AUDIT REPORT
ON
THE ACCOUNTS OF
PUBLIC SECTOR ENTERPRISES
AUDIT YEAR 2010-11

AUDITOR GENERAL OF PAKISTAN

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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AKDN	Agha Khan Development Network
BC	Banbhore Ceramic
BIIC	Business & Industrial Insurance Company
BOD	Board of Directors
BOG	Board of Governors
BoM	Board of Management
BOO	Build, Own & Operate
BOQ	Bill of Quantity
BOT	Build, Operate and Transfer
C&F	Cost and Freight
C&F(FO)	Cost & Freight (Free Out)
CAA	Civil Aviation Authority
CBA	Collective Bargaining Agent
CC&B	Customer Care and Billing (System) -SNGPL
CCB	Credit Control and Billing
CCOP	Cabinet Committee on Privatization
CDGK	City District Government Karachi
CDR	Cash Deposit Receipt
CDWP	Central Development Working Party
CEC	Cotton Export Corporation
CEC	Central Executive Committee
CED	Central Excise Duty
CEO	Chief Executive Officer
CER	Currency Exchange Rate
CFO	Chief Financial Officer
CIA	Chief Inspector of Armament (POFs)
CIF	Cost, Insurance and Freight
CILT	Chartered Institute of Logistic & Transport
CMC	Consumer Master Card (SNGPL)
CMD	Contract Management Department
CMS	Consumer Meter Station (SNGPL)
CNG	Compressed Natural Gas

CPC	Central Purchase Committee
CPF	Contributory Provident Fund
DAC	Departmental Accounts Committee
DAE	Diploma of Associate Engineering
DDWP	Departmental Development Working Party
DGDP	Director General Defence Purchase (POFs)
DPG	Direct Passing Gas
DR	Discrepancy Report
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization
ECC	Economic Co-ordination Committee
EOBI	Employees' Old Age Benefit Institution
EOGM	Extra Ordinary General Meeting
EOT	Extension of Time
EPS	Earnings per Share
EPZA	Export Processing Zones Authority
ERP	Enterprise Resource Planning
EU	European Union
EVC	Electronic Volume Corrector (SNGPL)
FEC	Foreign Exchange Currency
FIA	Federal Investigation Agency
FIR	First Information Report
FOB	Free on Board
GCV	Gas/Gross Calorific Value (SNGPL)
GDS	Gas Development Surcharge (SNGPL)
GFR	General Financial Rules
GM	General Manager
GoP	Government of Pakistan
GST	General Sales Tax
HBFC	House Building Finance Corporation
HEC	Higher Education Commission
HEC	Heavy Electrical Complex (Pvt) Limited
HIT	Heavy Industries Taxila
HM3	Hundred Cubic Meter
HMC	Heavy Mechanical Complex (Pvt) Limited
HR	Human Resource

HSD	High Speed Diesel
HSFO	High Sulphur Furnace Oil
HSS	Hattaf Security System
IA&E	Inspectorate of Armament of Explosives (POFs)
IBNR	Incurred But Not Reported
ICB	International Competitive Bidding
IDBP	Industrial Development Bank of Pakistan
IMF	International Monetary Fund
IPC	Interim Payment Certificate
JJVL	Jamshoro Joint Venture Limited
KBO	Karachi Booking Office
KEPZ	Karachi Export Processing Zones Authority
KESC	Karachi Electric Supply Company
KMC	Karachi Metropolitan Corporation
KP	Khyber Pakhtunkhwa
KPP	Khushal Pakistan Program (SNGPL)
KS&EW	Karachi Shipyard & Engineering Works
LC	Letter of Credit
LCA	Liverpool Cotton Association
LD	Liquidated Damages
LDC	Late Delivery Charges
LHC	Lahore High Court
LPC	Last Pay Certificate
LPO	Local Purchase Order
LPP	Last Purchase Price
LPS	Late Payment Surcharge
LSFO	Light Sulphur Furnace Oil
MCF	Metric Cubic Feet (SNGPL+OGDCL)
MCO	Mobile Credit Officer
MINFA	Ministry of Food and Agriculture
MIS	Management Information System
MMbtu	Million Metric British Thermal Unit
MMCF	Million Metric Cubic Feet
MMD	Material Management Department
MODP	Ministry of Defence Production

MOGAS	Motor Gasoline
MOIP	Ministry of Industries and Production
MOU	Memorandum of Understanding
MP&NR	Ministry of Petroleum & Natural Resources
MRDL	MCC Resource Development (Pvt.) Limited
MRV	Material Return Voucher
NAB	National Accountability Bureau
NADRA	National Database and Registration Authority
NESPAK	National Engineering Services of Pakistan (Pvt) Limited
NGO	Non-Government Organization
NICL	National Insurance Company Limited
NIRC	National Industrial Relations Commission
NIT	National Investment Trust
NLC	National Logistic Cell
NTDC	National Transmission & Dispatch Company Limited
OGDCL	Oil and Gas Development Company Limited
OGRA	Oil and Gas Regulatory Authority
OSP	Other Security Products
P&L	Profit and Loss
PAC	Public Accounts Committee
Pak PWD	Pakistan Public Works Department
PAO	Principal Accounting Officer
PARCO	Park Arab Refining Company
PATLO	Pakistan Army Technical Liaison Officer (POFs)
PCA	Petroleum Concession Agreement
PC-I	Planning Commission –I
PDC	Price Differential Claim
PDC	Peripheral Development Charges
PEC	Pakistan Engineering Council
PEPAC	Pakistan Environmental Planning and Architectural Consultants (Pvt) Limited
PGIC	Pakistan Guarantee Insurance Company
PHA	Pakistan Housing Authority
PI	Principal Investigator
PIAC	Pakistan International Airlines Corporation

PIC	Pakistan Insurance Corporation
PID	Press Information Department
PIDC	Pakistan Industrial Development Corporation (Pvt.) Limited
PLD	Pakistan Legal Division
PNSC	Pakistan National Shipping Corporation
POFIT	Pakistan Ordnance Factory Institute of Technology
POFs	Pakistan Ordnance Factories
PPL	Pakistan Petroleum Limited
PPRA	Public Procurement Regulatory Authority
PPRs	Public Procurement Rules
PQA	Port Qasim Authority
PR	Price Reduction
PSDP	Public Sector Development Programme
PSFCL	Pakistan Steel Fabricating Company (Private) Limited
PSI	Pre-Shipment Inspection
PSM	Pakistan Steel Mills Corporation (Private) Limited
PSO	Pakistan State Oil
PSPC	Pakistan Security Printing Corporation
PTC	PIA Training Centre
PUG	Passing Unregistered Gas
RAR	Running Account Receipt
RBS	Rebroadcasting Station
RDFC	Regional Development Finance Corporation
RECP	Rice Export Corporation of Pakistan
RRC	Rate Reasonability Committee
RSD	Ramp Service Department
SAFA	Safety Assessment of Foreign Aircrafts
SAM	Special Asset Management (ZTBL+SME Bank)
SAP	System Application Programme
SATS	Singapore Airport Terminal Services
SBFC	Small Business Finance Corporation
SBP	State Bank of Pakistan
SDA	Special Deposit Account
SEC	State Engineering Corporation
SECP	Security Exchange Commission of Pakistan

SLIC	State Life Corporation of Pakistan
SMEDA	Small and Medium Enterprises Development Authority
SML	Saindak Metals Limited
SMS	Sale Meter Station (SNGPL)
SNGPL	Sui Northern Gas Pipelines Limited
SOP	Standard Operating Procedure
SPI	Swiss Port International
SPL	Security Paper Limited
SRL	Skyrooms (Pvt.) Ltd
SRO	Statutory Regulatory Order
SSGCL	Sui Southern Gas Company Limited
TAs	Temporary Assignees
TBS	Town Border Station (SNGPL)
TCP	Trading Corporation of Pakistan
TDR	Term Deposit Receipt
TGS	Technical Ground Support Division
TSA	Transportation Service Administration
TUSDEC	Technology Upgradation and Skill Development Company
UCP	Ultra Coat Pakistan
UFG	Un-accounted for Gas
USC	Utility Stores Corporation of Pakistan (Pvt.) Limited
VSS	Voluntary Separation Scheme
WIL	Wah Industries Limited
WIP	Work in Progress
ZTBL	Zarai Taraqiati Bank Limited

Preface

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

The report is based on audit of the accounts of Public Sector Enterprises of Government of Pakistan for the financial year 2009-10. The Directorates General of Commercial Audit and Evaluation, Lahore and Karachi conducted audit during July 1, 2010 to December 15, 2010 on test check basis, with a view of reporting significant findings to the relevant stakeholders.

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

Most of the observations included in this report have been finalized in the light of discussions in the Departmental Accounts Committee meetings.

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

Dated: February 28, 2011

TANWIR ALI AGHA
Auditor General of Pakistan

EXECUTIVE SUMMARY

Directorates General of Commercial Audit and Evaluation (DsG CA&E), Lahore and Karachi carry out audit and evaluation of Public Sector Enterprises (PSEs) established by Federal Government which maintain their accounts on commercial basis.

Section 15 of Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 empowers Auditor General of Pakistan to conduct audit of companies and corporations established in the public sector. For this, DsG CA&E have a human resource of 242 officers and staff equivalent to 60,237 mandays for audit. The annual budget of the DsG's offices for the year 2009-10 amounted to Rs 88.862 million. These offices are mandated to conduct regularity (financial audit and compliance with authority audit), performance and special audits and special studies of 87 entities.

This report contains results of audit inspection and evaluation of financial performance of public sector entities for the financial year 2009-10 conducted during the year 2010-11. It was also assessed whether or not the organizations are managed in accordance with sound commercial practices and following canons of financial propriety and government policy directives. Internal controls were reviewed with the objective of identifying weak areas and recommending improvements (reference Annexure-5). This report also contains comments on the annual audited accounts of 56 public sector enterprises (42 current and 14 arrear). However, comments on 37 organizations could not be included in this report as the concerned management failed to submit their audited accounts by the prescribed date.

a. Expenditure audited

There are 87 commercial entities of the Federal Government under the jurisdiction of DG CA&E, Lahore and DG CA&E Karachi. These entities operate under administrative control of 26 different Principal Accounting Officers (PAOs). As per Audit Plan 2010-11, both the Directorates General audited the accounts pertaining to year 2009-10 of 49 commercial entities against the planned 52 entities.

Out of total expenditure of the entities for the financial year 2009-10, auditable expenditure under the jurisdiction of the DsG CA&E, was Rs 1,412.785 billion covering 87 formations falling under 26 PAOs. Of this, both the Directorates

General, audited the expenditure of Rs 1,394.858 billion which in terms of percentage is 98.67% of auditable expenditure. The audit of receipts of Rs 1,836.062 billion pertaining to these formations was also conducted. This report contains results of special audit of accounts of Abdullah Haroon Road Property (Pvt.) Limited (a subsidiary of State Life Insurance Corporation Limited), Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited. In addition, the DG CA&E, Lahore, conducted performance audit of two projects and special studies in three areas.

b. Recoveries at the instance of audit

An amount of Rs 128.147 million was recovered during year 2010-11 out of a total recoverable amount of Rs 189.301 million pointed out up to the compilation of report. Out of the total recoveries pointed out, an amount of Rs 59.665 million was not in the notice of the respective managements before audit.

c. Desk Audit

Audit planning was carried out and permanent files of auditee organizations were maintained and consulted / updated for audit of accounts for the year 2009-10. Audit was carried out on the basis of Risk and Adequacy of Internal Control System in the organization with specific emphasis on high value items and inherent risk areas. Audit checks were applied keeping in view the nature of transactions, current commercial accounting and best auditing practices in Pakistan and relevant financial and operational manuals.

d. Changes in Rules, Practices and System

i. Salary advances were being paid by Pakistan Housing Authority to the employees under the policy approved by the Secretary, Housing and Works in contravention of the Government rules and regulations. On the basis of audit observation, the Ministry discontinued the policy.

ii. Sui Northern Gas Pipelines Limited was paying motivational incentives to the young engineers, beyond salary structure. During the DAC meeting, the management agreed to discontinue the practice and rationalize the HR policy.

iii. The management of SNGPL also agreed to amend the relevant clauses of Project Manual to account for revenue from disposal of trees falling within right of way.

e. Key audit findings of the report;

i. Embezzlement of public money and fictitious payments amounting to Rs 1,269.654 million in 10 cases[1].
ii. Loss of Rs 6,604.134 million pointed out in 38 cases[2].
iii. Recoveries and overpayments pointed out in 32 cases amounting to Rs 8,802,575 million[3].
iv. Wasteful expenditure was noted in 7 cases amounting to Rs 214.439 million[4].
v. Blockage of public funds was noted in 10 cases amounting to Rs 3275.752 million[5].
vi. Unauthorized payments of Rs 217.381 million were noted in 5 cases[6].
vii. There were 28 cases of irregular expenditure/payments and violation of rules Rs 1,356.071 million[7].
viii. Lack of internal control was noted in 9 cases amounting to Rs 1,080.074 million[8].
ix. Irregular investment by procuring shares of an unlisted company – Rs 496.350 million[9]
x. Irregular award of fuel consultancy services in violation of PIAC Procurement Rules - Rs 4.464 million[10]
xi. Sale of gas at subsidized rate to fertilizers causing shifting of low cost burden on other industrial and commercial consumers - Rs 8,300.000 million[11]
xii. Undue / unjustified adjustment of exemption of sales tax by shifting burden on consumers – Rs 27.244 million[12]

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1 Paras 2.3.4.4, 4.2.4.1, 8.1.4.1, 10.1.4.1, 11.6.4.1, 11.6.4.2, 13.1.4.1, 18.2.4.1, 18.2.4.2, 18.4.4.1

2 Paras 2.2.4.4, 2.3.4.6, 2.4.4.2, 2.4.4.3, 2.4.4.4, 3.1.4.10, 3.1.4.12, 3.1.4.13, 3.1.4.14, 3.1.4.15, 4.2.4.2, 4.2.4.3, 7.3.4.6, 7.5.4.1, 7.5.4.2, 7.5.4.9, 11.3.4.3, 11.6.4.3, 11.6.4.5, 11.9.4.1, 11.11.4.1, 13.1.4.4, 17.1.4.1, 18.2.4.7, 18.5.4.1, 18.5.4.5, 18.5.4.7, 18.5.4.8, 18.5.4.12, 18.5.4.14, 18.5.4.21, 18.5.4.48, 18.6.4.6, 18.8.4.1, 19.1.4.5, 20.2.4.3, 21.1.4.2, 22.1.4.1

3 Paras 1.1.4.1, 2.2.4.2, 2.2.4.3, 2.3.4.9, 2.4.4.6, 3.1.4.21, 3.1.4.22, 3.2.4.3, 3.2.4.8, 4.2.4.17, 4.3.4.1, 7.6.4.1, 7.6.4.3, 8.1.4.5, 11.1.4.5, 15.2.4.1, 18.4.4.12, 18.5.4.3, 18.5.4.9, 18.5.4.10, 18.5.4.13, 18.5.4.16, 18.5.4.19, 18.5.4.25, 18.5.4.39, 18.7.4.1, 19.1.4.1, 19.1.4.3, 19.1.4.4, 19.1.4.13, 20.3.4.2, 20.3.4.3

4 Paras 2.1.4.3, 7.5.4.6, 11.2.4.1, 11.9.4.4, 13.1.4.5, 13.1.4.10, 14.1.4.4

5 Paras 1.1.4.3, 2.1.4.1, 3.1.4.20, 4.2.4.4, 4.2.4.10, 11.1.4.3, 12.3.4.5, 13.1.4.2, 13.1.4.3, 14.1.4.1, 18.6.4.1

6 Paras 2.3.4.5, 3.1.4.4, 7.5.4.10, 11.9.4.3, 12.3.4.2

7 Paras 2.1.4.4, 2.3.4.1, 2.3.4.8, 2.5.4.1, 3.1.4.1, 3.1.4.2, 3.1.4.5, 3.1.4.6, 3.1.4.7, 4.1.4.1, 4.2.4.6, 4.2.4.9, 7.3.4.1, 11.3.4.1, 11.9.4.6, 12.3.4.1, 12.3.4.4, 8.1.4.2, 18.2.4.4, 18.4.4.6, 18.5.4.2, 18.5.4.35, 18.6.4.8, 18.6.6.3, 19.1.4.6, 19.1.4.11, 25.1.4.1

8 Paras 1.1.4.2, 2.2.4.1, 2.4.4.1, 4.2.4.5, 4.2.4.20, 8.1.4.3, 11.14.4.1, 18.5.4.4, 19.1.4.7

9 Paras 2.1.4.2, 17.1.4.3, 17.1.4.6, 18.4.4.11

10 Paras 3.1.4.8

11 Paras 18.4.4.8

12 Paras 18.4.4.9

xiii. Short receipt of Security Deposit from commercial consumers - Rs 369.941 million[13]

xiv. Irregular retention of a pilot appointed on bogus certificates involving remuneration of Rs 16.200 million[14]

The irregularities not considered worth reporting to the PAC have been included in MFDAC (Annexure- 1)

f. Recommendations

The executives (Principal Accounting Officers) need to take necessary steps to evaluate, institute and strengthen the management, budgeting and accounting functions:

i. Ensure recovery against overpayments and shortages from the employees;
ii. Ensure timely recovery of sundry debts, loans and advances;
iii. Expedite recovery of liquidated damages, late delivery charges & risk and cost expenses from the defaulting firms;
iv. Streamline inventory of stores/spares to achieve economy, efficiency and effectiveness;
v. Streamline the recruitment policies to protect the inalienable rights of every citizen, as provided for in the Constitution;
vi. Ensure compliance with the Public Procurement Rules 2004;
vii. Ensure the application of Government instructions issued from time to time;
viii. Improve financial health of loss making enterprises;
ix. Avoid delay in award of contracts;
x. Pursue legal cases actively;
xi. Complete and verify the documents before disbursement of loans;
xii. Ensure timely submission of annual audited accounts to Audit; and
xiii. Expedite liquidation of closed enterprises to avoid recurring expenses and deterioration of properties.

[13] Paras 18.4.4.3

[14] Paras 3.1.4.18

SUMMARY TABLES & CHARTS

Table 1 Audit Work Statistics

(Rs in million)

Sr.No	Description	No.	Budget
1	Total PAOs in Audit Jurisdiction	26	1,412,786.07
2	Total Commercial Entities in Audit Jurisdiction	87	1,412,786.07
3	Total PAOs Audited	14	1,394,858.77
4	Total Commercial Entities Audited	49	1,394,858.77
5	Audit Inspection Reports	49	1,006,377.67
6	Special Audit Reports	2	-
7	Performance Audit Reports	2	-
8	Other Reports	3	-

Table 2: Audit observation regarding Financial Management

(Rs in million)

S. No	Description	Amount placed under Audit Observation
1.	Unsound asset management	23,092.772
2.	Weak financial management	11,260.780
3.	Weak internal control relating to financial management	11,272.193
4.	Others	37,125.611
	Total	82,751.356

Table 3 Outcome Statistics

(Rs in million)

Sr. No	Description	Expenditure on acquiring Physical Assets (Procurement)	Civil works	Receipts	Other	Total current year	Total last year
1.	Outlays Audited	51,558.401	3,838.039	1,836,062.612	1,340,270.739	3,231,729.781	783,499.774
2.	Amount Placed under Audit Observation / Irregularities of Audit	4,500.870	186.631	418.915	44,340.550	83435.526	49,428.738
3.	Recoveries Pointed out at the instance of Audit	-	-	-	-	189.301	1,204.089
4.	Recoveries Accepted / Established at the instance of Audit	-	-	-	-	189.301	822.358
5.	Recoveries Realized at the instance of Audit.	-	-	-	-	128.147	907.994

Table 4: Table of Irregularities pointed out

(Rs in million)

S.No	Description	Amount placed under Audit observation
1.	Violation of Rules and regulations and violation of principal of propriety and probity in public operations.	9,418.770
2.	Reported cases of fraud, embezzlement, thefts and misuse of public resources.	1,361.563
3.	Accounting Errors (accounting Policy departure from NAM[15], misclassification, over or understatement of account balances) that are significant but are not material enough to result in the qualification of audit opinions on the financial statements.	-
4.	If possible quantify weaknesses of internal control systems.	18,225.174
5.	Recoveries and overpayments, representing cases of establishment overpayment or misappropriations of public monies.	8,757.014
6.	Non – production of record.	-
7.	Other, including cases of accidents, negligence etc.	45,090.086
	Total:	**82,852.607**

[15] Accounting Policies and Procedures prescribed by the Auditor General of Pakistan which are IPSAS (cash) Complaint.

Chapter-1
Cabinet Division

1.1 Printing Corporation of Pakistan (Pvt) Limited

1.1.1 Introduction

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 Government of Pakistan holds the entire shares of the Corporation. The Corporation is principally engaged in the printing of Government publications.

Outlook of the Corporation depends upon the decision of the Ministry concerned and top management. If the Government issues instructions to all the Government departments and Corporations first priority be given to the Corporation in their official printing work then the PCP can run on profit basis but the present management seems to have failed in running the functions of the Corporation.

1.1.2 Comments on audited accounts

1.1.2.1 The working results of the Corporation for the year 2009-10 as compared to the preceding years are given as under:-

(Rs. in million)

	2009-10	**% Inc/ (Dec)**	**2008-09**	**% Inc/ (Dec)**	**2007-08**
Sales	147.640	(16)	175.921	(59)	424.054
Cost of sales	(201.915)	(7)	(215.986)	(7)	(232.339)
Gross profit / (loss)	(54.275)	35	(40.065)	-	191.715
Operating expenses					
Admn expenses	115.503	(6)	123.045	19	103.012
Selling expenses	1.043	(6)	1.109	(59)	2.710
Operating profit / (loss)	(170.821)	4	(164.220)	-	85.992

Other income	9.031	(58)	21.368	65	12.984
Financial charges	(79.863)	9	(73.206)	20	(60.897)
Workers profit participation fund	-	-	-	-	1.903
Profit / (loss) before taxation	(241.653)	12	(216.058)		36.174
Taxation	0.738	-	-		(2.120)
Net profit / (loss) after taxation	(242.391)	12	(216.058)	-	34.054
Accumulated (loss) B/F	(1,374.603)	22	(1,124.289)	-	(1,124.868)
Accumulated profit / (loss) C/F	(1,618.609)	18	(1,374.603)	22	(1,124.289)

Source: Annual Audited Accounts

Against net loss of Rs.216.058 million during the year 2008-09, the Corporation sustained a net loss of Rs. 242.391 million during the year 2009-10. The main reason for increase in loss was decrease in sales by 16.07% i.e. from Rs.175.921 million in 2008-09 to Rs.147.640 million in 2009-10. The cost of sales decreased only by 6.51% whereas the gross loss increased up to 35.46% during the year 2009-10 as compared to the year 2008-09. The cost of sales and other expenses need to be controlled in order to make the Corporation a viable concern.

1.1.2.2 The Corporation's accumulated losses increased by 17.75% to Rs.1,618.609 million as on June 30, 2010 as compared to Rs.1,374.603 million as on June 30, 2009. The financial state of affairs of the Corporation had further deteriorated, as it was unable to pay its creditors or provide sufficient resources for its operations. Further, the Corporation's current liabilities exceeded its current assets by Rs 764.810 million (2009: Rs 630.360 million), therefore, resulting in an adverse current ratio. These conditions indicated the existence of a material uncertainty, which may cause significant doubt about the Company's ability to continue as a going concern.

1.1.2.3 Trade debts decreased by 44.52% to Rs.81.285 million as on June 30, 2010 from Rs.146.537 million as on June 30, 2009. These included provision for doubtful debts of Rs.8.310 million which showed poor credit management. Early realization of outstanding debts is stressed upon the management.

1.1.2.4 Contributory provident fund amounting to Rs.588.818 million (2009: Rs.586.730 million) including accrued interest as on June, 30, 2010 had not been paid to the Trust which was against the provision of section 227 of the Companies Ordinance 1984. The need for early transfer of CPF to Trust is

stressed upon the management. This had also been reported by the statutory auditors.

1.1.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr.No	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
	1985-86	04	04	--	100
	1987-88	02	02	--	100
	1988-89	01	01	--	100
	1989-90	08	08	--	100
	1990-91	8	07	01	88
	1991-92	08	07	01	88
	1992-93	12	10	02	83
	1994-95	16	16	--	100
	1995-96	07	07	--	100
	1996-97	07	07	--	100
	1997-98	04	04	--	100
	1999-00	01	01	--	100
	2000-01	08	08	--	100
	2001-02	01	01	--	100
	2005-06	09	08	01	89
	2008-09	04	03	01	75

The overall compliance of the PAC directives by PCP management was satisfactory which needs to be maintained.

1.1.4 Audit Paras

1.1.4.1 Non-recovery of benefits on dismissal from ex-Executive Director - Rs 5.684 million

As per Cabinet Division, Notification No.1/2/94-NPS dated October 13, 2010, the Prime Minister of Pakistan dismissed Executive Director (Production), PCP from service w.e.f. September 08, 2004 with the direction to recover all benefits availed by him in the form of pay and allowances etc. with effect from the date of his dismissal.

The Executive Director (Production), Printing Corporation of Pakistan (Pvt) Limited (PCP) was dismissed from service of the Corporation w.e.f. September 8, 2004 due to his conviction by NAB Court in case No.85/2003 but later on he was re-instated by the orders of Government of Pakistan, Cabinet Division vide notification dated September 4, 2008.

The officer availed all benefits from the date of his restoration *i.e.* September 8, 2004 in the form of his pay and allowances, TA/DA, medical, CP Fund etc., from the Corporation. On his dismissal vide notification dated October 13, 2010, PCP could not recover the amount of Rs 5.684 million.

The matter was taken up with the management on November 8, 2010 and the Ministry on December 7, 2010. In replies dated November 29, 2010 and January 5, 2011, the management stated that the ex-officer had filed writ petition in Lahore High Court, Rawalpindi Bench. The reply was not acceptable because the recovery action was not initiated.

DAC meeting was held on January 10, 2011, the management apprised the Committee that recovery notice had been served to the ex-officer on January 1, 2011. The Committee directed the management that a reminder may be issued to the officer after 15 days and in case of nil response, legal action be initiated against the officer for recovery of the amount. No progress was reported till finalization of this report.

1.1.4.2 Non - completion of jobs – Rs 164.464 million

According to S.No.8(13) of the system of Financial Control and Budgeting issued by Finance Division, all government ministries/divisions/ departments and organizations are required to print their reports, material through PCP. In accordance with the Cabinet Division Circular No. 6/4/80-PCP(P-D) dated December 20, 1980 the indenter is required to deposit 75% of the estimated cost in favour of PCP, which shall be adjusted in the final bill after completion of job. The time of delivery of the job shall be counted from the actual date of receipt of the advance payment and would be determined on the basis of the quantum of work.

Printing Corporation of Pakistan (PCP), Islamabad entrusted certain jobs to the Managers of PCP Presses at Islamabad, Lahore and Karachi. Accordingly, management received 75% advance. Management could not complete 12 jobs pertaining to years 1989, 1990, 2004 and 2006 as on June 30, 2010 due to non-availability/supply of requisite paper, manuscript, proof, disputes etc. This resulted in non-completion of jobs valuing Rs 164.464 million despite lapse of a considerable period, which needs to be completed at the earliest.

The matter was reported to the management on November 8, 2010 and the Ministry on December 7, 2010. In replies dated November 30, 2010 and January 5, 2011, the management stated that due to non-availability/supply of requisite paper, manuscript, proof, disputes etc., the jobs could not be completed. One job of 1990 had been completed and the Managers have been advised to complete the remaining jobs valuing Rs 152.838 million. The reply was not acceptable because a period of more than 4 to 21 years had elapsed but jobs were still pending. No record was produced by PCP in support of its contention regarding completion of jobs valuing Rs 11.626 million.

DAC in its meeting held on January 10, 2011 directed the management to provide year/department-wise analysis, by showing position of each job, to audit. The Committee further directed the management to finalize the pending jobs at the earliest. No progress was reported till finalization of this report.

1.1.4.3 Blockage of funds due to procurement of printing paper over and above the requirement – Rs 1.865 million

According to Rule-8 of Public Procurement Rules 2004, all procuring agencies shall devise a mechanism for planning in detail for all proposed procurements to determining the requirements of procuring agency, within its available resources, delivery time or completion date and the benefits that are likely to accrue to the procuring agency in future.

Contrary to the above instructions, PCP procured printing paper valuing Rs 5.687 million in July 2005 for Local Government Election 2005. PCP utilized paper valuing Rs 3.822 million leaving a balance of Rs 1.865 million as on

February 28, 2010. Five years had been elapsed but the balance could not be utilized for printing of ballot papers of Election Commission of Pakistan (ECP) even in the general elections 2008 due to change in specification. This resulted in blockage of funds of Rs 1.865 million due to procurement of printing paper over and above the actual requirement.

The matter was reported to the management on August 16 & 30, 2010 and the Ministry on December 7, 2010. The management in its replies dated October 15, 2010 and January 5, 2011 stated that brown offset paper for minorities ballot papers got manufactured especially from paper mill. When paper was already purchased the ECP drastically reduced quantity of minorities' ballot papers; resultantly brown paper became surplus, which would be utilized gradually on other jobs.

DAC in its meeting held on January 10, 2011 directed the management either to utilize the paper by upcoming local body elections or dispose of the same to avoid its deterioration. No progress was reported till finalization of this report.

1.2 Oil and Gas Regulatory Authority

1.2.1 Introduction

As per Natural Gas Regulatory Authority Ordinance, 2000, Natural Gas Regulatory Authority (NGRA) was established to foster competition, improve efficiency and availability of Natural Gas transportation and distribution services in Pakistan through increased private ownership and improved regulations. Main functions of NGRA included grant of licenses for carrying out of regulated activities and regulating such activities.

Natural Gas Regulatory Authority Ordinance, 2000 was repealed on promulgation of Oil and Gas Regulatory Authority Ordinance, 2002. The ordinance provided for the establishment of Oil and Gas Regulatory Authority (OGRA) to foster competition, increase private investment and ownership in the midstream and downstream petroleum and gas industry of Pakistan, protect the public interest while respecting individual rights and to provide effective and efficient regulations and for matters connected herewith or incidental hereto.

Corporate Information

The key powers and functions of OGRA include:

i. Exclusive responsibility for grant of license and for carrying out of regulated activities and administer or establish prices, for those categories of petroleum for which the Federal Government establishes prices and may delegate the functions to the Authority;
ii. Prescribe, review, approve and regulate tariffs for regulated activities pertaining to natural gas and operations of licensees for natural gas and marketing of refined oil products;
iii. Determine for each such licensee a reasonable rate of return of its regulated activity pertaining to natural gas;
iv. Determine the well-head gas prices for the producers of natural gas; and
v. Prescribe a uniform form of accounts and accounting practices to be complied with by licensees.

1.2.2 Comments on audited accounts

The management failed to provide audited accounts of the Authority for the year 2009-10 by December 31, 2010.

1.2.2.1 Financial performance of the OGRA for the year 2008-09 as compared to previous years is as follows;

(Rs in million)

	2008-09	% Inc / (Dec)	2007-08	% Inc / (Dec)	2006-07
Income					
Fee income	418.263	87	224.086	4	214.457
Operational expenditure	370.135	48	250.491	65	151.824
Operating (loss) / income	48.128	-	(26.405)	-	62.633
Financial charges	5.555	8	5.126	7	4.801
Other income	84.809	48	57.184	14	50.253
Excess of income over expenditure before tax	127.382	397	25.653	(76)	108.086
Taxation-net	44.584	399	8.925	---	---
Excess of income over expenditure after tax	82.798	395	16.728	(85)	108.086
Excess of income over expenditure B/F	389.726	4	381.998	39	273.913
Total excess of income over expenditure	481.524	21	398.726	4	381.999

Source: Annual Audited Accounts

Fee income of the Authority was Rs 418.263 million in the year 2008-09 as against Rs 224.086 million of the previous year registering an increase of 86.65% while the expenditure increased by 47.76% (2009:Rs 370.135 million 2008: Rs 250.491 million). The Authority earned operating income of Rs 48.128 million in 2008-09 as compared to operating loss of Rs 26.405 million in 2007-08. The major reason for increase in income was increase in pre-commissioning inspection and registration regulation fee by Rs 156.33 million. Like-wise the major reason for increase in expenses was increase in third party inspection charges by Rs 102.620 million.

1.2.2.2 There was an abnormal increase in expenses under the following heads of accounts during the year 2008-09, which needs justification:

(Rs in million)

	2008-09	2007-08	Difference	% increase
Consultancy charges	2.202	0.522	1.680	322
Travelling, conveyance and POL	6.049	4.278	1.771	41
Legal and professional charges	4.791	2.806	1.985	71
Miscellaneous charges	4.682	3.307	1.375	42

1.2.2.3 The Authority paid Rs 5.589 million (2008: Rs 5.141 million) in respect of financial charges on Government of Pakistan and World Bank Loans. As on June 30, 2009, the Authority had liquid cash and short-term investments of Rs 241.770 million (2008: Rs 488.142 million) while loans amounted to Rs 45.590 million (2008: Rs 40.719 million). Despite having adequate financial resources, payment of financial charges needs clarification.

1.2.2.4 Marketing license fee increased from Rs 53.100 million in 2007-08 to Rs 209.434 million in 2008-09. The country is already facing severe shortage of natural gas and it seems that there is no clear strategy of OGRA in this regard, as they are granting more CNG and LPG licenses each year. Provide number of licenses issued during year 2008-09 along with reasons to audit.

1.2.2.5 Third party inspection cost increased from Rs 32.805 million in 2007-08 to Rs 135.425 million in 2008-09. The detail of these along with reasons and nature of these expenses be provided to audit.

1.2.2.6 Long-term investments increased from Rs 88.547 million as on June 30, 2008 to Rs 391.501 million as on June 30, 2009. Details along with interest earned may be provided to audit, as no other income has been booked in this regard.

Long term investments as on June 30, 2009 included WAPDA Sukuk certificates of Rs 50 million (comprising of 10,000 certificates each) purchased for a period of seven years. The bonds carry markup @ 6 month KIBOR plus margin of 0.35 percent per annum payable bi-annually. WAPDA and the Government is obliged to make the payments under transaction documents to which they are a party directly to the issuer, and the trustee, for and on behalf of certificate holders, will have direct recourse against WAPDA and the

Government to recover payments due from WAPDA and the Government pursuant to such transaction documents.

1.2.2.7 The external auditors of the Authority in their report dated October 11, 2010 qualified their opinion on the following grounds;

i) They could not verify the basis for the provision of severance compensation amounting to Rs 60 million resulting in decrease in profit by Rs 30 million for the year (2008: Rs 30 million).

ii) The income received from CNG and LPG licenses amounting to Rs 31.815 million and Rs 1.400 million respectively have been recognized on receipt basis instead of accrual basis as required in accounting policy note 3.6 to the financial statements. The financial impact of this misstatement cannot be ascertained therefore the effect on profit could not be computed.

iii) No provision has been made for the income tax amounting to Rs 139.424 million for the years 2004-2007 in the financial statements, resulting in increase in profit after tax by Rs 139.424 million. The entity is making provision since 2008 as stated in note 18.1 to the financial statements.

The management is required to provide the latest position of the steps taken to remove these qualifications.

Chapter-2
Ministry of Commerce

2.1 National Insurance Company Limited

2.1.1 Introduction

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

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

2.1.2 Comments on audited accounts

The working results of the Company for the year ended December 31, 2009 as compared with those of the previous year 2008 are given as under:

(Rs. in million)

	2009	% Inc/ (Dec)	2008	% Inc/ (Dec)	2007	% Inc/ (Dec)	2006
Premium Earned	6,033.630	23.8	4,872.400	9.7	4,441.213	2.0	4,353.429
Re-Insurance Cession	(3,057.341)	55.3	(1,968.882)	(2.0)	(2,008.058)	(10.2)	(2,236.799)
Net Premium Revenue	3,004.999	3.5	2,903.518	19.3	2,433.155	15.0	2,116.630
Net Claim Paid	(986.654)	(4.0)	(1,028.247)	336.0	(235.857)	(38.0)	(380.236)
Management Expenses	(452.187)	29.1	(350.345)	16.5	(300.838)	7.2	(280.538)
Commission from Reinsurer	63.938	9.4	58.453	7.1	54.573	(1.6)	55.464
Underwriting surplus	1,630.096	2.9	1,583.379	(18.8)	1,951.033	29.1	1,511.320
Investment Income	2,011.411	-	(374.017)	-	1,462.327	55.9	938.213
Rental Income	156.572	11.1	140.913	29.4	111.454	18.7	93.930
Other Income	144.920	(69.4)	473.758	4,215.9	10.977	(36.5)	17.296
General and Administration Expenses	**(357.400)**	**21.1**	**(295.267)**	**34.4**	**(233.628)**	**26.8**	**(184.181)**
Profit before tax	3,585.599	136.9	1,513.204	(54.2)	3,302.163	38.9	2,376.578
Taxation	(1,052.846)	127.2	(463.337)	(56.4)	(1,070.276)	27.8	(837.293)
Profit after tax	**2,532.753**	**141.1**	**1,050.277**	**(53.1)**	**2,231.887**	**45.0**	**1,539.285**

(Source: Annual Audited Accounts)

i. During the year under review, Management expenses increased by 29.06% from Rs 350.345 million in 2008 to Rs 452.187 million in 2009. Underwriting surplus, on the other hand, have increased only marginally by 2.95% from Rs 1,583.379 million in 2008 to Rs 1,630.096 million in 2009. Such disproportionate increase in Management expenses need to be justified.

ii. General and Administrative expenses also increased substantially during the year by 21% during the year from Rs 295.267 million in 2008 to Rs 357.400 million in the year ended December 31, 2009. Such substantial increase in expenses needed to be justified.

iii. Provision for outstanding claims (including IBNR) increased by 58.6% from Rs 3,178.894 million in 2008 to Rs 5,041.465 million in 2009. Such substantial increase in provision for outstanding claims raises the need for review of risk management strategy, otherwise it could severely affect the results of the company in future.

iv. During the year under review, cash and bank deposit balances reduced by 27.5% from Rs 4,807.038 million in 2008 to Rs 3,486.575 million in 2009. Such significant reduction in cash and bank deposit balances in current year as compared to last year will have a severe effect on the payment of liabilities in the coming years and it needs justification.

2.1.3 COMPLIANCE OF PAC DIRECTIVES

Brief comments on the status of compliance with PAC Directives

The management of NICL has reported compliance of 65 Audit Paras out of total 71 paras discussed by PAC in respect of Audit Reports 1986-87 to 2008-09. The percentage of compliance was 92%.

2.1.4 Audit Paras

2.1.4.1 Irregular procurement of a building with no utilization - Rs 1,699.000 million

Rule-12 (2) of the Public Procurement Rules (PPR), 2004 provides that all procurement opportunities over two million rupees should be advertised on the Authority's Website as well as in other print media or newspapers having wide

circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

National Insurance Company Limited (NICL) acquired a premises (06 units of the Liberty House, Dubai International Finance Centre, Dubai, UAE) on lease hold land with a total area of 27,000 sq. ft. amounting to Rs 1,699.000 million in the year 2009. The procurement of the said property was irregular as neither the procurement was advertised nor bidding documents were formulated or made available to the prospective bidders. Moreover, the management has not been able to rent out the office premises even after one year of its purchase.

Audit was of the view that the procurement of the property in Dubai was ill-timed as during that year the real estate market in Dubai had crashed. The move to invest in the fragile market with uncertain prices was questionable as other investors at that time were almost fleeing.

The irregularity was brought to the notice of management on August 18, 2010. The management in its reply dated September 14, 2010 stated that the property was procured on the basis of evaluation conducted by property consultants.

The reply was not tenable, as the PPRA's rules were required to be followed in all procurements.

Audit suggested investigation of the case for fixing of responsibility on the person(s) at fault and taking remedial measures.

The issue was discussed in DAC meeting held on December 15, 2010. The management did not contest the audit observation. Therefore, the DAC decided to place the matter before PAC.

2.1.4.2 Irregular investment by procuring shares of an unlisted company – Rs 358.560 million

Para-5 (b) of F.D.'s letter No.F.4(1)/2002-BR.11 dated July 02, 2003 provides that the surplus funds of the organizations will be invested in 'Public Listed shares/units' and further clarifies that only those public listed shares be selected whose paid dividend and appreciation in value exceeds the average six months Treasury Bill rate for the last three years.

In National Insurance Company Limited (NICL), the management acquired shares of a private limited company on July 01, 2005 at a cost of Rs 358.560 million. These shares were purchased at a rate of Rs.8 per share against the face value of Rs.10 per share. The share value of the company varied marginally by an increase at Rs.8.63 per share as on December 31, 2007 which is insignificant as the company has not yet become operational since it has not been able to develop, locate and prepare business operations of its own even after a lapse of more than five years. Moreover, NICL did not receive any dividend from the investment in Civic Center Company.

The above situation indicates that investment was in violation of the issued directives and was done without serious feasibility study and cost benefit analysis.

The irregularity was brought to the notice of the management through Audit Report issued on January 27, 2009. The management in its reply dated September 22, 2008 stated that the investment in Civic Center Company shares was justified. Reply was not convincing since the management did not clarify why it considered this investment to be justified. Audit suggested fixing of responsibility on the person(s) at fault.

The issue was discussed in DAC meeting held on December 15, 2010. The management did not contest the audit observation. Therefore, the DAC decided to place the matter before PAC.

2.1.4.3 Wasteful expenditure and irregular award of contract for special security of executives - Rs 5.616 million

As per Rule-38 of the Public Procurement Rules, 2004 the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, or policy of Government, shall be awarded the procurement contract. Moreover, as per Rule-11 of GFR every head of a department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant financial rules and regulations both by his own office and by sub-ordinate disbursing officers.

National Insurance Company Limited (NICL) awarded a contract for special security of its executives in April 2009 to a firm, M/s. Security 2000 (Pvt.) Limited on an annual fee of Rs 5.616 million despite the fact that the bid submitted by the firm was second lowest among the three eligible applicant bidders. The contract was awarded to the second lowest bidder in violation of

PPRA Rules at a loss of Rs 2.856 million which is the difference between the lowest and second lowest bids.

The irregularity was brought to the notice of management on July 19, 2010. The management in reply dated July 22, 2010 stated that PPRA Rules were observed in the award of contract for special security of executives of NICL. It was stated that the contract was not awarded to the lowest bidder because its quality of service was not tested and it was unknown to NICL and that the lowest bidder could not be trusted in view of serious situation and alarming security threats. The second lowest bidder was awarded contract because it was a well known security company of Pakistan and having manpower of ex- army men.

The reply was not satisfactory as the contract was awarded in violation of PPRA Rules to the second lowest bidder instead of the 1st lowest bidder. Moreover, NICL already had an annual security agreement which could be further strengthened through beefing up of the security arrangements for the executives of NICL.

The issue was discussed in DAC meeting held on December 15, 2010. The management did not contest the audit observation. Therefore, the DAC decided to place the matter before PAC.

2.1.4.4 Irregular appointment of a consultant involving remuneration of Rs 0.770 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.

Contrary to the above, National Insurance Corporation Limited (NICL), appointed a consultant for business promotion with the package of Rs.70,000 per month with other benefits for 11 months in March 2009. However, the

management did not observe the prescribed procedure. Moreover, business development is a routine function and it needs to be clarified that what required the hiring of a consultant.

Audit was of the view that appointment of a consultant, who holds the degree of BE (Electrical) with no specialized qualification and experience of insurance field, was in violation of the guidelines prohibiting appointment of consultants for routine function. Further, the record did not indicate what improvement was achieved with the appointment of the consultant. Since the appointment was irregular, the remuneration for contracted period of incumbent for eleven months amounting to Rs 0.770 million was also irregular.

The irregularity was brought to the notice of the management through Audit Inspection Report in July 2010. Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures.

The issue was discussed in DAC meeting held on December 15, 2010. The management did not contest the audit observation. Therefore, the DAC decided to place the matter before PAC.

2.2 Pakistan Re-insurance Company Limited

2.2.1 Introduction

Pakistan Insurance Corporation was re-organized as Pakistan Re-insurance Company Limited (PRCL) under the Insurance Corporation (Re-organization) Ordinance 2000, and incorporated on March 30, 2000 under the Companies Ordinance, 1984. The objectives of the Company are the development of insurance as well as reinsurance business in Pakistan and to carry out reinsurance business.

2.2.2 Comments on audited accounts

The working results of the Company for the year ended December 31, 2009 as compared with those of the previous years are given as under:

(Rs. in million)

	2009	% Inc/ (Dec)	2008	% Inc/ (Dec)	2007 (Re-stated)	% Inc/ (Dec)	2006
Gross premium Income	5,839.379	28.20	4,555.120	(3.3)	4,650.955	7.4	4,350.564
Retrocession	(3,274.00)	21.12	(2,703.00)	(12.0)	(2,957.872)	1.4	(2,935.059)
Premium reserve	(394.429)	-	43.455	-	-	-	-
Net Premium Income	**2,170.950**	14.53	**1,895.575**	12.0	**1,693.083**	19.6	**1,415.505**
Net Claims Paid	(904.799)	(5.92)	(961.692)	3.3	(931.289)	19.9	(776.710)
Management Expenses	(231.410)	(7.47)	(250.091)	62.4	(153.960)	5.2	(146.333)
Net Commission Paid	(553.242)	15.82	(477.655)	19.4	(399.882)	8.8	(367.422)
Underwriting Profit/(loss)	**481.499**	133.58	**206.136**	(0.9)	**207.951**	66.3	**125.041**
Investment Income	1,099.397	29.89	846.394	(77.1)	3,689.377	378.1	771.733
Rental Income - net	54.665	13.09	48.336	58.25	30.544	17.18	26.065
Exchange gain / (loss)	48.932	(42.71)	85.413	-	(15.922)	(148.66)	(6.403)
Other Income	48.178	233.85	14.431	84.2	65.804	156.4	11.702
General & Admin Expenses	(35.208)	(8.47)	(38.467)	23.4	(50.004)	(65.5)	(25.094))
Reversal / (Provision) for WWF	23.245	-	(23.245)	-	-	-	-
Impairment on Investment – written off	(1,402.427)	-	-	-	-	-	(120.000)
VRS expenses	-	-	-	-	(69.102)	-	-
Net profit before tax	**318.280**	(72.06)	**1,139.000**	(70.5)	**3,858.647**	392.8	**783.044**
Taxation	(48.370)	(80.86)	(252.775)	89.5	(133.393)	20.0	(111.200)
Net Profit after tax	**269.911**	(69.54)	**886.225**	(76.2)	**3,725.254**	454.5	**671.844**

(Source: Annual Audited Accounts)

2.2.2.1 During the year under review, the company, despite having achieved significant increase in underwriting profit of 133.58% from Rs 206.136 million in 2008 to Rs 481.499 million in 2009 has shown deterioration of earning per share

from Rs. 2.95 per share in 2008 to Rs. 0.90 per share in the year 2009. This was because of impairment loss being written off during the year of Rs 1,402.427 million after taking into account the effect of price movement during each quarter on "available for sale investments." Such substantial amount of write off during the year needs justification.

2.2.2.2 Expenditure on donation during the year under review was Rs 2.525 million which recorded increase to the extent of 4,950% as compared with expenditure under the same head for preceding year 2008 amounting to Rs 0.05 million. The abnormal increase needed clarification by the management.

2.2.2.3 Medical expenses amounting to Rs 9.879 million incurred during the year under review showed an upward trend, which was 36% higher than the expenditure incurred under the same head during the preceding year 2008.

2.2.2.4 During the year under review, absolute cash ratio of the company deteriorated from 1.87 in 2008 to 1.24 in 2009. It shows that cash reserves available to meet current liability (including dividend and surplus profit payable) have been reduced considerably as compared to previous year. Such reduction in absolute cash ratio needs justification.

2.2.2.5 During the year under review, the management has carried out an exercise of reconciliation for parties representing due from balance (net of provision) of Rs 982 million and due to balance of Rs 340 million. This reconciliation highlighted unresolved net differences of Rs 642 million. Such huge amount of unresolved net differences needs justification.

2.2.2.6 Reinsurance ceded as a % of Gross sum insured for fire and aviation contracts accounts for 22% and 0% respectively, whereas for engineering contracts it accounts for 53.8%. Efforts need to be made to increase the reinsurance cession % of fire and aviation contracts in order to mitigate adverse impacts of severe losses on company's net retention.

2.2.3 COMPLIANCE OF PAC DIRECTIVES

Brief comments on the status of compliance with PAC Directives

The management of PRCL has reported compliance of 57 Audit Paras out of total 69 paras discussed by PAC in respect of Audit Reports 1986-87 to 2008-09. The percentage of compliance was 83%.

2.2.4 Audit Paras

2.2.4.1 Non-pursuance of under litigation case of Zakat refund – Rs 113.722 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.

A total amount of Rs 113.722 million was deducted on account of Zakat from the investment of Pakistan Reinsurance Company Limited (PRCL) in National Investment Trust (NIT) during the year 1984 by NIT and National Bank of Pakistan (NBP). A constitutional petition was filed by PRCL in the High court of Sindh on the ground that the Company was not *"Sahib-e-Nisab"* as defined in the Zakat and Ushar Ordinance, 1980. The court decided in favour of PRCL on May 28, 2004 with the directives to NIT and NBP to refund the amount to PRCL. However, Administrator General Zakat filed an appeal in Supreme Court on July 29, 2004 against SHC decision.

The management hired two lawyers firms simultaneously, i.e., M/s. Aman Law Associate on September 6, 2004 at a fee of Rs.250,000 and M/s. Mumtaz & Associates on October 10, 2008 at a fee of Rs.150,000 to defend the case in Supreme Court. However, the case has not been effectively pursued as no considerable progress has been made despite expiry of about six years till close of audit in August 2010.

The matter was taken up with the management on August 13, 2010 through Audit Inspection Report. The management in their reply dated September 16, 2010 stated that the latter firm was appointed after the former firm was found not pursuing the case efficiently despite payment of Rs.125,000. They added that the latter firm after receipt of Rs.50,000 as 50% of their total fee also did not pursue the case any further by stating that they were not enrolled with the Supreme Court.

Audit was of the view that the failure of the management to appointment an appropriate counsel to defend the case in Supreme Court has resulted in blockage of heavy funds despite favourable decision by the Sindh High Court.

Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures to effectively pursue the case.

The matter was discussed in DAC meeting held on December 15, 2010. The management informed the DAC that the last hearing of this under litigation

case was fixed in 2007. The DAC directed the management to intimate the latest status of the case along with efforts made by them as well as letter may be sent to the ministry for prompt pursuance. However, the progress from the management was awaited till finalization of this report.

2.2.4.2 Delayed legal action causing non-recovery of premium with interest - Rs 50.165 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.

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 High Court of Sindh, Karachi awarded a decree in favour of Pakistan Reinsurance Company Limited (PRCL) on October 27, 2005 for a sum of Rs 27.870 million along with compensation thereon at the rate of 10% per annum from the date the aforesaid sum became due (from January 01, 2002) and payable till the realization of the entire decreed sum from a client of PRCL, viz., M/s. Delta Insurance Company Limited. The suit for the same amount was filed by the management in the year 2003 for recovery of dues as the defendant failed to make payment of the requisite premium to PRCL under the various classes of business session (i.e., Compulsory, Treaty, Facultative and Retrocession & Fire) since May 27, 1991. However, the legal action by the management was at much belated stage as the defendant insurance company had been wound up by order of High Court of Sindh dated October 29, 2003 and the decree in favour of PRCL was decided in absence of the defendant. The management through a letter dated April 07, 2006 to their lawyers *viz.* M/s. Aman Law Associates provided details of moveable and immoveable assets of the defendant based on their balance sheet as at December 31, 2001 for obtaining orders for attachment from the court and the execution application was filed on October 18, 2006.

Subsequently, another law firm M/s. Mumtaz & Associates was hired by the management. The said firm informed in June 2010 that assets of the defendant were not traceable.

Despite expiry of about four years from the filing of execution, the decreed amount along with compensation totaling Rs 50.166 million (decreed

amount Rs 27.870 million plus Rs 22.296 million being 10% of the decreed amount for the last eight years) has not yet been realized.

Audit was of the view that the management by allowing the defaulting insurance company to continue the business without payment of premium for a considerable period deprived the organization of its legitimate dues by filing the recovery suit very late. This was indicative of loose internal controls prevailing in the Organization.

The matter was reported to the management on August 17, 2010 and taken up with the ministry on October 15, 2010. The management in its reply dated October 21, 2010 elaborated their efforts to realize the decreed amount. However, they did not clarify about the belated legal action against the defaulting company and subsequent delay in filing of execution application.

Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures to strengthen control in this area.

The matter was discussed in DAC meeting held on December 15, 2010. The DAC directed the management to intimate the latest position of recovery as the case was under litigation. However, the progress from the management was awaited till finalization of this report.

2.2.4.3 Loss due to non-recovery from inactive companies - Rs 22.204 million

Section-43 (1) of the Insurance Ordinance, 2000 makes it obligatory upon the reinsurers to pay the amount payable on account of reinsurance with the Company (Reinsurance Company) within the prescribed period and in default of such payment, shall be liable to pay a penalty for the period during which the default continues. Moreover, Section-43(3) provides that a contravention of the above directions shall be punishable with a fine which may extend to ten thousand rupees and with a further fine which may extend to one thousand rupees for every day after the day on which the contravention continues.

Pakistan Reinsurance Company Limited (PRCL) failed to recover outstanding re-insurance premium amounting to Rs 22.204 million as on December 31, 2009 against seven companies which have become inactive. Out of total amount of Rs 22.204 million, a sum of Rs 19.868 million and Rs 0.812 million pertained to M/s. Business & Industrial Insurance Company (BIIC) and M/s. Pakistan Guarantee Insurance Company (PGIC) respectively. It is worth

mentioning that due to non-compliance with various provisions of law, SECP had notified on March 08, 2010 about its action of initiating winding up proceedings against both the Companies. Hence, the chances of recovery became remote, which was a loss to the organization.

The matter was taken up with the management on August 26, 2010 through Audit Inspection Report. The management in their reply dated September 16, 2010 stated that after repeal of PIC Act 1952, no procedure for recovery is laid down in Insurance Ordinance 2000. They added that their efforts of approaching the companies through Lahore High Court (LHC) and SECP have not been materialized, as the LHC had set aside the notices of recovery issued by PRCL, whereas SECP had directed M/s. BIIC to cease entering into new insurance contracts.

