) Limited	18.871	51.518
	FINANCE DIVISION		
17.	Industrial Development Bank of Pakistan	689.973	404.055
18.	House Building Finance Corporation	1,296.322	1,309.440
19.	Pakistan Security Printing Corporation (Pvt.) Ltd.	3,724.585	5,130.200
20.	State Bank of Pakistan	7,869.908	222,974.106
21.	Agricultural Marketing and Storage (Pvt) Limited	2.94	
22.	Federal Bank for Co-operatives		
23.	Small and Medium Enterprises Bank Limited	1,551.564	1,686.14
24.	Zarai Taraqiati Bank Limited	9,737.557	11,529.22
	REVENUE DIVISION		
25.	Pakistan Revenue Automation (Pvt) Limited		
	MINISTRY OF FOOD AND AGRICULTURE		
26.	Pakistan Agricultural Storage and Services Corporation Limited	19,726.335	16,849.818
27.	Livestock And Dairy Development Board	33.033	33.456

	MINISTRY OF HEALTH		
28.	National Institute of Health	33.388	47.333
	MINISTRY OF HOUSING AND WORKS		
29.	National Construction Limited	1,611.67	1,651.155
30.	Pakistan Housing Authority		
	MINISTRY OF INDUSTRIES AND PRODUCTION		
31.	Export Processing Zones Authority	90.677	161.179
32.	Pakistan Industrial Development Corporation	387.712	1,058.674
33.	Pakistan Steel Mills Corporation (Pvt.) Limited	63,416.388	34,456.015
34.	Pakistan Steel Fabricating Company (Pvt.) Limited	59.993	57.393
35.	Republic Motors		
36.	Pakistan Motors Limited		
37.	Sindh Engineering Limited		
38.	Morafco Industries Limited		
39.	Associated Rohri Limited		
40.	Ghee Corporation of Pakistan Limited		
	State Engineering Corporation (Pvt) Limited		
41.	State Engineering Corporation (Pvt) Limited	25.681	12.462
42.	Heavy Electrical Complex (Pvt) Limited	621.493	758.751
43.	Heavy Mechanical Complex (Pvt) Limited	1,497.779	1,530.514
44.	Pakistan Machine Tool Factory (Pvt) Limited	968.362	925.28
45.	Pakistan Engineering Company Limited	837.895	1,046.803
46.	ENAR Petrotech Services (Pvt) Limited	103.651	112.521
47.	State Enterprises Display Center Pvt Limited		
	National Fertilizer Corporation of Pakistan		
48.	National Fertilizer Corporation of Pakistan (Pvt) Limited + Units	474.576	2,593.333
49.	Ghee Corporation of Pakistan		
50.	Small and Medium Enterprises Development Authority (SMEDA)	148.35	134.432
51.	Utility Stores Corporation of Pakistan (Pvt) Limited	19,070.831	9,722.16
52.	Engineering Developmet Board (Ex EAC)		
	MINISTRY OF INFORMATION AND BROADCASTING		
53.	Pakistan Broadcasting Corporation	1,906.371	1,688.72
54.	Pakistan Television Corporation Limited	4,023.053	4,445.58
55.	Associated Press of Pakistan Corporation		
	INFORMATION TECHNOLOGY AND TELECOMMUNICATION		
56.	Pakistan Software Export Board	73.313	77.243
	MINISTRY OF KASHMIR AFFAIRS AND GILGIT – BALTISTAN		
57.	Northern Areas Transport Corporation Ltd.	431.08	453.888
	MINISTRY OF LABOUR AND MANPOWER		
58.	Employees' Old-Age Benefits Institution	4,872.451	27,320.081
59.	Primaco Private Limited		
60.	Overseas Employment Corporation (Pvt) Ltd.	46.25	48.648
	MINISTRY OF LIVESTOCK AND DAIRY DEVELOPMENT		
61.	Korangi Fisheries Harbour Authority	92.335	37.800

	OVERSEAS PAKISTANIS DIVISION		
62.	Overseas Pakistanis Foundation	395.235	343.815
63.	Kaghan Brick Works Limited		
	MINISTRY OF PETROLEUM AND NATURAL RESOURCES		
64.	Pakistan Petroleum Limited	23,821.384	65,729.804
65.	Pakistan State Oil Company Limited	626,732.000	615,377.000
66.	Saindak Metals Limited	856.202	1,728.534
67.	Sui Southern Gas Company Limited	113,244.351	114,261.034
68.	Sui Northern Gas Pipelines Limited	141,740.471	131,540.45
69.	Oil and Gas Development Company Limited	40,964.816	72,445.674
70.	Government Holding Private Limited	10,204.542	11,242.78
71.	Pirkoh Gas Company (Pvt) Limited	970.139	1,132.268
72.	Pakistan Mineral Development Corporation (Pvt) Limited	967.423	1,127.147
73.	Lakhra Coal Development Company Limited, Karachi	250.932	307.512
	PLANNING AND DEVELOPMENT DIVISION		
74.	National Logistic Cell	6,603.407	7,677.4
75.	Pakistan Institute of Development Economics	115.427	137.379
	MINISTRY OF PORTS AND SHIPPING		
76.	Gawadar Fish Harbour	39.000	
77.	Gawadar Port Authority	30.000	
78.	Light Houses and Light Ships	6.707	78.219
79.	Pakistan National Shipping Corporation	8,931.588	11,474.349
80.	Port Qasim Authority	1,901.043	2,339.868
81.	Gawadar Port Implementation Authority		
	MINSTRY OF SCIENTIFIC AND TECHNOLOGICAL RESEARCH		
82.	Pakistan Science Foundation	87.823	87.151
	MINISTRY OF SOCIAL WELFARE AND SPECIAL EDUCATION		
83.	Pakistan Bait-ul-Mal	2,104.15	5,437.59
	MINISTRY OF TEXTILE		
84.	National Textile University	77.77	67.277
	MINISTRY OF TOURISM		
85.	Pakistan Tourism Development Corporation	122.665	139.352
86.	PTDC Motels North (Pvt) Limited	90.915	77.453
87.	PTDC Motel South (Pvt) Limited		
88.	Pakistan Tours (Pvt) Limited	37.759	38.433
89.	PTDC Associated Hotels of Pakistan		
90.	Malam Jabba Resort Pvt Ltd.		
	MINISTRY OF WATER AND POWER		
91.	National Engineering Services Pakistan (Pvt) Limited	2,696.769	2507.37
92.	National Power Construction Company (Pvt) Limited	3,257.461	3,219.494
	TOTAL:	**1,370,287.381**	**1,602,926.277**