Audit was of the view that had timely action and close monitoring of the performance of these companies been made by the management, the loss could have been avoided.

Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures to avoid recurrence.

The matter was discussed in DAC meeting held on December 15, 2010. The DAC directed the management to provide a revised reply and justify the delay in recovery. The DAC also directed the management to intimate the latest position of recovery as the case was under litigation. However, the progress from the management was awaited till finalization of this report.

2.2.4.4 Loss due to acceptance of claim in defaulted premium cases - Rs 1.156 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) make it mandatory upon the insurers to deposit the premium within the validity period of the policy.

Pakistan Re-insurance Company Limited (PRCL) made payment of Insurance Loss claim amounting to Rs 1.156 million during the year 2009 to an insurance company, M/s. Shaheen Insurance Company Limited Karachi in three

cases of vehicle accidental loss. The payment of claim was made despite the fact that the premium of the reinsurance was received in December 2007 after the occurrence of loss during April 2007 to June 2007 and in all three cases after lapse of policy validity period.

The matter was reported to the management on August 18, 2010 through Audit Inspection Report. The management in their reply dated August 25, 2010 and September 16, 2010 stated that under Clause-35 of SECP Insurance Rules 2002, an insurance policy shall not be liable to be avoided on the ground that the premium has not been paid and that nothing in this rule shall prevent the inclusion in a policy of a provision to the effect that 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.

The reply was not convincing as the clause quoted by the management clearly allows the organization to include a condition in the policy to the effect that cover under the policy would be admissible only when the premium has been received or guaranteed to be received to the satisfaction of the insurer. It has also been mentioned on the face of Reinsurance Policy signed between PRCL and ceding company that the premium will be paid as per schedule. Further the reminders issued to the ceding company from time to time also revealed that facultative claims are dealt with separately and cannot be processed unless premium received.

Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures to include the provision in the policies to safeguard interest of the organization.

The matter was discussed in DAC meeting held on December 15, 2010. The management acknowledged the suggestions of Audit for improving their operations and resulting enhanced premium. Further, the management stated that they had approached SECP for change of some rules.

DAC directed the management to give a revised reply to Audit showing all the efforts taking up with SECP for changing the rules. However, the progress from the management was awaited till finalization of this report.

2.3 State Life Insurance Corporation Pakistan

2.3.1 Introduction

State Life Insurance Corporation of Pakistan (SLIC) was incorporated on November 1, 1972 under the Life Insurance (Nationalization) Order 1972. The life insurance (Nationalized) order 1972 has been replaced with Insurance Ordinance 2000. The main objective of the corporation is to engage in the life insurance business.

2.3.2 Comments on audited accounts

The working results of the Corporation for the year 2009 as compared with those of the previous years are tabulated below:

(Rs. in million)

	2009	% Inc/ (Dec)	2008	% Inc/ (Dec)	2007	% Inc/ (Dec)	2006
Income							
Premium income less reinsurance	28366.906	24.99	22,695.280	21.3	18,716.696	17.0	15,991.575
Investment Income (net)	21163.800	13.19	18,696.912	9.3	17,103.562	16.5	14,678.544
Rental Income (net)	274.152	(19.82)	341.924	8.1	316.436	93.3	163.732
Total Income	**49,804.858**	**19.34**	**41,734.116**	15.5	**36,136.694**	17.2	**30,833.851**
Claims and expenditure:							
Payment to policy holder	(15,723.588)	23.04	(12,778.765)	18.5	(10,782.851)	21.0	(8,912.102)
Management expenses	(11,630.431)	45.41	(7,998.487)	27.7	(6,264.844)	(3.3)	(6,479.571)
Total claims and expenditure	**(27,354.019)**	**31.65**	**20,777.252**	21.9	**17,047.695**	10.8	**15,391.673**
Excess of income over claims and expenditure	22,450.839	7.13	20,956.864	9.8	19,088.999	23.6	15,442.178
Addition /(Subtraction) to Life Fund	(22,319.094)	15.62	20,721.828	10.4	18,777.531	27.6	14,712.265
Surplus before tax	**131.745**	**(92.03)**	**1,653.802**	321.8	**392.041**	(46.3)	**729.913**
Life Fund at the end of the year	199,445.285	12.39	177,459.130	13.2	156,737.302	13.6	137,959.771
Percentage of Expenses to Total Income	54.920	10.28	49.8	5.5	47.2	(5.5)	49.9
Percentage of Expenses to Premium income	96.429	5.29	91.5	0.5	91.1	(5.3)	96.2

(*Source: Annual Audited Accounts)*

2.3.2.1 During the year under review, external auditors have identified that the corporation has signed a "Fund Management Agreement" with Bureau of Emigration and Overseas Employment in the previous years to retain and invest the refundable premiums pertaining to various emigrants and to provide the bureau with the agreed return thereon. Such fund management is not authorized

by the mandate of the corporation under the Life Insurance (Nationalization) Order, 1972. Furthermore, the outstanding amount held under the said agreement was Rs 1,029.028 million on which the corporation provided the agreed return of Rs 123.624 million during the year under review. The outstanding amount has been wrongly grouped in claims payable in the accompanying financial statements.

2.3.2.2 Net rental income from investment property decreased by 19.8% from Rs 341.924 million in 2008 to Rs 274.152 million in 2009. The decrease in net income was due to increase in investment related property expenses of about 20.8% from Rs 371.164 million in 2008 to Rs 448.552 million in 2009. Such substantial increase in said expenses needs justification.

2.3.2.3 During the year under review, remuneration to the chairman increased by 94% from Rs 2.367 million in 2008 to Rs 4.587 million in 2009. Similarly, remuneration of executive directors increased by 129.3% from Rs 3.577 million in 2008 to Rs 8.203 million in 2009. However, total number of executive directors reduced from 5 in 2008 to 4 in 2009. Such substantial increase in remuneration of chairman and executive directors needs justification.

2.3.2.4 Net Management Expenses as a % of Net Premium increased from 35.2% in 2008 to 41% in 2009. Furthermore, Movement in Policy Holder Liabilities increased by 15.6% during the year from Rs 19,303.062 million in 2008 to Rs 22,319.094 million in 2009. This resulted in Surplus before Tax reduced by 92 % from Rs 1,653.802 million in 2008 to Rs 131.745 million in 2009. Such increase in management expenses and policy holder liability needs justification.

2.3.2.5 The Chartered Accountants have observed that accounts related to policy holders' services were un-reconciled. The amount (as on December 31, 2009) as per Ledger stood at Rs 11.700 billion whereas amount on the same date as per trial balance was recorded as Rs 12.000 billion. Whereas, amount on the same account and same date as per schedules maintained in accounts was noted as Rs 11.907 billion. Audit would suggest that the noted amounts may be reconciled at the earliest.

2.3.3 COMPLIANCE OF PAC DIRECTIVE

Brief comments on the status of compliance with PAC Directives

The management of SLIC has reported compliance of 88 Audit Paras out of total 112 paras discussed by PAC in respect of Audit Reports 1986-87 to 2008-09. The percentage of compliance was 78%.

2.3.4 Audit Paras

2.3.4.1 Irregular purchase of shares of an unlisted company at a price greater than the value – Rs 18.300 million

Purchase/Investment in shares of a private limited company was not approved investment from Life Funds in terms of Section-27 of the Insurance Act-1938 & Clause (c) of the SRO No.309 (K)/1970 dated 21-03-1970.

In State Life Insurance Corporation of Pakistan (SLIC), the management spent a sum of Rs 23.300 million in 1979 from the Life Fund to purchase 500,000 shares (100% equity) of a private limited company named Mayfair Properties Ltd which was owned by M/s. Hashwani Sales & Services Ltd. and was a company unlisted on stock exchange.

Moreover, above shares were purchased at a very high price of Rs.46.60 per share against its value of Rs.10 per share. Hence, expenditure of Rs.23.300 million was incurred in July 1979 to purchase shares of a company which were entirely acquired by M/s. Hashwani Sales & Service Ltd for a consideration of only Rs 5.000 million in 1977 (i.e., two years ago)

The matter was reported to the management through Special Audit Report on February 20, 2009. The management in its reply dated September 28, 2010 stated that SLIC intended to purchase the property but the seller formed a company on the property and therefore SLIC paid for shares of the company. They added that price of both the properties was negotiated by a committee and submitted to the Board.

The reply was not tenable since as per available record, the company was purchased to run it commercially as a viable and profitable entity and SLIC purchased the said company for the sole purpose to avoid transfer fee as well as to gain tax advantage. Furthermore, the record does not show any due diligence

or working by the management to ascertain the fair price of the property in question.

The matter was discussed in DAC meeting held on December 15, 2010. The DAC directed the management to submit a revised reply to Audit without delay. However, the revised reply was awaited till finalization of this report.

2.3.4.2 Irregular expenditure from "Life Fund" on maintenance of property owned by subsidiary company - Rs 16.435 million

Section-18(1) of the Insurance Ordinance 2000 provides that the assets of a statutory fund are only available for expenditure related to the conduct of the business of the statutory fund.

During the period from 1982 to 2008, State Life Insurance Corporation of Pakistan (SLIC) spent an amount of Rs 16.436 million out of its 'Life Fund' on the maintenance and other related works of a building owned by its subsidiary M/s. Abdullah Haroon Road Property (Pvt.) Limited (AHRPL). The subsidiary had no business of its own and existed without even having a bank account. In fact, SLIC used this building for the residential accommodation of its employees at a nominal rent. Thus earning amounting to Rs 9.568 million was also made during the same period. However, all financial transactions in respect of the building were initially recorded in the books of SLIC and then transferred to AHRPL. Even if this dubious accounting procedure is ignored and the income earned as rent is adjusted towards expenditure incurred on the building, the amount of Rs 6.868 used from the 'Life Fund' will remain unadjusted as on June 30, 2008.

The Audit observed that use of 'Life Fund' for the above-mentioned purpose was unjustified as the Fund was meant for the conduct of business and not for spending on a subsidiary's infrastructure. Hence, the entire expenditure and use of 'Life Fund' was irregular. The matter was reported to the management through a 'Special Audit Report' on February 20, 2009 to which the management replied that SLIC purchased the building for its own use and to rent it out. The management further argued that SLIC owned 100% share in the said property and its purchase was made with the approval of its BoD which had full authority under Article-14 of Life Insurance Nationalization Order to take such decisions.

The reply was not tenable as the "Life Fund" is a trust of the policy holders and its use on a property which was utilized as its employees'

residential accommodation defeated the purpose of the Fund. Moreover, as per record made available to audit, the property was meant for commercial use which was not done in this case. Audit suggested investigation into the case at appropriate level and action against the delinquent officers/officials to avoid recurrence of such irregularities.

The matter was discussed in DAC meeting held on December 15, 2010. The DAC decided that the management should justify incurrence of expenditure by SLIC for a subsidiary as per provision of Insurance Ordinance 2000. However, no progress was reported by the management till finalization of this report.

2.3.4.3 Irregular re-employment of a retired officer involving remuneration of Rs 0.569 million

Government of Pakistan, Establishment Division through OM No.3/16/99-CP-6 dated May 26, 1999 laid down that no officer is allowed to continue in office after superannuation unless prior approval of competent authority is obtained in advance. If it is intended to get the retired person re-employed on contract in public interest, a proposal in the form of a summary for the Prime Minister should be submitted to Establishment Division about six month in advance from the date of the retirement from service so that Establishment Division has sufficient processing time. It is further laid down that in case of continuous service beyond superannuation the financial liability for the irregularity rests upon the head of the department and the officer concerned himself.

In State Life Insurance Corporation of Pakistan (SLIC), an officer (General Manager, Marketing) was retired on superannuation on August 16, 2008. He was re-employed as consultant for marketing in November 18, 2008 for a period of six month with pay and allowances amounting to Rs.76,843 per month plus car petrol (300 litres per month) and other fringe benefits. The detailed record about appointment was called for by Audit but not supplied by the management despite reminders. The approval of the competent forum for the re-employment of the officer was also not shown to Audit.

Audit was of the view that the re-employment involving financial impact of Rs 0.569 million (salary for six month Rs 0.461 million plus petrol for Rs 0.108 million at an average cost of Rs 60 per litre against 300 litres for 6 months) was irregular in the absence of approval of the competent forum.

The irregularity was pointed out to the management through an observation memo in August 2010 and Audit Inspection Report in September 2010. Audit suggested fixing of responsibility on the person(s) at fault and making recovery of irregularly paid amount from the Officer(s) concerned.

The matter was discussed in DAC meeting held on December 15, 2010. The DAC directed the management to inform Audit whether the targets set to hire the executive were met after his appointment. Moreover, approval from the Establishment Division should also be obtained under intimation to Audit. However, no progress was reported by the management till finalization of this report.

2.3.4.4 Loss due to theft from steel safe – Rs 1.654 million

As per Clause-08 of the agreement dated September 13, 1999 between a security firm, M/s. Hattaf Security System (HSS) and State Life Insurance Corporation (SLIC), HSS was liable to pay compensation for losses due to negligence of their staff, if proved through a joint enquiry.

In SLIC, Zonal Office, Gujranwala, theft of cash amounting to Rs 1.654 million took place during the night of May 30, 2008. The incident came to light on May 31, 2008 morning when the HSS security guard was found missing along with the reported amount of cash. The locker keys were found lying at the cash counter. An FIR was lodged on the same day but the police could not apprehend the missing guard. The management also filed the burglary insurance claim of Rs 1.500 million (the amount insured) with NICL but the claim was rejected on NICL surveyor's report who recounted the incident as being of misappropriation by the insured's employee and gross negligence on the part of management. The surveyor did not accept it as a case of burglary or house-breaking as covered under the policy (Surveyor's report dated June 21, 2008). The management, on the other hand, after conducting an inquiry, held the view that it was the guard of a security company who stole the keys of the locker and fled away with the cash.

SLIC management has filed recovery suits against Hattaf Security System and NICL yet the Audit was of the opinion that:

a. Deployment of one guard only on a 12 hour shift basis was too long a period which shows laxity on the part of management.

b. The guard's stealing the keys of the locker is indicative of a very poor arrangement of keeping the locker keys in safe custody. The management could not explain as to how the employees responsible for

the custody of keys were absolved of the responsibility of theft or at least negligence.

The matter was taken up with the management on September 03, 2010 through Audit Inspection Report. Audit suggested investigating the case for fixing of responsibility on the person(s) at fault and taking remedial measures to avoid recurrence.

The matter was discussed in DAC meeting held on December 15, 2010. The management informed that the responsible officers have been penalized and demoted. DAC directed the management to provide details of the penalized officers to Audit in addition to the end of service benefits lying with SLIC. The DAC also directed to inform present status of the case to Audit. However, no progress was reported by the management till finalization of this report.

2.3.4.5 Unauthorized payment of bonus to officers and staff – Rs 197.371 million

According to the bonus policy laid down by the Government of Pakistan, Finance Division (Regulation Wing) through OM dated November 30, 2001; the payment of bonus by autonomous bodies/semi-autonomous bodies/corporations requires approval by Administrative Ministry and concurrence of Finance Division.

In State Life Insurance Corporation of Pakistan (SLIC), payment of Rs 197.371 million was made as bonus to the officers and staff during the year 2009 without obtaining administrative approval of the ministry and concurrence of Finance Division which was in contravention of the Government policy.

The matter was reported to the management through observation memo on August 30, 2010 and Audit Inspection Report dated September 03, 2010.

Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures.

The matter was discussed in DAC meeting held on December 15, 2010. The DAC directed that clarification in respect of the letter quoted by the management should be solicited from the Ministry of Finance to ascertain whether concurrence of Finance Division in payment of bonus cases was required or otherwise. However, no progress was reported by the management till finalization of this report.

2.3.4.6 Loss of rental income due to non-utilization of a property for commercial purpose by using it for residential purpose - Rs 178.357 million

As per para 10(1) of GFR Vol-I every public officer is expected to exercise the same vigilance in respect of public money as a person of ordinary prudence would exercise in respect of his own money.

During the period from 1980 to 2008, State Life Insurance Corporation of Pakistan (SLIC) utilized a building owned by its subsidiary Abdullah Haroon Road Property (Pvt.) Limited (AHRPL) to provide residential accommodation to its senior executives and their personal staff at nominal rates. The plan before the purchase of building envisaged commercial use of the premises and it was in commercial use before the purchase. Later, the management itself worked out a monthly rent of the premises in 2000 as Rs.600,000 per month. However, its use as residential accommodation for SLIC's own employees and that too at nominal rates helped earn Rs 9.568 million only in about 26 years.

The Audit observed that the use of a commercial building for private residence of SLIC employees denied the organization a rental income of Rs 178.357 million which has been assumed at Rs.100,000 per month in 1980 with an annual increase of 10% as permissible under Sindh Rental Ordinance 1979.

The matter was reported to the management through a Special Audit Report on February 20, 2009 and in reply the management claimed that the property was more of a residential type comprising servant quarters and garages measuring 1,491 square yards and would have generated less revenue as projected by the Audit. The management claimed that over the years the property has gained in terms of value.

The reply was not tenable as the previous use of the premises is an undeniable fact and in fact it was later modified to suit the residential requirement. The basis of the rental income loss is management's own proposal in the year 2000 to rent out the building. The value addition over the years due to other economic reasons cannot justify the loss of rental income.

Audit suggested investigation into the case at appropriate level and action against the delinquent officers/officials to avoid recurrence of such irregularities.

The matter was discussed in DAC meeting held on December 15, 2010. The management provided a notification stating procedure of conversion of property from residential to commercial purposes by the owners. Audit contended that the notification supported audit observation. DAC decided that the management should submit a reply to audit addressing its contention. However, no progress was reported by the management till finalization of this report.

2.3.4.7 Maintenance of incorrect accounts of a subsidiary company and submission of incorrect returns to the controlling agencies

Section-158 of the Insurance Ordinance 2000 stipulates penal provisions for anyone who in any return, report, certificate, balance-sheet or other document, required by or for the purposes of any of the provisions of this Ordinance, willfully makes a statement false in any material particularly, knowing it to be false.

In State Life Insurance Corporation of Pakistan (SLIC), the entire expenditure (amounting to Rs 2.868 million) over the building owned by M/s. Abdullah Haroon Road Property (Pvt.) Limited (AHRPL), a subsidiary of SLIC from the year 1980 to 2007 was borne by SLIC initially and passed on to AHRPL. This expenditure was further incorporated in AHRPL's books of account as "Due to SLIC" appearing in the Balance Sheet for the year ended June 30, 2007.

One important example of this type of deliberate avoidance was the expenditure of Rs.4.841 million incurred out of SLIC funds in 2001 on lease renewal charges in respect of the Building. This expenditure had not been shown by the subsidiary in its books of accounts and financial statements.

Moreover, the financial status of SLIC in its returns dispatched to SECP was not complete as the expenditure incurred by SLIC on behalf of AHRPL was not taken by the AHRPL as its liability. Had the entire expenditure of Rs 16.436 million incurred by SLIC on the building been correctly accounted for in the books of accounts of the subsidiary company, accumulated losses would have surpassed the equity of the subsidiary company (which was just Rs 5.000 million).

The matter was reported to the management through Special Audit Report on February 20, 2009. The management in reply dated September 28, 2010 stated that all information except lease renewal amount had been reconciled.

The reply was not tenable as no document in support of their claim of reconciliation was provided to Audit.

Audit suggested investigation into the matter, action against responsible person(s) and suitable remedial measures to avoid recurrence.

The matter was discussed in DAC meeting held on December 15, 2010. Audit pointed out that the revised statements should include leave payments made by SLIC on behalf of its subsidiary as well as confirmation of expenditure on its maintenance. The DAC directed the management to submit revised statements to the concerned agencies under intimation to Audit. However, no progress was reported by the management till finalization of this report.

2.3.4.8 Extra expenditure due to ignoring of 1st lowest bidder – Rs 15.202 million

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

State Life Insurance Corporation (SLIC) invited tenders for a renovation work of SLIC Building No.1 and 2, i.e., Plumbing and Allied Civil Works on November 23, 2006. The consultants for the work, NESPAK technically qualified all three bidders and recommended for opening of their financial bids. The first lowest bid at Rs 34.983 million upon opening of bids was, however, ignored on the basis of Tender Evaluation Report dated January 18, 2007 by NESPAK which concluded that the bid was 23.25% lower than the engineer's estimate which was more than normal limits. The consultants added that the rates quoted for some items were significantly on lower side and seemed unworkable. The consultant opined that the bidder had not considered the factor for unexpected unforeseen works involved due to nature of renovation work. Subsequently, the management awarded the work to second lowest bidder by reducing his offered rate from Rs 50.145 million to Rs 47.134 million through negotiation in March 2007.

Audit was of the view that the 1st lowest bidder was technically qualified and therefore his capability to perform the work was cleared by the consultants. As far as the actual performance over the work, it could have been secured by obtaining normal performance bank guarantee. The rejection of a bid merely on the basis of being lower than the engineer's estimate was not a prudent action, resulting extra expenditure of Rs 15.202 million, which was a loss to the organization.

The matter was reported to the management on August 20, 2010. The management in its reply dated September 01, 2010 stated that the work was awarded to the second lowest bidder since the first lowest bidder's rates were unworkable as per recommendation of NESPAK. The management's reply was not tenable as the rates of lowest bidder were considered unworkable on the basis of unforeseen risks involved which had been accounted for by the bidder on his own. Audit suggested fixing of responsibility on the person(s) at fault.

The matter was discussed in DAC meeting held on December 15, 2010. Audit pointed out that the lowest bid should not have been ignored since it was below the Engineer's estimate for not including unforeseen costs which was his own responsibility. DAC directed the management to submit a revised reply addressing the Audit contention. However, revised reply was awaited till finalization of this report. Audit would suggest immediate implementation of DAC directives.

2.3.4.9 Non-recovery of decreed amount from an ex-tenant - Rs 23.291 million

As a matter of prudent estate management, the property whose tenants are not paying their dues should be vacated and outstanding dues should be recovered promptly after receipt of court orders in favour of land lord.

In State Life Insurance Corporation of Pakistan (SLIC), a decreed amount of Rs 23.291 million was lying outstanding against a tenant, M/s. Hussain Ismail Household. The decree was issued on February 04, 2005 by the High Court of Sindh. However, the execution application of the decree was filed by the management during the year 2008 after lapse of more than three years. The execution application was pending in the High Court of Sindh, Karachi till close of audit in September 2010. This was indicative that the management did not adequately pursue the case.

The matter was taken up with the management in September 2010. Audit suggested fixing of responsibility on the person(s) at fault and taking effective measures to realize the decreed amount.

The matter was discussed in DAC meeting held on December 15, 2010. The DAC directed the management to provide reason of delay towards execution application to Audit in addition to payment made to legal consultant in the instant case. The DAC also directed that latest status of the case should also be informed to Audit. However, no progress was reported by the management till finalization of this report.

2.4 Trading Corporation Pakistan (Pvt.) Limited

2.4.1 Introduction

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.

2.4.2 Comments on audited accounts

The working results of the Corporation for the year 2009-10 as compared with those of the previous years are given below:

(Rs. in million)

	2009-10	**% Inc/ (Dec)**	**2008-09**	**% Inc/ (Dec)**	**2007-08**	**% Inc/ (Dec)**	**2006-07**
Sales and related income	45,161.248	(29.61)	64,160.799	120.9	29,044.63	114.2	13,561.474
Cost of sales	(43,870.033)	(29.13)	(61,904.991)	122.9	(27,772.230)	109.9	(13,231.334)
Gross profit	1,291.215	(42.76)	2,255.808	77.3	1,272.396	286.4	330.140
Operating expenses	(352.145)	(46.24)	(655.072)	125.7	(290.236)	3.1	(281.575)
Operating profit / (loss)	**1,375.118**		**1,600.736**	**62.4**	**985.588**	**1,929.40**	**48.565**
Other income	1,096.130	61.94	676.861	93.8	349.304	(18.7)	429.559
Profit/ (loss) before taxation	2,035.200	(10.64)	2,277.596	70.6	1,334.892	146.1	476.895
Taxation	(402,322)	(13.01)	(462.482)	85.1	(249.838)	49.7	(166.853)
Profit/ (loss) after	**1,632.878**	**(10.04)**	**1,815.114**	**67.3**	**1,085.054**	**197.9**	**310.042**
Prior period adjustments	-	-	(1.649)	(99.0)	(161.408)	13,033.30	(1.229)
Redemption of Bonds	Nil	-	Nil	-	(4,066.66)	273.1	(1,089.915)

(*Source: Annual Audited Accounts)*

2.4.2.1 During the year 2009-10, the sales decreased from Rs 64,160.799 million of previous year to Rs 45,161.248 million, Cost of sales also decreased from Rs 61,904.991 million to Rs 43,870.033 million in 2009-10. Resultantly the gross profit also decreased from Rs 2,255.808 million of previous year to Rs 1,291.215 million during the year under review. Efforts were required to be made to increase in sales in future.

2.4.2.2 Trade debtors increased from Rs 16,204.129 million of previous year to Rs 31,294.658 million during the year 2009-2010 registering an increase of 93.13%.All possible efforts were required to be made for early recovery of Corporation's dues in order to avoid the chances of their conversion into bad debts.

2.4.2.3 Prepayments and other receivable increased from Rs 210.992 million of previous year to Rs 2,910.186 million during 2009-10.The abnormal increase needs justification.

2.4.2.4 The External Auditors expressed six qualification remarks on the accounts for the year 2009-10 as detailed below:

a) An amount of Rs 3,638 million is included in inventory which represents financial charges on overdraft facilities and income tax on turnover and purchases. The amount should be included in due from Government. There will be no effect on total assets of the company if the said adjustments are recorded.
b) The mark up on overdraft amounting to Rs 10,719 million is included in the cost of sales instead of financial cost and the gross profit is reduced by Rs 10,719 million .However the net profit before tax remain the same if the said provision is recorded.

c) Income tax expense amounting to Rs 1,038 million is included in the cost of sales in stead of income tax expense. This results in decrease in gross profit by Rs 1,038 million and decrease in income tax expense of Rs 1,038 million. However the net profit after tax will remain the same.

d) Provision for gratuity is not based on actuarial valuation as required by International Financial Reporting Standards.

e) The RECP (defunct) provided Bank Guarantee amounting to Rs 25 million in favour of Government of Pakistan on account of import fee and sales tax and kept margin against these guarantees with NBP .The Guarantees have since expired but margin has not been reversed.

f) A sum of Rs 541,284 million (2009: Rs 523.386 million) has been shown as contingent liability which is a specific liability and should have been provided in the books of account as Liverpool Cotton Association (LCA) has been given foreign award against CEC (Defunct) merged in TCP. TCP has filed appeal against the decision of Liverpool Cotton Association in the High Court of Sindh.

v. 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 finalization of this report. Improvement in this regard needs to be expedited.

2.4.3 COMPLIANCE OF PAC DIRECTIVE

Brief comments on the status of compliance with PAC Directives

The management of TCP has reported compliance of 263 Audit Paras out of total 309 paras discussed by PAC in respect of Audit Reports 1986-87 to 2008-09. The percentage of compliance was 85%.

2.4.4 Audit Paras

2.4.4.1 Irregular/unjustified hiring of a Bungalow at higher rent for Liaison Office at Islamabad - Rs 2.275 million

As per Para- 10 of GFR, 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 do in respect of his own money.

In Trading Corporation of Pakistan (TCP) the management hired a bungalow in Islamabad for their liaison office at a very higher rent and on terms and conditions entirely favourable to the house owner.

The management hired a bungalow in Sector F-7/4 Islamabad for setting up TCP's Liaison Office against monthly rent of Rs.175,000 by paying Rs 2.275 million (Rs 2.100 million being advance rent for one year plus security deposit of Rs.175,000). A rent/lease agreement for the period of three years was signed on December 05, 2009 between TCP and the land lord commencing from December 15, 2009 to December 14, 2010. It's pertinent to mention that on February 10, 2010 the In-charge of Liaison Office Islamabad had also traced a bungalow with equal provisions at a monthly rent of Rs.75,000.

It is worth mentioning here that the agreement signed for hiring of rented house was made in a hurry and was neither vetted by LA&REM Division nor approved by the Chairman (the competent authority) who was on leave when the decision was made. Further, an amount of Rs 2.236 million (including commission of Estate Agent Rs.87,500) was disbursed on December 2, 2009 while the lease agreement was signed on December 5, 2009. Later on the directives of the Chairman two months vacation notice was issued to the land lord on January 07, 2010 with the direction to refund security deposit and the rent paid in advance for the remaining months, which was not accepted by the landlord. Hence TCP had to keep possession of the premises acquired at exorbitant rates.

The matter was reported to the management on November 15, 2010 and November 22, 2010. Audit suggested fixing of responsibility on the person(s) at fault.

The matter was discussed in DAC meeting held on December 15, 2010. DAC directed the management that a fresh inquiry be conducted at higher/Ministry level to fix the responsibility. However, progress was awaited from the management till finalization of this report.

2.4.4.2 Loss due to non-opening of L/C against a sugar contract – US $ 16.695 million (Rs 1,368.990 million)

Clause-14 of Terms and Condition of Contract "Letter of Credit (Documentary Credit)" provides that the buyer shall establish an irrevocable Letter of Credit in US$ for the contracted quantity through a scheduled bank in Pakistan within five (5) days or earlier of receipt of required Performance Bank Guarantee (PBG)."

Trading Corporation of Pakistan (TCP) opened tender on May 29, 2010 for import of 200,000 M/Tons sugar. Seven bidders participated in the bidding. M/s. Simzain International Karachi, the local agent of M/s. Yunan Coal Chemical, China submitted lowest bid of US$ 558 per M/Ton on C&F basis for supply of 100,000 M/Tons sugar. The management issued Letter of Acceptance to Simzain International on May 31, 2010 requiring them to furnish PBG equivalent to 2% of the contracted quantity as per clause 12 (a) of the Term and Conditions. The entire quantity of 100,000 M/Ton was required to be shipped with in ten weeks from the date of opening of L/C.

The supplier submitted PBG on June 3, 2010 of the required amount which was to expire on August 31, 2010. However TCP did not open the L/C, as it was required to be opened within five days from the receipt of PBG, on the ground that the firm could not arrange the shipment in the previous tender.

Due to non-opening of L/C, the supplier could not supply sugar of 100,000 M/Tons at the rate of US$ 558 per M/tons and the management purchased 250,000 M/tons sugar from another supplier at the rate of US$ 724.95 per M/Ton through a tender dated June 21, 2010.

Audit was of the view that to make good a previous lapse on the part of the supplier, TCP procured sugar at a much higher rate by causing a loss which could not offset the saving done by encashing PBG of the lowest bid. Due to non-opening of L/C within stipulated time caused a loss of US$ 16.695 million equal to Rs 1,368.990 million.

The matter was reported to the management on November 04, 2010 and November 22, 2010. Audit suggested fixing of responsibility on the person(s) at fault.

The matter was discussed in DAC meeting held on December 15, 2010. Audit contended that despite the lowest offer, M/s. Yunan were not allowed to perform merely on grounds that they will not perform, is a supposition and not based on facts. Moreover, nothing in the tender documents barred the lowest bidder to be awarded the contract. DAC directed the management to provide a revised reply to Audit along with documentary evidences, i.e., copies of all letters written by TCP to the Ministry, copy of letter written by supplier to TCP regarding final validity of their offer, and copies of ECC decision, etc.

The management in compliance with DAC directives submitted a revised reply along with supporting documents stating that the same supplier had been

offered through a letter dated December 29, 2010 for opening L/C. They added that the L/C would be opened in the month of January 2011 upon acceptance of the offer by the supplier. However, the progress was awaited till finalization of this report.

2.4.4.3 Loss due to non-revival of a sugar contract - US$ 6.412 million (Rs 525.825 million)

Rule-10 (i) of GFR provides that every Public Officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would do in respect of expenditure of his own money.

Trading Corporation of Pakistan (TCP) opened tenders on February 17, 2010 for import of 200,000 M/Tons sugar. Nine bidders participated in the bidding. M/s. KZK Industries Commercial Company, the Local Agent of M/s. Sadan Trading General (LLC) Dubai submitted the lowest bid of US$ 585 per M/Ton on C&F basis for supply of 50,000 M/Ton sugar.

The letter of Acceptance was issued to M/s. KZK Industrial and Commercial Co, Karachi on February 19, 2010. The supplier submitted Performance Bank Guarantee (PBG) amounting to US$ 585,000 dated February 25, 2010. The L/C was established on March 06, 2010 in favor of the supplier.

According to the contract, the supplier was liable to effect 1st shipment latest by March 27, 2010. The supplier through their letter dated March 29, 2010 informed that due to Easter holidays, the first shipment commencement might get delayed and he would pay the penalty as per tender terms. TCP granted the extension but it was decided in Board's meeting held on April 05, 2010 that as soon as time expires, we may cancel the contract and confiscate security of US$ 585,000. The PBG amounting to US$ 585,000 was forfeited by TCP on April 07, 2010. However, in the subsequent tenders, the management imported the sugar at higher rates.

M/s. Sadan Trading General (LLC) Dubai on May 28, 2010 requested TCP to accept the shipment by revival of the contract. They again reminded/requested TCP on June 14, 2010 for revival of the contract but TCP did not respond as no documentary evidence was available on file. Audit was of the view that had TCP accepted the request for revival of contract a sum of US$ 6,412,500 equivalent to Rs 525.825 million could have been saved.

The matter was reported to the management on November 08, 2010 and November 22, 2010. Audit suggested fixing of responsibility on the person(s) at fault.

The matter was discussed in DAC meeting held on December 15, 2010. The DAC decided that as the matter was under litigation action would be taken as per decision of the court; however, the management was directed to provide copies of SOPs regarding consideration of prices. However, no progress was reported by the management till finalization of this report.

2.4.4.4 Loss due to sale of rice below purchase price – Rs 39.540 million

Rule-10 of GFR provides that every Public Officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

On March 17, 2010, Trading Corporation of Pakistan (TCP), invited bids to sell 2,541 M/Ton Irri-6 white rice of 2008-09 crops. The invitation was for both foreign buyers and Pakistani exporters. As a result, 14 bids were received and two of them were declared the highest. The whole lot of 2,541 M/Tons rice was sold to these two qualifying bidders (2000 M/Ton to M/s. A.K. Enterprises and 541 M/Ton to M/s. Five Star Enterprises) @ Rs 22,600 per M/Ton. The Audit observed that TCP purchased this lot @ 32,900 per M/Ton from M/s. Kohisar Enterprises and sold it at a loss of Rs 10,300 per M/ton with a total effect of Rs 26.172 million.

It is also pertinent to mention that by including certain incidental charges calculated by the management as Rs 5,261 per M/Ton, the amount of loss also increased by Rs 13.368 million. Thus total loss sustained by TCP in this deal was Rs 39.540 million.

Audit was of the view that the sale of rice below the purchase price was a loss to the National Exchequer; hence the lodging of a claim of subsidy from the Government by the management needed justification.

The matter was reported to the management on October 26, 2010. Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures to avoid recurrence.

The matter was discussed in DAC meeting held on December 15, 2010. The management informed the DAC that sale was made in compliance of directives from MINFAL which was binding upon TCP as directives received from their administrative ministry. It was therefore contended the Ministry concerned is responsible for incurrence of loss. DAC decided to refer the case to PAC.

2.4.4.5 Inaction at Ministry level against offers for supply of sugar at economical rates

Rule-10 (i) of GFR provides that every Public Officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would do in respect of expenditure of his own money.

In Trading Corporation of Pakistan (TCP), a firm M/s. Loham Ltd (sugar) Joint Venture Company on September 14, 2009 through Ministry of Finance offered 100,000 M/Tons of sugar at a price of USD 419 per M/Ton (C&F). In response, TCP approached the controlling ministry (Ministry of Commerce) on October 6, 2009 and again on October 12, 2009 for permission by the ECC of the Cabinet to sign a contract with M/s. Loham Ltd (Sugar) UK. The ministry gave no reply.

Similarly another offer from M/s. Qismat International was sent to Ministry of Commerce on November 16, 2009 regarding supply of sugar as per specifications and at a price US$ 475 PMT (Rs 38 per KG) but no response /development was received from the concerned Ministry. The international FOB prices of sugar at this time were above US$ 581 per M/Ton as indicated in the letter received from the supplier.

Audit was of the view that losing such an opportunity for sheer inaction was an example of gross negligence especially considering the fact that the country was facing a crisis situation in the sugar industry.

The matter was reported to the management on November 08, 2010 and November 22, 2010. Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures.

The matter was discussed in DAC meeting held on December 15, 2010. The management stated that they could not entertain any company outside the tender process. Audit replied that TCP had forwarded a request to the ministry to consider the case which was not responded by the ministry. DAC decided that a revised reply be submitted incorporating the ministry’s response as why the request form TCP was not replied. However, no revised reply was received till finalization of this report.

2.4.4.6 Old recovery cases against defaulting export agents – Rs 433.740 million

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

The audit of accounts of Trading Corporation of Pakistan (TCP) for the year 2009-10 revealed that a total No. of 41 cases filed by the defunct CEC (now TCP) against defaulting export suppliers/agents during the year 1988 (i.e., 22 years ago regarding recovery of Rs 433.740 million were pending in Sindh High Court, Karachi. A sum of Rs.922,500 has already been paid while a sum of Rs.882,500 was to be paid to the advocates for these cases.

Audit was of the view that serious efforts were required to be made by proper pursuance of the cases for early recovery/realization of the corporation's dues, as the abnormal pendency of litigation was indicative of ineffective follow up at the cost of funds of TCP.

The matter was reported to the management on October 25, 2010. Audit suggested for taking effective steps to get the cases decided from the court.

The matter was discussed in DAC meeting held on December 15, 2010. The management informed that the case was under litigation. DAC directed the management to pursue the case vigorously and inform the latest status of the case to Audit. In compliance with DAC directives, the management supplied a copy of letter dated November 12, 2010 sent to three advocates advising them to expedite / pursue the cases for early decision. Further progress was awaited from the management till finalization of this report.

2.5 Pakistan Tobacco Board

2.5.1 Introduction

Pakistan Tobacco Board was formed in 1968, through PTB Ordinance No. 1 of 1968. It works under the administrative control of Federal Government through Ministry of Commerce. It is a statutory semi-autonomous body with its own Board of Directors and Chairman.

Corporate Information

There are four tobacco research stations located at Mardan, Mansehra, Gujrat and Okara. The establishment of the four tobacco research stations, linked with a network of extension service in the provinces of Khyber Pakhtunkhwa and Punjab are to provide infrastructural facilities for efficient performance of functions assigned to the Board under its charter with scientific approach, precision planning and dedication.

Functions / Objectives

i. Regulate, control and promote the export of tobacco products,
ii. Fix grading standards,
iii. Undertake and assist research connected with tobacco industries,
iv. Impart training in tobacco testing and generally to take measures in the interest of tobacco industries,
v. Render assistance for the development of new tobacco growing areas and establishment of model farms,
vi. Organize and assist special research connected with tobacco cultivation and generally render assistance for improving tobacco production,
vii. Collect statistics on any matter relating to tobacco and tobacco industries; and
viii. Levy and collect cess at prescribed rates,

2.5.2 Comments on audited accounts

The management failed to provide audited accounts of the Board for the years 2008-09 and 2009-10 by December 31, 2010.

2.5.2.1 The working results of Pakistan Tobacco Board for the year 2007-08 as compared with those of the previous years are tabulated below:

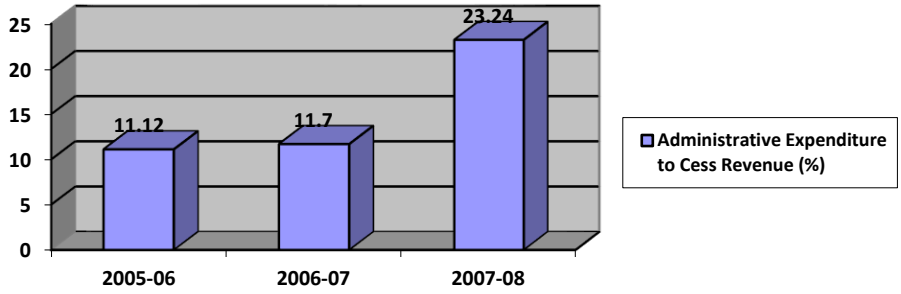
(Rs in million)

	2007-08	**% Inc / (Dec)**	**2006-07**	**% Inc / (Dec)**	**2005-06**
Income					
Tobacco cess	82.310	(37)	130.192	3	126.014
Farm produce	2.428	(22)	3.131	17	2.675
Profit on short term investment	41.389	12	36.953	68	22.044
Profit on sale of fixed assets	1.123	(8)	1.223	-	-
Other income	0.596	(15)	0.701	11	0.633
Total income	127.846	(26)	172.200	14	151.360
Expenditure					
Administrative	19.129	26	15.229	9	14.007
Development research	42.929	10	39.112	16	33.649
Marketing research	4.704	(33)	7.051	34	5.250
Finance	2.542	8	2.344	(3)	2.425
Distribution to earthquake fund	-	-	-	-	5.000
Total expenditure	69.304	9	63.736	6	60.330
Surplus/(deficit) for the year	58.542	(46)	108.464	18	91.036
Less: funds received from Federal Govt. (export development fund)	-	-	27.500	-	-
Prior year adjustment	(0.387)	-	-	-	-
Accumulated surplus B/F	506.672	19	425.709	27	334.673
Accumulated surplus C/F to balance sheet.	564.827	11	506.672	19	425.709

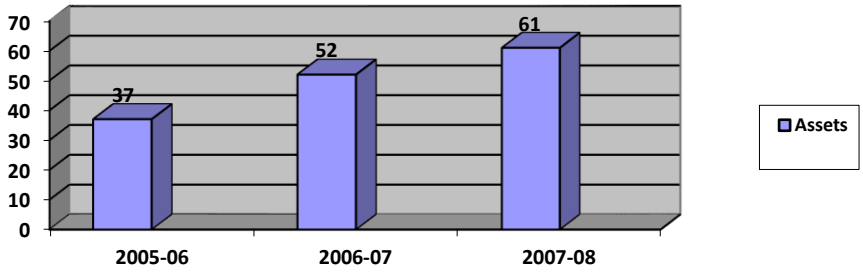
Source: Annual Audited Accounts

Ratio Analysis

The ratio of administrative expenditure to cess revenue worked out to 11.12 % in 2005-06, 11.70% in 2006-07 and 23.24% in 2007-08. This was due to increase in administrative expenses and decrease in tobacco cess. Reasons for abnormal increase in administrative expenses may be justified. Efforts may also be made to control the administrative expenditure and increase the cess revenue.



2.5.2.2 The current ratio worked out to 37:1, 52:1 and 61:1 for the years 2005-06, 2006-07 and 2007-08 respectively. This clearly indicates that the management invested too much in its current assets. It should not be 2 to 3 times more than current liabilities. The management is required to assess the working capital requirement and invest the balance amount in term projects/ investments to earn the revenue. In case the management has no plans for the statutory functions, the reasons may be explained and the surplus fund may be surrendered to the controlling Ministry for other development works.



Other Comments

2.5.2.3 Income of the Board decreased from Rs 172.200 million in 2006-07 to Rs 127.846 million in 2007-08 registering a decrease of 25.76%. On the other hand, overall expenditure increased by 8.74% over previous year. The main reason for decrease in income was that tobacco cess collection contract in Khyber Pakhtunkhwa for the year 2007-08 was awarded to Mr. Midrarullah of Swabi at Rs 45.000 million but the amount was not included in the income. Accordingly, the surplus of the Board decreased from Rs 108.464 million in 2006-07 to Rs 58.542 million in 2007-08 registering a decrease of 46.03%. Reasons for non-inclusion of cess revenue in the income may be elaborated and efforts be made to control the expenditure especially under the head "Administration".

2.5.2.4 Contract for collection of tobacco cess in Khyber Pakhtunkhwa during 2007-08 was awarded to Mr. Midrarullah at Rs 45.000 million. The Contractor deposited Rs 11.250 million. The balance of Rs 33.750 million was not shown in the accounts as receivable from the contractor, which needs justification.

2.5.2.5 Export Development Fund represents funds of Rs 27.500 million received from the Federal Government in the year 2004-05 for strengthening facilities of research, development, re-structuring / reformation / up gradation of laboratories. These funds have not yet been utilized for the purpose, and are still with the Board in its treasury account. Non-utilization of funds may be justified.

2.5.2.6 Cash and bank balances included Rs 3.526 million as cash in hand as on June 30, 2008. In the cash book for the year 2008-09 an amount of Rs. 1.527 million instead of Rs 3.526 million was brought forwarded as on July 01, 2008. Thus, an amount of Rs 2.00 million was misappropriated which needs to be recovered from the concerned officer after conducting enquiry at Ministry level.

2.5.2.7 Cash and bank balances as on June 30, 2008 included all amounts in the current accounts. The management was required to keep balances in the profit/ loss saving accounts, in order to earn the investment income, as these are quite considerable amounts every year.

2.5.2.8 Advances, deposits, prepayments and other receivables as on June 30, 2008 included an amount of Rs 4.875 million receivable from court. The brief description of the case is that Mr. Iftikhar Hussain, cess collection contractor, did not pay the last installment of Rs 4.875 million on the grounds that the surplus tobacco production to be sold to the tobacco companies was not mentioned in his contract and thus filed a suit against the Board in Peshawar High Court in 2004. He deposited the tobacco cess in the court. The case is pending since then. Efforts for recovery / settlement of court case may be made to save the Board from loss.

2.5.2.9 Advances, deposits and other receivables included tobacco cess amounting to Rs 3.552 million receivable from the tobacco companies. Aging and break-up of outstanding cess was not explained by means of notes to the accounts. Efforts for early recovery of outstanding cess may also be made.

Accrued expenses and other liabilities as on June 30, 2008 included a sum of Rs 2.294 million which was shown as payable to the tobacco companies as on June 30,2007 and June 30,2008. The amount was collected on tobacco exported by the companies. Since the Federal Government did not exempt the tobacco export from cess, the creation of liability may be justified.

2.5.2.10 Advances to staff included a sum of Rs 0.496 million as advance for construction of Zonal Office building in 1998. The Zonal Office building has already been completed and is in use since March 1999. Non-capitalization of advance despite lapse of more than 11 years needs justification.

2.5.2.11 Recovery of debtors in the year 2007-08 was not satisfactory as compared to previous year as recovery period has increased from 81 days in 2006-07 to 207 days in 2007-08, which needs explanation.

2.5.2.12 The external auditors in their report to the Board of Directors dated April 15, 2009 stated:

1. They were not allowed to send confirmation to PTB's lawyers for direct confirmation seeking the status and any possible liability in the

Pakistan Tobacco Board's cases, which are pending in Peshawar and Quetta High Courts, therefore they were unable to confirm directly.

2. As reported in the previous auditors' report the books of accounts of PTB are still maintaining on single entry basis instead of standard system of double entry basis of recording transaction, consequently, any error or mistake in bookkeeping may not be detected and it shows weak Internal Control System.

3. They have sent bank balance confirmation to banks to seek confirmation but they have not received their replies till the date of report.

4. They could not physically verify the fixed assets and cash at the balance sheet date, as their appointment was made subsequent to the balance sheet date. Therefore, they rely on the balances appearing in the books of accounts.

5. The Board has not maintained Fixed Assets Register due to which they were unable to verify the Fixed Assets from the subsidiary records.

6. The Board has not carried out impairment test under the IAS-36 Impairment of Assets, which requires that an entity shall assess at each reporting date whether there is any indication that an asset may be impaired.

Steps taken to address the above qualifications may be elaborated.

2.5.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1988-89	02	02		100
2.	1989-90	02	02		100
3.	1990-91	01	01		100
4.	1991-92	05	05		100
5.	1992-93	03	03		100
6.	1993-94	04	04		100

7.					
8.	1996-97	01	01		100
9.	1998-99	03	03		100
10.	1999-00	11	11		100
11.	2000-01	05	05		100
12.	2005-06	04	03	01	75
13.	2008-09	01	--	01	Nil

The overall compliance of the PAC directives in PTB was satisfactory, which may be maintained.

2.5.4 Audit Para

2.5.4.1 Irregular expenditure on pay and allowances of drivers retained by the retired officers - Rs 1.438 million

As per Finance Division OM No.F.15(13)R-14/82 dated September 5, 1982 the funds provided, acquired or generated by the autonomous/semi-autonomous bodies and corporations are public funds, which cannot be utilized at the sole discretion of the management. The funds should be utilized with due care and caution strictly in accordance with the prescribed rules or specific orders of the Government.

Two Chairmen of Pakistan Tobacco Board, Peshawar were transferred from PTB on April 30, 2001 and May 10, 2007 respectively. The officers retained drivers after their transfer from PTB. Subsequently the said officers retired from Government service but the drivers were not returned to PTB till October 2010. This resulted in irregular payment of Rs 1.438 million to these drivers on account of pay and allowances by PTB.

The matter was reported to the management on October 26, 2010 and the Ministry on December 7, 2010. The management in its reply dated December 23, 2010 stated that as per age and service consideration, PTB had provided drivers to ex-chairmen on their request. The reply was not convincing because the officers transferred from PTB and retired from government service were not entitled to drivers.

DAC in its meeting held on January 10, 2011 directed the management to submit a detailed reply and to withdraw the facility forthwith. No progress was reported till finalization of this report.

Chapter-3
Ministry of Defence

3.1 Pakistan International Airlines Corporation

3.1.1 Introduction

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.

3.1.2 Comments on audited accounts

The working results of the Corporation for the year ended December 31, 2009 as compared with the preceding years are given below:

(Rs. in million)

	2009	**% Inc/ (Dec)**	**2008**	**% Inc/ (Dec)**	**2007**	**% Inc/ (Dec)**	**2006**
Revenue	103,250.358	4.5	98,833.377	25.8	78,554.483	2.8	76,435.189
Other operating income	560.319	(26.1)	757.963	23.3	614.523	(23.1)	798.740
Operating expenses	106,864.933	(17.8)	130,081.626	55.3	83,740.118	(1.4)	84,928.817
Operating loss	**(3,054.256)**	(90.0)	**(30,490.286)**	567.0	**(4,571.112)**	(40.6)	**(7,694.888)**
Financial charges	(9,604.550)	6.4	(9,027.003)	13.7	(7,938.364)	50.5	(5,275.360)
Share of Loss from Associated Companies	(0.433)	9.1	(0.397)	-	20.211	-	(15.023)
Loss before taxation	**(12,659.239)**	(68.0)	**(39,517.686)**	216.4	**(12,489.265)**	(3.8)	**(12,985.271)**
Income tax expenses	7,438.882	126.6	3,282.690	-	(726.390)	29.1	(562.455)
Loss after taxation	**(5,220.357)**	(85.6)	**(36,234.996)**	174.2	**(13,215.655)**	6.4	**(12,422.816)**
Accumulated losses	**(74,455.128)**	3.6	**(71,836.792)**	93.3	**(37,159.710)**	56.7	**(23,717.778)**

(Source: Annual Audited Accounts)

3.1.2.1 The Corporation generated revenue of Rs 103,250 million in the year 2009 which was 4.5% more than the previous year. The operating expenses of the Corporation decreased by 17.9% (i.e., Rs 106,865 million as against Rs 130,082 million of the year 2008). Loss after taxation decreased by 85.6% to Rs 5,220 million in 2009. However, accumulated losses increased to Rs 74,455 million from Rs 71,837 million in 2008 registering an increase of 3.6%. The acceleration in the magnitude of losses depicted an alarming situation which warrants a review of the working and restructuring of the organization.

3.1.2.2 While examining the operating results of PIAC, the audit observed that:

a. Around 55.7% (Rs 41,455 million) of total accumulated losses of Rs 74,455 million belonged to 2009 and 2008 only. The main constituent of these two years' losses was the exchange loss of Rs 30,830 million which was Rs 6,711 million against the total loss of Rs 5,220 million for 2009 and Rs 24,119 million against total loss of Rs 36,235 million for 2008. In other words, 74.4% of the two years' total loss and 41.4% of total accumulated loss was on account of exchange loss only. This reflected a poor financial risk management in PIAC. The corporation had apparently not taken any significant measures to control its currency risk and the resultant losses in future. An increase of even 5% in foreign currency rates may expose company to further loss of Rs 3.594 billion on its closing balances.

b. The revenue load factor (i.e. proportion of the overall capacity which is actually sold and utilized) was 54% in 2008 which went down further by 2% in 2009. Decline in operating activity needs to be explained.

c. Fuel cost of Rs 31,372 million in 2009 was reduced by 30.8% but total operating expenses reflected a decline of 17.9% only. It was due to increase in 'Other Cost of Services' by Rs7,188 million (46.6% of 2008), increase in 'Distribution Cost' by Rs814 million (15.3% of 2008) and increase in 'Admin Expenses' by Rs 1,864 million (31.8% of 2008).

d. Salaries increased by Rs 6,445 million which was 49.4% more of the year 2008. Audit noted that despite deteriorating operating, managerial and financial performance, the number of PIAC's executives had reached to 2,227 costing Rs 4,341 million which was

100.1% and 74.7% respectively of 2008 and remuneration of MD had also increased by 44.9% in comparison of 2008.

e. PIAC's consistent deteriorating annual performance also raises question over compliance of Code of Corporate Governance in its true sprit along with functions of audit committee, board of directors, statement of compliance with best practices and auditors' review report thereon, especially in the context of risk management.

3.1.2.3 The Corporation's current assets as at December 31, 2009 stood at Rs 22,123 million which were much lower than its current liabilities of Rs 70,925 million. This adverse position casts serious doubts over the Corporation's ability to meet its short-term debt obligations and its continuation as a going concern. The financial structure of the Corporation is highly leveraged and its current ratio rests at only 0.25: 1 as against a standard of 1:1, which shows that Corporation's current assets are not enough to cover its current liabilities. The external auditors also raised doubt over the corporation's ability to continue as a going concern.

3.1.2.4 Trade debts of the Corporation were Rs 8,335 million during the year under review as against Rs 6,191 million of the year 2008. The efficiency of collection of receivables is lessened by 28.8% in 2009 as number days for receivables' collection were increased from 22 to 29. This indicates PIAC's inability to control its rising trade debts warranting adoption of effective plan. Efforts need be made to realize the amount on priority basis in order to avoid their conversion into bad debts.

3.1.2.5 The long-term debt of the Corporation stood at Rs 121,581 million as at December 31, 2009 which exceeded its total equity of Rs 46,528 million (revalued), which depicts Corporation's total reliance on borrowing. Audit was of the view that the Corporation is extremely vulnerable to the risk of default on its debt obligations. Corporation's short-term debt obligations seem to be spiraling out of control and stood at Rs 23,982 million as at December 31, 2009.This poor financial health of the Corporation requires major corrective actions. The current portion of long- term financing stood at Rs 13,805 million as at December 31, 2009, which means that the Corporation needs to pay this portion of its long-term debt within one financial year. The Corporation, however, registered a loss after taxation of Rs 5,220 million for the year ended December 31, 2009, which means that the Corporation will have to resort to more borrowing to pay off debt servicing costs of its old debts.

3.1.2.6 **Systemic issues- observed during audit of PIAC**

a. The Corporation was hit hard by the rise in fuel prices during the year 2008. According to management's stance "some of the airlines managed to minimize the additional fuel cost through timely fuel hedging, the remaining airlines, including PIAC, had to fully absorb the additional cost." Whereas, it was observed that PIAC resorted to fuel hedging in November and December 2008, but the decision was imprudent as the market price of fuel was much lower than the hedged price of fuel. The market price of fuel was 54.959 USD to 43.147 USD per barrel in November and December 2008 respectively; whereas, PIAC hedged the fuel price at USD 90 to 120 per barrel during the above period.

b. Audit observed that PIAC was gradually outsourcing a number of its services. For example, PIAC Ramp Services Division has been awarded to M/s. Swissport International. PIAC Flight kitchen has been awarded to Singapore Airport Terminal Services (SATS). Moreover, local transport for all major stations in Pakistan has been outsourced and awarded to private contractors. The underlying objective behind outsourcing of these activities was to improve quality of service and reduce cost. However, audit noted that neither the cost was reduced nor the services showed any extraordinary improvement. The wisdom behind outsourcing activities for which PIAC has already got trained human resources and in-house expertise needs to be examined. It also needs to be seen if it is justified to retain PIAC's workforce hired to carry out these activities.

c. PIAC was operating on nine sectors; eight of these were international and one domestic. Audit observed from route wise Profit/Loss Statement of the year 2009 that only one sector, i.e., Saudi Arabia was operating in profit (Rs227.95 million); whereas, the other eight sectors (including domestic) were operating in loss. Management briefed Audit on January 21, 2011 that losses were mainly contributed by interest cost and foreign exchange losses, otherwise, the operating efficiency of PIAC had improved over past periods.

d. It was noticed that profitability of PIAC as compared to other airlines of the world was showing the following position:

(US$ million)

Name of Airline	**Amount**
Pakistan International Airlines	(69.150)
Emirates	1100

Royal Jordanian	40.3
Malaysian Airlines	493.10

Audit was of the opinion that all these airlines were exposed to the same rising fuel prices and other challenges faced by the airline industry; however, they managed to cope with the challenges and some even managed to earn record profits such as Emirates, Royal Jordanian and Malaysian Airlines. On the other hand, PIAC sustained a loss of US$ 69.150 million in the year 2009.

e. The experts of airline industry state that an ideal "employee to aircraft" ratio ranges between, 1:130-170. It is observed that PIA has the highest number of employees per aircraft when compared with 8 other airlines of the industry, as listed below:

S. No.	Airlines	No. of employees	Fleet	Employee to Aircraft Ratio
1	PIAC	17,944	40	1:448
2	Emirates	49,950	145	1:344
3	Japan Airlines	15,943	168	1:95
4	Singapore Airlines	14,515	106	1:137
5	Philippine Airlines	7,322	50	1:146
6	British Air	57,000	239	1:238
7	US Airways	33,765	347	1:97
8	Bangladesh Air (BIMAN)	2,160	11	1:196
9	Indian Airline	19,300	72	1:268

The above data clearly shows that PIAC has an employee to aircraft ratio much higher than the ideal range. It shows that other airlines are able to achieve better output from minimal workforce; whereas, PIAC has over-employed for its current fleet strength which resulted in increase in overheads.

f. The financial improvement plans are not prepared in PIAC on regular basis. However, a restructuring plan of PIAC was first prepared on June 06, 2001 wherein PIAC had succeeded to borrow Rs20 billion against GoP guarantee to settle its liabilities/over-dues, repayment installments amounting to Rs4.863 billion and payment for purchase of Boeing 777-300ER and 777-200LR. In its plan, the management of PIAC committed to the Government of Pakistan that with the help of financial assistance they would be able to make profit.

g. In the year 2007, another Financial Improvement Plan was prepared and vetted by ABN Amro Bank wherein debt restructuring, sale of PIA-IL

hostels, voluntary separation scheme, sale of non-core assets, and sale of GoP shares was envisaged. The plan was not implemented and no effective steps were taken to improve financial position of the Corporation.

3.1.2.7 The analysis of the Corporations' financial statements for the year 2009 reveals that unless PIAC receives financing from Government of Pakistan or from the market it would not be able to meet its current and long-term debt obligations. For this, the Corporation needs to:

1. Re-finance its debts by generating equity from the market, as currently the Corporation's debt to equity ratio is highly leveraged making the corporation highly vulnerable to the risk of default on its debt servicing obligations.
2. Cut down on overheads at a micro level so as to have a cumulative effect at the macro level.
3. Undertake fuel hedging (or other risk coverage measures as suitable) to minimize the impact of fuel price fluctuation on its operating costs.
4. Undertake measures to cover its market risk.
5. Negotiate low interest bearing loans from financial institutions and use them to retire higher interest bearing loans.
6. Should strive to cut non-profit routes and make optimum use of its passenger carrying capacity.
7. Decentralize its decision making and accountability process.
8. Strive to recover its trade debts.

3.1.3 COMPLIANCE OF PAC DIRECTIVES

Brief comments on the status of compliance with PAC Directives

The management of PIAC has reported compliance of 435 Audit Paras out of total 475 paras discussed by PAC in respect of Audit Reports 1986-87 to 2008-09. The percentage of compliance was 92%.

3.1.4 Audit Paras

3.1.4.1 Irregular award of civil works due to defective agreement with a foreign firm - Rs 176.313 million

Rule-12 (1) of PPRA Rules-2004 provides that procurement over forty thousand rupees and up to the limit of one million rupees (subsequently, enhanced as one hundred thousand rupees and up to limit of two million rupees

vide SRO dated December 13, 2006) shall be advertised on the Authority's website and the same may also be advertised in print media, if deemed necessary by procuring agency.

Pakistan International Airlines Corporation (PIAC), Food Services Division (Flight Kitchen) allowed their hired technical consultants, M/s. Singapore Airport Terminal Services (SATS) to procure heavy items and get civil works worth Rs 176.313 million through local firms during the period 2006 to 2008 for the improvement of the Flight Kitchen. The reimbursement of expenditure was made by the management to SATS without observing PPRA Rules 2004 as the works involving payments ranging from Rs 2.267 million to Rs 52.416 million were awarded by SATS to a total No. of 10 firms in disregard of PPRA Rules. Thus undue favour was extended to the favorite parties at the cost of funds of the Organization.

The irregularity was pointed out to the management through Audit Inspection Report dated April 20, 2010. The management in their reply dated April 26, 2010 referred certain clauses of the agreement which were not relevant to the issue. They further added that various defects in the collaboration agreement approved and signed by PIAC management in the year 2005 were under review of their Departmental Audit Committee. However, no further response was received.

The matter was discussed in DAC meeting held on January 10, 2011. The management informed that this case also pertained to the agreement with M/s. SATS as discussed in preceding Para involving Audit observation for US$ 156,000 (Rs 9.449 million). The management reiterated that this Para based on a provision of that agreement should be discussed at PAC level by putting it up in the ensuing PAC meeting. The management further clarified that PPRA Rules were not applicable on SATS and transactions resulting out of the agreement of consultancy with them. The DAC, however, held that the management's clarification was not good enough to drop the observation from ARPSE 2010-11.

3.1.4.2 Irregular expenditure on consultancy services - US$ 156,000 (Rs 9.449 million)

Clause-9.1 of agreement for improvement in flight kitchen services between Pakistan International Airlines (PIAC) and a foreign consultant firm, M/s. SATS (Singapore Airport Terminal Services) signed in the year 2006 stipulated as under:

*"*It shall be obligation of PIAC to pay for, and enter into, and to ensure the continued provision of goods and services by and performance of all necessary contracts and agreements with, third party suppliers and contractors for the purchase, procurement or provision of goods or services relating to all matters and items not included in the definitions of Equipments or Vehicles."

PIAC Flight Kitchen Department made a payment of US$ 156,000 (Rs 9.449 million) during the period May 2006 to July 2008 against invoices raised by M/s. SATS for reimbursement of consultancy charges provided by a local firm, M/s. S. Mehboob & Company, who were engaged as consultant by M/s. SATS. The expenditure incurred by PIAC was entirely irregular as no provision/clause was included in the agreement between PIAC & M/s. SATS for appointment of consultants by M/s. SATS, hence the payment on this account being beyond the provision of the agreement was irregular and recoverable from M/s. SATS.

The matter was taken up with the management through Audit Inspection Report issued on April 20, 2010. The management in their reply dated April 26, 2010 stated that the payment was made to M/s. SATS for its investment in technical services, purchase of equipment and vehicles. They added that M/s. SATS being a foreign based company had no knowledge of the local market situation and it was of utmost importance for M/s. SATS to appoint a local reputable Consultant who is competent to offer technical services to them and capable of supervising the performance of the local contractors and their staff.

The reply of the management was not convincing, as the agreement had no specific provision in this regard.

The matter was discussed in DAC meeting held on January 10, 2011. The management informed that the issue of whole agreement with M/s. SATS was already under PAC's consideration. This Para based on a provision of that agreement should be discussed at PAC level by putting it up in the ensuing PAC meeting. The management further clarified that PPRA Rules were not applicable on SATS and transactions resulting out of the agreement of consultancy with them. The DAC, however, held that the management's clarification was not good enough to drop the observation from ARPSE 2010-11.

Audit would, therefore, suggest fixing of responsibility on the person(s) at fault and taking remedial measures.

3.1.4.3 Irregular extension of agreement for hiring of staff with a contractor - Rs 9.172 million

Pakistan International Airlines Corporation (PIAC) Procurement Manual under the head Principles of Procurement provides to give all qualified bidders an equal opportunity to compete for the contracts; and to ensure that the procurement process is transparent, fair and discretion free.

PIAC (Speedex) hired some of its workforce from a firm, M/s. Omer Razzaq Enterprises (Pvt.) Limited for one year from February 10, 2006 with the payment terms of 5% services charges per month. The management extended the contract for another period of one year and 5 months without bidding, whereas there was no clause in the agreement for any extension. The management paid 11% service charges instead of 5% throughout contract period and an amount of Rs 9.172 million was paid during the extension period which was irregular and unauthorized.

The matter was reported to the management on October 20, 2010. The reply of management confirmed that Central Purchase Committee (CPC) in its meeting No.441/2006 increased 11% services charges for M/s. Omer Razzaq while as per contract agreement signed prior to CPC meeting 5% service charges were required to be paid to the contractor. Hence, CPC itself violated agreement signed with M/s. Omer Razzaq Enterprises. Regarding duration of agreement, the management's reply did not confirm the exact period of contract. Therefore, reply regarding services charges and extension of contract was unacceptable.

The matter was discussed in DAC meeting held on January 10, 2011. The DAC expressed its displeasure over non-reply of the Para by the management. The management informed that 11% service charges included 6% Government levy. The DAC directed the management to submit record to justify the 6% increase in the service charges and also justify the legality of extension in the agreement.

In compliance with DAC directives, the management supplied record; however, the increase of 6% was not substantiated with any documentary evidence. The minutes of meeting of CPC merely mentioned that the service charges would be 11% without indicating any element of Government levy. Moreover, the contention of the management expressed in DAC meeting about assuming the responsibility of payment of 6% tax on behalf of the contractor was itself in contravention of the rules, as the payment of withholding tax is a liability

of the beneficiary, which cannot be compensated by the disbursing organization. As far as extension in the agreement was concerned, the management could not produce a legal justification in response to DAC directives.

Audit would, therefore, suggest investigation of the case with a view to fix responsibility on the person(s) at fault and taking remedial measures.

3.1.4.4 Un-authorized appointment of retired officers on contract involving remuneration of Rs 7.200 million

Cabinet Secretariat (Establishment Division), Government of Pakistan vide O.M No. 6/2/2000-R.3, dated May 06, 2000 issued policy guidelines for contract appointments in Autonomous/Semi Autonomous Bodies, Corporations, Public Sector Companies etc. owned and managed by the Federal Government, which provides as under:

a. In the case of contract appointments/re-employment of retired civil servants, retired armed Forces Officers and retired Judges of Superior Courts, the condition of open advertisement shall not be applicable, provided that such appointments shall be made by or with the prior approval of the prescribed authorities in the Federal Government.

b. The contract appointment, where justified, may be made for 3 maximum periods of 2 years on standard terms including termination clause of one month or one month's pay in lieu thereof.

Contrary to above, Pakistan International Airline Corporation (PIAC) appointed following retired army personnel in H.R&A Department on contract basis for 5 years and 3 years instead of 2 years as detailed below:

S. No.	**Designation**	**Date of Appointment**	**Contract Period**	**Monthly Salary** (Rs.)	**Amount paid till Sep. 2010** (Rs in million)
1.	Deputy General Manager/ Investigation/ Vigilance	14 Mar 2008	5 years	100,000	3.050
2.	Manager Security / Investigation / Vigilance	20 Mar 2008	5 years	75,000	2.250
3.	Chief Flight Instructor/ Administrator	19 Feb 2009	3 years	100,000	1.900

The irregularity was pointed out to the management in September 2010. The management in their reply dated December 20,2010 stated that as per clause 22, sub clause 2(e) of the PIAC Act 1956, the Board of Directors (BOD) was empowered to appoint, remove or suspend any managers, secretaries, officers, clerks, agents or servants and to direct and control them and fixed their salaries and grades etc'. The BOD meeting was held on 16 September, 2002, in which it was decided that the employment in PIA against permanent positions should be on the basis of contract initially for a period up to five years, renewable to a maximum period of 10 years and permanent absorption should be contingent upon satisfactory performance of ten years contractual employment.

The reply was not tenable because Board made ambiguous decision ignoring Establishment Division's OM dated May 06, 2000. The Board decided that permanent absorption could be made upon satisfactory performance of ten years' contractual employment but the management also violated Board's decision and the contractual officers as mentioned in the table above were absorbed permanently without completing ten years' service.

Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures.

The matter was discussed in DAC meeting held on January 10, 2011. The management informed that only one incumbent was recommended for three years contract due to peculiar circumstances; however, the contract was not completed even for two years in that case. Upon query by DAC, the management informed that absorption of contract employees was made only after they agreed to reduce their contract package to bring them under PIAC's regular scales, which were much lesser than the contracted salary. The DAC settled the Para subject to verification. However, progress was awaited till finalization of this report.

3.1.4.5 Irregular payment of salary and pay and allowances of pilots released on deputation to CAA- Rs 180.898 million

Para-2 of appointment letter of PIAC Pilot on deputation basis to CAA through No.HQ.CAA/2902/1108/Pay/803 dated July 20, 2009 refers the terms and conditions of deputation, which provided as under:

> "The deputationist will be paid (as per LPC) salary, flying allowance, medical allowance, leave, free air passage other benefits/facilities as admissible to PIAC's pilots. The total emoluments paid to the deputationist and as borne by PIAC will eventually be adjusted by CAA against the dues owed to CAA at the time of finalization of the accounts."

Pakistan International Airlines Corporation (PIAC) transferred five senior pilots in CAA on terms of deputation during the years 2006 to 2009 but they were drawing salary and allowances including deputation allowance from PIAC till close of audit in September 2010. In fact, all these payments were to be made by CAA where they were posted and working. The Corporation made payment of Rs 180.898 million to these officers till July 2010 as detailed below:

S. No.	Designation with CAA	Pay & allowance per month	Date of deputation to CAA	Total months up to July 2010	Total amount Paid up to July 2010
1	Principal Director	501,604	15-04-09	15	7,524,060
2	Dir. Flt. Std.	1,461,611	17-04-09	15	2,192,165
3	Flight Inspector	2,176,114	06-09-06	47	102,277,358
4	Flight Inspector	1,757,224	22-05-08	26	45,687,824
5	Flight Inspector	1,547,774	15-04-09	15	23,216,610
				Total	**180,898,017**

According to deputation orders, all these payments were to be adjusted between CAA and PIA. But pay and allowances of these officers were neither paid by CAA nor adjusted after payments from PIAC. Thus all these payments were irregular and a loss to PIAC.

The matter was taken up with the management in August 2010 through observation memo and on September 28, 2010 through Audit Inspection Report. The management in their reply dated November 29, 2010 stated that an amount of Rs.13,823,472 only (out of Rs.72,094,517) was to be adjusted against CAA bills.

Audit was of the view that when there was shortage of 133 cockpit crew, why all these officers were allowed deputation to CAA. Moreover, all payments were required to be made through CAA payroll and not from PIAC's payroll. Furthermore, all these deputations were made without approval of Ministry of Defense and without regard to deputation rules and regulations. Hence, all these deputations were irregular and un-authorized.

The matter needed investigation to fix responsibility upon the person(s) at fault and taking remedial measures to void recurrence.

The matter was discussed in DAC meeting held on January 10, 2011. The DAC settled the Para subject to verification of recoveries / adjustment with CAA as reported by the management. However, no record was produced to Audit for verification till finalization of this report.

3.1.4.6 Irregular purchase of spares – Rs 11.172 million

Rule-12 (1) of PPRA Rules-2004 provides that procurement over one hundred thousand rupees and up to limit of two million rupees shall be advertised on the Authority's website and the same may also be advertised in print media, if deemed necessary by procuring agency.

Moreover, as per Schedule of Powers in Pakistan International Airlines Corporation (PIAC), Chapter-IX, Rev.No.02, dated September 15, 2008, a General Manager is authorized to approve purchase order up to Rs.150,000 or US$ 3000 in any single case. Subsequently, the purchase order exceeding Rs.150,000 must be sent to Director for approval.

Contrary to above, General Manager RSD / TGS, PIAC approved 46 cases for procurement of spares items costing Rs.150,905 to Rs.500,666 through local purchase totaling Rs 11.172 million during the year 2008 by splitting the purchase order, without considering the financial limit and not including the

items in annual purchases through tendering. Further, in some cases the procurements were made on single quotation basis. Moreover, the rules for advertisement on PPRA Website were also not observed in these procurement cases. Thus, the Organization was deprived of the benefit of competitive rates.

The irregular procurement was reported to the management on May 08, 2010. The management in its reply dated November 25, 2010 stated that each payment voucher comprised more than one invoice. Hence, the management itself accepted that the purchases were made by splitting the purchase order to avoid tendering and sanction of higher authority. Further, the management did not provide any reply regarding the issue of single quotation and tendering.

Audit, therefore, suggested for holding an inquiry at appropriate level to fix responsibility on the person(s) at fault.

The matter was discussed in DAC meeting held on January 10, 2011. The management explained that the procurements were well within the authorized limit and there was no splitting of transactions. The DAC directed the management to produce record to Audit to prove that no splitting up of purchases was made to get the Para settled. However, relevant record was not produced to Audit till finalization of this report.

3.1.4.7 Irregular extension in the agreement on account of transport services – Rs 6.390 million

Rule-12 of Public Procurement Rules, 2004 provides that procurement over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority's website. All procurement opportunities over two million rupees shall also be advertised in print media, i.e., two national newspapers having wide circulation, besides putting on Authority's website.

Pakistan International Airlines (PIAC), Speedex entered into an agreement with a firm, M/s. Filly Transport Services on March 15, 2006 for provision of required vehicles at Rawalpindi, Lahore and Karachi stations. The agreement was valid for a period of three years from March 15, 2006 to March 04, 2009. After expiry of contract, the rates were to be obtained through advertisement; however, the management extended the agreement for a further period of one and half year, i.e., up to September 2010 and paid Rs 6.391 million during extended period of nine months. There was no clause in the agreement to extend the period of contract.

Audit observed that the extension of agreement was irregular as the management should have called for fresh tenders through newspaper for competitive rates.

The matter was reported to the management on September 20, 2010, but no reply was received.

Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures.

The matter was discussed in DAC meeting held on January 10, 2011. The DAC expressed its displeasure for not submitting the reply to this observation. The management sought a couple of hours' time to submit a response which was accepted by DAC. However, the reply was not received.

3.1.4.8 Irregular award of fuel consultancy services in violation of PIAC Procurement Rules - Rs 4.464 million

Pakistan International Airlines Corporation (PIAC), Procurement Manual, Chapter-03 (Procurement of Services) provides PIAC procedures for hiring consultant that consultancy may be advertised first and then, on the basis of those consultants who submitted expressions of interest in response to the advertisement, a shortlist of consultants may be prepared who may be invited to present their proposals.

PIAC Fuel Division hired services of a foreign firm, M/s. Greenwood Associates Inc., through an agreement dated April 01, 2006, as consultant for fuel hedging, for a period of one year (April 1, 2006 to March 31, 2007) at an annual fee of US$ 72,000 equivalent to Rs 4.464 million. The management entered into the consultancy agreement without following the PIAC procurement procedures. The consultancy was neither advertised in the newspapers nor was any proposal invited from specialized consultants. The appointment was made on the directives of the Chairman/CEO and senior management only on the basis of a presentation made by the consultant on fuel hedging. Hence, the appointment of fuel consultant was irregular and amounted to extending undue favour to him at the cost of PIAC funds.

The matter was reported to management through Audit Inspection Report on November 03, 2010. In their reply dated November 30, 2010 the management contended that companies in Pakistan did not lock their exposures to various

market and commodity risks and one overriding reason was that services of consultants inside Pakistan were not available at economical rates.

The reply was not tenable as the management should have advertised the requirement of consultancy to avail the services of specialized consultants at economical rates.

Audit suggested investigation of the matter with a view to fix responsibility on the person(s) at fault.

The matter was discussed in DAC meeting held on January 10, 2011. The management clarified that the fuel hedging was a specialized task and the then Chairman had approved the hiring of the consultant available at lesser cost. The DAC enquired the basis of assessing the lesser cost when no competitive bidding was held. The management could not justify by passing PPRA Rules. The DAC directed the management to hold an inquiry to fix responsibility on the person(s) at fault. However, progress was awaited from the management till finalization of this report.

3.1.4.9 Irregular procurement of portraits – Rs 3.000 million

Rule-9 of Public Procurement Rules, 2004, provides that a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned. Moreover, Rule-12(2) provides that procurements over two million rupees shall be advertised on the Authority's website as well as in print media or newspapers having wide circulation.

Pakistan International Airlines Corporation (PIAC), P&L Department initiated purchase of big size portraits of national heroes, dignitaries and political figures to be placed at airports lounges on May 15, 2009. Subsequently, five persons were pre-qualified for the job as notified through an internal letter dated May 25, 2009. However, this prequalification was without any advertisement. Technical proposals were opened on June 24, 2009. Only three (3) pre-qualified persons participated and two out of them were rejected due to non-submission of samples. Purchase Order was placed firstly for three portraits at a cost of Rs

0.900 million (@ Rs 0.300 million per unit) on July 14, 2004 in favour of the single technically qualified person. Another purchase order for seven portraits amounting to Rs 2.100 million was later placed with the same person on August 12, 2010.

Audit observed that:

i. the work was awarded on the basis of prequalification of five persons without providing an opportunity of fair competition to other potential bidders. Therefore, the expenditure so incurred was in violation of PPRA Rules.

ii. the deal became dubious with the outright elimination of two pre-qualified artists and awarding the work to one of the remaining three on technically evaluated lowest basis. The whole act was even more questionable due to the non-availability of documentary support for the pre-qualification process.

The matter was taken up with the management on September 17, 2010. The management in their reply dated December 11, 2010 stated that procurement of portraits from the artist was made by observing PPRA Rule No. 42/d(ii) which stipulates the procurement of technical/artistic goods with protection of exclusive rights or intellectual property. The management also stated that the portrait of ex-Prime Minister was the creation of that artist, the leading calligrapher and she had the exclusive right over this portrait.

The management's reply was not satisfactory on the grounds that firstly, the management did not provide to Audit the ground/basis on which the artist was considered for this job and declared by the management as a leading artist amongst the large number of calligraphers/portrait artists of the country. Secondly, the management did not provide the documentary evidence about the exclusive rights of the said artist as stated by the management. Thirdly, the portraits purchased were in fact archetype commercial ones and can hardly be considered as artistic or intellectual work. Hence the procurement was not covered under the PPRA Rule quoted by the management. The management also did not clarify its position on a rather murky prequalification process of artists. Audit holds the view that job should have been done by adopting a transparent

and competitive process. Moreover, incurrence of this expenditure was wasteful keeping in view the deteriorating financial health of the Corporation.

The matter was discussed in DAC meeting held on January 10, 2011. The management clarified that the procurement was made under PPRA Rule 42(d) (ii) which allows direct contracting for technical/artistic reasons. They added that the artist had the exclusive right over the portrait procured by PIAC. The DAC directed the management to produce record to Audit within 10 days in order to ascertain that the artist had exclusive right over the portrait.

However, the management could not provide any record to prove that the artist and the exclusive rights over the portrait as directed by DAC instated they supplied merely a profile of the artist which was irrelevant for verification of the management's contention.

Audit would, therefore, suggest investigation for fixing responsibility on the person(s) at fault and taking remedial measures.

3.1.4.10 Loss due to non-award of full quantity to the 1st lowest bidder – US$ 25,000 (Pak Rs 2.025 million)

Rule-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 International Airlines Corporation (PIAC), Procurement and Logistics Department, in pursuance of Ministry of Religious Affairs' Hajj Policy 2009 to offer suit cases (30"size) to all Hujjaj, called tenders through print and electronic media for procurement of a quantity of 150,000 suit cases on April 12, 2009 and April 17, 2009 respectively. Technical and Financial proposals were opened on May 18, 2009 wherein three overseas vendors submitted their offers as detailed below:

S. No.	Vendor's name	Financial bid offered	Status of technical evaluation
1	M/s. M.M. Solutions, USA	US$ 18.85 per unit ; 50% advance (75,000 Nos offered)	Accepted
2	M/s. Aero Product, UAE	US$ 20.95 per unit ; 25% advance	-do
3	M/s. High mind Technologies, Beijing	US$ 9.85 per unit (160,000 Nos offered)	Rejected due to non-submission of samples

The management contacted both vendors for price reduction and review of payment terms. M/s. M. M. Solutions, USA regretted for any reduction in price but agreed for 25% advance payment instead of initial 50%. M/s. Aero Product, UAE was, however, convinced by the management to reduce the rates from US$ 20.95 to US$ 18.85 to stand at par with the lowest bidder. The management decided to divide the purchase order of 150,000 suit cases between both bidders and orders were issued on July 10, 2009 to M/s. M. M Solution and M/s. Aero Product for a quantity of 50,000 and 100,000 suit cases respectively. Meanwhile, M/s. M. M. Solution agreed to give a compensation/ discount in price @ US$ 1.00 per suit case and the management availed a benefit of US$ 50,000 from them. Had the order been divided between the two vendors equally as M/s. M. M. Solutions were ready to supply the quantity of 75,000 suit cases and they also deserved such quantity being the lowest bidder, the Corporation could have availed the benefit of US$ 75,000 instead of US$ 50,000. Thus, the management by non-issuing the purchase order for 75,000 suit cases to the 1st lowest bidder caused a loss to the organization by US$ 25,000 (Pak Rs 2.025 million).

The matter was reported to the management on September 15, 2009, The management in their reply dated December 11, 2010 stated that the order was placed for 50,000 quantity to M/s. MM Solutions who offered 75,000 quantity and other order of 100,000 quantity was placed to M/s. Aero products who offered 150,000 quantity. They further stated that as a precautionary measure to fulfill the PIA obligations to provide the suitcases to all Hajis before flights, the management deemed it rational to divide the order in ratio of 1:2.

The reply was not satisfactory, as M/s. M.M. Solution was the lowest bidder and offered 75,000 quantity, and being the lowest bidder, they deserved for an order of 75,000 quantity, whereas their capacity production was 3500 quantity per day as compared to M/s. Aerospace having capacity of 2500 quantity per day as initially intimated by them. But the management did not negotiate with M/s. MM Solutions about the enhancement of their capacity like it was done by the management with M/s. Aerospace. Moreover, the management had sufficient time before starting the Hajj season.

The matter was discussed in DAC meeting held on January 10, 2011. The management informed that the supplier (M/s. M.M. Solutions USA) was penalized for US$ 1 for not meeting the specifications and it was not a rebate from the supplier. Audit, however, observed that if the supplies did not meet the specifications, those should have been rejected. The management clarified that it was not a defect but a difference in specification and the time did not allow any corrective measures or rejection of goods. The DAC directed the management to furnish a revised reply and record for verification within 10 days.

In compliance with DAC directives, the management through a revised reply dated January 17, 2011 furnished only a copy of letter dated August 23, 2009 regarding visit / inspection report of suit case manufacturers in China issued by an officer of Commercial Department, PIAC. The letter though contained intimation about convincing the manufacture for compensation of one US Dollar per suit case, but the same lacked any detail about the reasons for the compensation and the criteria to arrive at the rate of compensation. Further, the management could not provide supporting record about approval process of the same compensation by any competent forum.

Audit would, therefore, suggest investigating the case to assess the factual position for fixing responsibility on the person(s) at fault and taking remedial measures.

3.1.4.11 Irregular purchase of X-ray films with arbitrary increase in rates – Rs 0.969 million

Rule-12 (1) of PPRA Rules-2004 provides that procurement over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority's website and the same may also be advertised in print media, if deemed necessary by the procuring agency.

Pakistan International Airlines Corporation (PIAC), Medical Division, Diagnostic Centre Karachi purchased X-Ray films of various sizes during the year 2009 at a total cost of Rs 0.969 million from a firm without calling tenders. The supplier was previously supplying the items on much lower rates in the year 2008 as compared to the rates in the year 2009. The increase was attributed to the

increase in US Dollar and the management approved the revised rates by 60% of the previous rates w.e.f. October 15, 2008.

Audit was of the view that non-advertisement of the procurement and arbitrary increase in the rates were violation of the rules and amounted to deprive the organization from benefit of competitive rates.

The irregularity was reported to the management in September 2010. Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures to avoid recurrence.

The matter was discussed in DAC meeting held on January 10, 2011. The management informed that the Medical Division was an operational area and the procurement of X-ray films was made for operational use and subsequently approved by Medical Committee. They added that increase of 60% was due to devaluation of Pak Rupee against US Dollar. The DAC directed the management to produce record to Audit to justify increase in the rates and also directed the management to ensure measures including disciplinary action against those who violated PPRA Rules. However, progress was awaited from the management till finalization of this report.

3.1.4.12 Losses due to imprudent flight operation/irrational marketing – Rs 1,909.580 million

(i) Loss due to imprudent replacement of aircraft on a profit earning sector - Rs 1,153.540 million

According to the objectives and strategies laid down in Pakistan International Airlines Corporation (PIAC) Corporate Plan 2007, the seat factor was to increase up to 76% through the deployment of B777 aircrafts on competitive domestic and international routes.

PIAC had been operating on the sector Islamabad- Birmingham-Islamabad (flight No: 791/ 792) with aircraft A310 since the year 2005. The airline earned a profit of Rs 84.240 million in the year 2005 and Rs 89.320 million in the year 2006 on this sector. However, after the management deployed aircraft B777 in the year 2007 on this sector, the route became non-profitable owing to higher operating costs and aircraft charges. The replacement of aircrafts caused heavy losses during the year 2008 (Rs 453.500 million) and 2009 (Rs 700.040 million).

Audit was of the view that the replacement of aircraft was imprudent as average breakeven seat factor increased to 95% in the year 2010, which was 77% in the year 2005, i.e. the level of no profit and no loss was prevailing for carrying 77% passengers in the aircraft A-310 but the same shot up to 81% for the larger aircraft B-777. Similarly, the seat factor (passenger's capacity of aircraft) reduced to 74.5% in the year 2010 as against 81.4% of the year 2005. Thus, the increased aircraft charges with the increased breakeven seat factor affected the route performance with increase in operating costs. The increasing loss every year on the above sector reflected failure of the management to curtail the operating expenditure.

The matter was taken up with the management on October 01, 2010. Management in their reply dated December 14, 2010 stated that European Union (EU) and Safety Assessment of Foreign Aircrafts (SAFA) ban (March to October 2007) restricted PIA from flying A310 aircrafts.

The reply was not tenable as EU (European Union) and SAFA (Safety Assessment of Foreign Aircrafts) asked PIA in October 2006 to make changes to its schedules to Europe removing B-747 aircrafts and to restrict one A310 AP-BEG aircraft to operate to and from UK on account of airworthiness as was evident from UK Ramp Aviation Inspectors reports. But the ban was lifted in November, 2007 and European Union allowed PIA to use the European skies, but the management did not deploy A310 to Birmingham like ISB-MAN-ISB and LHE-GLA-LHE sectors on which A310 aircrafts are still deployed.

The matter was discussed in DAC on January 10, 2011 and in compliance with DAC's directives PIAC briefed Audit on January 21, 2011 stating that the ban imposed by European Union was lifted in piecemeal and aircraft wise, but no documentary evidence was made available to Audit in this regard till finalization of this report.

Audit would, therefore, suggest fixing responsibility on the person(s) at fault for the imprudent decision and taking remedial measures.

(ii) Loss due to imprudent change of aircraft on a profit earning sector - Rs 664.700 million

According to Pakistan International Airlines Corporation (PIAC)'s Corporate Plan 2009, PIAC would strive to achieve "seat factor (occupancy rate) of 74.9% during the year.

PIAC operated aircrafts B-777-300ER and B-777-200ER during the year 2007 on sector LHE-MAN-LHE (709/710) by replacing B-743 aircrafts which were operating on the sector profitably during the years 2005 and 2006. The replacement of larger aircraft affected the business/revenue causing other factor to change respectively (owing to higher operating costs and aircraft charges. Consequently, this profitable route became non-profitable with a loss of Rs 664.70 million during the year 2009, while the occupancy rate remained at 70.75% which was below the plan. The occupancy rate decreased from 77.50% in 2005 to 73.50% in 2010. Resultantly the breakeven occupancy rate (seat factor) reached beyond the attainable limit of 97.28% in 2010. The replacement of aircrafts on the above sector increased the operating cost to an extent where a sector which was otherwise profitable suffered losses.

The matter was taken up with the management on October 01, 2010. The management in their reply dated December 14, 2010 stated that fuel prices started escalating to unprecedented level and consequently route economics of many PK flights was affected. As a result LHE-MAN-LHE operation which was earlier profitable with B-743 aircraft became much more viable to operate with B-777 aircraft since per seat cost of B-777 aircraft is much lower than B-743 aircraft. They further stated that loss was minimized on this sector due to this decision.

The management's reply was not tenable because comparison of B-747-300 and B-777-300 and 200ER aircrafts given in reply with respect to their cost and fuel burn off was totally irrelevant with respect to aircraft configuration. B-747-300 aircraft has a seating capacity of 472 passengers, 4 engines and high RPK than 777-300ER aircraft. Its fuel burn off is also higher than that of B-777-300 and 200ER aircrafts which have 2 engines, less seating capacity (329 passengers) and less cargo pay load. The profitability was changed into negative (loss) after change of B-747-300 due to less seating capacity (RPK), less freight

tons of 777-200ER. Moreover, the factors of higher operating cost and aircraft charges due to which the profitable route converted into loss were not commented upon by the management.

Audit was of the view that replacement of aircraft with 777-300-200ER was unwise. In order to keep the sector profitable, PIA management should have evaluated the technical and commercial data while deploying B-777 aircrafts. As a result, PIA is continuously suffering losses on this sector.

The matter was discussed in DAC on January 10, 2011 and in compliance with DAC's directives PIAC briefed Audit on January 21, 2011 stating that B-777 earns better contribution (Sale price –variable cost) in comparison to B-747, hence the most economical alternate between the two aircrafts. Audit was of view that no tangible evidence was provided containing all decision factors at planning stage and their actual outcome to ascertain the efficiency of management decision.

Audit would, therefore, suggest fixing responsibility on the person(s) at fault for the imprudent decision and taking remedial measures.

(iii) Recurring loss due to purchase of extra slot and irrational marketing and route planning strategy on a sector - Rs 91.340 million

Pakistan International Airlines Corporation (PIAC) Corporate Plan 2010 provides that the seat factor/occupancy rate of 72.22% would be achieved during the year.

PIAC management had planned to increase the No. of flights per week from 3 to 4 on sector KHI-LON-KHI and purchased an extra slot on the sector in 2010 for Monday, by deploying another B-777 aircraft, with the result that the occupancy rate on the sector came down form 65.4% (2009) to 58.7% (2010). However, PIAC management was already suffering losses on the above sector with 3 weekly flights in 2009, having a loss of Rs 948.100 million during the year and the seat factor for the year was 65.4% which was also below the plan.

The actual results of both the slots produced a total loss of Rs 365.390 million from January to April 2010, and monthly loss increased from Rs 79 million (2009) to Rs 91.340 million (2010). Thus, due to this unrealistic marketing decision and irrational route planning PIAC had to bear the excessive costs like operating, marketing, advertising and the cost of purchasing new slot and recurring loss of Rs 91.340 million per month.

The matter was reported to the management on July 12, 2010. Management in their reply dated December 14, 2010 accepted the audit contention that purchase of extra slot on the above sector on Monday was not in favour of PIAC. They further stated that they were in negotiations with authorities for a favorable day for Lahore-London-Lahore instead of Karachi-London-Karachi, which showed the irrational marketing strategy of management. The extra cost incurred for purchase of slot was US$ 50,000 and the advertisement expense was Rs 2.212 million.

Audit's considered opinion was that the management knew that there was no need of purchasing extra slot on the above sector and the decision to purchase the slot as well as advertisement expenditure was unjustified.

The matter was discussed in DAC on January 10, 2011 and in compliance with DAC's directives PIAC briefed Audit on January 21, 2011; however, the management did not present their view point on this Para .

Audit would, therefore, suggest investigation for fixing responsibility on the person(s) involved in irrational marketing strategy and loss bearing route planning.

3.1.4.13 Loss of revenue due to non-operation of direct flight of aircrafts B 777- 200LR to New York- Rs 324.368 million

PIAC Corporate Plan 2007 envisaged that aircraft B-777-200LR would be deployed on North America Region for non-stop flights to New York due to make and model of aircraft.

PIAC inducted two new B-777-200LR aircrafts in the year 2006 having seating capacity of 310 revenue passengers. Since these aircrafts are designed for long range flights and can fly 22 hours continuously, these were acquired for long range flights especially from base Karachi to New York, Toronto, Chicago directly. But instead of deploying these aircrafts on long range flights they were put in operation for short range as indirect flights to Manchester-London and Glasgow from Lahore as well as Islamabad. It is worth mentioning that 354 flights were already in operation on sector LHE-MAN-LHE and ISB-MAN-ISB by B777-200ER and 300ER aircrafts in the year 2008 and 120 flights were already available on the sector LHE-LON-LHE and ISB-GLA-ISB by A310 aircrafts. In the presence of 474 flights to England, the deployment of B 777-200LR aircraft as indirect flight on these sectors was an imprudent commercial decision. Thus, extra 360 indirect flights of B-777-200LR on the above sectors resulted in a loss of Rs 324.368 million because of excessive landing and takeoff fuel expenses, high fuel consumption and parking charges.

Hence, due to lack of planning by the PIAC management, this indirect operation of B777-200LR aircrafts with less occupancy rate was totally uneconomical involving heavy recurring operating losses to the Corporation, beside damaging the life and performance of newly aircrafts by frequent landings and take offs in short flight periods.

The matter was reported to the management on October 01, 2010. The management in their reply dated December 14, 2010 stated that US Authorities (TSA) did not give PIA clearance to operate direct flights from Pakistan to US due to security concerns. However, the management did not provide any documents in support of their claim.

The matter needed investigation for fixing responsibility on the person(s) involved in this imprudent decision.

The matter was discussed in DAC meeting held on January 10, 2011. The DAC settled the Para subject to verification. However, no record was produced to Audit for verification till finalization of this report.

3.1.4.14 Loss due to imprudent hedging of jet fuel at exorbitant rates - US$ 13.107 million (Rs 1,035.490 million)

One of the roles and responsibilities of fuel hedging committee of Pakistan International Airlines Corporation (PIAC) was to identify strategies, time frame to hedge (objectives), and when to hedge (opportunities). Moreover, the principles of procurement laid down in PIAC Procurement Manual 2005 state that it is to be ensured that the Products/goods, Services, Works, Plant & Equipment and Information Systems 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, and economically the lowest.

PIAC made fuel hedge arrangement during the year 2008 with the Standard Chartered Bank and Citi Bank, in order to minimize the risk of highly volatile fuel prices both in world market and in the country and hedged a fuel quantity of 375,000 Barrel (BBL) in 2008 (November & December). The management locked the three put options at the price of US$ 90-102/BBL, US$ 102-117/BBL and US$ 90-120/BBL in November, 2008 received from the above banks, while the fuel market price during the month remained at US$ 54.959. In this way PIAC purchased a quantity of 200,000 Barrel (BBL) of the fuel at excessive rates which resulted in a loss of US$ 7,608,200 during November 2008. Despite the above losses in November, 2008, PIAC continued hedging at higher rates in December, 2008 and put the hedge options @ US$ 50-60/BBL, 70-100/BBL, 85-95/BBL and 91-103/BBL respectively, while the float price was 43.147 US$/BBL, thus a loss of US$ 5,449,275 was incurred in December. Hence, PIAC procured fuel at higher rates than the prevailing market rates and the hedge exercise was in fact counter productive which resulted in a total loss of US$ 13,107,475 equivalent to Rs 1,035.490 million (@ 1 US$= Rs 79), in the above two months only.

Lack of seriousness and ill planning of GM Fuel Control Section and Fuel Hedge committee in making hedge decision without observing the current market prices resulted in huge losses to PIAC.

The matter was reported to management on November 03 2010. The management in their reply dated December 3, 2010 stated that hedging arrangements had been made well in advance of the hedged months. At that point of time, the price levels were much higher than the ultimate settled prices. They further stated that other major airlines like United, South West, Alaska, American, Continental, Delta, and US Airways also suffered hedging losses of US$1,500 million (equivalent to Rs 118,000 million) in just one quarter.

The reply was not accepted as the main objective of the hedging committee was to workout most economic hedging options. The committee was supposed to work out the best timing for hedging to carry out new projects and the operations with due attention to technically the best and economically the lowest. The objective of PIAC to save cost of fuel in the wake of world market prices volatility was not achieved rather the airline was put to additional heavy losses due to ill planning and untimely action of the fuel division and even the committee constituted for the purpose.

The matter was discussed in DAC meeting held on January 10, 2011. The management clarified that the hedging of jet fuel prices was not made in November and December 2008 but actually the case initiated in September 2008 was materialized in December 2008. They added that hedging is made to keep budgeted price intact and not to predict gain or loss. They further added that PIAC had gained subsequently during the year 2009 and 2010 on this account. The management, upon query, informed the DAC that hedging up to a certain limit has been allowed by PIAC's BoD. The DAC directed the management to supply complete data of hedging from beginning till to date for review of this Para by Audit.

The management in compliance with DAC directives supplied record to Audit, which indicated that PIAC had achieved gain to the extent of US$ 7.170 million only against the swap deal for the quantity of 1,550,000 barrels through hedging in the subsequent period. However, this gain was much lesser than the reported loss of US$ 13.107 million for the quantity of 405,000 barrels in the preceding period. Hence, the loss sustained by the organization was not compensated.

Audit would suggest investigation for fixing of responsibility upon the person(s) involved in the decision of hedging at higher rates and taking remedial measures.

3.1.4.15 Loss due to change in give away items for Hajj season resulting in enhancement of cost - Rs 112.855 million

The Principles of procurements mentioned in the Rule-4 of the Public Procurement Rules, 2004 provide that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

Pakistan International Airlines Corporation (PIAC), P&L Department, in pursuance of proposal/suggestion given in Hajj Policy for the year 2009 by the Ministry of Religious Affairs, procured 150,000 suit-cases @ US$ 18.85 for the Hajj Season 2009 for distribution to all Hajj Pilgrims traveling with PIAC. This was in replacement of *Hajj Ahrams* and *Abayas* for Hajis and a 10 litres can filled with *Aab-e-zamzam*, which had been presented to Hajis as gift on arrival back to Pakistan as per practice in PIAC for last many years.

A comparison of cost involved in previous give away items with the suit-cases cost, depicted that the difference of cost was at very higher side, i.e., an increase by 97% as compared with previous year's cost. Hence, PIAC had to bear an extra expenditure of Rs 112.855 million under this head of account. The comparison of cost of suit-cases with previous give away items is briefly tabulated below:

(Rs. in million)

Year	Items	Quantity (units)	Rate (Rs)	Total amount
2008	1. Ahraam	81,000	332.00	26.892
	2. Abaya	60,000	388.00	23.280
	3. Aab-e-ZamZam (10 ltr. Can)	150,000	440.00	66.000
			Total	**116.172**
2009	Suit-cases	150,000	US$ 18.85	229.028
			Difference	**112.885**

Keeping in view the critical financial position of PIAC, the management should have taken up the matter with Ministry of Religious Affairs for review of proposal in order to save the precious money and minimize the financial burden on the airline.

The matter was taken up with management on September 15, 2010. The management in their reply dated December 11, 2010 stated that the policy of providing the give away items was formulated by Ministry of religious Affairs and the concerned department forwarded the requirement to P&L Department while P&L Department had no role in the policy making.

The management's reply was not satisfactory as the PIAC is fully autonomous body working under the Ministry of Defence and is free to take the decision on its own. Besides, the Ministry of Religious Affairs did not impose the decision but suggested to offer suit cases as give away items to Hajis. The management of PIAC did not make any effort to reconsider the suggestion of M/o Religious Affairs keeping in view the heavy financial burden due to change in items; whereas, the management had been experiencing a crucial financial condition since long.

The matter needed investigation for fixing responsibility on the person(s) involved in this imprudent procurement.

The matter was discussed in DAC meeting held on January 10, 2011. The management clarified that the procurement was included in the Hajj Policy approved by the Cabinet. The DAC directed the management to produce record to Audit to verify if it was a decision of the Federal Cabinet within 4 days. However, no record was produced to Audit for verification till finalization of this report.

3.1.4.16 Loss due to defective agreement with a foreign firm - Rs 28.174 million

Rule-10 (i) of GFR provides that every Public Officer is expected to exercise the same vigilance in respect of expenditure incurred from public

moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

Pakistan International Airlines Corporation (PIAC), Technical Ground Support Division (TGS) entered into an agreement with a foreign firm, M/s. Swissport International AG (SPI), Switzerland on October 31, 2006 under which the SPI was required to provide technical services relating to ramp handling, cabin cleaning, baggage/cargo movement from and to the aircrafts, maintenance of vehicles currently maintained by TGS and to provide ground handling equipment. As per Schedule–2 to the Agreement, one of the targets to be reached by SPI was to provide equipment up to the value of US$ 6 million (@ US$ 2 million over three phases of six months each).

However, SPI since the execution of the agreement failed to provide the services to the Corporation and the equipment valuing US$ 6 million were not provided by them as per provision of the agreement. The financial terms of the agreement were prepared in defective manner. 50% advance was made as per clause 12.2 of the agreement but the risk was not covered in the interest of the Corporation. The management, despite complete failure of SPI paid a sum of Rs 28.174 million in foreign exchange. Subsequently, SPI after receiving payments from PIAC absconded. Thus, due to defective agreement, lack of timely monitoring and extending un-due favor to the vendor, the management failed to safeguard the interests of the Corporation, which sustained a huge loss of Rs 28.174 million.

The matter was taken up with the management through Audit Inspection Report issued in May 2010. The management in their reply dated July 01, 2010 stated that the issue raised in the para was under review and added that further communication would follow shortly. However, no further response was received till finalization of this Para.

Audit, therefore, suggested for holding an inquiry at appropriate level to fix responsibility on the person(s) at fault for preparing the defective agreement and recovery of the loss.

The matter was discussed in DAC meeting held on January 10, 2011. The management clarified that they were reviewing the case and holding an inquiry. The DAC directed the management to complete the enquiry within two months and provide a copy of the report to Audit. However, progress was awaited from the management till finalization of this report.

3.1.4.17 Unjustified expenditure on procurement of 20,000 wrist watches - Rs 29.970 million

The Principles of procurements mentioned in Rule-4 of Public Procurement Rules, 2004 provides that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

Pakistan International Airlines Corporation (PIAC), P&L Department incurred an expenditure of Rs 29.970 million (US$ 370,000) during the year 2009 for purchase of wrist watches as give away items for business class passengers. The procurement was made from a foreign firm, M/s. Supply Line Canada through tenders. The management issued two purchase orders on April 17, 2009 for supply of 7,000 and 13,000 wrist watches @ US$ 18.50 per watch at a total purchase price equal to Pak Rs 29.970 million.

While purchasing the above wrist watches, the management committed the following irregularities:

1. The items were purchased on the basis of a bid from one party only.
2. The purchase was not made from the original source.
3. The vendor did not submit earnest money.
4. The case was not placed before the Central Purchase Committee, although the amount exceeded Rs 20 million.
5. No samples were submitted by the vendor along with bids; only some specifications were provided by the supplier about the items.

The matter was taken up with the management on September 16, 2010. The management in their reply dated December 11, 2010 stated that the purchase was made from M/s. Supply Line Canada by adopting the complete tendering process and PPRA Rules allow procurement on single bid basis. Management also stated that foreign vendors were exempted from depositing earnest money or

security deposit. The proposal was approved by CPC through circulation. M/s. Supply Line submitted samples which were selected by the executive management.

The management's reply was not tenable on the grounds that no documentary evidence was provided by the management in support of their reply.

The matter was discussed in DAC meeting held on January 10, 2011. The management informed the DAC that due process of tendering had been observed in this procurement by advertisement in print media and PPRA website. Upon query from DAC, the management informed that approval of procurement was given by Central Purchase Committee (CPC). The DAC settled the Para subject to verification.

During verification by Audit, the management supplied record regarding approval of procurement by CPC through circulation but no documentary evidence was supplied in support of the contention about exemption to foreign vendors from depositing earnest money. Further no evidence of selection / approval of samples were supplied to Audit.

The matter needed investigation for fixing responsibility on the person(s) at fault and taking remedial measures to avoid recurrence.

3.1.4.18 Irregular retention of a pilot appointed on bogus certificates involving remuneration of Rs 16.200 million

The prescribed qualification for the recruitment of Cadet Pilot in Pakistan International Airlines Corporation (PIAC) is F.Sc (Pre-Engineering/Computer Science) or A- Level (Mathematics and Physics).

In PIAC, Flight Operation Department, a person was appointed as a cadet pilot on contract basis for five years on November 13, 2003. The verification of educational records of the incumbent by the management after a delay of three years revealed that both the certificates of F.Sc. and Graduation Degree were fake/bogus. The management constituted an inquiry to probe into the matter. The inquiry officer after investigation recommended the dismissal of the incumbent

through the inquiry report dated April 16, 2010 but the management favoured the incumbent and penalized him by demotion of 3 years in seniority instead of dismissal from service, thereby causing irregular payment of Rs 16.200 million.

Audit was of view that the case was not of demotion but warranted dismissal from service as the incumbent's appointment was void *ab initio*. It also raises question over adequacy of internal controls over scrutiny of employees credentials at the time of appointment.

The irregularity was pointed out to the management on September 28, 2010 through Audit Inspection Report. The management in their reply dated November 5, 2010 stated that as per corrigendum advertisement dated April 14, 2010 the required qualification was F.Sc. (Pre-Engineering/Computer Science) or 'A' Level (Mathematics and Physics) to Intermediate or equivalent but the officer was matriculate and had not passed Intermediate examination in Mathematics and Physics. Moreover, the management accepted that the degrees of Mr. Faisal Younis were bogus and the inquiry officer also recommended the dismissal of officer. But the management instead of taking proper action gave undue favor by retaining the officer in service who entered the service through forgery and fraudulent means. Audit was of view that no one could relax the prescribed qualification for pilot.

Audit suggested for applicable disciplinary action against the incumbent as per recommendation of Inquiry Officer. Besides, disciplinary action was also required to be taken against the officer(s) responsible for extending undue favour to the incumbent.

The matter was discussed in DAC meeting held on January 10, 2011. The management clarified that the official was retained in the service after he submitted an equivalent certificate of his academic qualification. Audit pointed out that the said pilot, while entering the service, submitted fake documents/certificates to acquire the job, which was a wrongful act and had criminal implication. Therefore, his removal from service had been recommended in an in-house inquiry report. The DAC observed that the argument carried weight as the blemished profile of the pilot might have serious consequences for

the airline if anything goes wrong involving this pilot. The DAC recommended the management to review the case and take appropriate action in the light of the inquiry report. However, progress was awaited from the management till finalization of this report.

3.1.4.19 Loss due to non-utilization of stores/spares items – Rs 4.798 million

As per Pakistan International Airlines (PIAC) Personnel Policies Manual (Appendix B to Chapter-X), no fixed asset will be declared as obsolete, un-serviceable or surplus, unless otherwise examined by a board consisting of sectional heads of the Department. It is obligatory on the members of the Board to investigate the causes and circumstances under which the asset is to be declared obsolete, unserviceable, or surplus.

In PIAC (TGS/RSD Departments), spares valuing Rs 4.798 million were procured 5 to 30 years ago but the items were neither issued nor utilized from the date of their purchases. The bin cards of those items were also not maintained and the items were kept in the stores out of bin. Subsequently, those spares (total 1,540) were declared obsolete for write-off by the management as observed during audit of accounts of the Organization for the year 2008. The related equipment/vehicles became obsolete and written-off with the passage of time but the issuance of those items did not take place being out of bin, thus causing loss of Rs 4.798 million to the Organization.

The matter was taken up with the management on May 02, 2010. The management in their reply dated July 01, 2010 stated that department concerned holds specialized equipment which is very rare and not easily available in the local market when need arises on urgent basis. They added that in order to avoid delays in the operations it is imperative to stock such old spare parts to maintain the safety stock levels assessed by the quarters concerned. They further added that old equipment ranging from 15-30 years age was considered unserviceable and obsolete as per standard operating procedure, which was followed in declaring the spare parts as obsolete.

The reply was not tenable as the management failed to explain the reasons of keeping those spare items out of bin, their non-utilization and using the similar nature of items through current purchases.

The matter was discussed in DAC meeting held on January 10, 2011. The management clarified that written-off obsolete parts were of the same type but with different part numbers and they could not be used in other vehicles under use, as the relevant vehicles had already been written-off. The DAC observed that it was a systemic issue as apparently procurement of spares was made without assessing the requirement. The DAC directed the management to hold an inquiry to find out the factual position and adopt remedial measures to avoid such losses in future. The DAC also directed the management to submit a revised reply to Audit within 4 days. The inquiry may be completed in one month and a copy of the inquiry report may be submitted to Audit. However, progress was awaited from the management till finalization of this report.

3.1.4.20 Blockage of fund due to non-replacement of defective material – Rs 3.869 million

Para-12 and 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 supplier for replacement at their expense.

PIAC, Procurement Department imported technical store items valuing Rs 3.869 million in the year 2009 but the items were rejected due to supply of wrong parts/duplicate shipment by the foreign suppliers. Neither the materials were got replaced nor the cost of items including certain taxes paid thereon was recovered from the suppliers till close of audit in September 2010 despite lapse of a considerable time, which was indicative of loose internal controls prevailing in the organization.

The matter was taken up with the management on October 25, 2010. The management in their reply dated December 15, 2010 stated that the parts

highlighted in the para had been received from original equipment manufacturer. The management informed the Audit that the list of parts had been provided to Engineering Department to review and advise their possible usage on PIA fleet. As per management reply, they were assessing the possible usage on the maintenance grounding schedule of the aircraft and were waiting clearance/feedback from PIAC's Engineering Department. The reply was not tenable as two years had elapsed but the parts were still lying in the store since their purchase/receipt date without any action.

Audit suggested fixing of responsibility on the persons at fault and taking remedial measures.

The matter was discussed in DAC meeting held on January 10, 2011. The management clarified that the items in a Discrepancy Report (DR) may not necessarily be defective. Sometimes the supplied parts carry minor discrepancies which are removed or explained to the user department. Audit, however, pointed out that the management's reply of "assessing of possible usage of those items," manifested defects in the parts. The management clarified that items worth Rs 1.100 million had already been cleared from the DR. The DAC directed the management to submit a comprehensive reply with authenticated certificates/ evidences to Audit within 10 days for verification. However, progress was awaited from the management till finalization of this report.

3.1.4.21 Non-recovery of outstanding dues from cargo sales agents / clients – Rs 60.618 million

According to Para-2.02 of credit policy of Pakistan International Airlines Corporation (PIAC), all dues from private organizations are required to be recovered within 30 days and further sales be stopped until the previous dues are cleared.

In Karachi Booking Office (KBO), PIAC, an amount of Rs 60.618 million was lying outstanding till close of audit in March 2010 against various private parties/cargo agents since 1993 to 2008 on account of short collection/overdue credit/non-adjustment of sales as summarized below:

(Rs. in million)

S. No.	Nature of recovery	Period	Amount
1.	Short collection of cargo	2001 to 2008	6.642
2.	Non-adjustment against shipments without approval	1993 to 2004	0.790
3.	Short collection of cargo	1993 to 1999	1.652
4.	Non-adjustment of cargo claims for which information required	2002 to 2008	6.297
5.	Subsidy for export of cargo of TDAP	Not available	22.500
6.	Non-recovery of cargo sales	91 days to 3 years	22.737
		Total	**60.618**

The amount involved neither was recovered through adjustment from the security deposits of the agents nor was their business stopped. Moreover, undue favour was extended to the clients in a situation when the Corporation was already suffering financial losses.

The non-recovery was pointed out to the management in April 2010. Audit suggested investigating the case with a view to fix responsibility upon the person(s) at fault and recovery of the amount involved.

The matter was discussed in DAC meeting held on January 10, 2011. The management informed that M/o Commerce had agreed to release the amount of Rs 22.500 million. They added that as regards Rs 22.737 million, the case of M/s. Cargo Aids for receivables amounting to Rs 15.423 million was with NAB and the remaining amount was under regularization. They further added that out of Rs 6.642 million, an amount of Rs 3.804 million pertained to M/s. Cargo Aids being under investigation by NAB. They also added that as far as Rs 6.297 million is concerned, the same did not involve recovery but required adjustment which was in process. The DAC directed the management to segregate the amount under prosecution with NAB and get the other recovered amount verified from Audit. The DAC directed to continue efforts where recovery is to be made and criminal cases may be lodged against the defaulters, if deemed necessary. However, progress was awaited from the management till finalization of this report.

3.1.4.22 Non-recovery of rent of rooms from an Institute - Rs 15.840 million

Pakistan International Airlines Corporation, Training Centre (PTC) specified class room rent charges for outside parties through Minutes No.PTC/07/004 dated June 30, 2008, which provided monthly rent of a class room (size 15 – 20 trainees) as Rs. 60,000 per month.

PTC allowed on outside party, M/s. Chartered Institute of Logistic & Transport (CILT) to establish its office in the premises of PTC. M/s. CILT

established their office in the year 1988 in the premises of PTC by occupying two rooms for office free of cost. The Institute was being run in private capacity without any contribution to PIAC from the earnings. The Institute was also enjoying all utilities services like electricity, land, telephone, net services, etc., free of cost. However M/s. CILT had been paying Rs.5,000 per month for the class room, if occupied for conducting the class.

Audit was of the view that the PIAC management should have recovered the rent from M/s. CILT on monthly basis and all the utilities bill should have been paid by them. The undue favour extended to M/s. CILT and lack of monitoring by the management resulted in non-recovery of estimated Rs 15.840 million (264 months @ Rs.60,000 per month).

The matter was taken up with the management through an observation memo dated March 15, 2010. The management in its reply dated March 30, 2010 quoted the claim of Honorary Secretary General of CILT that the accommodation had been allotted by the then Chairman PIAC or his authorized officer but no record was available with PTC. The management added that a letter had been sent to CILT to provide substantial evidence of the allotment and reply was awaited.

The reply of the management does not hold good as the concerned officer(s) should have exercised their powers to watch the interest of the corporation with due diligence instead of relying upon an outsider to justify the non-payment of rent.

Audit suggested to:

i. Investigate the circumstances under which the M/s. CILT were allowed to use the premises without charge at the cost of public money. The role of Internal Audit Department and Compliance Department of PIAC also needed review. The responsibility may also be fixed.

ii. Work out the exact amount of rent for the space occupied according to the market price and take effective steps to recover the same in addition to the recovery of utilities bill.

The matter was discussed in DAC meeting held on January 10, 2011. The management informed that the institution was accommodated in the premises of PTC by PIAC since the year 1988. The management further informed that it was a private institution but its Chairman has traditionally been Chairman/Managing Director of PIAC. The DAC enquired whether it was within the competency of the Chairman /M.D., PIAC to allow free of cost space to the institution. The management undertook to consult the record and make a rejoinder to Audit. However, progress was awaited from the management till finalization of this report.

3.1.4.23 Non-recovery of dues from defaulting PAX agents – Rs 4.755 million

According to Para-2.02 of credit policy of Pakistan International Airlines Corporation (PIAC), all dues from private organizations are required to be recovered within 30 days and further sales be stopped until the previous dues are cleared.

In Karachi Booking Office (KBO), PIAC, an amount of Rs 4.755 million was recoverable till close of audit in March 2010 from four PAX sales agents who were declared defaulters on account of short collection/discrepancies in sales and dishonouring of cheques as detailed below:

(Rs. in million)

S.No.	Name of agent	Date of default	Amount
1.	M/s. Ali Hamid Travels	February, 2008	1.368
2.	M/s. Mount View Travels	September, 2008	1.114
3.	M/s. Danish Air Travels	March, 2008	1.658
4.	M/s. Dean Air Link	October, 2008	0.615
		Total	**4.755**

The management neither recovered the outstanding amount of Rs 4.755 million from defaulting PAX agents nor stopped their sales. Further, no action was taken by the management to recover/adjust the amount from the Bank Guarantees of the defaulting firms.

The matter was taken up with the management through Audit Inspection Report in April 2010. The management in their reply dated December 20, 2010

stated that an amount of Rs 1.765 million had been recovered, leaving the balance of Rs 2.990 million which needed to be recovered.

Audit suggested investigating the matter to fix responsibility on the person(s) at fault and taking remedial measures for recovery of the dues.

The matter was discussed in DAC meeting held on January 10, 2011. The management informed the DAC that Rs 1.765 million had been recovered, whereas three agents had closed their businesses and recovery cases against them would be filed in the court. The DAC directed that FIRs may be lodged against the defaulting firms for defrauding the PIAC. The DAC also directed the management to approach appropriate forum to get the dues of PIAC under the Land Revenue Act. However, progress was awaited from the management till finalization of this report.

3.1.4.24 Non-recovery of outstanding dues from corporate clients - Rs 1.622 million

Clause No.2.2 of credit policy in Pakistan International Airlines Corporation (PIAC) provides that credit period may be up to 30 days and financing cost @ 1.25% per month is to be added to all overdue credit and all further credit on overdue accounts should be stopped until all past dues are cleared.

PIAC (Speedex) provided services to various corporate clients on credit basis. However, some clients did not pay the dues amounting to Rs 1.622 million which were outstanding as on December 31, 2009 for more than 3 years. During discussion, the management stated that the amount was withheld by the clients due to lost shipments and they had approached those clients to settle the matter but the clients did not agree.

Audit was of the view that the management should have invoiced the financing cost which are applicable and should have opted for the legal course of action to recover the outstanding amount along with financing cost. However, inaction on the part of management kept the amount un-recovered.

The non-recovery was pointed out to the management on October 20, 2010 through Audit Inspection Report. The management in their reply dated December 13, 2010 confirmed that shipments of customers were lost or were damaged but did not mention the names of customers whose shipments were lost/damaged. It was also not confirmed whether or not the matter was investigated and responsibility was fixed. It was further noted from the reply of the management that credit policy of PIAC was not applicable on Speedex, which had increased the risk of credit business. Speedex is doing credit business without policy/procedure; there is no Standard Operating Procedure for speedex operations. No legitimate action was initiated against the defaulters. Hence, the reply of management was not tenable.

The justification for not taking any action against defaulters needed to be elaborated and steps for recovery may be taken.

The matter was discussed in DAC meeting held on January 10, 2011. The management informed that the amount of claims due to lost shipments was greater than the outstanding dues pointed out by Audit. In reply to a question, the management informed that the shipments were not insured. The DAC directed the management to submit a case to the BoD for the regularization of the irrecoverable amount with full justification and by covering the legal aspects of the case. However, progress was awaited from the management till finalization of this report.

3.2 Skyrooms (Pvt.) Limited

3.2.1 Introduction

Sky Rooms (Pvt.) Limited was incorporated as a Private Limited Company on May 20, 1975. The company is a subsidiary of Pakistan International Airlines Corporation (PIAC). PIA Holdings (Private) Limited was the holding company of Sky Rooms (Pvt.) Limited till June 30, 1999. The company owns and manages Airport Hotel at Karachi. The registered office of the company is situated at Karachi Airport.

3.2.2 Comments on audited accounts

The working results of the Company for the year ended December 31, 2009 as compared with those of the previous year 2008 are given as under:

(Rs. in million)

	2009	% Inc/ (Dec)	2008	% Inc/ (Dec)	2007	% Inc/ Dec)	2006
Revenue	245.214	3.24	237.510	17.18	202.684	16.32	174.251
Cost of goods sold and services	(221.079)	22.51	(180.455)	6.27	(169.81)	16.22	(146.112)
Gross Profit / Loss	**24.135**	**(57.70)**	**57.055**	**73.58**	**32.87**	**16.81**	**28.139**
Administrative & Selling Expenses	(51.534)	20.69	(42.700)	15.56	(36.95)	26.95	(29.105)
Operating profit / (loss)	(27.399)	-	14.355	-	(4.08)	322.36	(0.966)
Financial Charges	(0.026)	(4.00)	(0.025)	-	(0.03)	-	(0.029)
Other income	35.840	624.92	4.944	(4.92)	5.20	58.78	3.275
Profit / (loss) before tax	**8.415**	**(56.34)**	**19.274**	**1668.26**	**1.09**	**(74.13)**	**4.213**
Taxation	(2.765)	58.04	(6.590)	62.32	(4.06)	-	(35.082)
Profit / (loss) after tax	**5.649**	**(55.46)**	**12.684**	**-**	**(2.97)**	**-**	**(30.869)**
Accumulated losses	**(85.342)**	**(6.21)**	**(90.991)**		**(103.68)**	**-**	**(100.706)**

Source: Annual Audited Accounts

3.2.2.1 During the year under review, Revenue showed a marginal increase of 3.2% as compared with previous year but Gross Profit declined substantially by 57.7%. The reason for the decline was a major increase in salaries and allowances (49.3%, i.e., from Rs 53.892 million in 2008 to Rs 80.451 million in 2009). The increase in salaries and allowances resulted in a severe liquidity crisis, where cash and bank balances reduced by 95.1%, i.e., from Rs 24.298 million to Rs 1.180 million during the year under review. Current Ratio of 0.64 and Quick Ratio of 0.62 are also well below industry average of 2:1 and 1:1 respectively. It implied that the company did not have enough resources to meet its current

liabilities from its current assets. Increase in salaries and allowances should be made in line with current financial position of the company.

3.2.2.2 During the year under review, Trade Debts increased by 96.6% from Rs 18.371 million in 2008 to Rs 36.121 million in 2009; despite that revenue increased only marginally by 3.2%. Efforts should be made to expedite recovery of trade debts in order to generate liquidity to pay off current liabilities.

3.2.3 COMPLIANCE OF PAC DIRECTIVE

Brief comments on the status of compliance with PAC Directives

The management of Skyrooms (Pvt.) Limited has reported compliance of 42 Audit Paras out of total 44 Paras discussed by PAC in respect of Audit Reports 1986-87 to 2008-09. The percentage of compliance was 95%.

3.2.4 Audit Paras

3.2.4.1 Loss due to cafeterias services provided to PIAC - Rs 41.062 million

According to clause 19 of draft agreement received with tender documents for supply of meal to PIAC Cafeterias, PIAC had to make payment to Skyrooms (Pvt.) Ltd, only on the basis of coupons of meal submitted by the Skyrooms (Pvt.) Ltd (SRL) with bills.

Skyrooms (Pvt.) Ltd (SRL), submitted tender rates for supply of meal to PIAC on June 19, 2009 for supplying meal to PIAC's 21 cafeterias at Karachi from July 01, 2009 to July 01, 2010. The PIAC accepted the rates quoted by the SRL on June 29, 2009 and issued letter of intent for cafeterias services w.e.f. July 01, 2009 with the request to prepare and finalize the agreement but the management of SRL failed to execute agreement even after close of canteen service w.e.f. July 01, 2010. The SRL rendered canteen services and recorded meals coupons during whole period of service w.e.f. July 01, 2009 to July 01, 2010 for Rs 65.248 million were furnished to PIAC for re-imbursement as detailed below:

S. No.	Particulars	No. of meal coupons	Rate per coupon quoted by SRL (Rs)	Amount
1	Break Fast Coupons	160,819	25	4,020,475
2	Break Fast Without Coupons	91,481	25	2,287,025
3	Meal Coupons	484,204	84	40,673,136
4	Meal Without Coupons	193,967	84	16,293,228
5	Tea Coupons	149,513	06	897,078
6	Tea Without Coupons	179,625	06	1,077,750
		Total	**1,259,609**	**65,248,692**

As per rates quoted by SRL and approved by PIA, and according to recorded coupons, the total sales came to Rs 65.248 million but the management of SRL incurred heavy expenditure of Rs 106.311 million on cost of meal of, i.e., Rs 41.062 million over the quoted rates. The management had to remain within the quoted cost to earn maximum profit on this deal. No internal checks and control were exercised on daily, weekly and monthly basis on purchases and consumption of material to remain within the rated cost. Thus, the management of SRL (Airport Hotel) sustained a loss of Rs 41.062 million (Rs 106.311 million – Rs 65.248 million).

The matter was reported to the management on October 20, 2010. The management in their reply dated November 26, 2010 accepted the loss of Rs.16, 539,683 and stated that it was receivable from PIAC.

The reply was not acceptable as neither it was shown in Annual Accounts 2009 nor PIAC accepted this claim.

The matter needed to be investigated at higher level with a view to fix responsibility on the person(s) at fault.

The matter was discussed in DAC meeting held on January 10, 2011. The management informed that the outstanding balance was now Rs 16.539 million and they were making efforts to recover the balance amount from PIAC. Audit pointed out that it was not only the issue of recovery from PIAC. The management had assessed the sale of meals worth Rs 109.250 million but they managed to sell meals worth Rs 65 million only. So, it was a case of shortfall of

Rs 44.132 million. On the contrary, the cost of sales remained at Rs 106.311 million, which should have been proportionately lesser in comparison to the volume of sales. Audit further pointed out that the sales of Rs 65.118 million also included free meals worth Rs 19.658 million. The management clarified that the expenditure remained at that level because they had assessed the sales and entered into bidding on the basis of demand from PIAC. The DAC directed the management to hold an inquiry on the issue and submit its findings against the points raised by Audit. However, progress was awaited from the management till finalization of this report.

3.2.4.2 Non-recovery of rent from clients/ guests allotted rooms on monthly basis - Rs 1.256 million

In Airport Hotel of Sky rooms (Pvt.) Limited (SRL), the charges from the guests who are allotted rooms on monthly basis should be recovered in advance.

Airport Hotel of Sky Rooms (Pvt.) Limited, a subsidiary of Pakistan International Airlines Corporation (PIAC), allotted rooms to 28 PIAC employees on monthly basis, without terms and conditions and signing of agreements. The management failed to recover an amount of Rs 1,256,105, which was outstanding against the guests as on October 05, 2010. Moreover, the management neither received advance payment from these guests nor recovered the outstanding amount at the time of checkout.

The matter was reported to the management on October 28, 2010. The management in their reply dated November 26, 2010 accepted the receivable and stated that all receivable were due from the employees of PIAC, were secured and the same were deducted from their salaries.

The reply was not acceptable as no recoveries were made and the management failed to make available the copies of any recovery/deposit from PIAC.

The matter needed clarification and justification besides making efforts to recover the outstanding amount. Further, there is a need to make policy to receive the Hotel charges in advance to avoid recurrence.

The matter was discussed in DAC meeting held on January 10, 2011. The DAC directed the management for recovery of the dues from concerned employees/ guests. However, progress was awaited from the management till finalization of this report.

3.2.4.3 Non recovery of overdue credit from clients- Rs 36.121 million

As per Skyroom (Pvt.) Limited (SRL) credit policy 2.02

1. Credit period may be up to a maximum of 30 days.
2. Financial cost @ 1.50% per month is to be added to all overdue credit for such additional period till recovery.
3. All further credits to overdue accounts should be stopped till all past due are cleared.

In SRL, an amount of Rs 36.121 million was recoverable as on December 31, 2009 from various clients of PIAC (like transit passengers, PIAC departments, etc.,) on account of room and food services provided to them during the period 2004 to 2009. Moreover, as per credit policy an amount of interest @ 1.50% per month was required to be charged and invoices of interest were required to be raised separately on overdue credit, but no invoices were raised to recover the interest. Hence, the management neither took effective steps to recover the principle amount, nor raised the invoices of interest against defaulters. The chances of recovery from individual PIAC employees seemed remote, as various employees have left the service.

The matter was reported to the management on October 28, 2010. The management in their reply dated November 26, 2010 stated that the amount mentioned was up to December, 2009 and it could not be recovered in any case as they bill to PIA on fortnightly basis.

The contention of management was not satisfactory as after lapse of one year the amount was still outstanding. Moreover, the management should not have allowed the PIAC employees to stay in Airport Hotel at subsidized rates or without charges.

The matter was discussed in DAC meeting held on January 10, 2011. The management informed that some recoveries had been made. The DAC directed

the management to get the amount of recovery verified from Audit. However, progress was awaited from the management till finalization of this report.

The matter required efforts to recover the outstanding dues and interest amount thereon.

3.3 Institute of Space Technology

3.3.1 Introduction

Institute of Space Technology (IST) came into existence in September 2002 as an attached Institute of SUPARCO. It became a statutory organization established under Institute of Space Technology Ordinance 2007. It is working under the administrative control of Strategic Plans Division and is being managed by Vice Chancellor, who is the head of the Institute.

Corporate Information

The Institute is engaged in promoting space-oriented activities with the help of both national and international experts. The main objects of its establishment were to promote and finance educational, research and development activities by facilitating the development of world-class degree awarding university having a bearing on the socio-cultural and economic needs of the country. The main campus of the Institute is located in Islamabad, capital territory. It is a federally chartered degree-awarding institute, graduate and undergraduate programs in Aerospace, Communication Systems and Materials Science Engineering.

3.3.2 Comments on audited accounts

3.3.2.1 The working results of the Institute for the year 2009-10 as compared to the previous years are given as under:-

(Rs. in million)

	2009-10	**% Inc / (Dec)**	**2008-09**	**% Inc / (Dec)**	**2007-08**	**% Inc / (Dec)**	**2006-07**
Income							
Grants	137.512	20	115.000	48	77.902	(13)	89.136
Educational activities	36.789	22	30.147	20	25.111	12	22.508
Other receipts	9.829	341	2.229	(35)	3.430	261	0.950
Total income	**184.130**	**25**	**147.376**	**38**	**106.443**	**(5)**	**112.594**
Expenditure							
Educational expenses	109.582	14	96.488	127	42.553	6	40.214
Administrative expenses	42.331	13	37.450	(3)	38.432	34	28.609

Financial charges	0.056	14	0.049	250	0.014	(52)	0.029
Total expenditure	**151.969**	**13**	**133.987**	**65**	**80.999**	**18**	**68.852**
Surplus/(deficit) transferred to General Fund	32.161	140	13.388	(48)	25.444	(42)	43.742
Prior year adjustments	-	-	(0.017)	-	2.585	-	-
Surplus/(deficit) transferred to General Fund	32.161	140	13.371	52	28.029	(36)	43.742

Source: Annual Audited Accounts

The above data indicates that the surplus of income over expenditure increased to Rs 32.161 million during the year 2009-10 as against the surplus of income over expenditure of Rs 13.371 million in 2008-09, which was mainly due to receipts of excess grants from SUPARCO & HEC in 2009-10 as compared to 2008-09. Income from educational activities was Rs 36.789 million and other resources was Rs 9.829 million in 2009-10 which was not sufficient to cover heavy educational and admin expenses of Rs 109.582 million and Rs 42.331 million respectively. IST has to rely on the grants of SUPARCO & HEC to meet its expenses. Need for the enhancement of its income either through launching new courses or through self-financing is suggested in order to meet its educational and admin expenses adequately.

3.3.2.2 Electrical equipment of Rs 19.520 million having a book value of Rs 6.273 million were sold out for Rs 0.675 million resulting in a loss on disposal of assets by Rs 5.598 million in 2008-09. Selling out the items at only 10% of the book value indicated that either these items were not used properly or the process of their disposal was not transparent, for which the management should justify the reasons.

3.3.2.3 Capital work in progress stood at Rs 201.059 million as on June 30, 2010 as against Rs 113.154 million as on June 30, 2009. It included an amount of Rs 182.397 million pertaining to civil works - PSDP and an amount of Rs 18.653 million pertaining to assets in transit. Early / timely finalization of civil work to avoid escalation is stressed upon the management. Receipts of assets in transit should also be confirmed.

3.3.2.4 The Institute invested Rs 22.265 million in short term deposit schemes (6 months @12%) in Bank of Punjab and Rs 31.512 million (3 months @11.30%) in National Bank of Pakistan. Funds, which are not urgently / immediately required, should be shifted to long-term deposit schemes for better earning.

3.3.2.5 Schedule of fixed assets shows book value of building as Rs 28.373 million as on June 30,2010. The management incurred heavy repair and maintenance expenditure of Rs 16.413 million (Rs.10.115 million in 2008-09 and Rs 6.308 million in 2009-10) and charged it to revenue account. Non-capitalization of such huge expenses, which no doubt enhance the life of building, needs to be justified.

3.3.2.6 The management kept a significant balance of Rs 46.499 million as on June 30, 2010 in saving account earning nominal rate of 3% to 5% mark up. Similarly, an amount of Rs 10.112 million was kept in current accounts. Need for transferring of unwanted funds to term deposit account after determination of working capital requirement as per instructions of Ministry of Finance, is stressed upon the management.

3.3.2.7 General Fund of the Institute increased from Rs 128.182 million as on June 30, 2007 to Rs 156.211 million as on June 30, 2008, Rs 168.183 million as June 30, 2009 and Rs 203.703 million as on June 30, 2010. The increase was due to transfer of surplus of the year to the reserve. The accumulation of General Fund shows that instead of utilizing of grant amount on statutory objectives of the Institute, the management was running on "Saving and Investment Policy." Position needs to be explained.

3.3.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Being new auditee organization there were no pending PAC directives.

Chapter-4
Ministry of Defence Production

4.1 Karachi Shipyard and Engineering Works Limited

4.1.1 Introduction

Karachi Shipyard & Engineering Works Limited (KS&EW) is an unquoted public limited company incorporated under the Companies Ordinance 1984. The major activities of the company are shipbuilding, ship repairs, and general engineering.

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

4.1.2 Comments on audited accounts

(Rs. in million)

	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07	% Inc/ (Dec)	2005-06
Sales	1931.101	77.488	1,088.016	71.03	636.123	6.3	598.38
Cost of Sales	(1553.241)	100.481	(774.756)	87.66	(412.854)	(5.5)	(436.969)
Gross Profit/ (Loss)	377.859	20.622	313.260	40.31	223.269	38.3	161.411
Admin, Selling & dist. Expenses	(150.501)	(212.906)	(133.298)	15.72	(115.191)	(13.5)	(133.234
Operating profit/ (Loss)	227.357	26.337	179.961	66.51	108.078	283.5	28.177
Other Charges	(80.937)	49.162	(54.261)	(13.85)	(62.938)	-	(0.164)
Financial charges	(485.131)	112.568	(228.224)	(63.91)	(117.821)	(10.5)	(131.621)
Other Income	578.367	36.096	424.971	166.56	159.426	938.5	15.352
Profit/(Loss) before Tax	239.656	(25.676)	322.447	486.09	82.365	-	(88.256)
Taxation	242.302	-	(7.565)	124.55	(3.369)	9.8	(3.069)
Profit/(Loss) after Tax	481.958	53.060	314.882	500.7	78.996	-	91.325
Accumulated Profit/ (Loss) Beginning	(2917.377)	(9.742)	(3,236.595)	(2.18)	(3,315.591)	-	(3,224.266)
Govt. Grant	1040.882	69.865	612.771	-	-	-	-
Accumulated Profit/ (Loss) Ending	(2435.419)	(16.520)	(2917.377)	(15.50)	(3,236.595)	(2.38)	(3,315.591)

(Source: Annual Audited Accounts)

4.1.2.1 During the year under review, external auditors have identified that the company has sustained significant losses over past many years. These financial statements have been prepared on going concern basis and its validity is dependent upon continuous support from Government of Pakistan. Furthermore, external auditors have also identified that the company has not been able to make

payments of Rs 24.142 million to the Employees Old Age Benefit Institution within the stipulated time as required by Rule-3 Clause (ii) of the EOBI (Constitution) Rules, 1976.

4.1.2.2 During the year under review, profit after taxation increased by 53.1% from Rs 314.900 million in 2008 to Rs 481.900 million in 2009. The increase in profit after tax is due to recognition of deferred tax asset amounting to Rs 242.300 million in the current year. This recognition was based on the management estimates projecting sufficient taxable profits in future against which this asset could be utilized.

4.1.3 COMPLIANCE OF PAC DIRECTIVE

Brief comments on the status of compliance with PAC Directives

The management of Karachi Shipyard and Engineering works has reported compliance of 45 Audit Paras out of total 57 Paras discussed by PAC in respect of Audit Reports 1986-87 to 2008-09. The percentage of compliance was 79%.

4.1.4 Audit Para

4.1.4.1 Irregular award of a work contract without open tender – Rs 4.448 million

Rule-12 (2) of the Public Procurement Rules (PPR), 2004 provides that all procurement opportunities over two million rupees should be advertised on the Authority's Website as well as in other print media or newspapers having wide circulation. Moreover, Rule-40 forbids negotiation with the bidders having submitted the lowest bid or with any other bidder.

Karachi Shipyard and Engineering Works (KS&EW), awarded a contract in July 2009 for a work, grit blasting/cleaning and painting of various tanks without any advertisement and on the basis of quotations obtained from three firms. The first lowest firm had quoted the rates of Rs.525 per sq. meter for the main work and Rs.50 per sq. meter for additional painting. However, the management negotiated the rates with the 3rd lowest bidder who had originally quoted the rates as Rs.850 per sq. meter and Rs.30 per sq. meter for the main work and additional painting respectively. The 3rd lowest bidder brought down the rates to Rs.700 per sq. meter and Rs.25 per sq. meter to secure the contract

involving total cost of Rs 4.448 million. The reasons for rejection of first and second lowest bidders were recorded as being new contractors without any experience. Moreover it was also recorded that the first lowest bidder could not show required grit sample and the 2nd lowest bidder did not come up for negotiation of the quoted rates.

Audit was of the view that award of the contract by quotation from three selected firms was irregular as it involved cost of more than Rs 2 million and required open tendering. Moreover, the rejection of the 1st and 2nd lowest firms earlier selected by the management for the work and negotiation were also in violation of the rules.

The matter was reported to the management through an observation memo in August 2010 and Audit Inspection Report in September 2010. Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures to avoid recurrence.

The matter was discussed in the DAC meeting held on December 02, 2010. After the detailed discussion and verifying the remedial measures taken by KS&EW, Chairman DAC was of the view that Para should be settled in light of PPRA Rule- 23 (2) and Rule 15 based on short listed firm as allowed by PPRA for short tendering. However, Audit was of the view that PPRA Rule regarding press tendering should have been followed.

4.2 Pakistan Ordnance Factories

4.2.1 Introduction

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.

4.2.2 Comments on audited accounts

Comments on audited accounts are being included in the Commercial Appendix to Appropriation Accounts of the Defence Services for the year 2009-10.

4.2.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr. #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
	1989-90	08	06	02	75
2.	1990-91	25	18	07	72
3.	1991-92	22	05	17	23
4.	1992-93	12	01	11	8
5.	1994-95	38	32	06	84
6.	1995-96	12	03	09	25
7.	1996-97	09	03	06	33
8.	1997-98	18	13	05	72
9.	2001-02	02	01	01	50

The overall compliance to the PAC directives in the POFs was not satisfactory. It seems that PAO was not taking interest in the compliance of PAC directives which needs to be justified

4.2.4 Audit Paras

4.2.4.1 Loss due to embezzlement of public money – Rs 4.020 million

As per POFs, procedure for hiring of transport, on receipt of indent in allocation section of main transport, Incharge allocation endorses the amount to be deposited in advance, and indenter moves to cash office for deposit of the prescribed amount. Further, in accordance with Chapter-V Para-23 of General Financial Rules Volume-I, 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 to which it may be shown that he contributed to the loss by his own action or negligence.

Contrary to the above, Establishment Officer of Transport Section of POFs used to receive cash in advance and affixed his initial on both indents and the duty slips as a token of receipt of amount by him. He issued handmade receipts to the indenters. The officer deposited only Rs 3,293,805 against the actual receipt of Rs 7,131,781 from 1995 to 2009. An enquiry was conducted and the embezzlement was proved against the accused but no recovery was reported. This resulted in an embezzlement of Rs 3,837,917 beside non-deposit of advance receipt of Rs 182,215 from 1995 to 2009.

The loss was reported to the management on September 7, 2010 and the Ministry on December 10, 2010. The management in its replies dated October 4, 2010 and January 14, 2011 stated that after enquiry the accused has been dismissed from service w.e.f. April 14, 2010 and retiring benefits of Rs 3.276 million (commuted amount Rs 0.613 million, pension/medical allowance Rs 2.000 million and GPF Rs 0.663 million) has been confiscated. In addition, the case has been referred to FIA for legal proceedings to ensure recovery of embezzled amount from him. The reply was not convincing because retiring benefits were not admissible to a dismissed employee as such whole amount needs to be recovered from him in addition to retiring benefits.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.2.4.2 Loss due to purchase of store at higher rate – Rs 14.444 million

In term of POFs, standing instruction No. 27 dated May 08, 1996 regarding time scheduling of indenting and procurement action, maximum 35 weeks are required from issuing of tender enquiry to receipt of Performance Bond and release of contract.

POFs AA Factory issued approved indent tender enquires dated June 19, 2007 to two local firms for procurement of 1,000 Bomb bodies forged A/c GP500 LBS MKP-08 low drag HE. M/s Daud & Sons quoted the lowest rate of Rs 74,150,810 on July 25, 2007 with validity period up to October 26, 2007. The management asked the firm to give rebate in their rate but the firm regretted to offer discount vide fax dated January 29, 2008 and March 11, 2008 and requested for early placement of order. Management failed to place order to supplier within the validity period.

After expiry of validity period, management requested the firm to extend the validity period up to June 30, 2008. The firm extended the validity period with the condition to supply the store with 19% increase in previous quoted rate with a difference of Rs 14.444 million (88.594 – 74.150 = 14.444 million). The management accepted the offer and placed supply order vide contract dated June 25, 2008. Thus, POFs sustained a loss of Rs 14.444 million due to delay in finalization of the contract.

The matter was reported to the management on September 12, 2009 and the Ministry on November 5, 2010. The management in its replies dated October 02, 2009 and January 14, 2011 stated that case took time from opening of tender enquiry to place of contract due to necessary negotiation with the firm and a court of enquiry was being convened to investigate the circumstances under which POFs sustained huge loss. The reply was not acceptable, as the management did not finalize the contact within 35 weeks i.e. up to March 15, 2008, which caused extra expenditure.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.2.4.3 Loss due to re-shipment of rejected store to Jamaica and back - Rs 15.040 million

POFs Export Division vide quotation No.4105/14/CH/Export dated August 23, 2006 agreed to supply 306 SMG Rifles to M/s.BTI Switzerland. Quantity of rifles a subsequently increased to 1,146. The acceptance test of store was to be performed by the Quality Assurance Directorate of POFs in accordance with the relevant specification.

POFs management made no proper contract/agreement with the buyer to safeguard the interest of POFs. The store was dispatched to M/s NAT (Poland) on December 20, 2006, which was further shipped/ exported by the firm to Jamaica. However, the Quality Assurance Directorate, of POFs, which ultimately led to rejection of store by the user, issued no Quality Assurance Certificate. On compliant regarding manufacturing of weapons, POFs team visited Jamaica from April 23, 2008 to May 06, 2008. After detailed testing of weapons, the team recommended to manufacture new consignment with special emphasis on trigger mechanism. Store was again manufactured and shipped on April 16, 2008. Rejected store received back on November 21, 2008. An amount of US $ 188,000 equivalent to Pak Rs 15.040 million was paid vide bill dated December 1, 2008 on re-shipment of rejected store to Jamaica and back loading. The inquiry committee in its report had pointed out that the store was poor, due to which the same was rejected.

POFs Export Division could not safeguard POFs interest by inclusion of a clause pre-shipment inspection by the clients in the export order, which resulted in loss of Rs 15.040 million due to re-shipment of rejected store to Jamaica and back loading.

The matter was reported to the management on September 20, 2010 and the Ministry on December 6, 2010. The management in its reply dated

January 14, 2011 stated that the consignee did not place contract but simple order was received with full advance payment, rejected stores had been utilized and POFs earned profit of US$ 14, 999. The reply was not convincing because the POFs had born extra cost on reshipment of store and back loading of rejected store amounting to Rs 15.040 million.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.2.4.4 Blockage of public funds due to supply of defective stores to Government of Bangladesh – US $ 482,607 equivalent to Pak Rs 41.022 million

POFs signed a contract dated June 15, 2008 for supply of 3,000 rounds of cartridge QF 105 mm APFSDS @ $777.26 with the Director General Production, Government of Bangladesh. Total contract value was US$ 2,413,035.83. As per clause-09 of the contract, 80% of CFR value was to be paid in advance while the remaining 20% was to be paid after clearance of store. Clause 14 provided that in case of failure to supply the store, liquidated damages were to be imposed @ 2% but not less than 1% of the value of unsupplied quantity of store per month up to maximum of 10% of the total contract value.

POFs Export Division shipped the store to Bangladesh on February 15, 2010. 80% of the bill amount of US$ 1,930,378.66 received on April 14, 2010 in POFs account. The remaining amount of 20% of contract amounting to US$ 482,607.17 was claimed vide commercial invoice dated May 12, 2010 but payment was not received till December 2010.

POFs agent M/s. BSL vide e-mail dated May 25, 2010 showed that the store supplied by POFs was defective with 27% failures. They anticipated that action taken by the buyer would be much harsh as compared to the previous contract of the same store on which 3% price reduction was imposed. Due to supply of defective store, public funds of US$ 482,607 equivalent to Rs 41.022

million @ Rs 85 has been blocked. Besides this, POFs is also likely to sustain loss due to imposition of penalty by the buyer.

The matter was brought to the notice of the management on September 20, 2010 and the Ministry on December 6, 2010. The management in its reply dated January 14, 2011 stated that store exported to Bangladesh had hard extraction and matter was under negotiation. Reply was not convincing because due to non- supply of material as per requirements of the consignee, the funds of POFs amounting to $ 482,607.17 had been retained by the buyer since April 2010.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.2.4.5 Rejection/non-clearance of ammunition by the inspection authorities - Rs 494.677 million

As per authorized percentage of rejection of components of bomb, a limit from 1% to 5% allowed only for manufacturing at components stage whereas the rejection percentage for complete bomb is zero percentage.

In POFs Gadwal Factory, it was observed from the GM Production letter dated August 31, 2010 that large number of certain types of bombs/ammunition valued at Rs 494.677 million were rejected or not cleared by the inspection authority due to various deviations in qualifying accuracy or otherwise etc.

The matter was reported to the management on September 23, 2010 and the Ministry on December 7, 2010. In replies, dated November 08, 2010 and January 14, 2011 the management stated that these lots of ammunition were under decision with the inspection authorities and end users.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.2.4.6 Mis-procurement due to violation of Public Procurement Rules - Rs 166.778 million

As per rule 4 and 12 (2) of Public Procurement Rules-2004, procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical. Clause 2 of rule 12 requires that all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. In cases where the procuring agency has its own website, it may also post all advertisements concerning procurement on that website as well.

Contrary to the above rules, POFs Hospital, Wah issued 84 tender enquires for procurement of medicines and other medical equipments worth Rs 163.874 million during the year, 2009-10. Similarly, the management procured two Olympus Binocular Microtome model CX-31 and BX-412 for Rs 1.349 million and Microtome model 5040-01 for Rs 1.555 million during 2009-10 without observing PPRs 2004. This resulted in mis-procurement of medical equipments worth Rs 166.778 million (Rs 163.874 million + Rs 1.349 million + Rs 1.555 million).

The matter was reported to the management on October 1, 2010 and the Ministry on December 10, 2010. In replies, dated November 4, 2010 and January 14, 2011 the management stated that Public Procurement Rules, 2004 are not implemented in POFs. The reply was not tenable as according to the decision of the PPRA's Board conveyed to the Secretary Defence and Secretary Defence Production by the Cabinet Division, vide OM dated April 14, 2008, the procurement of objects required for Defence purposes by the Ministry of Defence and Ministry of Defence Production are exempted from the applicability of PPRs 2004 provided that only such objects will be exempted for which the Principal

Accounting Officer of the concerned Ministry has certified that these are sensitive in nature, required for Defence purposes and their procurement under the PPRA Ordinance, 2002 and the Public Procurement Rules, 2004 will not be in the national interest.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.2.4.7 Mis-procurement of electro-medical equipments due to violation of public procurement rules - US$ 241,000 equivalent to Pak Rs 19.883 million

In terms of Rule-2 (c) of Public Procurement Rules, 2004, "Competitive Bidding" means a procedure leading to the award of a contract whereby all the interested persons, firms, companies or organizations may bid for the contract and includes both national competitive bidding and international competitive bidding.

POFs Hospital issued a tender enquiry for procurement of 2 C-Arm Image Intensifiers to 4 foreign firms on May 22, 2007. Three firms participated whose technical as well as financial bids opened on June 23, 2007 and November 02, 2007 respectively. National as well as International tender to obtain competitive biddings were not floated. M/s Technology Links (Pvt) Limited, Islamabad extended a special discount @ 1% on their quoted FOB price and reduced their offer from ¥ 6,600,000 to ¥ 6,534,000 (Pak Rs 3,440,080 or US$ 55,351). The case was, however, not finalized and after making nominal changes in the specifications of intensifier and increasing the quantity to four numbers, another tender enquiry dated March 26, 2008 was sent to four firms. Three firms participated in the tender whose technical bids opened on April 26, 2008.

The specification was again revised and tender enquiry was sent to 4 firms on November 31, 2008 by violating the Public Procurement Rules. This time M/s Shimadzu Corporation, Japan who participated in the 1st and 2nd tender was ignored. Only two firms participated in the tender as such the opening date

i.e. November 29, 2008 was extended up to December 16, 2008. Technical bids of 4 firms were opened on December 16, 2008. Two firms i.e. M/s Philips, Holland (M/s Matora Digionics, Lahore) and M/s GE Healthcare USA (M/s Redithech, Lahore) were technically accepted whose financial offers were opened on May 21, 2009. The offer of M/s Philips Electronics was accepted and contract for procurement of 2 C-Arm Intensifiers at total FOB (Singapore port) value of US$ 241,000 was awarded to them on June 18, 2010. This offer was 118% above the offer received in response to the 1st tender enquiry dated May 22, 2007. This resulted in mis-procurement of electro-medical equipments worth US$ 241,000 equivalent to Pak Rs 19.883 million due to violation of Public Procurement Rules.

The matter was reported to the management on October 1, 2010 and the Ministry on December 10, 2010. In replies dated November 04, 2010 and January 14, 2011 management stated that PPRs, 2004 have been made applicable w.e.f. December 1, 2010. The reply was not tenable as the decision of PPRA's Board was conveyed to the Secretary Defence and Secretary Defence Production by the Cabinet Division, vide OM dated April 14, 2008. According to which, the procurement of objects required for Defence purposes by the Ministry of Defence and Ministry of Defence Production are exempted from the applicability of PPRs 2004 provided the Principal Accounting Officer of the concerned Ministry certified that these objects are sensitive in nature, required for Defence purposes. The machines purchased were not of secret nature and were for use in general surgery.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.2.4.8 Non-recovery of risk and expense from defaulting firm - Rs 15.280 million

In terms of clause-14 of the contract agreement and clause 36 of the POFs Purchase Manual (Issue – I), all deliveries of store are to be completed

within the specified delivery period. In case of failure, the competent authority may:-

a. Cancel the contract.
b. Recover the liquidated charges.
c. To re-purchase from elsewhere at the risk and expense of the supplier.

POFs Small Arm Ammunition Factory awarded a contract dated February 16, 2010 to M/s China Xinshidai Co. China for supply of cartridge SA Tracer (Nato) Qty 03 million @ Rs 0.299 / Rds at a total value of Rs 81.699 million (US$ 990,288 x Rs 82.50). The firm failed to honour its contractual obligations and could not deliver the material within two months.

Later on, the contract was cancelled and fresh contract was executed on May 4, 2010 with M/s Poly Tec Inc. China on the risk purchase action against M/s China Xinshida Co. China with a total value of Rs 99.594 million (US$ 1,080,000 + 112,320 estimated sea freight = 1,192, 320 x 83.53) but risk and expense amount Rs 15.280 million was not recovered from the defaulting firm (US$ 1,080,000-897,000 = 183,000 x Rs 83.50 = Rs 15.280 million).

The matter was reported to the management on October 12, 2010 and the Ministry on December 7, 2010. The management in its replies dated November 05, 2010 and January 14, 2011 stated that due to default against contract the payment of M/s China Xinshidai, China was withheld throughout all POFs units. The reply was not acceptable as the management failed to recover US$ 183,000 (Rs 15.280 million) on account of risk and expense amount from the defaulting firm up till November 30, 2010.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.2.4.9 Non-transparent procurement due to non-advertisement of open tender – Rs 18.170 million

Under clause-7 of POFs Purchase Manual (Chapter-I), the purchase of all non-proprietary items that are not of a secret nature and the estimated value of which is greater than Rs 2.000 million will be made through open tendering basis by advertising in the press.

Contrary to the above, the management of POFs, Sanjwal issued tender enquries to 34 firms on June 28, 2006 instead of adopting open tendedring process as the store was not of a secret nature. Management awarded a contract dated January 18, 2007 valuing Rs 18.170 million for purchase of 13,300 ammo containers 72/PA1 on M/s Nasar Metal Crafts, Lahore. This resulted in non-transparent procurement of stores for Rs 18.170 million.

The matter was reported to the management on June 7, 2008 and the Ministry on June 16, 2010. The management in its replies dated June 26, 2008 and January 14, 2011 stated that ammo container was used for packing of charge M-119 A2 (155mm HE) which was secret in nature and time factor was also involved in this case. The reply was not convincing as a period of 8 months was available for finalization of purchase and open tendering process was avoided.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.2.4.10 Blockage of funds due to purchase of chemical - Rs 4.351 million

Clause-6 of the POFs Purchase Policy provides that, (a) the demand raised is based on approved factors and is reasonable and justified (b) due economy and care is exercised in formulating requirements and all available and usable assets are taken into account before placing new demands.

POFs Explosives Factory raised indent dated February 23, 2007 for purchase of 250 kg Di. Methyl Di-Nitro butane (DMNB) chemical and accordingly 250 kg material was imported from USA at the rate of US$ 280 per

kg valuing Rs 4.351 million The material was received at site on March 17, 2008 but not a single kg was utilized till November, 2010. This resulted in blockage of funds of Rs 4.351 million

The matter was reported to the management on December 2, 2010 and the Ministry on December 11, 2010. The management in its reply dated January 14, 2011 stated that they had raised a trial Performa to one of armaments to assess the suitability of PE-3A with marking of agent (DMNB) for use by Pak Army and soon after its approval, the utilization of store will be started. The reply was not convincing because store purchased in March 2008 was lying unutilized till end of December 2010.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.2.4.11 In-admissible payment of bonus to the Chairman and Managing Directors – Rs 0.773 million

According to the instructions circulated by the Finance Division vide OM No.F.3(5)R12/80(R-14))2002-154 dated March 18, 2002, Managing Directors and Members of Board of Directors will not be entitled to bonus.

Contrary to the above, POFs paid bonus equal to one month's basic pay to the Chairman POFs Board, members and Managing Directors of the respective factories in September, 2008 and September, 2009. This resulted in inadmissible payment of Rs 0.773 million.

The matter was reported to the management on May 17, 2010 and the Ministry on December 10, 2010. The management in its replies dated October 12, 2010 and January 14, 2011 stated that Finance Division letter dated March 18, 2002 was not attracted in the instant case as Financial Advisor (OF) was the representative of Finance Division and approved the payment of bonus and also vetted the Board letters. The reply was not acceptable since under Finance

Division letter dated March 18, 2002, Managing Directors and members of Board of Directors were not entitled to bonus.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.2.4.13 Blockage of public funds due to non-conduction of PATLO inspection – US$ 252,709 equivalent to Pak Rs 15.706 million

As per policy decision towards inspection of store, GHQ Rawalpindi vide letter dated March 16, 2009 issued guidelines that store having value US $ 25,000 or above should be inspected by Pakistan Army Technical Liaison Officer (PATLO) Embassy of Pakistan in Beijing, China.

POFs Sanjwal awarded a contract dated February 25, 2009 to M/s Poly Technologies Inc. China for procurement of 4,040 fuze DRH 05 125 mm Smooth Bore Gun valuing US $ 252,709.676 including sea freight charges. As per contract, store was to be inspected by PATLO China.

The firm vide their letter dated March 13, 2009 requested the management to waive off PATLO inspection on the plea that the live firing cost was heavy for this small quantity. Accordingly, management waived off inspection by PATLO by issuance of amendment No.1 dated April 11, 2009 without the approval of Chief Inspector of Armaments (CIA), Rawalpindi. The CIA directed the management to cancel the said amendment vide letter dated July 10, 2009. Again, on November 22, 2009, the management sought out permission for waiver of the said clause from CIA Rawalpindi. However, CIA advised the management that due to critical nature of store, PATLO inspection is obligatory. However, in violation of CIA instructions, the management allowed the firm to dispatch the store without PATLO inspection. The firm supplied 4,040 fuze valuing US $ 252,709 in March 2010. When the store was sent to local inspection authorities, they refused to inspect the store on the grounds that the value of store warranted inspection by PATLO. Therefore, the store was lying for want of inspection after lapse of 5 months. This resulted in blockage of funds of US$

252,709 equivalent to Pak Rs 15.706 million due to non-conduction of PATLO inspection.

The matter was reported to the management on August 30, 2010 and the Ministry on December 10, 2010. In replies, dated September 28, 2010 and January 14, 2011 the management stated that CIA Rawalpindi had allowed 100% inspection of store vide letter dated April 07, 2010 by IDA Wah, with the condition that detailed inspection report including static & dynamic test would be submitted to CIA Rawalpindi. Accordingly, IDA Wah had carried out 100% inspection. The reply was not convincing as the management failed to provide the inspection results to CIA Rawalpindi and public funds were blocked.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.2.4.14 Non-transparent procurement of stores on single tender basis - Rs 4.910 million

As per clause-7 of POFs Purchase Manual, the items of indigenous supply which are not of a secret nature and estimated value of which is Rs 2.00 million or above, open tendering should be resorted if the time and other factors permit. As per clause-8 of Purchase Manual, the Competent Purchase Officer will resort to single tendering in case of purchases, which are "proprietary" to one particular source of supply.

POFs Gadwal Factory awarded a contract dated June 28, 2010 to M/s Cuckoo Industry (Pvt) Ltd, Karachi for procurement of Disc Polyisobutene quantity 10,000 @ Rs 137 and Disc quantity 14,800 @ Rs 191 total valuing Rs 4,910,256. The delivery period of the supply was up to November 31, 2010.

Tender enquiries were issued on November 17, 2009. In response, a single firm quoted its rate. The same firm supplied the same store last time. Tender enquiries were also issued on January 18, 2010 with opening date of January 28, 2010 to foreign firms & TA London allowing only 10 days time for

submission of offers instead of a normal period of one month to be provided to the bidders for submission of their offers. Hence, no other offer was received.

In addition to above, the store was not of proprietary nature as in the past the same store was procured on competitive basis. The open tendering was not made and store was procured on single tender basis, which was against the procedure mentioned in the Purchase Manual and against the Public Procurement Rules. This resulted in non-transparent procurement of stores valuing Rs 4.910 million

The matter was pointed out to the management on September 23, 2010 and the Ministry on December 7, 2010. In replies dated November 08, 2010 and January 14, 2011, the management stated that the store was of sensitive nature and it was tendered twice and both time no offer was received. The reply of the management was not acceptable because the store was not of a sensitive nature. Besides, appropriate / reasonable time for submission of offers was not given, as it was only 10 days and 19 days in both cases. Further, open tendering through press was not resorted to.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.2.4.15 Irregular payment to the officer re-employed after the age of superannuation - Rs 1.400 million

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

i. Non-availability of suitable qualified experienced officer;
ii. The officer is a highly competent person with distinction in his professional field; and

iii. The re-employment does not cause the promotion blockage.

The Secretary POFs Board (BPS-19) retired from service on attaining the age of superannuation on February 07, 2008. However, he was re-employed on contract w.e.f. February 8, 2008 at a total monthly pay of Rs 50,000 without obtaining prior approval of the Prime Minister of Pakistan. He was paid an amount of Rs 1.400 million w.e.f. February 8, 2008 to May 30, 2010. As the appointment was made in violation of Government standing instructions, his appointment as well as payment of Rs 1.400 million on account of salary was considered irregular.

The matter was reported to the management on September 7, 2010 and the Ministry on December 10, 2010. The management in its replies dated November 4, 2010 and January 14, 2011 stated that the officer was appointed on contract and was paid out of Chairman's Special Fund and no amount was paid from Public Fund. The reply was not convincing as the officer was appointed against a regular post as Secretary POFs Board, therefore, the approval of the competent authority was necessary. Further, as per Finance Division clarification vide OM No.F.15(13)R-14/82 dated September 5, 1982, the funds provided, acquired or generated by the autonomous/semi-autonomous bodies and corporations are public funds which cannot be utilized at the sole discretion of the management. The funds should be utilized with due care and caution strictly in accordance with the prescribed rules or specific orders of the Government.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.2.4.16 Irregular appointment of consultants – Rs 1.720 million

In accordance with the Establishment Division OM No.6/2/2000/R-3 dated May 06, 2000 regarding policy guidelines for contract appointments for a specific period, standing instructions should be issued by the administrative Ministry/Division concerned, after consultation with the Chairman of Board of Directors. Vacancies should be advertised in the leading national and regional

newspapers and selection should be made through regularly constituted selection committees/boards.

Contrary to the above, POFs management appointed two persons on contract basis as Marketing Consultant and Technical Consultant vide POFs Board letters January 02, 2008 and dated January 02, 2009 for a period of two years commencing from November 15, 2007 and October 05, 2009. Their emoluments were fixed Rs 50,000 per month along with other facilities of transport with free chauffeur driven car, B-type bungalow, telephone office & residence, medical & TA/DA. This resulted an irregular payment of Rs 1.720 million.

The matter was reported to the management on May 10, 2010 and the Ministry on December 7, 2010. The management in its reply dated January 14, 2011 stated that both the officers were appointed for specific jobs and Brig ® had been relieved from the service w.e.f. July 16, 2010. The payment to them was not made from public exchequer. The reply was not convincing as the appointment were made without following the prescribed procedure and public funds were spent.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.2.4.17 Non-recovery of risk and cost purchase amount from a defaulting supplier - Rs 0.725 million

Clause - 3 of special conditions of contract stipulates that in event of failure of the firm to complete the supplies within delivery schedule of the contract, POFs reserve the right to short close / cancel the contract and to purchase the material of the same description from elsewhere at the risk and cost of the supplier to make good his default.

POFs Sanjwal awarded two contracts dated July 21, 2007 and October 05, 2007 for procurement of 31,400 meters and 18,650 meters cloth of different

specification valuing Rs 1,321,940 @ Rs 42.10 per meter and Rs 2,741,550 @ Rs 147 per meter respectively, to M/s Tradeways International, Wah Cantt. The supplier could not fulfill his contractual obligation and went into default after partial supply. Ultimately, the management short closed / cancelled both contracts and awarded these two contracts to M/s Mehtab Textiles, Rawalpindi for the leftover quantity at the risk and cost of the defaulting supplier and incurred extra expenditure of Rs 0.950 million. An amount of Rs 0.225 million was recovered by forfeiture of performance bond of defaulting firm. This resulted in non-recovery of risk and cost purchase amount of Rs 0.725 million from a defaulting supplier.

The matter was pointed out to the management on August 30, 2010 and the Ministry on December 10, 2010. In replies dated September 28, 2010 and January 14, 2011 the management stated that out of total risk purchase amount of Rs 0.950 million, an amount of Rs 0.225 million had been recovered by forfeiture of performance bond of defaulting firm and efforts were being made for recovery of the remaining amount. The reply was not convincing as the management failed to recover the full amount from the defaulting firm despite lapse of a period more than one year.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.2.4.18 Blockage of funds due to ill-planned procurement of raw material - Rs 1.309 million

Clause-6 of the Purchase Manual of POFs requires that: (a) demand raised is based on approved factor, reasonable and justified and (b) due economy and care is exercised in formulating requirement before placing new demand.

POFs Board in their Production Conference held in 2001 decided to develop steel bodies of the fuze V-19 P-A2 within MAA Factory subject to the condition that POFs Sanjwal would arrange to produce steel body of these fuzes.

POFs Sanjwal management raised an indent dated November 02, 2001 for procurement of 30.00 M.ton of special Neaga Steel for the production of steel bodies of said fuzes. During financial concurrence of indent, it was advised to reduce the quantity of store for developmental production and after successful development, bulk provisioning be made. However, the management ignored the Financial Advisor's advice and awarded a contract dated January 22, 2003 to M/s Peoples Steel Mills, Karachi for procurement of 30.00 M.ton Special Neaga Steel valuing Rs 1.309 million including 15% Sales Tax. The firm supplied a quantity of 29.340 M.ton. The store was received vide receipt voucher dated March 22, 2003 but despite lapse of about seven years, no store was issued. This indicated failure of development production of said fuzes. This resulted in blockage of funds of Rs 1.309 million

The matter was reported to the management on August 30, 2010 and the Ministry on December 10, 2010. In replies, dated September 28, 2010 and January 14, 2011 management stated that after hectic efforts, the management failed to develop requisite fuze. As the material is of specific specification, therefore it could not be utilized elsewhere. Anyhow, efforts were being made for its disposal as per POFs disposal policy. The reply was not convincing, as there was no justification for procurement of bulk quantity at development stage despite the advice of Financial Advisor.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.2.4.19 Non-transparent procurement of stores without open tendering - Rs 5.097 million

As per clause-7 of POFs Purchase Manual the items of indigenous supply which are not of a secret nature and the estimated value of which is Rs 2.00 million or above, open tendering should be resorted to if the time and other factors permit.

POFs Gadwal Factory, issued tender enquiry (TE) dated March 12, 2010 to eight local firms, to meet the export order for 2010-11. Only two firms participated. A contract dated June 23, 2010 was awarded to M/s Sherazi Brothers, Wah Cantt being the lowest bidder for procurement of 5,300 Ammo Container Chip Board inner to hold one round 105 mm HE TK valuing Rs 5,097,222 @ Rs 822 per unit.

As per clause-7 of the Purchase Manual, the management was required to invite open tendering but contrary to the above, the management did not invite the open tender through the press in spite of the fact that reasonable time was available for finalization of the process of tendering. This resulted in non-transparent procurement of store without open tendering of Rs 5.097 million.

The matter was reported to the management on September 23, 2010 and the Ministry on December 7, 2010. In replies dated November 08, 2010 and January 14, 2011 the management stated that store was of strategic nature directly relating to packing of ammunitions, thus, limited tendering was done. It was also replied that they were already delay for four months from the required schedule of delivery, as such press tendering was not appropriate. The reply was not convincing as ammo can be called, as secret but there was no secrecy in container, moreover the management took about three months for issue of tender enquiry to award of contract.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.2.4.20 Loss due to excess rejection of manufactured store - Rs 12.232 million

As per Managing Director, Small Ammunition Armament and Brass Mill Factories letter dated December 31, 1989, permissible limit of rejection for Bullet / Round for 7.62 mm Ball was fixed up to 2 % by the competent authority.

In Small Ammunition Armament and Brass Mill Factories, Bullet 7.62 mm Ball was produced during the financial years 2008-09 and 2009-10 against

different work orders / warrants but rejection ranged from 2.33% to 18.30%. This resulted in loss of Rs 29.762 million due to excess rejection of manufactured store.

The matter was reported to the management on October 12, 2010 and the Ministry on December 7, 2010. The management in its replies dated November 5, 2010 and January 14, 2011 stated that rejection % on complete round is 4% (2% due to case and 2% due to bullet) and average rejection against a particular warrant remained within authorized limit of 4%. The contention of management was not convincing, as rejection was required to be maintained up to 2% in view of the above direction. Even if the authorized limit is taken as 4%, the loss over their limit worked to Rs 12.232 million.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.2.4.21 Undue favour due to defective installation of exhaust system and non-rectification thereof by the contractor – Rs 26.285 million

According to Warranty/Guarantee certificate, the contractor was responsible, to replace free of cost every article or part thereof which before use or in use is found defective during the period of 24 months after commissioning/ installation of system.

POFs Sanjwal Factory awarded contract dated December 16, 2006 valuing Rs 26.285 million to M/s A.A Enterprises for installation of fiber glass/PVC ducting/exhaust system in the heat treatment shop (E-101) and surface treatment shop. The completion certificate was issued on December 6, 2007 by GM-ME and remaining 10% payment of Rs 2.944 million was released to the supplier on December 11, 2007.

Assistant Manager, E-101 shop on December 5, 2007, reported numerous discrepancies in the system installed in the shop i.e. centrifugal fan is not working, indicator bulbs of electric panels are fused, centrifugal fan exhaust outlet height is not suitable, all the roof of the shop is leaking, electrical wiring is not done properly, keys of electric panels are not supplied, fume exhaust system

is working very slow, safety guard of centrifugal fan motor is vibrating and leakage of acid fumes vapors are dropping on the centrifugal fans. These defects were also reported by user section on February 12, 2008, January 20, 2009 and February 6, 2009 and requested the purchase section to take up the matter with the supplying firm for rectification. Managing Director, Sanjwal Factory on March 28, 2009 constituted a two-member committee to investigate the reasons of non-functioning of complete exhaust system. The enquiry report was required to be submitted within seven days but the enquiry committee despite issuance of four reminders did not complete enquiry. Due to defective installation of exhaust system and non-rectification of these defects by the contractor, an undue favour was granted to the extent of Rs 26.285 million

The matter was reported to the management on August 2, 2009 and the Ministry on June 16, 2010. The management in its replies dated October 1, 2009 and January 14, 2011 stated that firm intimated the defects pointed out by the user section who deputed the representative for rectification of the fault, which were accordingly removed by the contractor. The reply was not tenable because the exhaust system was not working properly and the contractor did not rectify the defects under the agreement.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.2.4.22 Engagement of an Assistant Manager on contract basis after superannuation - Rs 0.245 million

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

i. Non-availability of suitable qualified experienced officer,
ii. The officer is a highly competent person with distinction in his professional field; and

iii. The re-employment does not cause the promotion blockage.

Contrary to the above, the POFs engaged Ex-AM of R&M Factory as AM in the same Factory on contract basis w.e.f. June 20, 2009 for a period of one year, after his retirement on superannuation, with the approval of Chairman POFs Board at monthly pay of Rs 26,130 without approval of the Prime Minister. The appointment of the officer and payment of Rs 244,751 up to March 2010, made to him on account of his emoluments was considered irregular.

The matter was reported to the management on May 10, 2010 and the Ministry on December 7, 2010. The management in its reply dated January 14, 2011 stated that services of the officer was hired for specific purposes and for specific period and he was not being paid from public exchequer. The reply was not convincing as the official was engaged without approval of competent authority and public funds were spent.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.3 Wah Industries Limited

4.3.1 Introduction

Wah Industries Limited "the Company" was incorporated in 1958 as public limited company under Companies Act, 1913 (now the Companies Ordinance, 1984). The Company is fully owned by Pakistan Ordnance Factories (POFs). The Company is engaged in manufacture and sale of 12 bore ammunition and sale of civil products produced by POFs. The Company also acts as commission agent for POFs to facilitate its sale of obsolete/surplus stores and scraps generated in POFs. The registered office of the Company is situated at The Mall, Wah Cantt.

4.3.2 Comments on audited accounts

Comments on audited accounts are included in the Commercial Appendix to Appropriation Accounts of the Defence Services for the year 2009-10.

4.3.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-.

Sr. No.	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1989-90	23	22	01	96
2.	1990-91	06	--	06	Nil
3.	1991-92	06	05	01	83
4.	1992-93	04	--	04	Nil
5.	1994-95	07	06	01	86
6.	1996-97	03	03	--	100
7.	1997-98	05	03	02	60

The overall compliance to the PAC directives in Wah Industries Limited (WIL) needs to be improved.

4.3.4 Audit Paras

4.3.4.1 Expected loss due to sale of defective ammunition- Rs 15.185 million

In accordance with WIL SOP for sale of POFs ammunitions, Manager Sales will convey complete offer including WIL sale price and other terms & conditions to the purchaser for acceptance especially the condition for full advance payment must be included in the offer. Besides, it is also mandatory that sales department will deliver the store subject to verification of payment made by the purchaser from their Accounts Department.

Wah Industries Limited (WIL) executed two sales contract agreements dated April 01, 2009 and June 27, 2009 with Heavy Industries Taxila (HIT) for sale of 147 of 125 mm APFSDS and APFSDST (W/O packing) valuing Rs 15.185 million @ Rs 103,300 per unit.

According to requirements, WIL got inspected the store through inspection authorities of POFs who cleared the said ammunition before dispatch / delivery. The said ammunition was delivered to HIT vide POFs issue vouchers dated June 30, 2009 and September 28, 2009. WIL submitted the bills on July 24, 2009 and October 15, 2009 respectively. HIT did not entertain the bills on the grounds that ammunition supplied by WIL was defective vide their letters dated July 25, 2009 and December 2, 2009 and asked for replacement of defective ammunition. Accordingly, WIL contacted POFs Gadwal for replacement. In response POFs Gadwal vide letter dated August 17, 2009 stated that the said ammunition was dispatched after satisfactory report of inspection department and showed its inability for the replacement. This resulted in expected loss of Rs 15.185 million due to sale of defective ammunition.

The matter was pointed out to the management on October 01, 2010 and the Ministry on December 10, 2010. In replies dated October 22, 2010 and January 14, 2011 the management stated that matter had been taken up with M/s HIT and payment would be recovered soon. The reply was not convincing as the amount could not be recovered till end of December 2010.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

4.3.4.2 Non-recovery due to supply of defective ammunition - Rs 1.290 million

In accordance with SOP for sale of POFs ammunitions, Manager Sales will convey complete offer including WIL sale price and other terms & conditions to the purchaser for acceptance especially the condition for full advance payment must be included in the offer. Besides, it is also mandatory that sales department will deliver the store subject to verification of payment made by the purchaser from their Accounts Department.

Wah Industries Limited (WIL) submitted their quotation dated September 22, 2007 to Pakistan Machine Tool Factory (PMTF) for supply of ammunition. In the said quotation, WIL had included the clause that order would be booked against 100% advance payment in the form of bank draft in favour of WIL. PMTF accepted the quotation and placed purchase order dated March 08, 2008 on WIL for supply of 1,000 Rocket 40mm Proof shot and 100 Rocket 40 mm inert practice round RPG-7 having value of Rs 5.600 million with the delivery within 3 months after placement of order. As per purchase order:

i) 80% payment was to be made on receipt of seller's bill along with inspection note from CIA representative, for the quantity inspected and accepted.
ii) Balance 20% payment was to be made on receipt of seller's bill on delivery of ammunition at APR Sonmiani along with copies of receipt voucher from APR Sonmiani. However, after issuance of purchase order, clause of inspection was revised.

As per revised clause (6) dated August 20, 2008 of purchase order, POFs was responsible for inspection / proofing of ammunition to the entire satisfaction of proof officer as per prescribed criteria.

After inspection of the ammunition vide inspection notes dated September 18, 2008 and September 22, 2008, WIL delivered the contracted quantity of store to the client vide delivery order dated October 08, 2008. In response, PMTF paid a sum of Rs 4.369 million being 80% of purchase order and retained balance 20% payment amounting to Rs 1.290 million due to the reason that accuracy test of weapons, RPG-7 was not be carried out properly as the Muzal velocity of Grenade 40 mm was found 74-75 meter per second as against the required Muzal velocity of grenade 110-120 meter per second. PMTF requested for replacement of defective ammunition. On customer's complaint, WIL took up the matter with the POFs Filling Factory. The management of the Factory replied on February 06, 2009 that their proofing results were satisfactory. This resulted in non-recovery of the balance amount of Rs 1.290 million due to supply of defective ammunition to Pakistan Machine Tool Factory.

The matter was reported to the management on October 01, 2010 and the Ministry on December 10, 2010. In replies dated October 22, 2010 and January 14, 2011 the management stated that matter had been taken up with PMTF for recovery. The reply was not convincing, the amount was recoverable till end of December 2010.

DAC in its meeting held on January 18, 2011 directed the management to submit revised replies. Compliance in this regard was awaited till the finalization of this report.

Chapter-5
Ministry of Education

5.1 National Book Foundation

5.1.1 Introduction

National Book Foundation (NBF) is an autonomous body established under an Act of Parliament, 1972. National Book Council of Pakistan (NBCP) merged with National Book Foundation on July 01, 1994. Accordingly, all the assets and liabilities of former NBCP on that date were incorporated in the books of NBF. National Book Foundation is engaged in the promotion of literacy by developing, printing and trading of books and other activities related thereto.

5.1.2 Comments on audited accounts

These audit comments are based on the audited accounts for the year 2008-09 provided to Audit by the management without auditors' report. The management also failed to provide audited accounts for the year 2009-10 by December 31, 2010.

5.1.2.1 The working results of the Foundation for the year 2008-09 as compared with those of the preceding years are as under:

(Rs in million)

	2008-09	**% Inc/ (Dec)**	**2007-08**	**% Inc/ (Dec)**	**2006-07**
Sales	243.424	(10)	271.656	47	184.698
Cost of sales	200.012	(8)	217.889	46	148.958
Gross profit	43.412	(19)	53.767	50	35.740
Other income	17.210	77	9.750	62	6.017
Administrative & general expenses	61.446	105	30.025	(8)	32.553
Financial charges	3.937	-	3.930	(14)	4.592
(Loss) / profit before taxation	(4.760)	-	29.561	541	4.611
Provision for taxation	0.733	(94)	13.317	1,343	0.923
Net (loss) / profit for the year	(5.493)	-	16.243	340	3.688
Accumulated profit brought forward	32.679	99	16.435	-	16.436

Source: Annual Audited Accounts

Sales of the Foundation decreased by 10% in the year 2008-09, whereas the corresponding cost of sales decreased by 8% resulting in decrease in gross profit to 19%. The decrease in cost of sales was mainly due to increase in closing stock by 41% to Rs 78.503 million in 2008-09 (2007-08: Rs 55.731 million). It shows that books were not printed as per requirement, which needs justification.

5.1.2.2 Administrative and general expenses increased by 105% in year 2008-09 to Rs 61.446 million (2007-08:Rs.30.026 million). This was due to increase in administrative, selling & distribution expenses by 40% (2008-09:Rs.80.617 million, 2007-08:Rs. 113.136 million) without any significant increase in relief by Government of Pakistan (2008-09: Rs 51.690 million, 2007-08: Rs 50.591 million). However, as the sales and cost of sales declined, the increase of 40% in administrative and general expenses needs to be explained.

5.1.2.3 Financial Highlights

(Rs in million)

	2009	**2008**	**2007**
Non Current Assets	97.863	96.952	91.925
Current Assets	203.478	163.073	161.695
Current Liabilities	102.844	77.150	109.233
Working Capital	100.634	85.924	-
Total Capital Employed	198.497	182.875	**362.853**
Long Term Liabilities	34.569	28.072	26.444
Net Worth	**163.928**	**154.803**	**336.409**
Capital Reserves	115.743	101.123	80.508
Reserve Grant	21.000	21.000	21.000
Accumulated Profit	27.185	32.679	16.436
Total	**163.928**	**154.802**	**117.944**

The Foundation received grant of Rs 39.839 million from the Government of Pakistan for construction of Braille Complex at Karachi. The management has granted advances of Rs 23.149 million to Pak PWD since 2008 for construction of the Complex. The status of the Complex needs to be elucidated.

5.1.2.4 Trade debtors of the Foundation stood Rs 102.750 million as on June 30, 2009 as against Rs 80.445 million as on June 30, 2008 representing increase of 27% over the previous year. This resulted in increase in debtors collection period from 108 days in 2008 to 154 days in 2009. Resultantly provision of Rs 15.148 million was created against doubtful debts during the year 2008-09. Non-recovery from debtors needs to be justified.

5.1.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1987-88	03	03	-	100
2.	1988-89	03	03	-	100
3.	1989-90	04	04	-	100
4.	1990-91	06	06	-	100
5.	1991-92	04	04	-	100
6.	1992-93	02	02	-	100
7.	1993-94	03	03	-	100
8.	1995-96	06	06	-	100
9.	1996-97	07	07	-	100
10.	1997-98	05	05	-	100
11.	1998-99	04	04	-	100
12.	1999-00	02	02	-	100
13.	2000-01	04	04	-	100
14.	2005-06	09	09	-	100

The compliance to the directives of the PAC by NBF was satisfactory.

5.1.4 Audit Para

5.1.4.1 Loss due to production of text and other books over and above the actual demand/requirements – Rs 10.885 million

The sales policy of National Book Foundation (NBF) encompasses the sale of its publications through its sale outlets as well as through its registered sale agents. 25 sale centers/shops were established by the Foundation and thirty private book depots were registered as sale agents to sell its publication.

Under clause (xvi) of NBF sales policy, demand register was required to be maintained by each outlet to compile the demand on monthly basis for reprint/ purchase of such titles.

National Book Foundation, Islamabad got printed/purchased school text and other books of different titles having price of Rs 11.276 million during the period from 2000 – 2004 without demand. The subject books could not be sold and were held as Dead Stock, which were sold for Rs 420,733 as waste paper. The Foundation suffered a loss of Rs 10.885 million due to ill-planned printing / procurement of textbooks.

The matter was reported to the management on September 27, 2006 and the Ministry on November 25, 2010. In its replies dated December 21, 2006 and January 11, 2011, the management stated that said foreign publishers, accumulated dead stock due to introduction of fresh editions. Rapid development in the field of science and technology hampered the sale of locally reprinted old editions by NBF. Due to change of curricula, school textbooks with old curricula turned out into dead stock. Total cost of these books was Rs 4.169 million and those were sold through pulp for Rs 420,733 as such net loss was Rs 3.748 million. The case for regularization of loss would be placed before BOG in its forth-coming meeting. Reply was not convincing because due to weak-coordination of the sales and printing departments of the Foundation, the books in excess of demand were printed which resulted in huge loss to NBF.

DAC meeting could not be held by the PAO in spite of request vide letter No.3779/DAC/Education/2010-11 dated December 21, 2010 followed by written / verbal reminders.

Chapter-6
Ministry of Environment

6.1 Pakistan Environmental Planning and Architectural Consultants (Pvt) Limited

6.1.1 Introduction

Pakistan Environmental Planning and Architectural Consultants (Pvt) Limited (PEPAC) was incorporated as a private limited company, established by the Government of Pakistan in 1974 under the Companies Act, 1913 (now Companies Ordinance, 1984). Since incorporation, the entire share capital of the Company is owned and held by Government of Pakistan through Ministry of Environment.

Corporate Information

The Company is primarily engaged in providing architectural consultancy services to government as well as private sector. The registered office of the Company is situated at 24-D, Rashid Plaza, Blue Area, Islamabad. There is no significant risk associated with the outlook of the Company in its current activities except the competition in the market.

6.1.2 Comments on audited accounts

6.1.2.1 The working results of the Company for the year 2009-10 as compared to previous years are tabulated below:

(Rs in million)

	2009-10	**% Inc/ (Dec)**	**2008-09**	**% Inc/ (Dec)**	**2007-08**
Revenue	51.128	49	34.330	(33)	51.518
Cost of revenue	30.530	27	24.040	(17)	29.045
Gross profit	**20.598**	**100**	**10.290**	**(54)**	**22.473**
Administrative expenses	9.058	19	7.617	23	6.191
Promotional expenses	0.072	(81)	0.376	736	0.045
	9.130	**14**	**7.993**	**28**	**6.236**

Operating profit	**11.468**	**399**	**2.297**	**(86)**	**16.237**
Other income	2.673	2,938	0.088	(76)	0.368
Financial and other charges	(0.019)	-	(0.024)	(41)	(0.041)
Profit before taxation	**14.123**	**498**	**2.361**	**(86)**	**16.564**
Taxation	3.068	49	2.060	(21)	2.593
Profit after taxation	**11.055**	**3,573**	**0.301**	**(98)**	**13.971**
Accumulated profit / (loss) B/F	13.741	2	13.441	2,436	(0.530)
Accumulated profit / (loss) C/F	**24.797**	**80**	**13.741**	**2**	**13.441**

Source: Annual Audited Accounts

Ratio Analysis

	2009-10	2008-09	2007-08
Gross Profit Margin	40%	30%	44%
Operating Profit Margin	22%	7%	32%
Net Profit Margin profit before taxation	28%	7%	32%

Although profitability ratios of the Company increased in the year 2009-10 as compared with previous years, efforts are required to further improve profitability of the Company. Moreover, there was a sudden drop of income in 2008-09 and tremendous increase in 2009-10. This should be a sustainable increase in the profitability.

6.1.2.2 **Financial Highlights**

(Rs in million)

	2009-10	% Inc/ (Dec)	2008-09	% Inc/ (Dec)	2007-08
Operating fixed assets	4.181	(10)	4.641	20	3.844
Long-term security deposits	0.204	(61)	0.519	14	0.454
Current assets	56.448	36	41.615	3	40.515
Total assets	60.833	30	46.775	4	44.813
Share capital & reserves	25.897	74	14.842	2	14.541
Current liabilities	34.936	9	31.933	5	30.272
Total equity and liabilities	60.833	30	46.775	4	44.813

Current Ratio of the Company slightly improved to 1.61:1 during the year under review, as compared to 1:30:1 in the year 2008-09. However, it was less than the standard ratio of 2:1. Management may further improve the liquidity position of the Company.

6.1.2.3 Trade debts of the Company increased by 44% to Rs 55.948 million as on June 30, 2010 (2009:Rs 38.846 million) whereas, the corresponding revenue increased by 49% ; resultantly the debtors collection period slightly improved to 399 days (2009:413 days), which needs to be improved further. Moreover, there was a provision of Rs 15.754 million in which no movement had been reported. The details of receivables and latest position may be explained.

6.1.2.4 The external auditors expressed the qualified opinion in their report dated November 4, 2010 for the year under review that:

a) They were unable to satisfy as to the recovery of Rs 12.264 million; which was included in the trade debts of Rs 40.194 million (2009:Rs 23.092 million).
b) Included in the "other payables" account was an amount of Rs 2.753 million (2009: Rs 3.386 million) which relates to accrued payroll of prior period. In the absence of any claimant of the said liability, the management still opted to retain the amount in the books of accounts.

The management may appraise the steps taken for rectification of above qualifications.

6.1.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1988-89	04	04	--	100
2.	1989-90	03	03	--	100
3.	1991-92	03	03	--	100
4.	1992-93	03	02	01	67
5.	1993-94	03	03		100
6.	1994-95	02	02	--	100

7.	1995-96	03	03	--	100
8.	1996-97	03	03	--	100
9.	1997-98	03	03	--	100
10.	1999-00	02	02	--	100
11.	2000-01	03	03	--	100
12.	2005-06	04	03	01	75
13.	2008-09	03	02	01	67

The compliance to PAC directives by PEPAC was satisfactory which needs to be maintained.

6.1.4 Audit Para

6.1.4.1 Excess drawl over and above the house rent ceiling - Rs 0.561million

According to rule 15 (4) of the FGS Allotment of Accommodation Rules-2002, an allottee who is transferred to an autonomous organization at the same station may retain the accommodation. The total monthly house rent allowance payable to allottee or his rental ceiling, whichever is more will be payable into Government treasury by the organization. Further, salary package as per terms and conditions of service, free house up to a rental ceiling of Rs 30,000 per month was allowed to the officer. Later on rental ceiling was enhanced to Rs 48,000 w.e.f. April 11, 2007.

Brig. (Retd) Syed Ghulam Akbar Bukhari assumed the charge of post of Managing Director of Pakistan Environmental Planning and Architectural Consultants (PEPAC) in MP-II scale w.e.f February 12, 2007 vide Ministry of Environment notification dated February 12, 2007 for a period of two years up to February 11, 2009. Before transfer to PEPAC the officer was member (Engineering), CDA and residing in house No. 18, street No. 63-F-7/3, Islamabad already allotted to him up to August 2008 as confirmed by Ministry of Environment vide letter dated August 9, 2008.

The officer retained the accommodation and was not entitled to receive the house rent ceiling but he continued drawing the house rent ceiling through cash in addition to retention of the Government accommodation. An amount of

Rs 873,214 was paid to him up to August 2008 and out of which an amount of Rs 311,795 was paid to CDA till retention of house i.e. upto August 2008 by the officer concerned and NOC was issued by the CDA in this regard. The difference of Rs 561,419 was not refunded to PEPAC. This resulted in an excess drawl of Rs 561,419 on account of inadmissible house rent ceiling to the officer.

The irregularity was reported to the management on May 24, 2008 and the Ministry on November 30, 2010. The management in its reply dated May 30, 2008 stated that officer was residing under its own arrangement and was being paid house rent ceiling after deduction of 15% tax. Reply was not convincing because during verification, local office failed to provide any evidence in this regard. Moreover, the local office took up the matter with Ex-Managing Director under instructions of the Ministry of Environment vide letter dated June 16, 2009 for refund of the amount.

The DAC in its meeting held on February 12, 2011 directed the management to refer the case to the Finance Division (Regulation Wing) for its consideration. No progress was reported till finalization of this report.

Chapter-7
Finance Division

7.1 House Building Finance Corporation

7.1.1 Introduction

House Building Finance Corporation Limited (the Company) is an unlisted public company, incorporated in Pakistan on June 13, 2006 under the Companies Ordinance, 1984. The registered office of the Company is situated at Finance and Trade Centre, Shahrah-e-Faisal, Karachi, in the province of Sindh. The Company has taken over all assets, running business, contracts, liabilities and proceedings of the House Building Finance Corporation (HBFC), established in 1952 under the House Building Finance Corporation (HBFC) Act 1952 (XVIII of 1952) by the Government of Pakistan from closing of the business on December 31, 2006, the effective date, pursuant to a Vesting Order SRO.1/2007 dated July 25, 2007 issued by the Finance Division – Government of Pakistan.

7.1.2 Comments on audited accounts

The working results of the Corporation for the year ended December 31, 2009 as compared with the previous years are as under:

(Rs. in million)

	2009	**% Inc/ (Dec)**	**2008**	**% Inc/ (Dec)**	**2007**	**% Inc/ (Dec)**	**2006**
Net rental mark-up / return/interest income	1210.276	42.4	849.705	(49.3)	1,675.511	(8.11)	1,823.488
Reversals/provisions made against non- performing advances	281.982	(45.6)	518.612	-	(2,196.262)	-	310.800
Reversal of rental income due to relief package	(221.121)	(18.0)	(269.775)	(51.0)	(436.929)	52.3	(286.907)
Reconciliation adjustments	(22.055)	(66.9)	(66.625)	-	-	-	-
Other income	19.727	(86.2)	142.686	13.1	164.248	460.1	29.325
Total income	**1,268.809**	**8.0**	**1,174.603**	**8.6**	**1,081.353**	**(42.4)**	**1,876.706**
Administrative and other charges	**(1,291.920)**	**5.8**	**(1,221.322)**	**(10.5)**	**(1,364.583)**	**37.7**	**(991.103)**
SBP share of profit/loss	33.049	(44.8)	59.837	97.4	2,347.292		(529.829)
Share of results of associate	(7.715)	(34.0)	(11.695)	-	-	-	-
Profit/(loss) before taxation	**2.223**	**56.2**	**1.423**	**-**	**(120.882)**	**-**	**355.774**

Taxation	(30.583)	(92.1)	(386.980)	(14.2)	(451.280)	113.4	(211.460)
Profit/(loss) after taxation	**(28.360)**	**(92.6)**	**(385.557)**	**(32.6)**	**(572.162)**	**-**	**144.314**

(Source: Annual Audited Accounts)

7.1.2.1 During the year under review, total income increased by 8% from Rs 1,175 million in 2008 to Rs 1,269 million in 2009; whereas in comparison with the results of core operational activity, compensation of Managing Director increased by 532%, i.e., from Rs 1.926 million in 2008 to Rs 12.174 million in 2009 and that of Executives also increased by 49.6%, i.e., from Rs 17.041 million in 2008 to Rs 25.496 million in 2009. However, the management was of the view that the post of Managing Director remained vacant for the whole year of 2008 and there was an increase of only 20.6% over the figures of the year 2007. The financial statements for the year 2009, however, showed that the position of MD was occupied by two individuals at different point in time during the year ended December 31, 2008. The increase in compensation of Managing Director and Executives should have been linked with the overall financial results of the corporation.

7.1.2.2 During the year under review, reprocessing and closing adjustment of housing finance was to the extent of Rs 172 million. This represented reversal of income recognized in previous years was due to problems in recording of collections and disbursement. Efforts needed to be made to reconcile the differences and proper strategy must be adopted to recover the said amount.

7.1.2.3 During the year under review, external auditors identified that the corporation's basis of share of profit / loss to State Bank of Pakistan was not agreed and documented and loss allocated to SBP was only provisional and was subject to change. The external auditors also identified that the corporation had not complied with the minimum capital requirement stated in BSD Circular No.7 dated April 15, 2009. As per the provisions of the said circular, the minimum capital of the company as at December 31, 2009 should have been Rs 6 billion net of losses; whereas the corporation had Rs 2.390 billion net equity at the end of 2009-10.

7.1.3 COMPLIANCE OF PAC DIRECTIVES
Brief comments on the status of compliance with PAC Directives

The management of HBFC has reported compliance of 89 Audit Paras out of total 105 Paras discussed by PAC in respect of Audit Reports 1986-87 to 2005-06. The percentage of compliance was 85%.

7.1.4 Audit Paras

7.1.4.1 Systemic issue - Unjustified payment on account of recovery incentive – Rs 6.490 million

In House Building Finance Corporation (HBFC), the growing number of cases of non-performing portfolio (NPL) of housing loan schemes has become serious cause of concern. The position of NPLs as on December 31, 2005 is given below:

(Rs. in million)

S. No.	Scheme	Number of Accounts	Amount outstanding
1	Interest Bearing (IBS)	3,128	189.970
2	Profit & Loss Sharing (PLS)	14.735	1,724.680
3	Shandar Scheme (SS)	13,611	1,414.160
4	New Shandar Scheme (NSS)	5,644	1,291.220
5	Others	47,274	3,595.990
	Total	**84,392**	**8,216.020**

In order to improve the recovery position, the management announced incentives for the defaulting borrowers in the form of waiver/reversal. Incentives were also given to HBFC's recovery staff in the form of cash reward. Consequent upon announcement of the incentives, targets were set as Rs 2,142 million for the year 2005 and Rs 3,800 million for the year 2006. However, due to dismal results it was decided to target a certain number of accounts in the year 2007 instead of focusing on the amount. Therefore, closure of 26,642 accounts was aimed at by recovering Rs 1,519 million yet the recovery could not be made beyond Rs 1,227 million. The shortfall by 19% (Rs 292 million) of the target amount was evident of a below par performance of the recovery staff.

Audit observed that despite repeated failure of the recovery staff, a total amount of Rs 6.490 million was paid to them, which also included incentive on recovery against new and regular schemes (Rs 4.360 million). Audit was of the view that awarding a certain share time and again from the recovery was the same as giving commission to regular employees of the Recovery Department; whereas the terms and conditions of their appointment did not warrant such remuneration. The systemic problem needs to be addressed as it makes the recovery staff work only when an incentive is announced and on the other hand the corporation loses a significant amount in the form of waivers and reversals to encourage the defaulters. It was evident that the incentives were not working well as the targets could not be achieved and payment of incentives was made even for the recovery of new and regular schemes.

The matter was discussed in DAC meeting held on December 20, 2010. The management informed the Committee that incentives were paid in recognition of the additional efforts put in by the employees (beyond working hours even on Saturdays and Sundays). As per opinion received from the External Auditors on the accounting treatment, actual expenses on recovery such as auction notices, salary and collection incentives for such recoveries, traveling expenses, boarding and lodging, etc., were credited to and shown as reduction from accumulated balance of demand charges recovered in the financial statements of the Company.

The DAC directed the management to furnish an updated revised reply showing the details including Board's approval and remedial measures to be adopted for future. The management in their revised reply dated January 04, 2011 quoted the figures of incentive and recovery targets for the years 2009 and 2010. Further, the management stated that the recovery staff had to work beyond official hours and travel (at their own expenses) to meet defaulting customers. An amount of Rs 34.414 million was paid to recovery staff against recovery of Rs 1.235 billion which was only 2.7% of the amount recovered.

The reply was not tenable as the main focus of the observation was that allowing a certain share was like allowing commission to the employees who were mainly responsible for recovery of loans from defaulting borrowers. The

management did not offer comments on this aspect. Moreover, late sitting and official travelling should have been compensated through overtime allowance and travelling allowance as per rules of the corporation.

Audit would, therefore, suggest review of recurring expenditure on incentive payment as the system was going to be counter productive for the concerned staff as to induce them to work only in case of default.

7.1.4.2 Breach of prudential regulations and directives resulting in penalties – Rs 1.285 million

Section-83 of Banking Companies Ordinance, 1962 vests powers with State Bank of Pakistan (SBP) to impose penalties on the financial institutions which violate prudential regulations and SBP directives.

In House Building Finance Corporation (HBFC), penalties for violation of prudential regulations and SBP directives were paid to SBP during the year 2009-10 as detailed below:

S. No.	Description	Amount (Rs)
1.	Various violations detected by SBP as per Inspection Report dated 27 February 2009, e.g., non-meeting of minimum pre-operational requirement for an efficient compliance-based MIS, exceeding exposure of two times limit of equity, improper identification of source of repayment of SME borrowers / repayment capacity and non-obtaining of personal guarantees of borrowers, etc.	1,177,000
2.	Misreporting of CIB Data by Zonal Office, Abbotabad.	88,000
3.	Unauthorized disclosing of credit information of a borrower.	20,000
	Total:	**1,285,000**

The management as against the penalties of total Rs 1.285 million filed appeal in the cases involving penalty of Rs 0.931 million against Sl.1 above only which was indicative of the fact that the violations involving penalties of Rs.0.354 million were duly admitted. However, the record did not indicate any punitive action by the management against the person(s) at fault for the admitted violations.

The matter was taken up with the management on September 21, 2010 and discussed in DAC meeting held on December 20, 2010. The management explained the details regarding penalties imposed by the SBP for violation of prudential regulations. The details regarding mis-reporting of data by Zonal Office Abbotabad and remedial measures made by management were also explained before the DAC.

The DAC directed the management to get the details/justification verified by Audit. However, the management could not produce any justification to Audit for the violations by the concerned staff, which resulted in penalties by SBP. During the verification process Audit found that SBP had already turned down a refund appeal of the management declaring that the penalties were correctly imposed for violations of applicable SBP instructions (*vide* SBP letter dated September 17, 2009).

Audit would, therefore, suggest investigation into the case for fixing responsibility on the person(s) at fault and taking remedial measure to avoid recurrence.

7.1.4.3 Non-recovery of borrowers' death/disable claims from insurance company - Rs 11.056 million

The Contract of Insurance effective July 01, 1988 entered into by House Building Finance (HBFC) with State Life Insurance Corporation (SLIC) under clause-8 (b) provides that all claims shall be payable upon submission of the documents prescribed in the agreement to the satisfaction by SLIC.

HBFC in association with SLIC arranged a scheme of insurance of lives of the borrowers of housing finance in order to provide an insurance cover to the amount advanced by HBFC in case of death/disability of the borrowers. The audit of account of the HBFC for the year 2009-10 revealed that insurance claims (death + disable) amounting to Rs 11.056 million in 80 individual cases of borrowers under various schemes of housing loans were lying un recovered from State Life Insurance Corporation (SLIC) as on December 31, 2009 as detailed below:

(Rs. in million)

S.No.	Scheme	No. of Cases	Amount
1.	New Shandar Scheme (N.S.S.)	62	5.016
2.	Ghar Asan Scheme (GAS)	15	3.467

4.	Ghar Asan Scheme (GAS)-Flexi	03	2.573
	Total	**80**	**11.056**

The claims were lodged with SLIC during the year 1999 to 2009. However, the management failed to realize the dues due to deficiencies in documents and other legal requirements, which was indicative of weak controls prevailing in the organization.

The non-recovery was pointed out to the management on September 21, 2010 but no response was received.

Audit suggested for taking effective steps to recover the claimed amount and adopting remedial measures to strengthen internal controls in this area.

The matter was discussed in DAC meeting held on December 20, 2010. The management informed the committee that all cases were processed timely, but claims could not be lodged in time due to the reason that legal heirs/customers had not furnished the requisite documents before lodging of death claims. Soon after receipt of complete documents, the claims were lodged. The management added that they were making continuous efforts to realize outstanding amounts from SLIC, where possible, under the clauses of agreement. Due to these efforts the number of cases had been reduced from 80 to 47 upto November 30, 2010.

The DAC directed the management to pursue the recovery and the amount recovered may be got verified from Audit. However, progress was awaited from the management till finalization of this report.

Audit would, therefore, suggest investigating the case for fixing responsibility on the person(s) at fault and taking remedial measure to avoid recurrence.

7.1.4.4 Irregular award of contract of Rs 7.500 million and extra expenditure of Rs 1.485 million due to defective work

Rule-12 (2) of the Public Procurements Rules 2004 provides that all procurements 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 newspaper must appear in at least two National Daily, one in English and the other in Urdu.

In House Building Finance Corporation (HBFC), an agreement was executed with a firm, M/s. PLEXUS (Pvt.) Limited, Karachi for development of a software on May 23, 2005. The work order for the job was issued on June 02, 2005 with the completion date of June 01, 2006. M/s. Plexus completed the job on March 31, 2009 with a delay of two years and ten months. After completion of the project various problems were found in the software developed by Plexus. Therefore, extra cost of Rs 1.485 million was incurred by awarding work to the following companies to rectify the defects:

(Rs in million)

S. No.	Name of Contractors	Nature of contract	Fee
1	M/s. Ernst & Young	Audit information system	1.235
2	M/s. Anjum Asim Sahid Rehman	Audit of acquisition process & forensic audit of PLEXUS	0.250
		Total:	**1.485**

Following irregularities in the contract with M/s. Plexus were observed by the audit:

i. The award of contract of Rs. 7.500 million was without inviting press tender.
ii. The contractual completion period of the contract was one year but M/s. Plexus took almost four years with a delay of two years and ten months.
iii. The clauses regarding penalty of 2% on late completion of job and security deposit (i.e., 10%) of contract value were removed from the contract agreement by the management, which allowed undue favour to the firm.
iv. Extra cost of Rs 1.485 million was incurred without any action against the defaulting firm, i.e., M/s. Plexus.

Audit was of the view that the entire process of awarding of the contract and its execution were irregular and payment made to the company without successful running of systems was unjustified.

The matter was taken up with the management in August 2010. Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures.

The matter was discussed in DAC meeting held on December 20, 2010. The management informed the committee that an internal preliminary inquiry was ordered by the Managing Director in order to identify the persons responsible for deficiencies, which inter alia includes some of the deficiencies reported by the commercial auditors. The preliminary inquiry was carried out by the Internal Audit Division and reported to the Board of Directors. The persons identified responsible at first stage had been transferred from their present positions, which includes the Head of IT Department.

The DAC directed the management to provide a copy of independent inquiry report to Audit. The management through a letter dated January 04, 2011 stated that the inquiry was still open and the report would be forwarded upon its conclusion. However, progress was awaited from the management till finalization of this report.

7.1.4.5 Irregular payment of bonus – Rs 1.672 million

HR Manual of House Building Finance Corporation (HBFC), provides that bonus to employees shall be paid subject to the determination of operation profit earned by HBFC. Moreover, as per Finance Division (Regulation Wing) OM. No.F.3(5)RI2/ BOCR.14/2002-154 dated March 18, 2002 relating to the bonus policy, the following conditions have been laid down for the payment of bonus to the employees of Autonomous/Semi Autonomous / Public Sector Corporation:

i. The bonus would be paid on operational profit of the organization only, excluding profit from other sources.

ii. The payment of bonus would not be made customary but it would be on the basis of profit earned and as reflected in the annual audited accounts of the organization.

HBFC paid arrears of bonus to its officers and staff for the year 2007 amounting to Rs 1.672 million during the year 2009, whereas the Corporation had sustained loss before tax amounting to Rs 2,468.174 million in the financial year 2007. The matter of payment of bonus ratification for the year 2007 was placed before the Board of Directors in its meeting held on May 19, 2009. The Board desired to have a detailed study from 2002 to 2006 to review the payment of bonus each year and profit and loss of the corporation during the same period.

The Board also desired to consider the bonus policy of Zarai Taraqiati Bank Limited (ZTBL) and Industrial Development Bank of Pakistan (IDBP) as to whether these organizations too, had paid the bonus without any regard to the profit/loss. However, no such study was presented before the Board in any subsequent Board meetings.

Audit was of the view that the corporation was in loss in the year 2007 as per annual accounts and the payment was also not approved by the Board. Therefore, the payment of bonus/arrears of bonus against the year 2007 was irregular and needed recovery action.

The matter was reported to the management in August 2010 through an observation memo and on September 21, 2010 through Audit Inspection Report. Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures.

The matter was discussed in DAC meeting held on December 20, 2010. The management informed the committee that bonus was given on operational profit with the approval of Board of Directors. Audit pointed out that it was decided that it will be ratified by the Board. The DAC directed the management that copies / record of ratification from Board may be provided to Audit. However, progress was awaited from the management till finalization of this report.

7.2 Industrial Development Bank of Pakistan

7.2.1 Introduction

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.

Shareholders' equity was showing negative balance since many years. It indicated the existence of material uncertainty which may cast significant doubts 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.

7.2.2 Comments on audited accounts

The working results of the Bank for the year 2009-10 as compared with the previous years are given as under:

(Rs. in million)

	2009-10	**% Inc/ (Dec)**	**2008-09**	**% Inc/ Dec)**	**2007-08**	**% Inc/ (Dec)**	**2006-07**
Mark up/Interest income	284.378	(29.6)	404.055	(8.5)	441.814	(20.0)	552.443
Mark up/Interest expenses	(537.511)	(22.1)	(689.973)	11.9	(616.701)	(5.1)	(649.811)
Net interest expenses	(253.133)	(11.5)	(285.918)	63.5	(174.887)	79.6	(97.368)
Provision against non performing loans	65.264	59.0	159.246	-	(602.262)	-	233.212
Net interest expenses after provision	(187.869)	48.3	(126.672)	(83.8)	(780.489	-	302.068
Non mark-up / Interest income	477.293	13.1	422.135	163.5	160.487	39.5	115.019
Non mark-up/ Interest Expense	(192.004)	23.7	(155.217)	-	793.010	-	(812.774)
Profit/(Loss) before tax	97.420	(30.5)	140.246	(18.9)	173.008	-	(395.687)
Taxation	(1.955)	(9.1)	(2.151)	(95.2)	(44.466)	1,574.8	(2.655)
Profit/(Loss) after tax	95.465	(30.9)	138.095	7.4	128.542	-	(398.342)

(Source: Annual Audited Accounts)

During the year under review, Net interest expense after provision increased by 48.3% during the year from Rs 126.7 million in 2008-09 to Rs 187.9 million in 2009-10. Increase in loss was due to decrease in mark-up / return earned by 29.6% from Rs 404.1 million in 2008-09 to Rs 284.4 million in 2009-10. Such a sharp decline in mark-up / return earned needs justification.

7.2.2.1 The bank had issued guarantees in favor of Collector of Customs on behalf of M/s. Euro Ceramics Ltd for the import of machinery in 1989 and 1990. The customs authorities demanded a sum of Rs 14.182 million resulting from failure in payment of the deferred dues by M/s. Euro Ceramics Ltd. The bank is disputing the claim. Provision to the extent of Rs 7.184 million against guarantees has been made by bank.

7.2.2.2 Tax losses available for set off against future taxable profits amounted to Rs 4,208.800 million. Such losses can be carried forward for a period of ten years for assessment years 1997-98 to 2000-01 whereas losses of assessment year 2001-02 onwards can be carried forward for a period of six years for set off against future taxable profits. No deferred tax assets in respect of such losses have been recognized in the current year.

7.2.3 Brief comments on the status of compliance with PAC Directives

The management of IDBP has reported compliance of 76 Audit Paras out of total 88 Paras discussed by PAC in respect of Audit Reports 1986-87 to 2005-06. The percentage of compliance was 86%.

7.3 Pakistan Security Printing Corporation (Pvt.) Limited

7.3.1 Introduction

Pakistan Security Printing Corporation (PSPC) is a private limited company governed under the Companies Ordinance, 1984. Its core operational activities include 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. Its annual capacity is printing of 2.2 billion pieces of bank notes. Sales are made to SBP, NADRA, AGPR, Banks, Pakistan Post Office and Passport & Immigration Department.

7.3.2 Comments on audited accounts

The working results of the Corporation for the year ended June 30, 2010 as compared with those of the previous years are given as under:

(Rs. in million)

	2009-10	**% Inc/ (Dec)**	**2008-09 (Restated)**	**% Inc/ (Dec)**	**2007-08**	**% Inc/ (Dec)**	**2006-07**
Sales	4,245.494	(13.6)	4,912.467	23. 5	3977.576	(0.5)	3,996.864
Cost of sales	(3,280.561)	(4.6)	(3,440.456)	14.8	(2,997.457)	5.4	(2,842.723)
Gross profit	**964.933**	(34.4)	**1,472.011**	50.2	**980.119**	(15.1)	**115,4.141**
Administrative Expenses	(324.647)	18.7	(273.499)	16.6	(234.636)	23.4	(190.098)
Impairment loss	-	-	(7.720)	-	-	-	-
Other income	279.700	35.1	207.103	(0.6)	208.376	(18.6)	255.942
Financial charges	(2.671)	(93.5)	(41.097)	(78.0)	(187.227)	(40.4)	(314.125)
Other charges	(37.302)	(46.7)	(69.947)	134.8	(29.789)	(23.9)	(39.176)
Share of profit from associates excluding dividend	67.757	(40.3)	113.409	35.4	83.768	27.5	65.726
Profit before taxation	**947.770**	(32.3)	**1,400.260**	70.6	**820.611**	(12.0)	**932.410**
Profit after taxation	**708.712**	(29.1)	**999.550**	68.5	**593.212**	0.7	**589.049**

(Source: Annual Audited Accounts)

7.3.2.1 Sales decreased by 13.6% during the year under review as compared to the previous year (year 2009-10: Rs 4,245.494 million, year 2008-09: Rs 4,912.467 million). This resulted in decrease in gross profit by 34.4% (year 2009-10: Rs 964.933 million, year 2008-09 : Rs 1,472.011 million). The decrease needs to be justified.

7.3.2.2 During the year the company registered a deficit of Rs 119.419 million in cash and cash equivalents. This was mainly caused by a significant decline of 79.69% in cash generated from operation in comparison with the year 2009. Deficiency in cash generation needs to be explained as its continuation might force the company to resort to borrowings.

7.3.2.3 The Stock-in-Trade stood at Rs 1,335.323 million as on June 30, 2010 as compared to Rs 968.738 million as on June 30, 2009 which includes Finished Goods valuing Rs 497.971 million as on June 30, 2010 as compared to Rs 58.761 million as on June 30, 2009 showing an increase of 747.5%. The reasons for accumulation of finished goods inventory during the year 2009-10 needs to be elaborated.

7.3.2.4 Shares of profit from associates excluding dividend decreased by 40.3% (year 2009-10: Rs 67.757 million, year 2008-09: Rs 113.409 million). The decrease in the income needed to be justified with a view of the total investments in the associated companies.

7.3.3 COMPLIANCE OF PAC DIRECTIVES

Brief comments on the status of compliance with PAC Directives

The management of PSPC has reported compliance of 59 Audit Paras out of total 60 Paras discussed by PAC in respect of Audit Reports 1986-87 to 2005-06. The percentage of compliance was 98%.

7.3.4 Audit Paras

7.3.4.1 Irregular employer's contribution to Pension Fund - Rs 125.312 million

Pakistan Security Printing Corporation (PSPC) was contributing to Employees' Old Age Benefits Institution (EOBI) for the retirement benefits of its employees since 1976. In 1993, PSPC decided to establish its own pension fund and approached Finance Division, Government of Pakistan for this purpose. Finance Division *(vide letter No.F.2(14) IF.IV/91/Vol.II/151 dated 27 November 1993)* allowed the pension benefits to EOBI employees as permissible to the employees of the Federal Government from November 1, 1993. However, the permission was in replacement of Contributory Provident Fund, Gratuity and

Employees Old Age Benefits and subject to the condition that Labour Division, Government of Pakistan did not have any objection to it.

However, EOBI did not agree with PSPC completely doing away with the EOBI Scheme and proposed alternatively the continuation of EOBI Scheme parallel with the Government Pension Scheme. In order to avoid double payment of the benefit, EOBI suggested the insertion of a provision in PSPC Pension Scheme for payment of reduced pension to the extent of the amount paid under the EOBI Scheme. PSPC adopted this formula in the new arrangement and the same continued until PSPC Board of Directors in its 296th meeting (of February 3, 2010) allowed full pension without deducting the portion paid through EOBI Scheme.

Audit held that the Board's decision effective from July 1, 2009, which in fact allowed double pension benefit, was in contravention of Finance Division's conditional permission of adopting the Government Pension Scheme. Audit observed that, as a result, the employer's contribution to Pension Fund amounting to Rs 125.312 million during the year 2009-10 was irregular.

The matter was reported to the management in September 2010 and discussed in DAC meeting held on December 20, 2010. The management informed the Committee that PSPC Board of Directors, being an independent body under the Companies Ordinance, 1984 took the decision in its meeting on February 03, 2010 of not making any deduction / adjustment (w.e.f. July 01, 2009) equivalent to the amount paid to the employees by Employees Old Age Benefits Institution (EOBI) from the pension due to PSPC pensioners. The management also informed the committee that in a similar case PSOs' employees had gone to court, which allowed them full pension without deducting the portion paid through EOBI Scheme.

The DAC directed the management to refer a comprehensive case to Finance Division along with court's order, if any, to re-examine the case. However, progress was awaited till finalization of this report.

7.3.4.2 Irregular expenditure on foreign training – Rs 7.143 million

Ministry of Finance approved a project of Pakistan Security Printing Corporation (PSPC) for replacement of machinery and equipments on January 18, 2008 with the total estimated cost of Rs 426 million. It was specifically mentioned by PSPC in Para-d of the PC-I that the trained manpower to operate and maintain the proposed machinery is available in PSPC.

PSPC issued tender forms regarding the project to the bidders in July 2008 which included a clause that the bidder will arrange free of cost training to the buyer's (i.e., PSPC) six personnel at his (i.e., suppliers) work place prior to the shipment for minimum period of two weeks and shall bear the cost of air travel/boarding/lodging of buyer's technicians.

Contrary to the above, the management issued separate purchase order for the work of installation, testing, commissioning, and training of personnel with each of the three foreign suppliers of the main equipment. These purchase orders included the training cost to be borne by PSPC for six personnel each as detailed below:

S. No.	Equipment	P.O No. & date	Name of Supplier	Total Cost	Training Cost
1.	05 color printing machine	F-003112 12-01-09	Edelmann Graphics GMBH, Germany	€ 62,829	€ 23,730
2.	06 color printing machine	F-003111 12-01-09	Heidelberger Druckmachine , Germany	€ 60,085	€ 19,149
3.	Pre-press Equipment	F-003117 12-01-09	KBA-Giori SA, Switzerland	CHF 110,319	*CHF 38,612

** (The supplier did not quote break up of the offered cost, hence training cost worked out at the ratio of former two procurement).*

The expenditure amounting to Euro 42,879 and CHF 38,612 (equivalent to Pak Rs 7.143 million) incurred by the management on account of foreign training of the personnel was irregular being contrary to the provision of Tender Document for procurement of Equipment as well as against the claimed availability of trained personnel in PC-I which proved to be a mis-statement.

The matter was taken up with the management in September 2010 and discussed in DAC meeting held on December 20, 2010. The management informed that installation and training cost was included in the approved PC-I and the purchase orders in question were issued not only for the foreign training of employees of the Corporation but the same included the cost of installation, testing and commissioning charges of the machinery and equipment that were necessary and part & parcel of PC-I

The DAC was not satisfied with the reply of the management and directed the management to submit a revised reply with full justification for issuing separate purchase orders despite the fact that cost of training of six personnel was included in the PC-I and that the bidder was required to provide free of

cost training. However, the management did not provide the revised reply till finalization of this report.

Audit would, therefore, suggest investigating the case for fixing responsibility on the person(s) at fault and taking remedial measures to avoid recurrence.

7.3.4.3 Irregular award of work to second lowest bidder – Rs 6.984 million

Rule–23 of Public Procurement Rules, 2004 provides that procuring agencies shall formulate precise and unambiguous bidding documents that shall be made available to the bidders immediately after the publication of the invitation to bid. The documents shall include bid "evaluation criteria." Rule-29 provides that procuring agencies shall formulate an appropriate criterion listing all the relevant information against which a bid is to be evaluated. Failure to provide the criteria in the bidding documents shall amount to mis-procurement.

In Pakistan Security Printing Corporation (PSPC), bids were called through press tenders on December 12, 2009 for dismantling of old pump and supply, installation and test run of a new complete pump set. However, the evaluation criterion was not formulated in the tender/bidding documents as required under PPR, 2004. Two parties submitted their bids as under:

S. No.	Name of Party	Bid Amount (Rs. in million)	Any Condition of the bidder
1	M/s. Sagrawat Engineering	2.203	Nil
2	M/s. Hightech Engineering	6.020	50% advance payment with Purchase Order & balance after completion of the job.

The lowest offer of M/s. Sagrawat Engineering was rejected by the management on January 01, 2010 on the ground that bidder had not attached any brochure or manual and did not provide any model number. The management awarded the work to M/s. Hightech Engineering at the cost of Rs 6.984 million (inclusive of 16% GST) through Purchase Order dated February 23, 2010 with 50% advance payment of Rs 3.010 million.

Audit was of the view that the management had not formulated any evaluation criteria in the bidding documents against which the bid was to be evaluated. Therefore, the rejection of the lowest bid on the ground which was not

specifically mentioned in the tender documents was irregular and the order placed to second lowest bidder amounted to mis-procurement. The matter was reported to the management in September 2010; however; the reply was not received.

The matter was discussed in DAC meeting held on December 20, 2010. The management informed the Committee that bids were evaluated on the basis of BoQ, but due to oversight the evaluation criteria was not mentioned in the tender document. However, clauses of bid evaluation criteria are now being ensured in all tenders in true spirit as per PPRA Rules. The DAC directed the management to provide full justification along with necessary supporting documents, if any, for rejecting the lowest bid without observing the rule.

In compliance with DAC directives, Audit carried out verification on the basis of record made available by the management. The BoQ and Press Tender did not contain any evaluation criteria in case of the procurement under observation. However, the management informed that evaluation criteria is now being included in all tender documents.

Audit would suggest fixing of responsibility on the person(s) at fault.

7.3.4.4 Irregular appointments of officers after the age of superannuation resulting in irregular payment – Rs 12.357 million

Government of Pakistan Establishment Division vide its OM No.3/16/99-CP-6 dated May 26, 1999 laid down that no officer is allowed to continue in office after superannuation unless prior approval of competent authority is obtained in advance. If it is intended to get the retired person re-employed on contract in public interest, a proposal in the form of a summary for the Prime Minister should be submitted to Establishment Division about six month in advance from the date of the retirement from service so that Establishment Division has sufficient processing time. It is further laid down that in case of continuous service beyond superannuation; the financial liability for the irregularity rests upon the head of the department and the officer concerned himself.

In Pakistan Security Printing Corporation (PSPC), three officers were re-employed on contract basis after attaining the age of superannuation without obtaining approval of the Prime Minister as per laid down procedure. The detail is given below:

a. Syed Ahmad Raza, Director (HR) retired in December 2005 on attaining the age of superannuation. He was re-employed on contract basis in February 2006 initially for three years at monthly salary of Rs.140,000 per month. Further yearly extensions were awarded in February 2009 and in February 2010. During the period, annual increments of Rs.28,000, Rs.27,000, Rs.58,000 and Rs.22,000 were given to the officer. The officer was drawing Rs.275,000 as monthly salary w.e.f. March 2010 and an amount of Rs 10.512 million was paid to him on account of monthly salary up to July 31, 2010.

b. Mr. Mazhar Ali, GM (Banknote) retired in April 2010 on attaining the age of superannuation. He was re-employed on contract basis in May 2010 for one year at the salary of Rs.175,000 per month plus other perks and privileges permissible with the post. An amount of Rs 0.525 million was paid to him on account of monthly salary up to July 31, 2010.

c. Mrs. Naheed Anjum Kazmi, Chief Chemist retired in January 2009 on attaining the age of superannuation. The officer was re-employed on contract basis in March 2009 initially for one year at the monthly salary of Rs.70,000 which was increased to Rs.80,000 in July 2009. An amount of Rs 1.320 million was paid to her on account of monthly salary up to July 31, 2010.

The re-employments of the officers after the age of superannuation without approval of the Prime Minister were in violation of the standing instructions of the Establishment Division. Audit was of the view that the irregular contract employment may be terminated immediately and recovery of Rs 12.357 million on account of monthly salaries paid during the period may be made from the officers concerned under intimation to Audit.

The matter was reported to the management in September 2010 and discussed in DAC meeting held on December 20, 2010. The management informed the committee that the re-employment of both the officers was not

irregular and the Board of Directors was the competent authority to make such re-employment. Audit, however, was of the view that re-employment of officers after the age of superannuation without the approval of Prime Minister was in violation of the standing instructions of Establishment Division.

DAC directed the management to refer the case to the Ministry of Finance to examine the case in the light of the instructions of the Federal Government. However, progress was awaited till finalization of this report.

7.3.4.5 Irregular appointment of a Security Controller on regular basis – Rs 1.200 million

Government of Pakistan, Establishment Division vide O.M. No.4/18/2008-E-4 dated November 06, 2008 provides that where a particular expertise is not available through ordinary means, retired officers of the Armed Forces may be selected through open competition after advertisement of the posts.

In Pakistan Security Printing Corporation (PSPC), a retired Army Officer was appointed as Security Controller on contract basis for a period of three years on February 03, 2009 at a Pay Package of Rs.80,000 per month plus usual fringe benefits. Subsequently, after lapse of only 3 months, the management appointed the officer on regular basis on May 01, 2009 on same terms and conditions without advertising the post and without any open competition.

The appointment of the officer was in violation of standing orders of Establishment Division, Government of Pakistan as the post was not advertised, and no open competition was held. The entire payment made to him from May 2009 to July 2010, amounting to Rs.1.200 million on account of monthly salary stood irregular.

The matter was reported to the management in September 2010 and discussed in DAC meeting held on December 20, 2010. The management informed the Committee that the selection committee had recommended the appointment of the retired Army Officer in question. The officer was appointed initially on contract basis and after lifting of ban by the Federal

Government on May 01, 2009, his services were regularized in permanent cadre; thus, there was no violation of Standing Orders of Establishment Division, GoP.

Audit, however, observed that appointment was in violation of Standing Orders of Establishment Division, GoP, as the post was not advertised and no open competition was held.

The DAC directed the management to provide the reason/justification for non-advertisement of the post and non-inviting open competition in violation of instructions of the Federal Government circulated through the O.M. dated November 06, 2008. However, the management could not produce any valid reason for not inviting open competition during verification of relevant record by Audit in January 2011.

Audit would, therefore, suggest fixing responsibility on the person(s) at fault and taking remedial measures.

7.3.4.6 Loss due to undue favour to the supplier – Rs 9.614 million

The clause (f) of Purchase Order No.05744 dated May 28, 2008 of Pakistan Security Printing Corporation (PSPC) laid down that "These prices are firm and final in all respect and delivery date is also firm."

In PSPC, a Local Purchase Order (LPO) dated May 28, 2008 was placed on M/s. Ultra Coat Pakistan (UCP) for supply of 50,000 Kg UV Flexo Varnish @ Rs.2,075 per Kg (Plus GST and other charges). The LPO was placed on repeat order basis by enhancing Rs.250 per Kg to the previous rates, i.e., Rs.1825 per Kg. The supplier after supply of only 12,000 Kg up to September 2008, requested PSPC to enhance the price in view of Pak Rupees depreciation. The management entertained the supplier's request and enhanced Rs.200 per Kg for the supply of balance 38,000 Kg of material. Revised Purchase Order was issued on September 22, 2008. The enhancement of rates by Rs.200 per Kg for the balance quantity of 38,000 Kg was in contravention to the laid down terms and conditions of original Purchase Order. Resultantly, PSPC suffered a loss of Rs 9.614 million on account of revision of rates for the supply of 38,000 Kg varnish due to favour extended to the supplier.

The matter was reported to the management in September 2010 and discussed in DAC meeting held on December 20, 2010. The management informed that purchase committee of PSPC after detailed discussion and keeping in view the US$ increasing trend against Pak Rupee, agreed to place the order on M/s. Ultra Coat Pakistan at the rate of Rs. 2,075 per Kg on FOR basis instead of FOB.

DAC directed the management to provide the copies of minutes of the purchase committee to the audit authorities and the ministry. In compliance, the management provided copies of the minutes of meeting of the purchase committee and agreement dated June 01, 2008 with the contention that the order was placed on FOR basis instead of FOB basis.

The management's point of view was not tenable as there was no provision in the agreement for price escalation. Furthermore, the purchases were local. Therefore, the placement of order on FOR or FOB was immaterial as the impact of freight was not significant.

Audit would, therefore, suggest fixing of responsibility on the person(s) at fault and taking remedial measures.

7.4 State Bank of Pakistan

7.4.1 Introduction

State Bank of Pakistan (SBP) is the Central Bank of Pakistan and is incorporated under the State Bank of Pakistan Act, 1956. It is an autonomous institution. Under the provisions of the SBP Act, 1956, the "general superintendence and direction of the affairs and business of the Bank" rests with the Central Board of Directors. Through an amendment in the SBP Act in February, 1994, the Central Board of Directors was enlarged which now consists the Governor, Secretary Finance, Government of Pakistan and seven directors nominated by the Federal Government. From these seven directors, one Director from each province is nominated while ensuring representation to agriculture, banking and industrial sectors.

The strategic objectives are:

1. Broadening Access of Financial Services.
2. Ensuring Soundness of the Financial Sector.
3. Maintaining Price Stability with Growth.
4. Exchange and Reserve Management.
5. Strengthening of Payment System.
6. Human Resources Development.
7. Information Technology Development.

7.4.2 Comments on audited accounts

The working results of the Bank for the year 2009-10 as compared to the previous year are given below:

(Rs. in million)

	2009-10	**% Inc/ (Dec)**	**2008-09**	**% Inc/ (Dec)**	**2007-08**	**% Inc/ (Dec)**	**2006-07 Restated**
Discount, interest/Markup and/or return earned	185,282.406	1.2	183,112.028	74.6	104,882.577	13.4	92,513.195
Interest/markup expense	(9,697.761)	19.9	(8,085.169)	115.7	(3,748.759)	(29.1)	(5,289.092)
Net income	**175,584.645**	0.3	**175,026.859**	73.1	**101,133.818**	15.9	**87,224.103**
Commission income	1,452.752	(12.9)	1,667.375	131.5	720.289	9.8	656.268
Exchange gain/(loss)	11,710.916	(63.6)	32,211.002	(48.0)	61,973.254	3065.4	1,957.806
Dividend income	9,513.278	(2.3)	9,733.352	47.6	6,594.079	53.8	4,286.628
Other operating Income-net	10,465.269	750.5	1,230.544	(87.2)	9,631.073	(68.1)	30,181.241

Total operating income-net	**208,726.680**	(5.1)	**219,869.132**	22.1	**180,052.513**	44.8	**124,306.046**
Note Printing Charges	(3,258.920)	(22.3)	(4,193.032)	35.4	(3,097.868)	0.3	(3,087.214)
Agency commission	(3,981.054)	10.1	(3,614.261)	33.4	(2,710.017)	5.2	(2,576.382)
Provision for:							
-Loans and advances	(1,239.459)	174.4	(451.726)	-	-	-	73.964
Provision against Claims	900.000	-	-	-	-	-	-
-Diminution in value of investment	-	-	(98.687)	-	-	-	-
-Other doubtful assets	74.639	19.2	62.615	(151.1)	(122.543)	(42.2)	(212.057)
Total provision	**(264.820)**	(45.7)	**(487.798)**	298.1	**(122.543)**	(11.3)	**(138.093)**
Total Income Before Indirect Expenses	**201,751.526**	(5.1)	**212,549.637**	22.1	**174,122.085**	46.9	**118,504.357**
General, administrative and other expenses	(15,082.557)	38.3	(10,907.686)	22.7	(8,888.130)	(3.5)	(9,210.501)
Operating profit/(loss)	**186,668.969**	(7.4)	**201,641.951**	22.0	**165,233.955**	51.2	**109,293.856**
Other income	66.689	19.3	55.916	(81.1)	295.772	22.3	241.826
Other expenses	-		-	(100.0)	(736.368)	(8.3)	(803.069)
Net profit for the year	**186,735.658**	(7.4)	**201,697.867**	22.4	**164,793.359**	51.6	**108,732.613**

(Source: Annual audited Accounts)

7.4.2.1 The interest, markup and discount income increased to Rs 185,282.406 million during the year 2009-10 as compared to Rs 183,112.028 million during 2008-09 registering an increase of 1.2%.

7.4.2.2 General administrative and other expenses were increased to Rs 15,082.557 million in 2009-10 as compared to Rs 10,907.686 during previous year registering an increase of 38.3%. This was mainly due to, revision in SBP and SBP BSC officers' compensation (every two years) to counter the impact of inflation (that was worked out to 40.58%: as per SBP inflation monitor). Further, during the year the bank has inducted two batches of SBOTS (State Bank Officers Training Scheme) as compared to previous year hence resulted higher expenses by Rs 1.515 million. Audit required that, the formula that resulted 38.3% increase in employee compensation booked in a year and, reason for additional batch of SBOTS in 2009-10 needed be explained.

7.4.2.3 Interest /markup expenses were Rs 8,085.169 million in the year 2008-09 which was increased to Rs 9,697.761 million in the year 2009-10 showing

increase by 19.9%. The position in this regard needs to be clarified. The management in its reply dated January 12, 2011, stated that the rise in interest/mark-up expenses was mainly due to increase in borrowings from IMF which stood at Rs 694.770 billion as at June 30, 2010 as compared to the balance of Rs 440.479 billion of last year, marking a rise of 58% over last year. Audit required SBP's efforts to, stabilize balances that resultantly limit and reduce Government reliance over External debts and, reduction in interest cost.

7.4.2.4 Non Interest bearing Financial Asset were in deficit of financial liabilities by, Rs 1,719,036 million for maturities upto one year and, Rs 1,695,549 million in total. Management in its reply stated that this negative gap is offset by excess of interest bearing financial asset over interest bearing financial liabilities. Audit is of the view that management needs to make efforts to minimize its Credit Risk over non- interest bearing financial instruments.

7.4.2.5 Further, certain foreign currency held with the group to meet foreign currency commitments were significantly declined by Rs 20,788 million in 2010 that was 61.2% of 2009. The management reply again referred toward overall increase in Foreign Currency reserves but remained silent about this specified decline, hence not tenable. State bank need to explain this deteriorating situation along with significant decline in Exchange Gain, as stability in financial system (including Exchange Management) is one of its main objectives.

7.4.3 COMPLIANCE OF PAC DIRECTIVES

Brief comments on the status of compliance with PAC Directives

The management of SBP has reported compliance of 37 Audit Paras out of total 39 Paras discussed by PAC in respect of Audit Reports 1986-87 to 2005-06. The percentage of compliance was 95%.

7.4.4 Audit Paras

4.4.4.1 Irregular contract appointment of a Special Counsel with unjustified salary - Rs 15.978 million

Finance Division, Government of Pakistan through O.M. No.F-3(7) R-4/98 dated August 18, 1998 regulated salary package and perquisite for

professionals from the private sector appointed on contract basis against top management positions in Public Sector. The salary and perquisite package MP-I and MP-11 were prescribed against the position of Chief Executives and Senior Executives respectively. Other benefits of any kind over and above the same salary packages were prohibited.

Contrary to above, State Bank of Pakistan (SBP) without any advertisement appointed a person as "Special Counsel" for two years on contract basis w.e.f. August 28, 2006 on a monetized salary package of Rs.375,809 per month (Salary Rs.350,000 plus cost of POL Rs.16,134 and Driver Salary Rs.9,675). Her contract was periodically extended with increase in salary and the last extension for two years was granted on August 28, 2008 with revised salary package of Rs.502,960 per month (Salary Rs.475,000 plus cost of POL Rs.18,285 and Driver Salary Rs.9,675). Whereas the prescribed MP-11 Scale for such contract appointment was required to be allowed at Rs.148,520 per month inclusive of cost of POL. Thus the Bank not only violated the transparent selection by not advertising the post but irregular salary to the extent of Rs 15.978 million was paid to the incumbent from the date of appointment (August 28, 2006) to September 27, 2009 (the date of verification of record by Audit).

The irregularity was pointed to the management through Audit Inspection Report in July 2008.

The matter was discussed in DAC meeting held on December 20, 2010. The management informed the Committee that the appointment of Special Counsel was not irregular and made with the approval of Central Board who is authorized under section 54 of SBP Act, 1956 in these matters.

The DAC during the meeting observed that the management did not comply with the standing instructions and element of competition was missing. DAC directed the management to submit a revised reply with full justification and necessary record to audit authorities. However, progress was awaited from the management till finalization of this report.

7.4.4.2 Irregular Procurement and installation of generators - Rs 0.506 million

Rule-12 (1) of Public Procurement Rules, 2004 provides that Procurements over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency. The procurement should be made through open competitive bidding Rule-20.

State Bank of Pakistan (SBP) purchased a gas generator set of 14 KVA of Kohler make direct from the market without open tenders from M/s. Greaves Pakistan (Pvt.) Limited on July 28, 2009 at a cost of Rs 0.506 million.

Audit was of the view that the procurement of generator was irregular because procurement was made by direct contracting instead of open competitive bidding and non-advertisement at the Authorities Website as well as SBP Website.

The matter was brought to the notice of the management through preliminary observation on November 16, 2010 and discussed in DAC meeting held on December 20, 2010. The management informed the Committee that the procurement was undertaken keeping in view the urgency and to avoid any undesirable situation. Moreover, the procurement and installation was undertaken through a committee (comprising of technical and non-technical officials) constituted for the purpose, as per PPRA Rules to save time and reduce expenditure in order to provide uninterrupted power supply during excessive load shedding of electricity by KESC.

The DAC directed the management to provide copy of minutes of the committee meetings, constituted for the purpose, for reconsideration the case by Ministry/Audit.

The management in compliance with DAC directives supplied a copy of the requisite minutes of the meeting of the Purchase Committee constituted by SBP for procurement of generator. The Committee had recorded that after checking of various models and their specification, the gas generator set of 14 KVA of Kohler make was suitable. It was further recorded that negotiation of the price and components with the main dealer, M/s. Greaves Pakistan (Pvt.) Limited were held and the recommendation of their quoted rate of Rs 0.506 million was

made. However, the justification for requirement of the generator on emergency basis warranting the procurement without advertisement on website of PPRA was not available in the minutes to verify the contention of the management.

Audit would, therefore, suggest fixing of responsibility on the person(s) at fault and taking remedial measures to avoid violation of PPRA Rules.

7.4.4.3 Loss of due to imprudent policy for education/scholarship – Rs 6.300 million

State Bank of Pakistan (SBP) offered the post of Joint Director Officer Grade-5, and scholarship under the SBP Revised Scholarship Scheme at certain term and conditions to a person. He accepted the Bank's offer and signed an Agreement along with a Surety Bond on November 11, 2002. The terms and conditions of the appointment letter and the surety bound were as under:

The officer was required to serve SBP at-least for a minimum term of 1½ years for each year of full funding availed after completion of Ph. D.

Clauses of surety bond were as under:

> In case the officer fails to serve the Bank for a minimum term of 1½ years for each year of full funding, his services shall be terminated from the bank and he shall have to refund the entire expenses incurred on his education under the scheme and that the bank shall be entitled to recover all moneys becoming due from the said officer/ applicant, incurred under the scheme from his person(s) and any of his property or income.

The person (PIN-8343) was appointed as Joint Director (OG-5) w.e.f. February 20, 2003 and granted scholarship with study leave (Ex-Pakistan) without pay and allowances for a period of 4 years commencing from February 21, 2003. During the study of Ph. D Economics in the Australian National University (ANU), the Bank made payments of Rs 6.284 million to the officer.

The officer completed his Ph. D. in February 2007 but did not join the Bank in time. The management did not take any action during the period from February 2007 to March 2009. However, the management issued a charge sheet to the officer on March16, 2009 and subsequently a show cause notice on January 28, 2009. In response, the officer stated that he had obtained Australian citizenship and he had no intention of returning to Pakistan and also resigned

from the service of SBP which was not accepted by bank and he was dismissed from the Bank's service w.e.f. February 15, 2010. Thus an amount of Rs 6.300 million spent by the bank was lost and was recoverable from the officer. The management intimated that services of an advocate had been hired to file recovery suit.

In view of audit all scholar ships or any benefits allowed by SBP to its employees should be fully secured in favour of SBP to avoid such losses. In this case full payment of university fees in favour of a newly appointed officer of SBP showed flaws in HR planning.

Personal file of the officer and related information were called for through a requisition dated November 10, 2010 and again through a requisition dated November 15, 2010. The management provided history of the case on a single page and personal file and other related documents were not provided and it was stated that they could not provide the same to Audit as they were secret documents.

The matter was brought to the notice of the management through preliminary observation on November 16, 2010. Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures.

The matter was discussed in DAC meeting held on December 20, 2010. The management informed the Committee that the case had been forwarded to the bank's counsel for filing of suit with Sindh High Court against the officer and his Sureties for the purpose of recovery.

The DAC directed the management that SBP may follow up the recovery and progress be reported to the Ministry/Audit. However, progress was awaited from the management till finalization of this report.

7.4.4.4 Loss due to imprudent policy of education scholarship scheme – Rs 5.900 million

As per clause of surety bond if the officer fails to complete Ph. D. within a period of 4 years or if he fails to serve the State Bank of Pakistan for five (5)

years after completion of Ph. D. or due to any change schedule approved by the Board. His / Her services shall be terminated from SBP and he/she shall have to refund the entire amount of expenses incurred on education under the scholarship scheme.

State Bank of Pakistan (SBP) appointed a person (PIN–8359) as Joint Director in OG–5 and granted him scholarship under the SBP scheme on August 23, 2001. Accordingly the said employee was granted study leave (Ex–Pakistan) for Ph. D. Economics at the Massachusetts Institute of Technology (MIT), USA. w.e.f. August 24, 2001.

After completion of his Ph. D. instead of joining SBP, the officer joined the World Bank. The services of the officer were terminated w.e.f. February 01, 2007. During his study period the SBP had incurred expenditure of Rs 5.882 million on his study which is still recoverable from him. Thereafter a recovery suit was filed in the High Court of Sindh and the case was pending.

The amount so claimed should have been recovered from the sureties but it seems that the sureties furnished by the employee were fake.

In view of Audit all scholarships and any other benefits allowed by SBP for its employees should be fully secured to avoid such losses. In case full payment of University fees were made in favour of the trainee immediately after his appointment which shows a major flaw in the policies devised by SBP's HR department. The amount should be recovered from the person/sureties along with markup under intimation to Audit besides strengthening the policy.

Personal file of the officer and related information was called for through a requisition dated October 29, 2010, the management provided history of the case on a single page; whereas personal file and other related documents were not provided and it was stated that they could not provide the same to Audit, as they were secret documents.

The matter was brought to the notice of the management through preliminary observation on November 16, 2010. Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures.

The matter was discussed in DAC meeting held on December 20, 2010. The management informed the committee that bank had filed a suit against the officer and his sureties in Sindh High Court on May 25, 2010 for the purpose of recovery. The DAC directed the management that SBP may follow up the recovery and report progress to the Ministry/Audit. However, progress was awaited from the management till finalization of this report.

7.5 SME Bank Limited

7.5.1 Introduction

SME Bank Limited was formed and incorporated on October 30, 2001, as a public limited Company under the Companies Ordinance, 1984, in pursuance of Government of Pakistan Regional Development Finance Corporation and Small Business Finance Croproation (Amalgamation and Conversion) Ordinance No. LVI of 2001. The prime objective of the Bank is supporting and developing SME sector of the country. Total paid up capital of the Bank is Rs 2.392 billion out of which Rs 2.246 billion (93.89%) is owned by the Federal Government. Other shareholders are NBP (2.56%), UBL (1.66%), HBL (0.83%), MCB (0.62%), ABL (0.32%) and IDBP (0.12%).

Corporate Information

The objectives for which the Bank is established are:

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

Based on the latest credit rating report dated June 23, 2009 issued by JCR-VIS Credit Rating Company Limited, credit rating of the Bank was BBB (triple B) in the long term and A-3 (A three) in the short term.

The Bank is operating through a network of 27 branches situated in major cities of Pakistan. Out of these 13 are the commercial banking branches and 14 are the recovery branches for recovery of old loans of Small Business Finance Corporation (SBFC) and Regional Development Finance Corporation (RDFC).

7.5.2 Comments on audited accounts

7.5.2.1 The operational performance of the Bank for the year ended December 31, 2009 as compared with previous years is appended below:

(Rs in million)

	2009	% Inc / (Dec)	2008	% Inc / (Dec)	2007
Mark-up/return/ interest earned	773.936	(0.11)	774.797	(12)	875.560
Mark-up/return/ interest expensed	448.106	16	385.379	1	379.959
Net mark-up / interest income	325.830	(16)	389.418	(21)	495.604
Reversal of provision against non-performing advances-net	(21.766)	(17)	(26.214)	(75)	(104.643)
Provision for diminution / impairment in the value of investments & other assets	24.400	(30)	34.876	-	(36.662)
Bad debts written off directly	1.937	(28)	2.706	(28)	3.780
	4.571	(60)	11.368	(108)	(137.525)
Net mark-up / interest income after provisions	321.259	(15)	378.050	(40)	633.129
Non mark-up/ interest Income					
Fees, commission and brokerage income	11.094	96	5.667	57	3.608
Dividend income	3.813	(91)	42.177	4,064	1.013
Loss on sale of securities	-	-	(0.376)	-	25.646
Other income	5.491	(51)	11.179	11	10.071
Total non mark-up/ interest income	20.398	(65)	58.647	45	40.338
	341.657	(22)	436.697	(35)	673.467
Non mark-up/ interest expense					
Administrative expenses	1,189.203	109	570.101	8	526.464
Reversals of other provisions/ write offs	(20.000)	202	(6.614)	12	(5.910)
Other charges	0.196	(96)	5.204	535	0.819
Total non-mark-up/interest expenses	1,169.400	106	568.691	9	521.373
	(827.742)	527	(131.994)	-	152.094
Gain on settlement related to retirement benefit plans	209.626	-	-	-	-
GOP Financing against VSS-2009	660.514	-	-	-	-
Profit/(loss) before taxation	42.398	-	(131.994)	(13)	152.094
Taxation	6.546	(98)	400.954	862	41.691
Profit/(loss) after taxation	35.852	-	(532.948)	383	110.403

Source: Annual Audited Accounts

Mark-up / return / interest expenses increased to Rs 448.106 million in the year 2009 against Rs 385.379 million in 2008 registering increase of 16% over previous year reason being an increase in deposits from Rs 1,892.018 million to Rs 2,203.152 million as on December 31, 2009 which resulted in an increase of mark-up / interest expenses due to increase in deposits by 40%.

Strenuous efforts are required to be made to increase income of the Bank to make it a self-sustaining concern.

The Bank earned profit after tax Rs 35.852 million during 2009 as against loss of Rs 532.948 million during 2008. GoP financing against VSS-2009 Rs 660.514 million represents amount granted by Government of Pakistan through State Bank of Pakistan for payment of benefits of those employees who opted VSS during the year ended December 2009. An amount of Rs 661.883 million for VSS payment was included in administrative expenses due to which these expenses were increased from Rs 568.691 million to Rs 1,169.42 million in 2008-09. Gain on settlement related to retirement benefit plans being Rs 209.626 million was accounted for during the year 2009. This represented the amount already payable to employees in respect of retirement's benefits. The organization while claiming VSS payment from GOP should have deducted this amount and claimed Rs 450.888 million instead Rs 660.514 million. Due to excess claim, the Company showed profit after taxation Rs 35.852 million, which was, in fact, loss of Rs 167.228 million. The excess claimed amount of Rs 209.626 million from GoP needs to be explained.

Dividend income of the Bank decreased from Rs 42.177 million in 2008 to Rs 3.813 million in 2009 registering a decrease of 91% over previous year. The alarming decrease under the head needs clarification. Moreover, the accounts of subsidiary company SME Leasing Limited may be provided to audit for verification.

7.5.2.2 **Financial Highlights**

The financial position of the Bank as at December 31, 2009 in comparison with previous years is as follows:

(Rs in million)

	2009	**% Inc / (Dec)**	**2008**	**% Inc / (Dec)**	**2007**
ASSETS					
Cash and balances with treasury banks	213.778	7	200.112	(30)	286.705
Balances with other banks	57.296	15	49.751	(6)	52.980

Lending to financial institutions	33.445	(67)	100.00	(61)	(258.944)
Investments	2,939.132	15	2,545.053	(17)	3,058.130
Advances	2,500.916	(1)	2,526.322	19	2,118.347
Operating fixed assets	108.418	(13)	124.546	(14)	144.589
Deferred tax assets	-	-	2.597	(99)	447.887
Other assets	446.244	114	208.629	(3)	216.176
Total assets	6,299.229	9	5,757.010	(13)	6,583.758
LIABILITIES					
Bills payable	54.542	45	37.686	(7)	40.441
Borrowings	1,371.750	(10)	1,518.100	8	1,400.000
Deposits and other accounts	2,203.152	16	1,892.018	1	1,879.587
Liability against assets subject to finance lease	12.087	(38)	19.442	(23)	25.371
Other liabilities	436.957	30	335.275	(22)	429.752
Total liabilities	4,078.488	7	3,802.521		3,775.151
NET ASSETS	**2,220.741**	**14**	**1,954.489**	**(30)**	**2,808.6**

Source: Annual Audited Accounts

There was a minor increase of 9% (i.e. from Rs 5,757.010 million as on December 31, 2008 to Rs 6,299.229 million as on December 31, 2009) in assets portfolio of the Bank. Bank's capacity to lend was also seriously impaired due to inability to build a sizable deposit base. Bank started its commercial banking operations in 2005 but has not been able to build adequate level of deposit base. The Bank has only 13 branch offices in the country. The credit rating of the Bank by JCR-VIS from June 2008 to onward was BBB/A-3, which remained the same as previously assigned in March 2005. The future of the Bank mainly depends upon business growth, sustainable stream of profitability, ability to mobilize sufficient deposits in a cost efficient manner, fresh equity injection, development of proper infrastructure and above all privatization of the Bank that will give it a clear strategic direction and strong market acceptability as a viable entity.

7.5.2.3 During the year, an amount of Rs 173.788 million representing non-performing advances was considered for write off and bad debts amounting to Rs 1.937 million were written off and directly charged to profit & loss account. The breakup of the amount written off along with the reasons needs to be given

7.5.2.4 Provision against other assets as on December 31, 2009 included an amount of Rs 9.335 million for the 2009 charges. The figure is silent by means of notes to the accounts. The position needs clarification.

7.5.2.5 The management accepted the membership of Lahore and Islamabad Stock Exchange valuing balance Rs 38.00 million under a pre bargain with M/s RAVI & TASS through NAB. The Bank is no more in shares business, thus, the investment is dead by means of any return.

Receivable from Ravi Securities (Pvt) Limited and TAAS Securities (Pvt) Limited decreased by Rs 19.748 million to Rs 11.699 million as on December 31, 2009 from Rs 31.447 million as on December 31, 2008. Provision held against other assets as on December 31, 2009 included provision for Rs 11.699 million (2008: Rs 31.447 million) receivable from these companies.

Stock exchange membership valuing Rs 38.000 million as on December 31, 2009 included membership of Lahore Stock Exchange of Rs 20.000 million, accepted by the management under a plea bargain of Rs 112 million with M/s Ravi and M/s TAAS through NAB signed on April 12, 2005. The Bank recovered Rs 76.284 million leaving balance of Rs 35.716 million. By way of transfer of membership of Lahore Stock Exchange valuing Rs 20 million, the Bank is still facing a loss of Rs 15.716 million.

7.5.2.6 The Bank has contingent liabilities (excluding guarantees) Rs 812.018 million as on December 31, 2009 (2008:Rs.353.788 million). The latest position of each case and likely outcome may be intimated.

7.5.2.7 As compared to previous year, recoveries made against new portfolios increased to Rs 656 million in this year from Rs 580 million in the previous year. Whereas recoveries against old portfolios have been, declining from Rs 401 million in 2007 to Rs 225 million in 2008 and Rs 156 million in 2009 of which Rs 17 million and Rs 34 million relate to recoveries from defunct SBFC and RDFC respectively in the current year 2009.

Calculation of ratio of recoverable amount to total recoveries this year shows that only 48% of the amount had been recovered which was significantly low as compared to standard of over 90% for a bank. Efforts should be made to expedite the recovery process.

7.5.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1990-91	04	01	03	25
2.	1991-92	03	02	01	66
3.	1992-93	06	03	03	50
4.	1993-94	12	09	03	75
5.	1994-95	10	08	02	80
6.	1995-96	04	04	--	100
7.	1996-97	11	8	3	73
8.	1997-98	13	07	06	53
9.	1999-00	21	06	15	29
10.	2000-01	23	13	10	57
11.	2001-02	07	02	05	29
12.	2005-06	09	04	05	44
13.	2008-09	07	--	07	Nil

The overall compliance to the PAC directives in the SME Bank Limited was not satisfactory. It seems that PAO / management was not taking interest in the compliance of PAC directives, which needs to be justified.

7.5.4 Audit Paras

7.5.4.1 Loss due to bogus loaning – Rs 6.871 million

For the recovery of old portfolio loan (SBFC & RDFC loans), the management of SME Bank established 14 recovery branch offices in all over the country, but ceased the functions of recovery department w.e.f. December 31, 2009 and all the recovery staff was placed in surplus pool.

SME Bank, Bahawalpur in 1995 made bogus loaning in eight cases. The six loan cases were sanctioned in a sequence in one go on October 11, 1995 and the record showed that borrowers and guarantors were not available at recorded addresses mentioned in the loan documents. Service certificates provided by the guarantors in the respective cases were proved fake. National ID

Cards of borrowers/guarantors were fake as per report of NADRA. The facts showed that the concerned branch without verification of the required documents sanctioned the loan cases and most of the employees of the Bank brnach had left the bank service under VSS-2003 & 2009.

Similarly, the Recovery Office, Peshawar reported five cases in which the borrowers were not traceable and an amount of Rs 2.657 million was outstanding in these loan cases.

In circumstances when the functions of the recovery department had been ceased and the officials responsible for grant/sanction of loan in said cases were no more in Bank's service, the chances of recovery of said loan amount were remote and the bank is likely to sustain a loss of Rs 6.871 million

The matter was reported to the management on May 26, 2010 and the Ministry on December 8, 2010. The management in its replies dated July 06, 12010 and January 14, 2011 stated that the recovery of old portfolio is being outsourced to NBP, however SME Bank is not in position to offer comments on VSS offered by defunct RDFC. The reply was not acceptable as the bogus loaning was required to be considered at the time of VSS and the employees were required to be laid off after deciding the fate of these struck up loans.

DAC in its meeting held on January 25, 2011, directed the management to elaborate the reply showing category wise detail of loan cases along with justification. DAC also directed that a comprehensive report justifying the VSS might be provided to Audit within a week. No progress was received till finalization of this report.

7.5.4.2 Loss to the Bank due to non-deduction of income tax from the optees of VSS 2009 - Rs 91.692 million

As per SME Bank notification of VSS-2009 dated October 15, 2009, the last date for submission of option was October 31, 2009, which was later on extended up to December 29, 2009. As per clause-10 (d) of the said circular, the

tax liability was the responsibility of the employees and was to be adjusted as per relevant tax law.

As per VSS-2009, total 129 options were received and accordingly employees were laid off from the strength of the Bank in December 2009. The payment of tax was the responsibility of the employees concerned but the scrutiny of relevant record revealed that against a total required tax deduction of Rs 102.150 million, the management could deduct an amount of Rs 10.459 million from the VSS optees. While remaining tax liability of Rs 91.692 million was owned by the management on behalf of said employees. The management kept the said tax amount in a separate sundry account and not paid to the tax authorities. This resulted in loss of Rs 91.692 million to the Bank due to non-deduction of income tax from the optees of VSS-2009.

The matter was reported to the management on May 26, 2010 and the Ministry on December 8, 2010. The management in its replies dated July 06, 2010 and January 14, 2011 stated that the liability of employees to pay tax should remain limited to the extent provided for under terms and conditions of service and any incremental amount of such tax liability will thus become liability of SME Bank. The reply was not acceptable as the tax liability was the responsibility of employees and Bank was not liable to pay tax on behalf of VSS optees. Moreover, the management had to refer the case to CBR for clarification.

DAC in its meeting held on January 25, 2011, directed that management to explain the details of the benefits extended under VSS 2003. DAC also directed Ministry might refer the case to Law Division for seeking their opinion on the issue. No progress was received till finalization of this report.

7.5.4.3 Loss due to nil recovery of loans – Rs 1,251.920 million

The management of SME Bank ceased the functions of recovery department w.e.f. December 31, 2009 and all the recovery staff was placed in surplus pool. In 3,647 loan cases, an amount of Rs 1,251.92 million was recoverable, against which the recovery was nil as on December 31, 2009. The

nil recovery showed that either the loanees/guarantors were not traceable or the loans were granted on fake documentations. The management of SME Bank had not initiated any legal action against these defaulters. Most of the officials, responsible for grant of said loans had left the Bank service under VSS-2003 and 2009. In these circumstances when the functions of recovery department had been ceased and the officials responsible for grant of loans are no more in Bank service, the chances of recovery of these loans are remote and the Bank is likely to sustain a loss of Rs 1,251.92 million

The matter was reported to the management on May 26, 2010 and the Ministry on December 8, 2010. The management in its replies dated July 06, 2010 and January 14, 2011 stated that these loans were granted on fake documents, the loanees and guarantors are virtually untraceable and the officials responsible for grant of said loans had left the Bank's service under VSS and Bank is not in position to offer comments on VSS offered by defunct RDFC. The reply was not acceptable as prior to accepting the option of VSS, the management was required to ensure clearance of optees with regard to their involvement in default cases.

DAC in its meeting held on January 25, 2011, directed the management to elaborate the reply showing category wise detail of loan cases along with justification. DAC also directed that a comprehensive report justifying the VSS to persons involved in bogus loaning might be provided to audit within a week. No progress was reported till the finalization of this report.

7.1.4.4 Likely loss due to non-recovery of loan amount in multiple lending cases – Rs 73.440 million

In SME Bank, Islamabad in 195 cases of multiple lending an amount of Rs 73.440 million was recoverable. The multiple lending was not allowed under the rules till the clearance of first loan. The multiple lending and default in these cases showed that the said cases were sanctioned, in connivance with the concerned branch management without assessing status of previous loans. Most of the officials, responsible availed the VSS and were no more in Bank service. The VSS options of concerned officials were accepted without fixing

responsibility on concerned branch management. The functions of the recovery department were ceased w.e.f. December 31, 2009. The chances of recovery of these loan were remote and the Bank is likely to sustain a loss of Rs 73.440 million on this account.

The matter was reported to the management on May 26, 2010 and the Ministry on December 8, 2010. The management in its replies dated July 06, 2010 and January 14, 2011 stated that these loans were granted on fake documents; the loanees and guarantors were virtually untraceable; and the officials responsible for grant of said loans had left the Bank's service under VSS-2003. However, the SME Bank was not in position to offer comments on VSS offered by defunct RDFC. The reply was not acceptable as prior to accepting the option of VSS, the management was required to ensure clearance of optees whether they related to RDFC, SBFC or SME Bank with regard to their involvement in default loans cases.

DAC in its meeting held on January 25, 2011, directed the management to elaborate the reply showing category wise detail of loan cases along with justification. DAC also directed that a comprehensive report justifying the VSS might be provided to Audit within a week. No progress was reported till finalization of this report.

7.5.4.5 Likely loss due to missing of loan case files – Rs 22.789 million

As per Section-4(5) of the Ordinance all the assets, contracts, liabilities, proceedings and undertakings of the RDFC and SBFC stand transferred to and vested in the Company on the date of amalgamation. In its first annual accounts of SME Bank for the year ending December 31, 2002, the outstanding loan amount of RDFC & SBFC was shown in assets side as Long Term Financial Assistance. The responsibility for recovery of outstanding amount of RDFC & SBFC rests with the management of SME Bank. For the recovery of old portfolio loan (SBFC & RDFC loans), the management of SME Bank established 14 recovery branch offices in all over the country.

The management of SME Bank ceased the functions of recovery department w.e.f. December 31, 2009 and all the recovery staff was placed in surplus pool. The record showed that in 138 cases, the loan case files were missing at certain recovery branch offices as on December 31, 2009. An amount of Rs 22.789 million was recoverable against these loan cases. The files were misplaced due to negligence on the part of concerned branch management. Most of the officials, responsible for said missing loan files had left the bank service under VSS-2003 and 2009. In these circumstances when the functions of recovery department had been ceased and the officials responsible for grant of loans or misplacing the loan files were no more in Bank service, the chances of recovery of loan amounts were remote and the Bank was likely to sustain a loss of Rs 22.789 million

The matter was reported to the management on May 26, 2010 and the Ministry on December 8, 2010. The management in its replies dated July 06, 12010 and January 14, 2011 stated that these loans were granted on fake documents, the loanees and guarantors are virtually untraceable and the officials responsible for grant of said loans had left the banks service under VSS-2003. However, Bank was not in position to offer comments on VSS offered by defunct RDFC. The reply was not acceptable as prior to accept the option of VSS the management was required to ensure clearance of optees with regard to their involvement in default loans cases.

DAC in its meeting held on January 25, 2011, directed the management to elaborate the reply showing category wise detail of loan cases along with justification. DAC also directed that a comprehensive report justifying the VSS may be provided to Audit within a week. No progress was reported till finalization of this report.

7.5.4.6 Wasteful expenditure on account of pay and allowances paid to idle staff – Rs 16.643 million

The President SME Bank in 53rd Board meeting apprised the Board that as a result of VSS announcement, total 129 options were received and the optees had been relieved. The President also raised the issue of non optees, most of whom would become totally redundant for the Bank once the function of

recovery of old portfolio is outsourced to National Bank of Pakistan as decided by Minister for Finance in a meeting. Thus, the Board resolved that consequent upon outsourcing of the function of the recovery of old portfolio, the regular staff becoming redundant be placed in the "Surplus Pool" and be offered an opportunity to opt for the VSS-2009. The employees not opting for the scheme may be retired from the services of the Bank in accordance with the terms & conditions of their service.

SME Bank did not finalized the agreement with National Bank of Pakistan for outsourcing the recovery of old portfolio (defunct RDFC & SBFC) up to April, 2010. However, the management placed 92 employees of Special Asset Management Department into surplus pool w.e.f. January 01, 2010, which rendered the staff idle. This resulted in wasteful expenditure on pay and allowances Rs 16,643,553 (@ Rs 5,547,851 per month) to the idle staff who contributed nothing for the Bank.

The matter was reported to the management on May 26, 2010 and the Ministry on December 8, 2010. The management in its replies dated July 06, 2010 and January 14,2011 stated that the decision to place the employees in surplus pool as a result of outsourcing of recovery operations to NBP was prudent and in accordance with the decision of the Board of Directors. However, the fate of redundant staff could not be decided due to court cases. The reply was not acceptable as the employees were placed in surplus pool prior to outsourcing the recovery operations to NBP. Moreover, all the said arrangements were made for the privatization of the Bank, which was not finalized. The placement of recovery staff in surplus pool was not a prudent decision.

DAC in its meeting held on January 25, 2011, directed the management to actively peruse the case in the court. No progress was reported till finalization of this report.

7.5.4.7 Non-recovery of house rent amount for un-utilized period from the VSS Optees – Rs 4.252 million

The policy of grant of advance for rental ceiling to the employees is being followed in SME Bank; however, on grant of advance house rent ceiling

the Bank obtained an undertaking from the employee that in the event of resignation/termination of service he will pay back the amount of house rent ceiling of un-utilized period. The management of SME Bank vide letter dated October 15, 2009 circulated the terms & conditions of VSS-2009. The said terms & conditions were based on MoU signed by the Privatization Commission with the Bank's staff union and officers, association on September 08, 2008. The Board in its 50th meeting held on September 25, 2008 resolved that the Bank's management is authorized to implement the decision, terms & conditions of the MoU.

SME Bank, Islamabad made payment of advance house rent ceiling to 75 employees, who opted for VSS-2009. On VSS, the management could not recover the balance amount of house rent advance amounting to Rs 4,251,658 pertaining to the un-utilized period from the concerned employees at the time of payment of final dues to them. The financial health of the Bank was already poor and could not allow such decisions at the cost of public exchequer. Due to liberal policy/attitude of the management of the Bank resulted into non-recovery of house rent advance of un-utilized period, amounting to Rs 4.252 million

The matter was reported to the management on May 26, 2010 and the Ministry on December 8, 2010. The management in its replies dated July 06, 2010 and January 14, 2011 stated that the management after seeking approval from the Board of Directors announced the VSS package. The reply of the management was not acceptable as the MoU regarding severance package of SME Bank employees was linked with privatization of the Bank whereas the VSS was granted despite the fact that the privatization proposal was dropped. Further, the management did not inform the amount recovered from VSS-optees till December 2010.

In DAC meeting held on January 25, 2011, the management informed the Committee that the Privatization Commission & SBP duly approved all the terms of VSS including non-adjustment of rent advances. DAC directed the management that a copy of minutes of high-level meeting held in the Ministry and process of approval of package and terms and conditions of VSS may be provided to audit. No progress was reported till the finalization of this report.

7.5.4.8 Un-justified payment on account of VSS -2009 offered under the umbrella of privatization commission – Rs 634.909 million

SME Bank was under active consideration for privatization with Privatization Commission. To determine the terminal benefits payable upon privatization of the Bank, the Privatization Commission signed a MoU (containing Severance Package) with the Bank's staff union and officers association on September 08, 2008. The Cabinet Committee on Privatization (CCOP) approved the terms and conditions of Severance Package of VSS. The Board in its 50th meeting held on September 25, 2008 resolved that the Bank's management is authorized to implement the decision, terms & conditions in the MoU as approved by the Cabinet Committee on Privatization for Bank's employees. On introducing the VSS package, total 199 employees opted for the VSS, however, the package could not be finalized.

In seventh Extraordinary General Meeting held on October 07, 2009 (the meeting was chaired by the President SME Bank and attended by other shareholders thorough proxies). The President SME Bank informed about the financial and administrative issues being faced by the Bank. The President SME Bank further briefed that the establishment cost of the Bank was far above the level that the Bank can sustain. The assets size of the Bank was too small to provide support for undertaking current business operations on self-sustainable basis. The members resolved that the proposal to offer a voluntary separation scheme to the employees of defunct RDFC & SBFC as per terms & conditions determined earlier by the Privatization Commission. Accordingly, the options were invited from the interested employees for VSS. This time total 129 employees opted for VSS and the employees were laid off from the strength of the Bank in November/December, 2009. This resulted in un-justified payment of Rs 634.909 million on account of VSS -2009 offered under the umbrella of Privatization Commission.

Audit was of the view that keeping in view the privatization of the Bank; the Privatization Commission singed a MoU with the Bank's staff union and officers association on September 08, 2008 for the determination of terminal

benefits of VSS optees. The Cabinet Committee on Privatization (CCOP) also approved the said package keeping in view the privatization of the Bank. The idea for the privatization of the Bank was dropped and in a meeting held on September 14, 2009 and chaired by the Finance Minister in which the decision for the rehabilitation of the Bank was taken up. In case, after decision for rehabilitation of the Bank, the offering of VSS was not necessary, the management was required to refer the case to controlling Ministry with full justification for approval and after approval of the BOD; the scheme was required to be offered to the optees. The implementation of scheme and payment of terminal benefits to the VSS optees without the approval of Finance Division and under the umbrella of Privatization Commission was not considered justified.

The matter was reported to the management on May 26, 2010 and to the Ministry on December 8, 2010. The management in its replies dated July 06, 2010 and January 14, 2011 stated that SME Bank was governed by the BOD. The shareholders of the Bank in their 7th EOGM decided to reduce the establishment cost of the Bank by offering VSS to the regular employees of the Bank and VSS optees were relieved after payment of benefits arranged by the Ministry of Finance. The reply was not acceptable, as the Government approved VSS for the privatization of the Bank, however, the idea for the privatization of the Bank was dropped but the VSS was offered to the employees at the cost of public funds.

DAC in its meeting held on January 25, 2011, directed the management to provide the relevant record to Audit for verification. No progress was received till finalization of this report.

7.5.4.9 Loss due to non-revision of mark up rate on staff loans - Rs 2.639 million

The Board of Directors of SME Bank in its meeting held on December 18, 2007 decided to revise the mark up on staff loans from 3% to 8%. The said rate was applicable on loans to be sanctioned or disbursed on or after January 01, 2008.

Contrary to the above, the loans disbursed during the period from January 01, 2008 to January 11, 2008, the mark up was charged @ 3% instead of 8%. Due to

negligence on the part of the management in timely notifying the revised rate of mark up on staff loans, the Bank sustained a loss of Rs 2,638,746.

The matter was reported to the management on May 26, 2010 and the Ministry on December 8, 2010. The management in its replies dated July 06, 2010 and January 14, 2011 stated that the SME Bank Board approved the old mark up rate on these loan cases on March 18, 2008. The reply was not convincing as the Board in its meeting held on December 18, 2007 approved revised mark up @ 8% w.e.f. January 01, 2008 but the management did not implement the decision of Board and BOD on March 18, 2008 changed its earlier decision, which caused loss to the Bank.

DAC in its meeting held on January 25, 2011, directed the management that the date of sanction and disbursement may be provide to audit. No progress was reported till the finalization of this report.

7.5.4.10 Unauthorized payment to the president SME Bank beyond the authorized tenure/age limit – Rs 2.960 million

As per clause-124 of the Articles of Association of SME Bank, the appointment of President SME Bank shall not be made for a period exceeding three years from the date of appointment. Clause-129, further, clarifies that if a vacancy of the office of the President occurs, the Board in consultation with the Federal Government shall determine the director who will discharge the functions of the Presidents until a new president is appointed to fill such vacancy. Moreover, the Cabinet Division vide its letter dated October 09, 2007 notified the terms of appointment and age limit of Chairmen/Chief Executives and Members of Government Regulatory Authorities, Corporations, Autonomous Bodies, Commissions etc. Accordingly, the Chairman/Chief Executive shall unless he resigns from office, hold office for a period of 3 years and shall be eligible for re-appointment on such terms as the Federal Government may determine provided the Chairman shall cease to hold office on attaining the age of sixty five years or expiry of the tenure, whichever is earlier.

The Establishment Division vide notification dated February 27, 2007 appointed Mr. R.A. Chughtai as President SME Bank w.e.f. March 1, 2007. The period of three years of President SME Bank was completed on February 28, 2010 and the President required to cease to hold office with effect from that date but the President was in service of the Bank till May 2010. Moreover, the officer had attained the age of 65 years on April 07, 2010 in violation of the above instructions.

The decisions taken by the President during this tenure had no legal validity. This resulted in unauthorized payment of salary Rs 2,960,000 for the months of March to October 2010 @ Rs 370,000 p.m. in addition to other perquisites.

The matter was reported to management on May 26, 2010 and the Ministry on December 8, 2010. The management in its replies dated July 06, 2010 and January 14, 2011 stated that in terms of Fit & proper test determined by SBP, the CE of the Bank should be between 40-70 years of age and CE shall continue to perform his functions until his successor is appointed. The reply was not acceptable, as the SBP circular cannot overrule the government policy. The overstay of the President beyond 03 years and after attaining the age of 65 years was un-authorized.

DAC meeting was held on January 25, 2011 but the management did not place working paper before DAC and the para could not be discussed by the committee.

7.5.4.11 Loss due to hiring of security services at higher rates – Rs 2.839 million

The SME Bank framed its own procedure for purchases, acquiring services and disposal off goods. As per said procedure, the procurement process is open, fair and consistent. Competitive bidding for the supply of goods and services will be encouraged. The procedure further provides that items/services worth over Rs 1.00 million will be purchased/hired through press advertisement.

i. SME Bank, Islamabad, made an attempt in December 2004 for hiring the services of security guards. The lowest rate offered by M/s. Premier Security Services (Pvt) was Rs 5,000 per month per armed guard for 12 hours but the management entered into an agreement with M/s SMS (Pvt) Ltd. at the rate of Rs 5,800 per month per armed guard for 12 hours for 13 security guards for one year. Due to ignoring the lowest rate, the Bank sustained a loss of Rs 124,800 (Rs 5,800 – Rs 5,000 = Rs 800 x 13 guards = Rs 10,400 x 12 months = Rs 124,800).

ii. After expiry of above agreement, the management called quotations, M/s. National Police Foundation and M/s. Aqsa Security Guards were lowest with Rs 6,200 per month, while M/s Askari Guards quoted Rs 7,000 per guard. The management entered into an agreement dated December 05, 2006 with M/s Phoenix Security Services for providing of 45 guards @ Rs 8,200 per month for one year. The contract was terminated prematurely in October 2007. The award of agreement at the highest rate resulted in loss of Rs 1,080,000 to the Bank (Rs 8,200 – Rs 6,200 = Rs 2, 000 x 45 guards Rs 90,000 x 12 months = Rs 1,080,000).

iii. On termination of above agreement, the management called for rates from certain security agencies through formal tender enquires. M/s National Police Foundation was the lowest @ Rs 6,700 per month, while the rate of M/s Askari Guards was Rs 10,000 per month, which was reduced to Rs 9,000. The management entered into an agreement with M/S Askari Guards on November 05, 2007 for hiring the services of 47 guards for one year. Due to ignoring the lowest rate, the Bank sustained loss of Rs 1,297,200 (Rs. 9,000 Rs 6,700 = Rs 2,300 x 47 guards = Rs 108,100 x 12 months = Rs 1,297,200.

iv. The SME Bank called quotations from different securities agencies for provision of 47 security guards at SME Bank (HO) including branches. In response M/s Al-ASA Security (Pvt) Ltd, who was also on the panel of Pak Banking Association quoted the lowest rate of Rs 8,000 per guard per month for all over Pakistan vide letter dated November 05, 2008. The management rejected its offer on the ground that it had quoted rate for only Punjab, while, no such indication was available in quotation. The contract was awarded to two firms i.e. M/s National Police Foundation S.S (Pvt) Ltd. @ Rs 8,500 per month for each guard for 24 guards and M/s AQSA Security guards (Pvt) @ Rs 8,700 per month per guard for 23 guards for a period of one year w.e.f.

December 01, 2008. This resulted in loss of Rs 337,200 to the Bank (Rs. 8,500 – contract rate Rs 8,000 for 24 guards = Rs 500 x 24 guards = Rs 12,000 x 12 = Rs 144,000 + Rs 8,700 – Rs 8,000 = Rs 700 x 23 guards = Rs 16,100 x 12 = 193,200).

Thus, award of contracts (i to iv above) to firms at higher rates resulted in loss of Rs 2,839,200 (i.e. Rs 124,800 + Rs 1,080,000 + Rs 1,297,200 and Rs 337,200) to the Bank.

The matter was reported to the management on June 9, 2008, March 7, 2009 and the Ministry on November 23, 2010. The management in its replies dated August 21, 2008, April 30, 2009 and December 3, 2009 stated that due to demand of increase in rates, the contracts of firms were cancelled and new bids were invited for award of security services. The rates of few firms were rejected due to poor quality of security services. Further, M/s Al-ASA informed that they can provide guard in Punjab only. The contention of management was not acceptable as all the firms which quoted rates were well reputed but the Bank hired security at higher rates, which caused loss.

DAC meeting was held on January 25, 2011 but the management did not place working paper before DAC and the committee could not discuss the para.

7.5.4.12 Irregular payment due to appointment of legal advisors without approval of Law and Justice Division – Rs 1.861 million

As per Rule-14 (1) (g) of Rules of Business – 1973, the Law, Justice and Human Rights Division shall be consulted before the appointment of a legal advisor in any division, or any office or corporation under its administrative control and the Law, Justice and Human Rights Division will make its recommendations after consultation with the Attorney General. The Law, Justice and Human Rights Division vide its letter dated November 11, 2003 instructed to the heads of all the Ministries/Divisions/Autonomous bodies that the engagement of private counsel without prior approval of Law, Justice and Human Rights Division being in violation of Rules of Business, 1973 will be a financial irregularity, which constitutes an act of misconduct. The Ministry of Law, Justice and Human Rights vide its letter dated November 22, 2004 instructed to the heads

of all the Corporations/Autonomous Bodies and Government controlled organizations that no legal advisor, advocate or consultant shall be appointed or engaged by any department, in future without prior approval of the Ministry of Law and Justice. All legal advisors and Advocates on panel shall cease to be Legal Advisor or Advocate on panel from December 7, 2004. After this date, no payment on account of legal charges, fee or any miscellaneous charges shall be paid or reimbursed, without the approval of this Ministry until the notification of lawyers either as legal advisor or on panel is issued afresh.

SME Bank (HO) Islamabad appointed an Advocate, as Legal Advisor in April 2003 at a monthly retainer ship fee of Rs 10,000 plus other fee fixed on case-to-case basis. The retainer ship fee was enhanced to Rs 15,000 w.e.f. April 21, 2004, Rs 20,000 w.e.f. April 21, 2005 and Rs 25,000 w.e.f. April 21, 2007 and Rs 30,000 w.e.f June 2008. The management appointed the above said Legal Advisor without the consultation and approval of Law and Justice Division. This resulted in an irregular payment of Rs 1,861,500 on account of retainer ship fee to legal advisor from April 2003 to May 2010.

The matter was reported to the management on June 9, 2008 and the Ministry on September 3, 2010. The management in its reply dated August 21, 2008 stated that the letter issued by the Ministries was not applicable to the Bank. The reply was not convincing, as being government-controlled organization, the instructions were applicable on the Bank.

DAC meeting was held on January 25, 2011 but the management did not place working paper before DAC and the committee could not discuss the para.

7.6 Zarai Taraqiati Bank Limited

7.6.1 Introduction

In pursuance of Section – 3 of ADBP (Reorganization and Conversion) Ordinance 2002, ZTBL was incorporated as a public limited bank under the Companies Ordinance 1984 on October 23, 2002. All assets, contracts, liabilities, proceedings and undertakings of ADBP were transferred to and vested in ZTBL on December 14, 2002 at a total worth of Rs 8.900 billion. Out of total issued shares of 1,252,244,067; 1,251,189,067 are held by Federal Government, remaining shares are held by Provincial Governments and Erstwhile East Pakistan.

Corporate information

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. Bank is disbursing loans of two categories i.e. production loans for short term and development loans for long-term purposes. Bank is being operated through 25 zones with 347 branches (2008:342). On December 31, 2009, value of short term and long-term advances was Rs 81,974.021 million (December 31,2008:Rs.69,923.497 million).

7.6.2 Comments on Aaudited Accounts

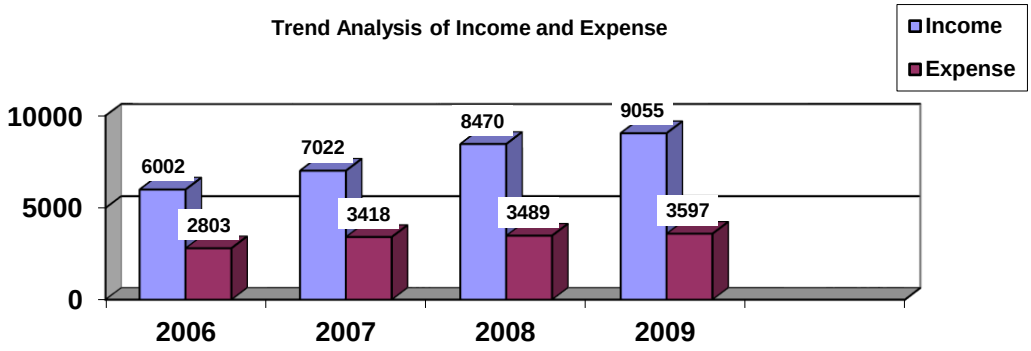
7.6.2.1 The working results of the Bank for the year 2009 as compared to the previous years are as under:

(Rs in million)

	2009	**% Inc/ (Dec)**	**2008**	**% Inc/ (Dec)**	**2007**	**% Inc/ (Dec)**	**2006**
Mark-up / return / interest earned	9,055.314	7	8,470.169	21	7,022.360	17	6,001.700
Mark-up/return / interest expenses	3,597.576	3	3,489.411	2	3,418.020	22	2,802.790
Net mark-up /interest income	**5,457.738**	10	**4,980.758**	**38**	**3,604.340**	**13**	**3,198.920**

Provision for non-performing loans	2,224.674	16	1,922.988	(38)	3,090.210	75	1,767.230
Provision / (reversal) for diminution in value of investment	-	-	1.271	-	-	-	(686.000)
Impairment in the value of asset	0.263	-	-	-	-	-	-
Write off under relief package	2.472	-	-		567.445	(62)	1,482.450
Non markup / interest and other income	6,109.672	5	5,792.936	1	5,734.070	4	5,523.080
Non markup / interest and other expenses	5,289.642	9	4,861.030	26	3,866.930	(20)	4,819.840
Commutation to employees	677.821	-	-	-	-	-	-
Profit before taxation	**3,372.540**	(15)	**3,988.405**	**124**	**1,784.150**	**176**	**646.803**
Taxation	1,245.616	(10)	1,387.116	85	751.330	236	223.453
Profit after taxation	**2,126.924**	(18)	**2,601.289**	**152**	**1,032.820**	**144**	**423.350**
Earnings per share (Rs)	1.70	(18)	2.08	-	0.83	-	0.35

Source: Annual Audited Accounts



Mark-up / return / interest earned increased to Rs 9,055.314 million (2008: Rs 8,470.169 million) which indicated improvement in operational activities of the Bank. Mark-up / return/ interest expenses showed a slight increase of 3%. The Bank earned net markup / interest income of Rs 5,457.438 million in 2009 as compared to Rs 4,980.758 million in 2008. Earnings per share were Rs 1.70 as compared to Rs 2.08 for the year 2008. Provision against non-performing loans increased by 16 % and provision to markup income ratio increased from 22.70% in 2008 to 24.56% in 2009. Efforts may be made for early recovery of old stuck up loans.

7.6.2.2 Non-markup/interest expenses included administrative expenses, which increased to Rs 5,236.164 million in 2009 from Rs 4,520.459 million in 2008 showing an increase of 15.83%. Increase was particularly significant in salaries and allowances, and services rendered by Kissan Support Services (Pvt) Limited (KSSL). Detailed break-up of the services provided by KSSL may be furnished to audit and efforts be made to control the increasing trend in expenses.

7.6.2.3 The management paid an amount of Rs 677.821 million on account of commutation to the employees during the year 2009. Provide detailed break-up of the same along with reasons of non-creation of provision for the same to audit.

7.6.2.4 ZTBL carries out commercial banking activities in some of its branches. However, the annual financial statement reflects no commercial activities during the years 2008 and 2009. Provide detailed justification for the same to audit.

7.6.2.5 ZTBL has provided interest free loan of Rs 15 million to its subsidiary KSSL whereas the Bank has paid interest on the deposits of its subsidiary (KSSL) worth Rs.32.009 million. Provide the detailed justification of provision of interest free loan to audit.

7.6.2.6 The Bank procured vehicles valuing Rs. 263.120 million (Rs 82.020 million in 2009 and Rs.181.100 million in 2008) during the last two years. Provide detailed justification of incurring huge expenditure on procurement of vehicles to audit.

The Bank sold vehicles costing Rs.12.034 million to the Bank executives on book value of Rs. 5.401 million before completion of its useful life. Provide detailed record of procurement of these vehicles to audit.

7.6.2.7 As per note 9.6.4 to the accounts, book value of investments held in unlisted companies declined to Rs 10.523 million on December 31, 2009 against the face value of Rs 35.788 million. Investments were made without proper evaluation of these companies' activities. Efforts are required to be made for early disposal of these assets and formulation of proper policy on this activity.

According to note 13 of the financial statements, the value of non-banking assets acquired in satisfaction of Bank claim stood at Rs.357.801 million as on December 31, 2009. Complete detail of non-banking assets, its movement schedule and status of its disposal be provided to audit.

7.6.2.8 The Bank is a highly geared company as its borrowings and loans were 2.64 times of its total equity as on December 31, 2009. The Bank had obtained 35 credit lines for providing finance to customers. Government of Pakistan guaranteed the loans. Bank has submitted proposal to SBP for restructuring of SBP debt of Rs 51.257 billion and sub-ordinate debt of Rs 3.204 billion to be paid in 15 equal installments commencing from 2006 and onwards. However, final approval of SBP is awaited. Efforts may be made for finalization of matter and early settlement of liability.

7.6.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1989-90	19	12	07	63
2.	1990-91	14	04	10	28
3.	1991-92	13	07	06	54
4.	1992-93	18	10	08	56
5.	1993-94	17	09	08	53
6.	1994-95	19	12	07	63
7.	1995-96	24	23	01	95
8.	1996-97	12	10	02	83
9.	1997-98	18	08	10	44
10.	1999-00	09	05	04	55
11.	2000-01	14	03	01	22
12.	2001-02	10	01	09	10
13.	2005-06	14	08	06	57
14.	2008-09	14	06	08	43

The compliance with PAC directives in Zarai Taraqiati Bank Limited was in stark. It seems that PAO is not taking interest in the compliance of the PAC directives.

7.6.4 Audit Paras

7.6.4.1 Non-recovery of loans granted on fake security documents - Rs 27.669 million

According to Para-4.52 of Credit Manual of ZTBL, the verification of title on security property and correctness of the documents relating to it is the sole responsibility of appraisal staff and the Manager.

ZTBL, Sialkot disbursed loans of Rs 58.406 million to 244 borrowers for different Agriculture purposes during 1992 to 2001. These loan cases were sanctioned on fake / bogus security documents. The relevant appraisal staff of the Bank was required to verify the security documents submitted with the application for loan. Resultantly, a huge amount of Rs 58.406 million was disbursed as loans to the borrowers on fake / bogus security documents. Later on, the persons involved in these cases were charge sheeted and were dismissed from Bank's service after the charges were proved against them.

The persons dismissed from service after proven charges had been re-instated in service vide Office Memorandum dated February 2, 2009 after acceptance of their appeals by the Finance Secretary and major penalty of dismissal from service had been converted into minor penalty of withholding of one increment for a period of three years. As the MCO/Officers had been reinstated, therefore recovery of outstanding amount may either be recovered from the defaulting loanees or from the officers responsible for disbursement of loans on fake documents. Out of total amount of Rs 58.406 million, an amount of Rs 30.737 million had been recovered leaving a balance of Rs 27.669 million as on February 28, 2009.

The matter was reported to the management on March 31, 2009 and the Ministry on December 10, 2010. The management in its replies dated April 16, 2009 and January 22, 2011 stated that a departmental inquiry was conducted against the responsible persons and they were charge sheeted and dismissed from Bank's service. Moreover, the case had been referred to NAB Authorities for recovery from the beneficiaries who availed loans on fake documents. Out of total recoverable amount of Rs 58.406 million an amount of Rs 30.737 million

had been recovered. It was also replied that responsible officers has been posted in the branch for recovery of outstanding amount. The reply was not convincing, as the persons held responsible for fraudulent disbursement of loans and dismissed from Bank's service had been re-instated. Moreover, a huge amount of Rs 27.669 million was outstanding.

DAC in its meeting held on January 25, 2011, The management informed the committee that disciplinary proceedings had been completed against the MCO/Officers responsible for disbursement of loans of fake documents. The case had been registered with NAB and recovery suit has been filed in banking court. The borrowers with NAB have deposited rs 3.00 million. DAC directed that revised reply showing updated position i.e. disciplinary proceedings files / records be provided to Audit for verification. Further progress was awaited till finalization of this report.

7.2.4.2 Loss due to dishonored cheques – Rs 3.802 million

According to loan recovery procedure laid down in Chapter-XIV of Credit Manual of ZTBL, loans disbursed to the borrowers were to be recovered as per re-payment schedule and in case of default from their guarantors or by way of sale of mortgaged property.

ZTBL Sialkot disbursed certain loans against fake pass books/defective security during 1997 to 2001. In these loan cases, a single person i.e. Mr. Ilam Din resident of Sadhra Tehsil and District Sialkot was involved either by recording witness on loan agreement form, transferring his or his relatives land which was uncultivable, in the names of borrowers or by arranging dummy borrowers for obtaining loans against fictitious security of the area. After the disbursement of loans to the borrowers on fake documents, at the time of repayment of loans, 20 cheques during May 2002 to March 2003 of various amounts given by Mr. Ilam Din through the borrowers were dishonored. Later on, a criminal case against Mr. Ilam Din was referred to the NAB by the Bank authorities, which was pending with NAB Authorities. Thus, ZTBL sustained loss of Rs 6.802 million on account of dishonored cheques.

The matter was reported to the management on March 31, 2009 and the Ministry on December 10, 2010. The management in its replies dated April 16, 2009 and January 22, 2011 stated that the case was pending with NAB and Banking Court. However, an amount of Rs 3 million had been recovered and deposited with NAB.

The reply was not convincing, as a huge amount of Rs 3.802 million was recoverable. The chances of recovery of outstanding amount were remote, as a considerable period of 8 years had elapsed. The outstanding amount will be increased after adding the mark up of this period.

DAC in its meeting held on January 25, 2011 directed the management to follow up the case with NAB actively.

7.2.4.3 Non-recovery due to theft of loan case safe files - Rs 24.714 million

As per clause 10.15 (i) of Credit Manual, Vol-I, loan case files containing all documents relating to loan agreement, mortgage deed non-encumbrance certificate, receipt of payment made to the party and all other legal documents necessary to ensure the security of loan advanced by the Bank should be kept in the joint personal custody of the Manager/Sub-Manager and the Credit Officer (DESK)/Accounts Officer under lock and key.

ZTBL, Choti Zareen branch disbursed loans amounting to Rs 17.739 million to 57 borrowers during the years from 1996 to 2001. The management could not recover the dues from these borrowers except a sum of Rs 0.590 million As a result the outstanding balance rose to Rs 24.714 million (Rs.17.739 million principal + Rs.6.975 million mark up) as on December 31, 2006. The files of these borrowers were mis-placed for which management lodged FIR on June 27, 2006 regarding theft of 57 loan safe files. It indicated that the branch management to save the loan case files did not adopt safety measures; resultantly the Bank could not recover Rs 24.714 million due to missing of files.

The matter was brought to the notice of the management on January 02, 2008 and the Ministry on June 18, 2009. The management in its replies dated

July 22, 2008 and January 22, 2011 stated that case is under trial in the court of law and efforts are being made to recover the loans.

DAC in its meeting held on January 25, 2010 directed the management to pursue the case and latest position/status of the case may be obtained from the NAB. No progress was reported till the finalization of this report.

7.6.4.4 Non-recovery of loans from untraceable defaulters – Rs 2.308 million

According to loan recovery procedure laid down in Chapter-XIV of Credit Manual of ZTBL, loans disbursed to the borrowers were to be recovered as per re-payment schedule and in case of default from their guarantors or by way of sale of mortgaged property.

In ZTBL Sialkot, two loans amounting to Rs 1.554 million (Rs.826,600 and Rs 727,430) were disbursed to two brothers i.e. Mr. Abdul Sattar and Mr. Abdul Jabbar under LC Nos.076933 and 076944 respectively on August 01, 1989. The loans were disbursed for the purpose of poultry business. The loans were required to be repaid within 5 years with 12% return but the borrowers were not traceable as evident from management's correspondence with the borrowers. Therefore, chances of recovery of outstanding amount were remote. This resulted in non-recovery of loans of Rs 2.308 million (Rs.888,207 Principal Rs 1,419,338 mark up) as on February 28, 2009.

The matter was reported to the management on March 31, 2009 and the Ministry on December 10, 2010. The management in its replies dated April 16, 2009 and January 22, 2011 stated that an amount of Rs 501,608 and Rs 499,608 had been recovered in LC Nos 076933 and 076944 respectively by selling the security offered in these cases. Moreover, the Banking Court had issued the warrants of arrests of both the defaulters for recovery of remaining amount but they has shifted to elsewhere. The reply was not acceptable as the defaulters were not traceable and chances of recovery of the remaining amount of Rs 2.308 million were remote.

DAC meeting held on January 25, 2011. The management informed the Committee that due to non payment in both loan cases, the recovery suit were filed in banking court which was decreed in favour of bank for Rs 1.327 million and Rs 1.334 million. After execution of decree, the court auctioned the security. An amount of Rs 1.699 million has been outstanding against decrial amount. Banking court has issued warrant of arrest of both the defaulters for recovery of remaining amount. DAC directed the management to follow up/pursue the recovery. No further progress was reported till finalization of this report.

7.2.4.5 Blockage of funds due to non recovery of SAM loans – Rs 2.313 million

According to Clause 14.1 of the Credit Manual, ZTBL in compliance of relevant Prudential Regulations of State Bank of Pakistan is charging off stuck up loans. These loans became part of Special Asset Management (SAM) Loans and being managed separately. All possible measures are required to be taken by Zonal Chief and Field Functionaries to maximize recovery of these loans. The loans were disbursed to the 14 borrowers during the period from June 1983 to August 2004 and one borrower in February 2009 for purpose of tractors ad inputs.

In ZTBL Sheikhupura Branch fifteen SAM loans cases were stuck up for more than 10 years but no tangible efforts towards recovery were made due to which an amount of Rs 3,120,800 was blocked in SAM loans. In most of cases, no recovery notices or intimation about SBP settlement schemes was conveyed to defaulting borrowers.

The matter was reported to the management on March 3, 2009 and the Ministry on December 13, 2010. The branch was perusing the management in its replies dated April 16, 2009 and January 22, 2011 stated that recovery notices under section-15 of Financial Institutions (Recovery of Finances) Ordinance, 2001, had been issued and the recovery. It was also replied that three loan cases had been settled and recoverable amount is Rs 2.313 million. The reply was not tenable as recovery efforts were delayed due to which chances of recovery are remote.

DAC meeting was held on January 25, 2011, directed the management that loan case at Sr. No. 3 be investigated and responsibility be fixed on person (s) at fault. DAC also directed the management to pursue the recovery actively and documents may be got verified from audit. Recovery may be monitored at DAC level. No progress was reported till the finalization of this report.

7.6.4.6 Non-recovery from defaulting borrowers – Rs 1.305 million

According to loan recovery procedure laid down in Chapter-XIV of Credit Manual of ZTBL, loans disbursed to the borrowers were to be recovered as per re-payment schedule and in case of default from their guarantors or by way of sale of mortgaged property.

In ZTBL (ZO) Gujranwala, eight loans of Rs 1.876 million were disbursed to the borrowers in 1995 to 2004. However, these borrowers could not repay their due installments of loans and went into default. A considerable period of 6 to 15 years had expired but the Bank management could not recover the outstanding loans of Rs 1.305 million stood on December 30, 2008. Thus, due to non-recovery of long outstanding loans, the Bank was expected to sustain a loss of Rs 1,305,460.

The matter was reported to the management on March 31, 2009 and the Ministry on December 10, 2010. The management in its replies dated April 16, 2009 and January 22, 2011 stated that the Bank was making efforts for recovery of Bank dues and all the loans are secured against landed property. It was also replied that three loan cases has been settled after recovery and remaining loans cases were being pursued for recovery. The reply was not acceptable as a considerable period of 6 to 15 years had expired but the bank management neither recovered outstanding dues nor initiated any legal action against the defaulters.

DAC in its meeting held on January 25, 2011, directed the management to pursue the recovery and get the recovered amount in case of three loanees verified from audit. No progress was reported till the finalization of this report.

7.6.4.7 Non-recovery of loan after expiry period – Rs 0.826

According to mode of recovery mentioned in letter dated December 04, 1997 issued for granting of loan to Mr. Iftikhar Hussain, the loan will be recovered in 8 annual or 16 half yearly equal installments commencing 2 years after the first disbursement with mark up 14% per year.

ZTBL Sialkot, disbursed a loan of Rs 499,478 to Mr. Iftikhar Hussain under LC No.153807 on December 4, 1997 for the purpose of construction of poultry shed, poultry chicks, poultry feed, equipments and medicines. The loan was required to be recovered in eight annual or 16 half yearly equal installments with 14% per year mark up commencing from 2 years after first disbursement. After repayment of Rs 189,216, the borrower could not repay the loan installments and went into default. Resultantly, the outstanding amount piled up to Rs 825,932 after including the mark up as on February 28, 2009. According to Regulation VIII (ii) of Prudential Regulation of State Bank of Pakistan issued, vide Circular No.3 dated March 22, 2002, the long term loans where the installment of principal and mark up was over due by three years or more will be considered as loss. Thus, ZTBL had sustained loss of Rs 825,932 as the principal and mark up had become overdue by more than three years.

The matter was reported to the management on March 31, 2009 and the Ministry on December 12, 2010. The management in its replies dated April 16, 2009 and January 22, 2011 stated that the borrower was an influential person and willful defaulter. The Bank had filed the recovery suit in banking court and security mortgaged covered the entire loan. The reply was not acceptable as a considerable period of 12 years had expired but the management could not recover the Bank's dues.

DAC meeting was held on January 25, 2011. The management informed the Committee that an amount of Rs 0.189 million has been recovered against disbursed amount of Rs 0.499 million. Recovery suit for Rs 1.005 million has been filed in Banking Court, Gujranwala and date of hearing has been fixed as February 2, 2011. The case was therefore, subjudice. DAC directed the management to pursue / follow up the case. No progress was reported till finalization of this report.

7.7 Federal Bank for Cooperatives

7.7.1 Introduction

Federal Bank for Co-operatives was established on October 09, 1976 under the establishment of Federal Bank for Co-operatives and Regulations of Co-operatives Banking Act, 1977. The principal objective of the Bank was to provide finance to meet the credit needs of Provincial Co-operative Banks and Multi Unit Co-operative Societies in Pakistan, Azad Kashmir and Gilgit Baltistan.

Going Concern

The Government of Pakistan, Ministry of Finance decided to liquidate the Bank vide SRO No. 717 (1)/2002 dated October 16, 2002 with effect from October 31, 2002. The liquidator has been appointed vide above said SRO to deal with the pending assignments/liquidation process. Accordingly, considering that the Bank is no more a going concern, the financial statements have been prepared on the alternative authoritative basis.

Financial Highlights:-

- The Company's mark up/interest income increased by 5% to Rs 68.134 million (2008-09: Rs 64.772 million).
- Profit before tax increased by 8% to Rs 64.551 million (2008-09 - Rs 60.031 million).
- Profit after tax decreased by 54% to Rs 27.691 million (2008-09: Rs 59.707 million).
- Earnings per share decreased by 53% to Rs 13.85 (2008-09: Rs 29.24).
- Total assets decreased by 19% to Rs 735.335 million (2008-09: Rs 911.121 million).

7.7.2 Comments on audited accounts

7.7.2.1 The working results of the Bank for the year 2009-10 as compared with those of the previous years are as under:-

(Rs in million)

	2009-10	% Inc/ (Dec)	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07
Markup / interest income	68.134	5	64.772	16	55.903	(3)	57.872
Expenditure (Admn)	5.216	10	4.743	(14)	5.529	41	3.914
Profit/ (loss) before taxation	64.551	8	60.031	19	50.384	(7)	54.361
Taxation	36.860	-	0.324	16	0.280	(4)	0.291
Profit /(loss) after taxation	27.691	(54)	59.707	19	50.104	(7)	54.07
Accumulated profit /(loss)	27.691	(53)	58.481	17	50.094	(7)	54.07
Earnings Per Share (Rs)	13.85	(53)	29.24	17	25.047	(7)	27.035

Bank is under liquidation as per decision of the Government of Pakistan Ministry of Finance vide SRO dated October 16, 2002. A period of more than 08 years had since lapsed but the liquidation of the Bank is yet to be finalized. The liquidation process needs to be accelerated to avoid un-necessary expenses and proper utilization of resources.

The Bank is not functioning; however, the Bank earned profit after tax (interest income) Rs 27.691 million during 2009-10 (2008-09: Rs 59.707 million) by investing the available amount. The decrease in profit was mainly due to taxation of Rs 36.860 million during the year (current Rs 22.593 million + prior year Rs 14.267 million).

7.7.2.2 Administrative expenses included other expenses Rs 520,000 during the year 2009-10 (2008-09: Rs 490,000). The Bank is not functional and is under liquidation. The expenditure at such a scale under the head needs clarification.

7.7.2.3 The liabilities showed borrowing from Financial Institutions (SBP) amounting to Rs 69.577 million as on June 30, 2010 (2008-09: Rs 293.229 million). Although, the said borrowing was subject to service charges @ 0.5% and the liability was decreased by 76% over previous year, it needs to be cleared fully as the Bank has sufficient funds to clear the same.

7.7.2.4 During the year under review the management transferred nothing towards General Reserves Fund (2008-09: Rs 58.481 million transferred to the General Reserves Fund). The appropriations of profit earned during the year amounting to Rs 27.691 million are yet to be made. Loans and advances included House Building / Car Advances of Rs 709,000 as on June 30, 2010 outstanding against the employees of the Bank. The Bank is under liquidation, thus early recovery/adjustment of said advances is stressed upon the management.

7.7.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1989-90	05	05	--	100
2.	1990-91	05	04	01	80
3.	1991-92	05	02	03	40
4.	1992-93	06	03	03	50
5.	1993-94	05	05	--	100
6.	1994-95	05	05	--	100
7.	1995-96	06	01	05	16
8.	1996-97	04	02	02	50
9.	1997-98	06	04	02	67
10.	1999-00	05	03	02	60
11.	2000-01	03	03	--	100
12.	2001-02	01	01	--	100
13.	2005-06	02	02	--	100

The overall compliance to the PAC directives was satisfactory except in the years 1991-92, 1992-93, 1995-96, 1996-97, 1997-98 and 1999-00. The PAO may take necessary steps to ensure 100% compliance of the PAC directives.

Chapter-8
Ministry of Food and Agriculture

8.1 Pakistan Agricultural Storage and Services Corporation Limited

8.1.1 Introduction

Pakistan Agricultural Storage and Services Corporation Limited (PASSCO) was incorporated on August 31, 1973 as a non-listed public limited company. It is involved in the implementation of the Federal Government's policy of support price program of food grains, equitable distribution of food commodities and maintenance of their reserve stock.

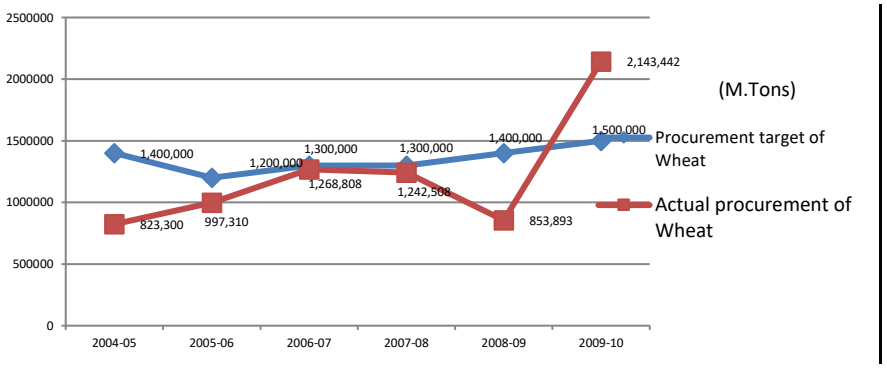
The objectives of the Corporation are to purchase, acquire, sell, supply, market, distribute, exchange, dispose off, import, export and store agricultural commodities.

Operational Analysis:

The operational results of the Corporation for the year ended March 31, 2010 as compared to the previous years are tabulated below:

	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05
Procurement target of wheat (in metric ton)	1,500,000	1,400,000	1,300,000	1,300,000	1,200,000	1,400,000
Actual procurement of wheat (in metric ton)	2,143,442	853,983	1,242,508	1,268,808	997,310	823,300
Percentage of procurement	142.86	60.99	95.58	97.60	83.11	58.81

Operational Resultes



Operational performance of the Corporation revealed that target was under achieved in 2008-09 while the same were over-achieved in 2009-10. The reason being that initially a target of 1.5 million M ton was given to PASSCO by MINFA against which the Corporation over-achieved the target by 142.86%. The target was revised to 2.5 million M ton vide MINFA letter dated July 21, 2010 which resulted in a significant increase in inventory of wheat from 1,916 M. ton as at March 31, 2009 to 851,950 M. ton as at March 31, 2010. This indicates over-investment in inventory. The management should explain plans and strategy to dispose of this inventory.

Procurement in excess of actual target needs justification as the Corporation has storage capacity of around 434,200 M. ton. Excessive procurement will further deteriorate Corporation operational and financial position. Procurement increased by 151% during 2009-10 in comparison with 2008-09 necessitating more storage capacity resulting in an increase of 'rent of sites' from Rs 9.482 million in 2008-09 to Rs 90.062 million in 2009-10 i.e. increase of 851% in this expense.

PASSCO has to maintain a strategic reserve of 500,000 M. Ton, whereas it has covered storage capacity of 440,800 M.ton only which reduced to 434,200 M.ton due to sale of Nowshera godowns to KP Government for expansion of DHQ Hospital. The storage capacity was not increased since the last 25 years.

The godowns constructed at Charsadda were never utilized properly. On one hand, the Corporation has lesser storage capacity and on the other hand, it was not utilizing its own constructed godowns properly. These godowns were constructed without formal agreement with KP Government regarding lease/sale deed of land. Resultantly the godowns at Nowshera were taken over by the KP Government and later on, a cost compensation for the constructed building was received but PASSCO management had not utilized the said proceeds for construction of new godowns.

PASSCO did not increase its storage capacity since the last 25 years on the plea of poor liquidity position and non-provision of funds from Government, whereas it had invested an amount of Rs 533 million since June, 2004 @ 9% in Pakistan Investment Bonds (PIB) for 15 years, constructed PASSCO House at 11-Kashmir Road, Lahore by incurring an amount of Rs 156.451 million during 2005-07 and purchased 05 plots for Rs 415.674 million in August, 2008 without prior approval from the BoD. Moreover, the cost of godowns amounting to Rs 29.398 million received from KP government in 2007 were utilized for normal operations instead of increasing the storage capacity. All these facts indicated that the management was not interested in increasing its storage capacity and was investing its surplus funds on other sectors / schemes.

8.1.2 Comments on audited accounts

8.1.2.1 The working results of the Corporation for the year ended March 31, 2010 as compared to the previous years are as under:

(Rs in million)

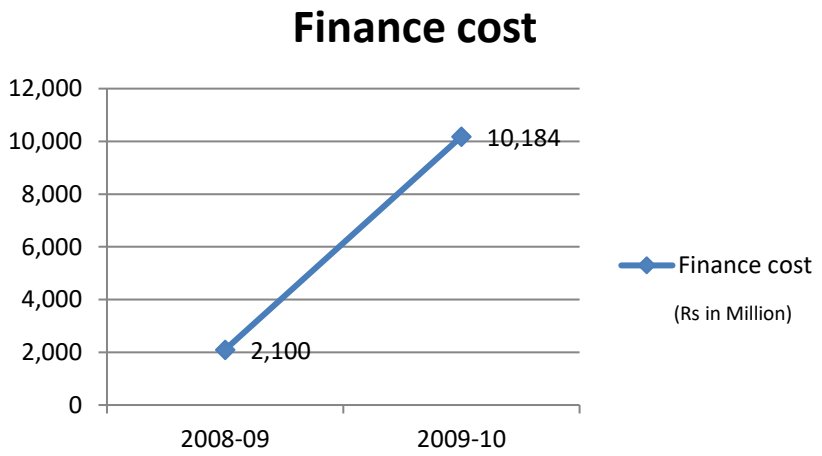
	2009-10	% Inc/ (Déc)	2008-09	% Inc / (Déc)	2007-08
Sales	39,056.19	151	15,586.48	(18)	19,049.82
Cost of sales	(39,681.22)	167	(14,845.37)	(23)	(19,254.41)
Gross (loss)/ profit	(625.03)	(184)	741.12	(462)	(204.59)
Allowance for incidentals	3,614.57	30	2,783.72	(21)	3,509.44
Profit/ (loss) after allowance for incidental	2,989.54	(15)	3,524.83	7	3,304.85
Operating expenses	(2,401.07)	90	(1,266.94)	21	(1,049.08)
Administrative and general expenses of (HO)	(289.50)	(33)	(430.49)	91	(225.377)
Administrative and general expenses of (FO)	(551.07)	18	(467.58)	11	(422.38)
Cost differentials	5,366.13	-	(42.19)	(108)	555.86
Other operating income	253.97	17	216.71	127	95.63

Profit from operations	5,367.99	250	1,534.32	(32)	2,259.04
Finance cost	(10,183.68)	385	(2,099.69)	29	(1,629.55)

Loss before tax	(4,815.63)	752	(565.38)	190	629.49
Taxation	(519.95)	1170	(40.94)	-	80.33
(Loss) /profit for the year	(5,335.63)	780	(606.30)	210	549.16
Accumulated loss/ (profit)	(5,435.63)	-	(100.00)	-	506.30

Source: Annual Audited Accounts

Finance cost increased from Rs 2,099.691 million in 2008-09 to Rs 10,183.675 in 2009-10.



The main reason for this was excessive purchase of wheat during the period. The other factors, which contributed to higher finance cost, were setting up of very high support price. Support price for 2009-10 was Rupees 950 per 40 kg whereas market surveys indicated that the price was around Rs 750 per 40 kg in the market. It seems that the intermediaries and the millers actively bought wheat at the lower price from the farmers and benefited from the official policy. The procurement of wheat was in excess of the actual need of the government agencies.

8.1.2.2 The Corporation sustained gross loss of Rs 625.033 million in 2009-10 against gross profit of Rs 741.107 million in 2008-09. It was mainly due to fact that rice was sold below its cost. The sale price of rice was Rs 7.219 billion while

the cost was Rs 8.925 billion. Selling of rice below its cost price indicated that it was purchased at an excessive price in comparison to market price.

8.1.2.3 Operating expenses increased from Rs 1.266 billion in 2008-09 to Rs 2.401 billion in 2009-10. The analysis of operating expenses indicates that:

- Gunny bags consumption increased from Rs 774.980 million to Rs 1,843.975 million. The reason for this increase was mainly due to huge procurement/sale of wheat. This year 2,143,442 M. ton wheat was procured as against last year's procurement of 853,982 M. ton.
- The quantitative reconciliation of gunny bags shows that there was continuous shortage in bags stock. The table below indicated year wise shortage in bags and related amount of loss:

	2009-10	**2008-09**	**2007-08**
Shortage(in bags)	376,430	665,597	464,521
Amount in Rupees	35,156,905	48,544,078	11,124,881

The Corporation has already claimed 2.5% losses in incidentals with respect to losses in gunny bags. Above-mentioned shortages are directly charged to consumption and are in addition to incidentals claim. Reasons for this continuous shortage in bags need to be investigated.

8.1.2.4 Salaries and benefits increased from Rs 654.503 million in 2008-09 to Rs 754.817 million in 2009-10 registering an increase of 15%. The increase in salaries apparently showed non-implementation of recommendations of HR study conducted during 1994, which recommended reduction in surplus staff, discontinuation or reduction of staff in un-economical zones, liaison offices, MD secretariat and abolishment of Commercial wing and to carry out the whole activity in Field Wing. The PASSCO management was heavily dependent on the incidentals being received from the GOP, which increased from Rs 2,783.718 million in 2008-09 to Rs 3,614.574 million in 2009-10, registering an increase of 30%. Similarly, cost differential increased from Rs 42.197 million in 2008-09 to Rs 466.612 million in 2009-10 on the sale of wheat, rice and mung below the cost

price. The increasing trend in receipt of government funds in the shape of incidentals claims and cost differential needs justification.

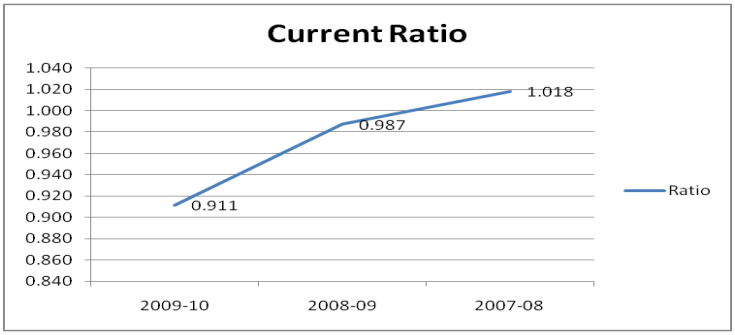
8.1.2.5 The transportation cost charged in the incidentals during 2009-10 amounting to Rs 54.561 million (2008-09: Rs 324.370 million) could be avoided if purchase centers were made near to godowns and storage points. The farmers were already paid 70 rupees per ton as delivery charges and it was claimed in incidentals from Government of Pakistan.

8.1.2.6 Cash and bank balances increased from Rs 35.969 million as at March 31, 2009 to Rs 661.035 million as at March 31, 2010. An amount of Rs 420.848 million was kept in current accounts out of total Rs 661.035 million that carried a nominal rate of interest. The working capital policy in this regard needs to be reviewed.

8.1.2.7 The cost of rice sold as per accounts for the year 2009-10 amounted to Rs 8,925.235 million however; the working provided by the management for claim of cost differential showed an amount of Rs 9,006.539 million in respect of cost of rice. There was a difference of Rs 81.304 million and seemed to has been over claimed from Government of Pakistan. This may be elaborated.

8.1.2.8 The current ratio of the Corporation was continuously decreasing as shown in the below graph.

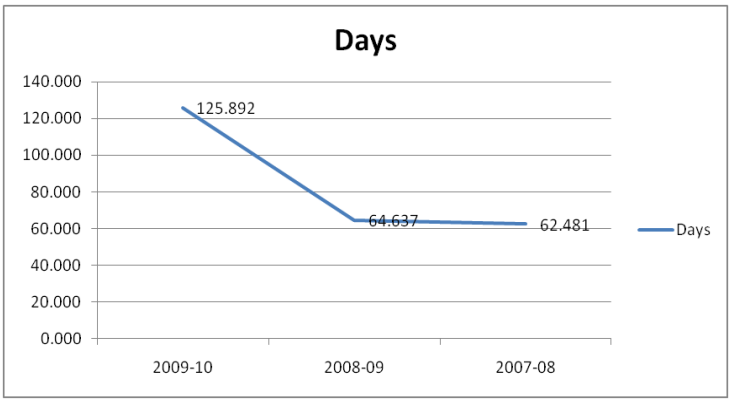
Ratio Analysis:



The above graph signifies that the Corporation was not matching its short term assets and liabilities which would result in additional finance cost as loans have to be taken to pay the current liabilities. The Corporation should try to keep a minimum current ratio of 1:1.

8.1.2.9 Debtors turnover days were increasing alarmingly as shown in below graph.

Debtors Turnover Ratio:



Debtors turnover (in days) increased to 125.89 days during 2009-10 as compared to 64.637 days in 2008-09.The delay in recoverability of debts would directly increase finance cost of the Corporation. Finance cost relating to debtors increased from Rs 401.975 million in 2008-09 to Rs 2,039.483 million in 2009-10.

8.1.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1989-90	06	04	02	67
2.	1990-91	07	05	02	71
3.	1991-92	05	05	--	100
4.	1992-93	13	12	01	93
5.	1993-94	04	02	02	50
6.	1994-95	04	03	01	75
7.	1995-96	15	12	03	80
8.	1996-97	08	--	08	Nil

9.	1997-98	05	04	01	80
10.	1999-00	04	02	02	50
11.	2000-01	03	03	--	100
12.	2005-06	06	--	06	Nil
13.	2008-09	23	04	19	17

The overall compliance of the PAC directives was in stark. It seems that PAO was not taking interest in the compliance of PAC directives, which needs to be justified.

8.1.4 **Audit Paras**

8.1.4.1 Loss due to purchase of super basmati at enhanced rates – Rs 14.000 million

MINFA directed PASSCO management to stop the purchase of Super Basmati @ Rs 3,000 per 40 kg w.e.f. February 19, 2009.

PASSCO implemented the Government decision and stopped the procurement of Super Basmati Rice in all Zones. Purchase Officer/ Project In-charge, Gujranwala-I PASSCO Paddy Zone (crop 2008-09) in his statement dated February 19, 2009 intimated that he had procured 58,600 bags of Super Basmati from five mills under his jurisdiction up to February 18, 2009. However, the said employee in his revised statement enhanced the purchased quantity from 58,600 bags to 72, 600 bags by increasing the quantity purchased by 14,000 bags. Neither FIR was lodged nor was any criminal proceeding started against the person. The management simply dismissed the employee on July 23, 2009. Due to inflating the purchased figure of rice, an over payment of Rs 14.00 million was made to the mill owners on account of 14,000 bags @ Rs 1,000 per bag (Rs.3000-Rs.2600 per 40 Kg).

The matter was brought to the notice of management on October 2, 2010 and the Ministry on December 4, 2010. The management in its reply dated October 14, 2010 stated that the case for trial in the court of law for the recovery of defaulted amounts was under preparation with the PASSCO's legal adviser.

The reply was not tenable as more than one and half year had been elapsed without any positive results.

DAC meeting could not be held by the PAO in spite of request vide letter No.3839/DAC/Food and Agriculture/2010-11 dated December 28, 2010 followed by written/verbal reminders.

8.1.4.2 Shortage of Rice – Rs 10.713 million

As per Finance Division's OM No.F.15(13)R-14/82 dated September 5, 1982 the funds provided, acquired or generated by the autonomous/semi-autonomous bodies and corporations are public funds, which cannot be utilized at the sole discretion of the management. The funds should be utilized with due care and caution strictly in accordance with the prescribed rules or specific orders of the Government.

In PASSCO, shortage of rice valuing Rs 10.713 million was pointed out by the stock-taking teams. The management did not initiate disciplinary action against the defaulters. This resulted in non-recovery of shortage valuing Rs 10.713 million as detailed below:-

S #	Name of location/ Centre	Shortage (M. ton)	Variety	Rate (Rs.)	Value (Rs.)
1	M. B. Din	5.146	Super Basmati	60,000	308,760
2	D. A. Yar	0.665	Irri-6	21,770	14,477
3	Larkana	31.614	-do-	-do-	688,237
4	Mehar	19.600	-do-	-do-	426,692
5	Shikarpur	11.635	-do-	-do-	253,294
6	Hyderabad	95.305	-do-	-do-	2,074,790
7	Karachi	319.092	-do-	-do-	6,946,633
	Total	483.057			10,712,883

The matter was reported to the management on November 1, 2010 and the Ministry on December 4, 2010. In its reply, dated November 1, 2010, the management stated that boards had been constituted to fix responsibility of the

shortage and to effect recovery from the person(s) at fault. The reply was not acceptable, as no action has been taken for recovery of shortage.

DAC meeting could not be held by the PAO in spite of request vide letter No.3839/DAC/Food and Agriculture/2010-11 dated December 28, 2010 followed by written/verbal reminders.

8.1.4.3 Shortage of bardana during physical verification – Rs 19.284 million

PASSCO management approved rates for the recovery of shortage/ mis-appropriation of gunny bags etc from PASSCO employees vide office order dated March 05, 2010 as detailed below:

Sr #	Gunny bags	Rate per bag (Rs.)
1	A-class	88.15
2	B-class	64.76
3	C-class	27.47
4	D-class	9.94

The stock-tacking teams of PASSCO pointed out shortage of bardana in wheat crop amounting to Rs **!The Formula Not In Table** million for the years 2008, 2009 and 2010 as detailed below:

S #	Particulars	Shortage (A class bardana)	Shortage (B class bardana)	Shortage (C class bardana)	Shortage (D class bardana)	Value (Rs.)
1	Wheat Crop 2008	-	850	-	698	68,965
2	Wheat Crop 2009	25,898	14,991	-	3,123	3,346,753
3	Black gram 2009-10	12,497	-	-	-	1,101,611
4	Super Basmati	1,177		-	-	103,753
5	Irri-6 2008-09	5,618	123	-	-	979,754
6	Paddy 2009-10	155,230	-	-	-	13,683,525
					Total	**19,284,361**

The matter was reported to the management on October 18, 2010 and the Ministry on December 4, 2010. The management during discussion stated that notices for settlement had been issued and in some cases, reclassification was under process while Rs 1,101,611 had been recovered against shortage of bardana in black gram. The reply was not acceptable as the above shortage was after

reclassification of bardana and record was not produced to verify recovery of cost of Rs 1,101,611.

DAC meeting could not be held by the PAO in spite of request vide letter No.3839/DAC/Food and Agriculture/2010-11 dated December 28, 2010 followed by written/verbal reminders.

8.1.4.4 Unnecessary purchase of tarpaulins for wheat crop 2009 – Rs 54.450 million

As per clause 10 of the agreement between PASSCO and M/s ZR Enterprises for supply of 2,500 tarpaulins dated May 7, 2009, in case contractor fails to deliver the quantity of tarpaulins or part thereof beyond 15 days of the final delivery date, PASSCO may rescind the agreement and forfeit the security deposited. Additionally PASSCO may purchase the defaulted quantity of tarpaulins at the supplier's risk & cost and in that case extra expenses incurred by PASSCO shall be recoverable from the defaulting supplier either from pending payments, dues, security or through legal recourse.

PASSCO placed supply orders on M/s Fame Corporation and M/s ZR Enterprises on May 7, 2009 for procurement of 3,000 and 2,500 tarpaulins respectively. The total contract value was Rs 54,450,000 @ 9,900 per tarpaulin.

During process of tender approval, GM (Field), a member of tender committee suggested that PASSCO was holding 26,717 A & B class tarpaulins which were sufficient for the coverage of 15,00,000 M. ton wheat. Further, there was sufficient space in silos for storage of wheat, so the purchase of tarpaulins was not essential at this stage. The committee agreed with the proposal of GM (Field) but afterwards 5,500 tarpaulins were purchased on the plea that target of wheat procurement had been enhanced by government. Against procurement of 2,143,441.382 M.ton wheat during crop 2009, a quantity of 1,296,779.644 M. ton wheat was dispatched to provinces / other parties and a quantity of 853,004.726 M. ton was left with PASSCO out of which a quantity of 719,460.627 M. ton was stacked in open while the remaining was in godowns. This resulted in un-necessary purchase of tarpaulins valuing Rs 54.450 million.

An ex-employee of PASSCO submitted complaint to the MD, PASSCO regarding supply of substandard tarpaulins to PASSCO by the contractors using 10/2 and 10/3 yarn instead of 10/4 yarn, but no action was taken on this complaint. The Zonal Head PASSCO, Khanewal on August 26, 2009 intimated that 1,600 tarpaulins costing Rs 15.840 million supplied to PASSCO Khanewal Zone by M/s ZR Enterprises during 19 and 20 August 2009 were substandard. An enquiry was initiated on March 24, 2010 against the members of Inspection Board who purchased substandard tarpaulins, which was not finalized despite lapse of 14 months. The contractor was asked on September 2, 2009 to replace the substandard tarpaulins, but the supplier did not replace the same.

The matter was reported to the management on October 18, 2010 and the Ministry on December 2, 2010. The management in its reply dated October 28, 2010 stated that 1,600 tarpaulins were supplied by M/s ZR Enterprises and no complaint was received during stipulated period of seven days as per agreement, hence payment was released. Inquiry was initiated on an anonymous complaint, which was pending with MD PASSCO for finalization. The tarpaulins were not replaced by supplier till date. The reply was not tenable as Zonal Head, Khanewal made complaint about substandard tarpaulins upon which bank was asked to stop payment despite issuance of cheque to the supplier and inquiry was initiated against members of the Inspection Committee. As per agreement, the supplier was bound to replace the substandard tarpaulins, but management was unable to get the replacement.

DAC meeting could not be held by the PAO in spite of request vide letter No.3839/DAC/Food and Agriculture/2010-11 dated December 28, 2010 followed by written/verbal reminders.

8.1.4.5 Non-recovery of wheat bills outstanding against provincial governments – Rs !The Formula Not In Table million

As per Memorandum of Understanding signed between PASSCO and Provincial Governments, provincial governments were bound to make payment of PASSCO wheat sale bills from March to May of each crop year.

PASSCO supplied wheat to the Provincial Government but an amount of Rs **!The Formula Not In Table** million was outstanding against governments of Khyber Pakhtunkhwa, AJK,

Gilgit-Baltistan and Balochistan for the last two to three years as detailed below:

(Rs in million)

S #	Party name	Wheat Crop	Amount
1	Food Deptt; Khyber Pakhtunkhwa	2006	6.482
	-do-	2007	3.472
	-do-	2009	1,459.780
2	Food Deptt AJK	2007	2.880
	-do-	2008	183.194
	-do-	2009	302.433
	-do-	2010	509.736
3	Food Deptt; Gilgit-Baltistan	2007	159.820
	-do-	2008	489.040
	-do-	2009	3,169.536
	-do	2010	782.269
4	Food Deptt; Balochistan	2008	5.843
	-do-	2009	122.962
		Total	**7,197.447**

PASSCO was supplying wheat to Khyber Pakhtunkhwa, AJK, Gilgit-Baltistan and Balochistan since decades but the repayment of wheat sale bills of PASSCO was not regular especially from Khyber Pakhtunkhwa, when the quantity dispatched from PASSCO godowns did not reconcile with quantity received to Food Department, KP due to missing trucks and en route shortages as detailed below:

S #	Particulars	Qty M.Ton	Amount (Rs in million)
1	2 missing trucks	105.185	
2	25 missing trucks	1,031.850	
3	7 trucks diverted other than destination mentioned in bill	442.483	21.366
4	1 truck dispatched for S. Naurang but received at Bannu	32.319	
5	En route shortage	12.564	
	Total	1,624.401	21.366

PASSCO was responsible to hand over the wheat to the authorized representative (s) of KP Food Department but the management of PASSCO was unable to settle the matter of missing trucks with the KP Food Department which resulted in loss due to payment Rs 605,615 per day in the shape of mark up on outstanding amount, as entire operations of PASSCO was based on borrowed funds from a consortium of banks on the payment of heavy markup. PASSCO paid mark up of Rs 217.595 million, because of outstanding amounts from AJK Food Department up to May 31, 2010. Similarly, an amount of Rs 1,883,969 was paid as mark up on the outstanding amount from provincial government Gilgit-Baltistan. PASSCO has paid Rs **!The Formula Not In Table** million as mark up on these outstanding amounts to banks up to September 20, 2010. Presently PASSCO has paid Rs 9.659 million as mark up on outstanding amounts from Food Department Balochistan up to August 31, 2010.

The matter was reported to the management on October 18, 2010 and the Ministry on December 4, 2010. The management in its reply dated November 2, 2010 stated that PASSCO constantly reminded the agencies for repayment of wheat bills and PASSCO would likely visit in person to the concerned agencies to accelerate payments. The reply was not tenable, as PASSCO should have taken up the matter through Ministry of Finance for recovery / adjustment of old outstanding dues.

DAC meeting could not be held by the PAO in spite of request vide letter No.3839/DAC/Food and Agriculture/2010-11 dated December 28, 2010 followed by written/verbal reminders.

Chapter-9
Ministry of Health

9.1 National Institute of Health (Biological Production Division)

9.1.1 Introduction

The Biological Production Division (BPD) started functioning in 1967 as National Health Laboratories. Subsequently under an Ordinance in 1980, the Laboratories were converted as a body corporate namely National Institute of Health (NIH) under the administrative control of Ministry of Health, Government of Pakistan. All assets and liabilities of the Laboratories were taken over by NIH. Currently the BPD is working as a production unit of NIH.

Corporate information

The Biological Production Division is responsible for production and supply of Vaccine, Therapeutic Anti Sera and Nimkol (ORS) to Government Hospitals, Civil Medical Institutions, Autonomous Bodies and Defence Forces of the country. Its main source of income is sale of its Biological Products. The management prepares separate Proforma Accounts on the commercial activities of BPD.

The D.G, Federal Audit, Islamabad are conducting the regularity audit of NIH. The Directorate General of Commercial Audit conducts the certification of Proforma Accounts and regularity audit of BPD activities only.

9.1.1.1 The management failed to prepare and provide certified Proforma accounts for the year 2009-10 of Biological Production Division by January 15, 2011.

9.1.2 Comments on audited accounts

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

(Rs in million)

	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07
Sales	85.109	5	80.870	9	74.309
Cost of sales	52.296	18	44.326	(12)	50.585
Gross profit	32.813	(10)	36.634	54	23.724
Operating expenses	13.991	13	12.433	22	10.180
Net Profit	18.822	(22)	24.201	79	13.543
Cost of material consumed	19.446	37	14.175	27	11.164
Cost of production	52.121	19	43.890	(19)	54.020

Source: Annual Audited Accounts

Sales of the Division increased by 5.24% and 8.83% in 2008-09 & 2007-08 respectively, whereas the corresponding cost of sales increased by 18.22% in 2008-09 against a decrease of 12.55% in 2007-08. Gross Profit margin was 31.93%, 45.30% & 38.55% in 2006-07, 2007-08 and 2008-09, and the net profit margin was 18.23%, 29.93% & 22.12% in 2006-07, 2007-08 and 2008-09 respectively. These profit margins are quite significant keeping in view the Public Sector Health Units. The management is required to devise a policy for maintaining uniform profit margins over the years.

9.1.2.2 Raw material consumed was only 20.67%, 32.30% & 37.31% of the cost of production whereas the operating expenses over cost of production ratio was 18.84%, 28.33% & 26.84% in 2006-07, 2007-08 & 2008-09 respectively. This indicates that major portion of cost of production was overheads, which need to be controlled.

9.1.2.3 A summary of assets & liabilities as on June 30, 2009 as compared with previous years is as follows:

(Rs in million)

	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07
Fixed assets	24.998	(4)	26.118	(3)	26.957
Stocks	20.083	15	17.427	(1)	17.617
Debtors	33.205	55	21.455	(10)	23.925
Govt. capital	2.761	(86)	20.380	(63)	55.376
Current year profit	18.822	(22)	24.201	79	13.543
Accrued liabilities	2.748	7	2.567	23	2.086
Suspense account (Assets-iabilities)	53.955	202	17.852	-	(2.506)

Sundry debtors decreased by 10.32% as on June 30, 2008 whereas these increased by 54.77% as on June 30, 2009. Resultantly the debtor's collection period was 118 days, 142 days & 142 days in 2007, 2008 & 2009 respectively. This was mainly due to the fact that sales of vaccines were being made on 100% credit basis to all the Government Departments and on cash basis to all other customers without any documented Credit Policy resulting in the accumulation of receivables, which may result in bad debts as well as liquidity problems for the Division. The management is required to make a formal credit policy in this regard and also provide the latest recovery position.

9.1.2.4 There were reconciliation problems among the debtors, sales and amounts remitted in NBP. These three accounts in the Proforma accounts did not reconcile with each other resulting in a net difference of Rs 11.99 million and Rs 6.813 million in 2008-09 and 2007-08 respectively.

(Rs in million)

	2008-09	2007-08
Opening debtors (A)	21.455	23.925
Sales (B)	85.109	80.870
Closing debtors (C)	33.205	21.455
Remittances in NBP (A+B-C)	73.359	83.340
Remittances in NBP (As per accounts)	85.258	90.153
Difference	11.899	6.813

The management is required to provide the reasons for these differences.

9.1.2.5 As the accounts of Biological Production Division are being prepared on commercial basis, so it is most important that BPD should have a separate cash book and bank account. However, it has been noticed that all receipts and payments of the Division are being routed thorough NIH main bank account, which results in reconciliation problems in "Withdrawals from and Remittances in NBP" as highlighted in the above para.

9.1.2.6 In balance sheet, liabilities side, there is a suspense account of Rs 53.955 million, Rs 17.852 million and Rs 2.506 million against total assets of Rs 78.286 million, Rs 65.000 million and Rs 68.488 million as on June 30, 2009, 2008 & 2007 respectively. This constituted 69%, 27% and 04% of the total assets. Resultantly the balance sheet does not provide true and fair view of financial position in respective years. The management is required to provide the detailed justification for such huge differences.

9.1.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1989-90	01	01	--	100
2.	1990-91	01	01	--	100
3.	1991-92	05	05	--	100
4.	1992-93	05	05	--	100
5.	1994-95	01	01	--	100
6.	1999-00	01	01	--	100

The overall compliance was satisfactory which needs to be maintained in future.

Chapter-10
Ministry of Housing and Works

10.1 National Construction Limited

10.1.1. Introduction

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.

10.1.2 Comments on audited accounts

Annual Audited Accounts of the Company for the years 2009-10 were not furnished by December 31, 2009.

10.1.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1990-91	01	01	--	100
2.	1991-92	01	01	--	100
3.	1992-93	05	05	--	100
4.	1993-94	03	03	--	100
5.	1995-96	01	01	--	100
6.	1996-97	02	02	--	100
7.	1999-00	07	06	01	85
8.	2000-01	01	01	--	100
9.	2001-02	01	01	--	100
10.	2005-06	05	05	--	100
11.	2008-09	04	03	01	75

The compliance to the PAC directives by PAO was satisfactory except in the years 1999-2000 and 2008-09, which needs to be improved.

10.1.4 Audit Para

10.1.4.1 Loss due to theft of store- Rs 1.695 million

As per Para-151 of GFR, the head of an office or any other officer entrusted with stores of any kind should take special care for arranging for their safe custody, for keeping them in good and efficient condition and for protecting them from loss, damage or deterioration. Suitable accommodation should be provided more particularly for valuable and combustible stores.

In National Construction Limited, Scaffolding Pipes and Scaffolding Joints worth Rs 1,870,300 were stolen during its transfer from the NUST Project to PITAD Project in April 2010. An enquiry was held to investigate the factual position but before start of investigation by the Enquiry Committee, Mr. Abid Ali, Assistant Store Keeper admitted the theft of store. Later on the Enquiry Committee in its report dated April 29, 2010 concluded that Mr. Abid Ali was involved in the theft as already admitted by him and he deposited Rs 175,000 towards the cost of stolen store. The management did not initiate action against the person who admitted the theft. Neither any FIR was lodged against him nor was he terminated from service. He was still working on PITAD project. This resulted in loss due to non- recovery of Rs 1,695,300.

The matter was reported to the management on October 11, 2010 and Ministry on December 07, 2010. The management in its reply dated December 22, 2010 stated that services of Mr. Abid Ali had been dismissed on September 07, 2010 and Rs 375,318 recovered on account of shortage of scaffolding pipes. The enquiry regarding shortage of scaffolding joints against Rana Liaqat Ali, Store Supervisor is in progress.

DAC in its meeting held on January 14, 2011 directed the management to determine the actual amount of recovery of missing joints and finalize within a week. No progress was reported till finalization of this report.

10.2 Pakistan Housing Authority

10.2.1 Introduction

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 objective of the Authority is to provide shelter to low income groups.

10.2.2 Comments on audited accounts

Annual Audited Accounts of the Authority for the years 2003-04 to 2009-10 were not furnished by December 31, 2010.

10.2.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC directives were not complied with:-

Sr. #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	2005-06	03	02	01	75

The compliance of the PAC directives by PAO was not satisfactory and needs to be improved.

10.2.4 Audit Para

10.2.4.1 Irregular payment as salary advances – Rs 2.119 million

Finance Division (RW) vide O.M. dated June 26, 1999 issued certain instructions for reviewing the salaries / allowances and perquisites of supervisory and executive staff of public sector corporations, autonomous / semi autonomous organizations, it has been decided that such revisions may be carried out by respective Board of Directors of these organizations. Clearance from the Finance Division would, however, be necessary to ensure a rational basis and a degree of uniformity in such revisions. No organization will announce the revision

of salary allowances structure without prior approval of the standing committee of the Finance Division. In support of above said instructions, Finance Division (RW) had further issued clarification vide U.O dated May 05, 2004, U.O dated May 28, 2005 and OM dated August 05, 2007 that concurrence of Standing Committee of the Finance Division was required in all matters involving revision of pay scales and allowances of the employees of the corporations / autonomous bodies after recommendation by the respective Boards of Directors.

Contrary to the above, Ministry of Housing and Works, vide its letter dated March 28, 2008 conveyed approval to draw temporary advances to the employees of Pakistan Housing Authority, not exceeding eight basic salaries of the employees and to be recovered in maximum 36 equal installments. Pakistan Housing Authority paid a sum of Rs 861,030 on account of salary advances to their employees during the year 2008-09 without seeking concurrence of Finance Division. This resulted in irregular payment of Rs 2.119 million (balance as on July 1, 2008, Rs 1.258 million + Rs 0.861 million) on account of salary advance to the employees. The matter was reported to management on November 20, 2009 and the Ministry on December 05, 2009. The management in its reply dated January 07, 2011 stated that salary advance was paid to the employees under a policy duly approved by the Secretary, Housing and Works, Islamabad. The reply was not convincing, as the competent authority in this matter was Finance Division.

DAC in its meeting held on January 14, 2011 directed the management to discontinue the facility forthwith and refer the case to Finance Division for regularization. No progress was reported till finalization of this report.

Chapter-11
Ministry of Industries and Production

11.1 Export Processing Zones Authority

11.1.1 Introduction

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.

11.1.2 Comments on audited accounts

(The organization is included in Annexure-III: Non-submission of Audited Accounts)

11.1.3 Brief comments on the status of compliance with PAC Directives

The management of EPZA has reported compliance of 5 Audit Paras out of total 6 Paras discussed by PAC in respect of Audit Reports 2000-01 to 2008-09. The percentage of compliance was 83%.

11.1.4 Audit Paras

11.1.4.1 Non-start of construction work involving investment of US$ 27.781 million (Rs 2,361 million) and non-imposition of construction penalty of Rs 194 million

As per clause-8 of the Licence Agreement the investor is bound to complete construction and start running the unit within a period of 18 months from the date of approval. As per clause-11 of the License Agreement, 50% of construction is to be completed within one year period to avoid cancellation of the plot. Moreover clause No.10 prescribes non-construction fee @ US$ 5 per square meter per month upon failure of the investor to raise construction or to start installing unit.

A review of projects of KEPZ Phase-II revealed that nineteen projects failed even to start construction despite approval during 2006 and 2007 as per details in Annexure-VII.

It is evident from the above details that as a result of the failure of these 19 investors to start construction work in time the envisaged investment of US$ 27.781 million (equivalent 1:85 to PKR 2,389 million) could not be materialized. In addition, EPZA did not impose the non-construction penalty of US$ 5/square meter/month as provided in the agreement and caused a loss of US$ 2.286 million (equivalent 1:85 to PKR 194.345 million).

This situation resulted because economic viability/capability of the investors and their true potential were not properly scrutinized due to which non serious persons not only managed to get sanctioned projects but also unnecessarily held thousands of square meters of developed land for years. It also indicates loose internal control & lack of proper monitoring control and supervision of the projects in order to ensure compliance of the terms and condition of the License Agreement signed by the investors.

The irregularity was brought to the notice of the management through an observation memo dated October 14, 2010. Audit suggested fixing of responsibility on the person(s) responsible and recovery of the outstanding amount.

The matter was discussed in DAC meeting held on December 20, 2010. The DAC directed the management to provide copies of petitions of 2 units which went into litigation and make efforts for early reallocation of the cancelled plots of 17 other units. The DAC also directed that details of recovery made by forfeiting deposits may be provided to Audit. However, progress was awaited from the management till finalization of this report.

11.1.4.2 Potential loss of foreign exchange to the country due to sick/closed units - US$ 162.255 million (Rs 13,800.000 million)

As per Part-H 'Export Projections for five years', of Application Form for setting up an industrial/trading unit, an investor is required to mention committed annual export which must be maintained. The investors are bound to follow their commitments in case they retain the allocated land.

In Karachi Zone of Export Processing Zones Authority (EPZA) the exports of thirty sick/closed units with a committed export of US$ 162.255 million equivalent to Pak. Rs 13,800.000 million remained zero during 2009-10 because of their being in operative.

In view of Audit, the management should have checked the feasibility of the projects before sanctioning units to the applicants.

The matter was brought to the notice of management through an observation memo dated October 14, 2010.

Audit suggested investigation into the matter with a view to check the increasing number of non-performing units and fixing responsibility for any lapse on the part of person(s) if any such case is found.

The matter was discussed in DAC meeting held on December 20, 2010. The DAC directed the management to reallocate the cancelled plots to other prospective investors and provide information to Audit regarding forfeiture of the deposited amounts of cancelled units. However, progress was awaited from the management till finalization of this report.

11.1.4.3 Blockage of funds and non-transfer of possession of land - Rs 43.560 million

As per standard practice before entering into real estate business it should have been ensured that the land which was being purchased was free from all kinds of encumbrances.

In Export Processing Zones Authority (EPZA), the management made a payment of Rs 43.500 million in April 2006 to Government of Sindh for 200 acres of land. The land was disputed and included in the package of 1,200 acre of land already pledged to M/s. Sindh Alkalis and was therefore under litigation. EPZA had not been given possession of land despite payment of complete amount till close of audit in November 2010.

The said land was acquired for KEPZ III for establishment of a state-of-the-art modern information technology park. Due to non transfer of ownership of the land, EPZA has not been able to formally launch the project.

The matter was brought to the notice of management through an observation memo dated October 27, 2010, Management in reply dated October 06, 2010 stated that the land was disputed and the case was in Supreme Court of Pakistan. They added that Government of Sindh had agreed to provide alternative land at some other place in Karachi for KEPZ Phase-III.

The reply was not tenable as due diligence was not exercised before payment of the cost of the land. Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures.

The matter was discussed in DAC meeting held on December 20, 2010. The DAC inquired that before making the investment in land and making full payment for the investment whether it was checked by the management that the land was free from all encumbrances. The DAC directed the management to submit reply of the query to ministry under intimation to Audit. However, progress was awaited from the management till finalization of this report.

11.1.4.4 Non-utilization of canteen building due to delay in construction at a cost of Rs 15.082 million

Rule-10 (i) 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 expenditure of his own money. Moreover, as per standard practice every property should be immediately used/utilized for the purpose for which it was built.

In Export Processing Zones Authority (EPZA), the management could not utilize the building constructed to be used as staff canteen despite incurrence of a cost of Rs 15.082 million. The work on the completion of canteen construction was continuously delayed by giving undue favour to contractor. As per details the work was started on July 15, 2008 and the scheduled date of completion was January 26, 2009. The contractor was given undue extensions for completion on April 24, 2009 and then on December 24, 2009. The canteen building has not yet been used for the purpose, for which it was constructed since its completion in December 2009.

The irregularity was brought to the notice of the management through an observation memo dated September 27, 2010. Management in reply dated October 06, 2010 informed that extension was allowed to the contractor due to change of site and due to 25% increase in area of canteen and increase/modifications in scope of work. It was further stated that different proposals for operating the canteen were under scrutiny.

Audit was of the view that undue favour was extended to the contractor by allowing one year extension on the plea of increase in size and scope of work. The canteen building remained unutilized for about a year which indicated that EPZA had no immediate need of construction and utilization of canteen building involving an outlay of Rs 15.082 million. It also indicated spending without serious feasibility study and cost benefit analysis. As a matter of financial prudence a building should be constructed on genuine requirement to avoid blockage of fund. Further before incurring any expenditure especially on construction of building management should make a proper plan for its timely execution, completion, and subsequent immediate maximum possible utilization to justify expenditure involved in such a venture.

Audit suggested fixing of responsibility on person(s) who caused the delay.

The matter was discussed in DAC meeting held on December 20, 2010. Audit pointed out that the building has not been utilized even after a year of its completion. The DAC directed the management to make the canteen operational as early as possible. Moreover variation in initial and enhanced cost should be

reported to the ministry under intimation to Audit. However, progress was awaited from the management till finalization of this report.

11.1.4.5 Non-recovery of Annual Ground Rent and Utility Charges from investors - US$ 0.513 million (Rs 43.691 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, as per clause 29 of the Licence Agreement under "Financial Obligation" an investor is bound for payment of AGR in advance on or before 10th July, every year to the Authority and water, conservancy may be levied by the competent authority in respect of plot(s) in question at the rates that may be fixed from time to time by its designated office.

In EPZA, a sum of US$ 2.056 million (Rs 168.57 million) was outstanding against investors of the Karachi Export Processing Zone (KEPZ) on account of AGR, Electricity and Water Charges as on June 30, 2009 as detailed below:

(Rs. in million)

S. No.	Particulars	Amount (US$ in million)	Amount
1	Annual Ground Rent	0.435	37.000
2	Electricity Charges	0.058	5.072
3	Water Charges	0.018	1.619
	Total	**0.513**	**43.691**

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 43.691 million indicated ineffective receivables management prevailing in the organization.

The non-recovery was pointed out to the management through observation memos dated September 27, 2010, October 14, 2010, and October 22, 2010.

Audit suggested taking effective steps for recovery of the dues and strengthening of internal controls.

The matter was discussed in DAC meeting held on December 20, 2010. The DAC directed the management that break up of recovery position in addition to ageing of receivables may be provided to Audit for verification. However, progress was awaited from the management till finalization of this report.

Audit would suggest immediate implementation of DAC directives.

11.2 Pakistan Industrial Development Corporation

11.2.1 Introduction

Pakistan Industrial Development Corporation (Pvt.) Limited (PIDC) was incorporated in Pakistan on January 01, 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 01, 1985. The Company was established to setup / manage and / or run a project / undertaking or business.

During the year ended June 30, 2009, the Government of Pakistan through letter No.16(2)/2008-I/GCP(Pt-I) dated September 11, 2008 of the Ministry, took a step to consolidate and improve management of state owned enterprises, and the Ghee Corporation of Pakistan (Private) limited (GCP) administratively merged with the company. GCP was also converted into a wholly owned subsidiary of the Company. The entire Government share holding in GCP was transferred to the Company and the company issued its owned shares of the equivalent value in the name of Federal Government.

11.2.2 Comments on audited accounts

The working results of the corporation for the year ended June 30, 2010 as compared with those of the previous years are given as under:

	2009-10	**% Inc/ (Dec)**	**2008-09**	**% Inc/ (Dec)**	**2007-08**	**% Inc/ (Dec)**	**2006-07**
Interest property and dividend income	694.362	(34.42)	1058.674	71.6	616.858	20.3	774.000
Expenses	136.394	(27.09)	187.072	29.3	(144.648)	82.3	79.500
Operating profit/(loss)	557.968	(35..99)	871.602	84.6	472.210	32.0)	694.500
Other income	-	-	-	-	-	-	498.500
Other charges	357.352	78.11	200.640	(60.9)	513.956	-	-
Profit/ (loss) before taxation	200.616	(70.10)	670.962	-	(41.746)	(79.8)	1192.500
Profit / (loss) for the year	68.729	87.06	530.848	178.67	190.499	(82.24)	1073.100

(Source: Annual Audited Accounts)

11.2.2.1 The profit for the year under review stood at Rs 68.7 million as compared to Rs 530.800 million as on June 30, 2009, showing a decline of

87.1%. The main reason of decline in profit was the decrease in dividend income by 86.6% from Rs 389.801 million in June 30, 2009 to Rs 52.157 million in the year ended June 30, 2010. The investment policy needs to be reviewed and the reasons for the decrease in dividend income need to be elaborated.

11.2.2.2 During the year under review, Provision for impairment charged during the year for advances against equity to subsidiary company / related parties amounted to Rs 223.030 million as compared to Rs 28.320 million in the year 2008-09, showing an increase of 687.5%. Such substantial increase in impairment provision needs justification and efforts must be made to recover advances against equity as much as possible.

11.2.3 Brief comments on the status of compliance with PAC Directives

The management of PIDC has reported compliance of 347 Audit Paras out of total 349 Paras discussed by PAC in respect of Audit Reports 1986-87 to 2008-09. The percentage of compliance was 99%.

11.2.4 Audit Para

11.24.1 Wasteful expenditure on preparation of feasibility study report - Rs 21.825 million

Rule-10 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 expenditure of his own money.

In Pakistan Industrial Development Corporation (PIDC), feasibility study for establishment of coal port terminal was conducted through a foreign firm, M/s. Scot Wilson, UK at a cost of Rs 21.825 million in the year 2007-08 and 2008-09. The report was prepared for utilization by the private sector with the objective to build a coal port terminal for the consumption of imported coal by power plants.

However, even after lapse of two years, the management failed to utilize / sell the feasibility report. The preparation of the feasibility report was un-warranted / ill planned as the task was not assigned to PIDC by any interested party. The expenditure of Rs 21.825 million incurred in conducting the study, therefore, proved wasteful.

The matter was reported to the management on October 07, 2010 through Audit Inspection Report. The management in reply dated November 04, 2010 stated that the feasibility study for development of Coal Port Terminal was carried out with the approval of their BoD in its meeting held on February 09, 2007 wherein it was decided that PIDC would be the primary vehicle for facilitating industrialization by creating/enabling environment for different segment of industries. They added that the cost of the study had been decided to be converted as Equity Subscription of PIDC in the Company who would set up facility in the private sector; however, despite advertisement in September 2008, no interested party had come up for setting up the facility.

The reply of the management was not tenable as the lack of investors' interest depicted aimless conducting of the feasibility study. Audit suggested fixing of responsibility on the person(s) at fault.

The matter was discussed in DAC meeting held on December 20, 2010. Audit pointed out that expenditure on study was futile if no benefit was derived from it. The management replied that study was under consideration of the committee comprising members of Planning Commission, PEPCO, MoP&S, PIDC, PPIB, and KESC. The DAC directed the management to initiate efforts for early utilization of the report. However, progress was awaited from the management till finalization of this report.

11.3 Pakistan Steel Mills Corporation (Pvt.) Limited

11.3.1 Introduction

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.

11.3.2 Comments on audited accounts

*(*The organization is included in the Annexure-III: Non-submission of Audited Accounts)

11.3.3 COMPLIANCE OF PAC DIRECTIVES

Brief comments on the status of compliance with PAC Directives

The management of PSM has reported compliance of 218 Audit Paras out of total 239 Paras discussed by PAC in respect of Audit Reports 1986-87 to 2008-09. The percentage of compliance was 91%.

11.3.4 Audit Paras

11.3.4.1 Irregular award of contract - Rs 5.960 million

Clause-5 of Purchase Manual of Pakistan Steel Mills (PSM) provides that tender shall be opened only when a minimum of two offers have been received. In case of single offer, bid may be opened under the following conditions only:

- The item is of proprietary nature.
- The item is being procured under emergency for which approval of the concerned Director, Director Commercial, and Chairman has been obtained.

In Pakistan Steel Mills (PSM), the management floated press tenders twice on March 01, 2009 and on April 12, 2009 for procurement of 336 sets of Coil Tundish Board for Billet Caster. The technical offer of the single participant, i.e., M/s. Banbhore Ceramic was opened and accepted on May 18, 2009. The commercial offer was opened on May 25, 2009. The quoted period of the only

bidder, M/s. Banbhore Ceramic (BC) was 65% higher than Last Purchase Price (LPP) dated December 15, 2008. The management asked for justification of higher quoted price; however, M/s. BC reduced their quoted price from Rs.18,000 to Rs.17,740 per set (including Tax). The Purchase Order was placed at the cost of Rs 5.960 million.

Audit was of the view that contract was awarded in violation of the above rule as the items were neither of propriety nature nor they were urgently required. Further, no documentary evidence was available on the record that tender enquiry was advertised on PPRA's website and corporation' website as per PPRA Rule 2004.

The matter needs to be justified. The matter was brought to the notice of management on September 07, 2010. Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures.

The matter was discussed in DAC meeting held on December 20, 2010. The DAC directed the management that revised reply may be provided to Audit clarifying as to whether the international prices of Coal Tundish Board varied in similar fashion as was allowed to the single bidder during its purchase, i.e., above 60% from Last Purchase Price. However, progress was awaited from the management till finalization of this report.

11.3.4.2 Loss due to releasing of 90% payment to supplier on account of procurement of Iron Ore - US$ 2.506 million (Rs 213.010 million)

Clause-13 (c), (d) Risk Purchase (in case of non-fulfillment of contractual obligations by suppliers) of the contract with the supplier provides:

- to recover any consequential losses/damages incurred by Pakistan Steel by withholding any amounts otherwise due to the supplier against this contract; and
- in the event in supplier fails to deliver goods in prescribed manner, the supplier shall be liable for all consequential losses, damages etc, which the Buyer may sustain.

In Pakistan Steel Mill (PSM), the management approved advance payment in December 2009 to the extent of 90 percent of the amount due for the first shipment of Iron Ore (Fine) which was inspected and found inferior to the approved specifications. The total value of consignment was US$ 2,951,363 whereas as per record the 90% provisional payment amounting to US$ 2,656,227

was released to supplier by the management against the provisional invoice dated December 08, 2009.

The management signed contract with M/s. Alsaa Petroleum, Dubai for spot procurement of 120,000 M/Ton Iron Ore (fine) in three shipments of 40,000 M/Ton each @ US$ 84 per M/Ton on CFFO basis. The first shipment was delivered on December 07, 2009, however at the time of unloading the cargo was found to contain moisture plastic bags, plastic piece and was also under extremely lowest edge of the contractual rejection limits. The matter was discussed in a review committee chaired by Chairman, PSM held on January 11, 2010 and it was decided to cancel the contract for the remaining quantity and to go for re-tendering to cover short fall.

The management approached the Bank on January 18, 2010 for encashment of Performance Bank Guarantee (PBG) amounting to US$ 150,000 (equal to Pak Rs 12.750 million) which was to be expired on January 29, 2010 as supplier committed default.

Audit was of the view that Pakistan Steel sustained a loss US$ 2.506 million (equal to Pak Rs 213.010 million) even after deduction of PBG amount of US$ 150,000.

The matter was reported on October 29, 2010. Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures.

The matter was discussed in DAC meeting held on December 20, 2010. The DAC directed the management to submit a revised reply clarifying how much has been recovered in monetary terms from the loss observed by Audit. However, progress was awaited from the management till finalization of this report.

11.3.4.3 Loss due to award of contract on sale of waste material /mixed material - Rs 4.025 million

As a matter of prudent business principle, disposal of waste material should be made at the right time to fetch good value.

In Pakistan Steel Mills (PSM), the management floated tender for disposal of waste material/scrap material in respect of a Lot “MP-3.” During the first tender the highest offer of Rs 15.500 million (without tax) was received on October 27, 2008 against the no reserve price. Later on, reserved price was fixed

amounting to Rs 17.050 million on December 16, 2008 and during the second tender but subsequently offers were received lower than reserve price. The tenders were floated time and again with reduced reserve prices and finally during the fifth tender the reserve price was fixed at Rs 10.000 million (including all taxes) as per clause-4 of contract. Among the three participating bidders the contract was awarded to M/s. Laj Paal Enterprises on September 29, 2009 at Rs 11.475 million (excluding taxes). His actual offer was Rs 14.000 million (including all taxes) whereas clause-4 of Terms & Conditions provided for "lump sum amount in Pak Rupees for the whole yard must be quoted exclusive of all taxes."

Audit was of the view that management missed the opportunity to materialize a better offer of Rs 15.500 million during the first tender due to its unawareness of the market situation. PSM was ultimately deprived of revenue amounting to Rs 4.025 million (Rs 15.500 million – Rs 11.475 million).

The matter was reported to management on November 02, 2010. Audit suggested fixing of responsibility on the person(s) at fault.

The matter was discussed in DAC meeting held on December 20, 2010. The DAC directed the management that responsibility should be fixed and also recommended for placing the Para before PAC.

11.3.4.4 Award of supply contract at higher rates after rejecting lowest bid of same supplier in first tendering - Rs 4.334 million

Rules-38 of Public Procurement Rules, 2004 provides that the bidder with the lowest evaluated bid shall be awarded the procurement contract. Rule-40 provides that there shall be no negotiations with the bidders having submitted the lowest bid or that any other bidder.

Pakistan Steel Mills (PSM) floated press tenders for procurement of 766 M. Tons of Ferro Silicon. Technical proposals including delivery schedule received from three firms were opened on September 21, 2007 and technically cleared. The commercial offers were opened on September 28, 2007. Offer of M/s. S.F. Tekniks, Karachi was found lowest with the bid of US$ 815,790 (landed cost equivalent to Pak Rs 62.000 million). The offer was valid up to October 10, 2007. Meanwhile, the 3rd lowest bidder lodged a complaint through a letter dated September 24, 2007 raising objection against the technical proposal of the 1st and 2nd lowest bidders who had offered delivery earlier than the prescribed dates of tender. The management rejected the complaint referring

Clause 02 (d) and 07 (a) of General Terms and Conditions of the tender which allow quoting of minimum-possible shipment delivery period. Despite closing the matter of complaint of 3rd lowest bidder, the issue was again taken up in the Principal Executive Officers' (PEOs.) Conference held on October 09, 2007 as the 3rd lowest bidder then submitted another offer for supply at spot price which was lower than the first lowest bid. The PEOs decided to re-tender on the ground that the bidders should adhere to the shipment schedule as per tender.

Subsequently, PSM again floated a tender for the same quantity of material on November 19, 2007. In response, four offers were received and all were technically cleared. The commercial offer of the earlier 1st lowest bidder, i.e., M/s. S.F. Tekniks, Karachi was again found as the 1st lowest bidder but the amount then increased to US$ 867,112 (equivalent landed cost at Pak Rs 66.334 million). A purchase order dated December 08, 2007 was issued to the supplier at the offered cost but PSM had to bear extra expenditure of Rs 4.334 million, i.e., the difference between the two offers.

The matter was reported to the management through a preliminary audit observation in December 2008. In its reply dated March 27, 2009, the management referred the complaint and revised offer of the 3'" lowest bidder and added that the first lowest bidder had also offered to reduce the price, therefore, it was decided to re-tender as the rules do not permit the same. The reply was not convincing as the process of evaluation of technical and commercial offers had been completed and the 1st lowest bidder should have been awarded the purchase order. The rules prohibit negotiations with the bidders but voluntary reduction in the offered price by the 1st lowest bidder after completion of evaluation process does not fall within the meaning of negotiation. Thus, the management by undue re-tendering deprived the organization of the then prevailing economical rates.

The matter was reported to the ministry / management through Audit Inspection Report on May 13, 2009 but the management reiterated its earlier contention through its reply dated June 17, 2009. The Audit suggested fixing of responsibility for the lapse on the person(s) at fault.

The matter was discussed in DAC meeting held on December 20, 2010. The DAC directed the management that responsibility should be fixed and also recommended for placing the Para before PAC.

11.3.4.5 Loss due to procurement of additional material at higher rate - Rs 0.380 million

Rule-9 of PPRA Rules, 2004 provides that the procuring agency shall announce in an appropriate manner all proposed procurement for each financial year and shall proceed accordingly without any splitting of authority's website.

In Pakistan Steel Mill (PSM), the management procured Electrode Graphite in parts in April and August 2009, though total quantity was required by the user department at once. The indent was received from MMD (Material Management Department) for a quantity of 15,000 kg, in March 2008. However the first purchase order dated April 17, 2009 for procurement 10,000 kgs Electrode Graphite was placed with M/s. Niksum Enterprises @ Rs.264 per Kg at the total cost of Rs 2.649 million. Subsequently, the management floated tender in August 27, 2009 for balance quantity of 5,000 kg. However, a single bid was received from M/s. Niksum Enterprises and opened on August 27, 2009. The quoted price was Rs.340 per kg which was higher than Last Purchased Price (LPP) dated April 17, 2009, which was Rs.264. The management placed Purchase Order dated January 18, 2010 to M/s. Niksum Enterprises. Thus the management suffered a loss of Rs. 380,000 (Rs 340 – 264 x 5000 = Rs.380,000) on procurement of balance quantity at higher rate from the same supplier Had the quantity of material not split up and purchased through one purchase order the loss could have been avoided.

The matter was reported to management through an observation memo on September 07, 2010, the management stated in reply dated November 1, 2010 that the quantity of 10,000 kg Graphite Electrodes was found insufficient due to work load of commercial orders and different complex of the plant, hence, the user (CMD) requested for restoration of indent of 15,000 kg for procurement of remaining quantity of 5,000 kg Graphite Electrodes. The tender was floated in the press for procurement of balance indented quantity, i.e., 5,000 M/Ton as required by user department. The offer at the rate of Rs.340 per kg being higher than LLP was referred to Rate Reasonability Committee (RRC) which recommended price of Rs.340 per kg workable keeping in view increasing trend of prices in international market.

The reply of the management was not tenable as the user department already raised indent of a required quantity of 15,000 KGs which should be materialized in time to avoid increasing prices.

The matter was discussed in DAC meeting held on December 20, 2010. The DAC directed the management to justify their stance that insufficient cash caused the organization to make split purchases for verification by Audit. However, progress was awaited from the management till finalization of this report.

11.3.4.6 Non-recovery from supplier on account of non replacement of rejected Items - Rs 1.807 million

As per clause 8 of terms and conditions, if a supplier fails to deliver the ordered quantity of goods in the prescribed manner, specification, period, a penalty in addition to Liquidated Damages will be imposed and recovered from the supplier.

In Pakistan Steel Mill (PSM), the management procured nozzles on May 22, 2007 to be used in slab casting machine with total landing cost of Rs 1.950 million from M/s. Anas Marketing, a local agent of M/s. Ore World Trade Co. China. 1800 Nozzles were declared of inferior quality. The user department had stopped using them since December 2007.

The management approached the supplier for due to replacement of the defective material but the agent took the plea that Nozzles were broken due to the fault of end user. However, the management enchased 10% Performance Bank Guarantee (PBG) amounting to US$ 2465.24 (Rs.154,767) and filed Civil suit in June 2009 against the local agent for recovery of remaining amount of Rs 1.807 million with being 2% of the price of rejected quantity as liquidated damages for the last 12 months from December, 2007. The last date of hearing was fixed on October 27, 2009.

The audit was of the view that management was required to hold internal inquiry on the basis of plea of supplier that Nozzles were broken due to improper usage of the material. Moreover, legal proceedings were delayed till June 2009; whereas the materials were supplied in 2007.

The matter was reported on September 07, 2010. Audit suggested holding of an inquiry into the matter in order to fix responsibility so that the amount in question is recovered from him/them.

The matter was discussed in DAC meeting held on December 20, 2010. The management informed that the case was under litigation. The DAC directed the management to provide latest position of the case to Audit. However, progress was awaited from the management till finalization of this report.

11.4 Pakistan Steel Fabricating Company Limited

11.4.1 Introduction

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.

11.4.2 Comments on audited accounts

(The organization is included in the Annexure-III: Non-submission of Audited Accounts)

11.4.3 COMPLIANCE OF PAC DIRECTIVES

Brief comments on the status of compliance with PAC Directives

The management of PSFCL has reported compliance of 75 Audit Paras out of total 78 Paras discussed by PAC in respect of Audit Reports 1986-87 to 2008-09. The percentage of compliance was 96%.

11.4.4 Audit Para

11.4.4.1 Irregular re-employment of officers retired on superannuation involving payment of Rs 1.064 million per annum

Government of Pakistan, Establishment Division vide its O.M. No.3/16/99-CP-6 dated May 26, 1999 laid down that no officer is allowed to continue in office after superannuation unless prior approval of competent authority is obtained in advance. If it is intended to get the retired person re-employed on contract in public interest, a proposal in the form of a summary for the Prime Minister should be submitted to Establishment Division about six month in advance from the date of the retirement from service so that Establishment Division has sufficient processing time. It is further laid down that in case of continuous service beyond superannuation the financial liability for the irregularity rests upon the head of the department and the officer concerned himself.

In Pakistan Steel Fabricating Company Limited (PSFCL), three officers retired on superannuation were re-employed at the following positions on contract basis for a period of one year:

S. No.	Name & Designation	Re-employment	Extension period	Salary per month	Total Salary
1	Mr. Taha Hussain Manager	13.08.2009 to 12.08.2010	Nil	30,000	360,000
2	Mr. Malik-ul-Quddoos Manager	11.01.2010 to 18.08.2010	03.09.2010 to 2.09.2011	40,700	488,400
3	Mr. Anwar Ahmad Junior Officer	03.09.2009 to 02.09.2010	20.08.2010 to19.08.2011	18,000	216,000
			Total	**88,700**	**1,064,400**

The re-employments were made with the approval of the Chief Executive Officer of PSFCL / Chairman Pakistan Steel Mills; whereas, the Board of Directors, Pakistan Steel Mills had imposed a ban on re-employment in the meeting held on July 27, 2010.

Audit was of the view that the re-employment involving payment of salary amounting to Rs 1.064 million was irregular.

The matter was reported to the management through an observation memo in October 2010. The management in reply dated October 18, 2010 stated that the re-employment was made with the approval of Chairman Pakistan Steel / Chairman (BoD). As far as officer at Sl. 2 is concerned they added that after the Board of Directors had imposed the ban on re-appointment, the case was put up to the Chairman, who directed for termination of the officer. However, he was again re-appointed on the approval of the Chairman.

The reply was not tenable, as the management was required to comply with the directives of the Establishment Division, which are applicable to the organizations under administrative control of the ministries.

Audit suggested fixing of responsibility on the person(s) at fault.

The matter was discussed in DAC meeting held on December 20, 2010. The DAC directed the management that ex-post facto approval from the Establishment Division may be obtained. However, progress was awaited from the management till finalization of this report.

11.5 Small and Medium Enterprises Development Authority

11.5.1. Introduction

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.

11.5.2 Comments on audited accounts

Annual Audited Accounts of the Authority for the year 2009-10 were not furnished by December 31, 2010.

11.5.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	2005-06	06	04	02	67
2.	2008-09	02	02	--	100

The compliance to PAC directives by PAO for the year 2005-06 was not satisfactory, however, the compliance for 2008-09 was satisfactory. The PAO may comply with the PAC directives at the earliest.

11.5.4 Audit Paras

11.5.4.1 Overpayment on account of undue increments - Rs 4.412 million

SMEDA allowed abnormal increase in pay and allowances to the employees when they were promoted to the next higher scale. 22 employees who were

promoted to the next scale were not given the initial scale, but were allowed abnormal increase in the grade to which they were promoted. This practice was started from December 2006. This resulted in over payment of Rs 4.412 million on account of pay and allowances by allowing undue increments to 22 employees during the period December 2006 to June 2010.

The matter was reported to the management on November 08, 2010 and the Ministry on December 03, 2010. The management in its replies dated November 26, 2010 and January 11, 2011 stated that some of the officers who had already reached upper band of their salary level got no financial benefit at the time of their promotion. Moreover, such practice was not repeated, as there was no provision in the HR Policy for such incremental increase. The reply was not convincing as increase was allowed to specific employees against the provisions of HR Manual.

DAC in its meeting held on January 17, 2011, showed its concern for increases in pay and directed the management to recover the amount. No progress was reported till finalization of this report

11.6 Utility Stores Corporation of Pakistan (Pvt) Limited

11.6.1 Introduction

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 is registered under Companies Ordinance 1984 with its registered office at Islamabad.

Corporate Information

The Company has paid up capital of Rs 737.731 million fully owned by the Government of Pakistan. The Company is working under administrative control of Ministry of Industries and Production. The key objectives of the Company are to;

1. Undertake the procurement of essential consumer goods from domestic and external services.
2. Ensure the availability of quality goods in adequate and regular quantities and market them at price lower than market, through a chain of store operations.

11.6.2 Comments on audited accounts

The management failed to prepare and provide audited accounts of the Corporation for the year 2009-10 by January 15, 2011. Even the audited accounts for the year 2008-09 were furnished to Audit late after the auditors (Chartered Accountants) signed and submitted their report to members on October 11, 2010.

11.6.2.1 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
Sales	48,734.840	4	46,798.873	138	19,656.340
Cost of sales	46,338.895	7	43,504.435	136	18,470.727
Gross profit	2,395.945	(27)	3,294.438	178	1,185.612
Operating expenses					
Selling & Distribution cost	2,032.259	39	1,461.854	169	543.457
Admn expenses	107.392	20	89.584	(84)	543.457
Financial charges	62.598	9	57.288	392	11.648
Operating profit	193.696	(89)	1,685.712	188	585.508
Other operating income	259.391	(59)	639.417	872	65.817
Profit before taxation	453.087	(81)	2,325.129	257	651.325
Provision for taxation	1.036	(100)	237.588	(75)	948.779
Profit for the year	452.051	(78)	2,087.540	246	602.546

Source: Annual Audited Accounts

Sales of the Company increased by 4.14% to Rs 48.735 billion in 2008-09 from Rs 46.799 billion in 2007-08 whereas the corresponding cost of sales increased by 6.52% to Rs 46.339 billion (2008: Rs 43.504 billion). This resulted in decline in gross profit margin to 4.91% in 2008-09 (2008:7.04%). Increase in sales value included subsidy of Rs 2.354 billion (2007-08: Rs 8.156 billion) granted by Government to stabilize prices of essential commodities in the market and to provide relief to end consumers. This shows that the Company's overall revenue (excluding subsidy) increased in 2008-09.

Increase in cost of sales was mainly attributable to the following elements;

Particulars	2008-09			2007-08	
	Rs. (m)	% of sales	% increase	Rs (m)	% of sales
Handling charges	90.259	0.18	8.44	83.233	0.17
Packing material & others	322.915	0.66	8.25	298.300	0.63
Miscellaneous	199.497	0.41	12.31	177.630	0.38

Increase in above expenses was much higher than increase in sales (4.14%), which needs to be looked into. Further, the detailed breakup and reasons for increase in miscellaneous expenses may be elaborated.

11.6.2.2 Selling and distribution cost increased by 38.30% to Rs 2.032 billion in 2008-09 (2007-08: Rs 1.462 billion). Thus, the selling cost / sales ratio deteriorated from 3.12% in 2007-08 to 4.17% in 2008-09. This was mainly due to increase in travelling & conveyance by 57%, vehicle running by 43%, insurance by 617% and advertisement & sales promotion by 48%. The abnormal increase in these expenses may be explained. Administrative expenses increased by 20% to Rs 107.392 million in 2008-09 (2007-08: Rs 89.58 million). This was due to donation of Rs 10 million made in Prime Minister's fund for victims of terrorism in Swat.

11.6.2.3 Cash in transit increased from Rs 780.190 million as on June 30, 2008 to Rs 834.989 million as on June 30, 2009 registering increase by 7.02% over the previous year. If cash in transit was related to the month of June 2009 only, it was 20.56% of average monthly sales for the year 2008-09. It affected the liquiditity of the Corporation. Ways and means need devised for timely clearance of cash in transit.

11.6.2.4 Stock in trade as on June 30, 2009 included a provision of slow moving and obsolete items of Rs 10.969 million with no movement from last year. The reasons for non-disposal of these items may be explained.

11.6.2.5 Insurance claims receivables included in other receivables, increased to Rs 155.76 million as on June 30, 2009 (2007-08: Rs 92.839 million). Recoverable from store – in-charges increased by 96.88% to Rs 520.491 million (2008: Rs 264.371 million) and misc receivables increased by 56.97% to Rs 422.659 million (2008 : Rs 269.256 million). This substantial increase was due to losses incurred through shortages, theft and weak internal control of the Corporation, which is to be improved. Moreover, the details of misc. receivables may be provided.

11.6.2.6 External Auditors qualified in their report that:-

The title of leasehold land and building at Roti Plant, Karachi acquired by the Company in 1999 from Privatization Commission, Government of Pakistan at a cost of Rs 3.660 million has not been transferred in the name of the Company.

Certain credits in the bank statements aggregating to Rs 54.010 million (2008: Rs 100.649 million) which have been taken in miscellaneous liabilities appearing under the head trade & other payable, due to un-reconciled corresponding effect in cash in transit and has not been traced till year end, as these amounts are considered as deposits of sales receipts by regional offices. Due to non-availability of information, the appropriateness of the outstanding balance included in miscellaneous liabilities remained unconfirmed. The qualifications of the external auditors need be cleared.

11.6.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1989-90	05	05	--	100
2.	1990-91	03	01	02	33
3.	1991-92	02	01	01	50
4.	1992-93	05	02	03	40
5.	1993-94	05	04	01	80
6.	1995-96	13	12	01	92
7.	1996-97	07	07	--	100
8.	1999-00	04	02	02	50
9.	2000-01	13	08	05	62
10.	2005-06	05	03	02	60
11.	2008-09	06	01	05	17

The overall compliance with the PAC directives by the PAO was not satisfactory.

11.6.4 Audit Paras

11.6.4.1 Embezzlement due to non-observance of store operational manual - Rs 14.467 million

Under clause-11.08 and 11.09 of the USC Stores Operational Manual all the Regional Managers should ensure that as and when the periodical accounts of a store reflect any shortage of stock/cash exceeding Rs 2,000, an FIR should

immediately be lodged with the Police Authorities against concerned employees. The services of concerned employees should be terminated and Head Office shall lodge fidelity guarantee claim with NIC accordingly. Further as per clause-(b) and (c) of the Utility Stores Operating Procedure, on detection of shortage more than Rs 50,000, In-charge store will be removed and amount of shortage be recovered in lump sum and served with recordable warning. On embezzlement like misappropriation of stock, mis-utilization of sale proceeds, theft, fraud and black-marketing In-charge store/ warehouse will immediately be suspended and inquiry convened to fix responsibility. On finalization of the inquiry, legal proceeding will be initiated/finalized.

In USC Regional Office Nawab Shah, 46 employees embezzled an amount of Rs 15.485 million during the period from January 2009 to October 31, 2010. Neither FIRs were not registered nor was insurance claim lodged with National Insurance Company Limited. Furthermore, no action was initiated against the Area Manager. The recurrence of embezzlement continued for three years, but either Regional Manager or Zonal Manager took no corrective action. The employees involved in embezzlement had left the services of Utility Stores Corporation.

The matter was reported to management on December14, 2009 and the Ministry on December 04, 2010. The management in its reply dated December 31, 2010 intimated that out of Rs 15.485 million, Rs 1.018 million had been recovered. The services of the employee had been terminated. The case had been referred to police for registering of FIR against the defaulters. The reply was not convincing, as FIR was not registered when embezzlement was noticed.

DAC in its meeting held on January 17, 2011 directed the management to lodge FIRs and recover the embezzled amount. No progress was reported till finalization of this report.

11.6.4.2 Embezzlement of sale proceeds – Rs 5.054 million

Under clause-11.08 and 11.09 of the USC, Stores Operational Manual all the Regional Managers should ensure that as and when the periodical accounts of

a Store reflect any shortage of stock/cash exceeding Rs 2,000, an FIR should be lodged with the police authorities against concerned employees. The services of concerned employees be terminated and fidelity guarantee claim shall be lodged with NIC accordingly by Head Office. Further as per clause-(b) and (c) of the Utility Stores Operating Procedure, on detection of shortage more than Rs 50,000, In-charge store will be removed and amount of shortage be recovered in lump sum and served with recordable warning. On embezzlement like misappropriation of stock, mis-utilization of sale proceeds, theft, fraud and black-marketing In-charge store / warehouse will immediately be suspended and inquiry convened to fix responsibility. In case of store, respective Area Manager and in case of warehouse concerned Regional Manager will also be suspended. On finalization of the inquiry, legal proceeding will be initiated/ finalized.

In Utility Store. Ghazi, Attock Region, a huge quantity of atta was supplied from M/s Taxila Flour Mill to Utility Store, Ghazi during July 13, 2009 to July 29, 2009. During reconciliation of sale proceed it was found that bank deposit slip of Rs 3.800 million provided by the ex-Incharge store were found bogus. After the detection of the fraud detailed checking was carried out and it was found that sale proceed of Rs 9.500 million were not deposited by the concerned store Incharge and thus embezzled. F.I.R. was lodged against him but he was not arrested. Timely reconciliation of sale proceeds was not done by Regional Officer, which resulted in embezzlement of the Corporation fund. Audit of the view that without involvement of the three responsible officers, the Incharge of the store was not in position of embezzlement because the store was supplied on the instructions of the Regional Manager, and the Incharge was allowed to receive 4,200 bags of atta at the specific store without inquiring about its storage capacity. The Accounts Officer also failed to reconcile the sale proceed timely (i.e. fortnightly). Thus due to negligence of the officer the Corporation funds to the extent of Rs 9.500 million were embezzled.

The matter was reported to the management on November 14, 2010 and the Ministry on December 04, 2010. The management in its reply dated December 31, 2010 stated that when embezzlement came to the knowledge in July 2009 the FIR was lodged on August 7, 2009 against flour mill owner and Incharge of store on account of embezzlement of Rs 9.504 million. Out of which

Rs 4.450 million had been recovered leaving a balance of Rs 5.054. On recommendations of the enquiry committee, the Regional Manager had been demoted to lower post and Accounts Officer, Junior Area Manager and Incharge Store had been dismissed from service. The Incharge Store was absconder and his guarantor had showed no progress towards his arrest. The USC had filed a suit against the guarantor on April 01, 2010 and case under hearing. Reply was not convincing because due to loose financial control the incident of embezzlement was occurred.

DAC in its meeting held on January 17, 2011 directed the management to recover outstanding amount by lodging cases against the defaulters under land revenue act. No progress was reported till finalization of this report.

11.6.4.3 Expected loss due to supply of wheat without obtaining advance payment – Rs 39.703 million

In terms of clause-3 (b) of the agreement dated September 22, 2007 between M/s USC and M/s Qurashi Flour Mills Peshawar, on allocation of wheat to Utility Stores Corporation of Pakistan (Pvt) Limited from PASSCO and TCP. The second party shall lift wheat from designated godowns, by making advance payment at Regional Office Peshawar, in shape of demand draft in the name of USC at the rate of Rs 18,990 per M.ton.

Utility Stores Corporation (Head Office) Islamabad shifted a quantity of 12,000 M.ton wheat to USC Peshawar Zone against the actual requirement of 600 M. ton. Due to shortage of storage capacity, a quantity of 2,153.369 M.ton was shifted and stored at M/s Qureshi Flour Mills Peshawar without obtaining the advance amount as required under the agreement. The owner of Mill refused to release the quantity of wheat and got stay order, which was vacated. The owner again approached the High Court despite the High Court decided the case in favour of the Utility Stores Corporation of Pakistan (Pvt) Limited. The wheat could not be lifted / recovered which indicated the facts that the Mills utilized the wheat in production and sold out the same. This resulted in loss of Rs 39.703 million due to non-payment of cost for 2,153.359 M. ton wheat.

The matter was reported to the management on November 14, 2010 and the Ministry on December 4, 2010. The management in its reply dated December 31, 2010 stated that 4,071.249 M.ton wheat was sent to M/s Qureshi Flour Mills, Peshawar and mill returned 1,917.880 M.ton wheat flour leaving a balance of 2,153.369 M.ton wheat. M/s Qureshi Flour Mills refused to supply the balance quantity of wheat. USC lodged FIR against the flour Mill and now accused was facing trial in the court, and Corporation had filed civil suit for recovery. The reply was not convincing because wheat was supplied without receipt of advance payment in the shape of demand draft.

DAC in its meeting held on January 17, 2011 directed the management to recover the amount under land revenue act at the earliest and take action against the persons for handing over wheat without getting advance payment. No progress was reported till finalization of this report.

11.6.4.4 Non recovery / adjustment due to less supply of atta by flour mills – Rs 2.826 million

As per agreement dated September 1, 2008 the Four Mills will be responsible to provide atta at Utility Stores Corporation of Pakistan (Pvt) Limited (USC) outlets out of USC's wheat stock released by TCP/PASSCO and Provincial Food Department. Whereas as per clause-k of the agreement the second party shall ensure that against grinding of each 100 kg wheat received by it , an equal quantity of 100 Kg fine atta to the first party. The second party will deliver fine atta from Mill to USC outlets falling in their area as per allocation of stores made by the Regional Manager and will charge Nil paisa per Kg extra for this purpose.

USC, Regional Office, Mansehra entered into an agreement with Mansehra Flour & General Mills (Pvt) and M/s Sarban Flour and General Mills, Havelian on September 1, 2008 and July 14,2008 respectively for milling of wheat into fine atta as per specification given by the first party. Under this agreement a quantity of 3,203 M. ton and 2759.84 M. ton wheat was received by M/s Mansehra Flour Mills and M/s Sarban Flour Mills from T.C.P./PASSCO on behalf of USC respectively. In accordance with clause-k of the said agreement,

the Flour Mills under discussion was required to deliver a quantity of 3,203 M. ton and 3,759.84 M. ton atta to Utility Store respectively. However, the relevant record disclosed that the Mills could supply only a quantity of 2,865 M. ton and 2,717 M. ton Atta to Utility Stores. Non recovery/adjustment of Rs 2.826 million due to less supply of atta by the flour mill owners. A security of Rs 2.000 million (Rs 1.000 million each) was lying with Corporation but due to non-inclusion of penalty clause in the agreement the same could not be forfeited. Despite a lapse of about three years, the management against the Mills owners made no recovery efforts.

The matter was reported to the management on November 14, 2010, and the Ministry on December 4, 2010. The management in its reply dated December 31, 2010 stated that agreements with the flour Mills were executed by the Region in emergency and penalty clause could not be incorporated inadvertently. On reconciliation, the Regional Manager had reported that now 148.83 M. ton wheat was lying with both the flour mills. The reply was not convincing as neither recovery of atta was made nor was penalty clause included in the agreements due to which contractor's security could not be forfeited in spite of a lapse of two years.

DAC in its meeting held on January 17, 2011 directed the management to recover/adjust the outstanding supply of atta within three months and get it verified from audit. DAC also directed to ensure the inclusion of penalty clause in the agreements, in future. No progress was reported till finalization of this report.

11.6.4.5 Loss due to provision of stores on credit - Rs 8.802 million

As per Para-5 (b)-6 of the Franchise Policy of the Utility Stores Corporation, Franchise stores are just like regular stores for all-purpose except that they make the payment in advance through bank draft.

Contrary to the above policy, USC (HO) Islamabad, Regional Managers provided store items to 35 Franchises of private parties without taking advance. The credit sale to Franchises was against the policy, some of the Franchise has

discontinued their business, and some of them went into court against the Corporation. This resulted in loss of Rs 8.802 million due to extending undue favour.

The matter was reported to the management on November 02, 2010 and the Ministry on December 4, 2010. The management in its reply dated December 31, 2010 stated that disciplinary proceeding had been initiated against the employees who violated the USC policy and issued stock on credit, however efforts were being made to effect the recovery. The reply was not convincing, as recovery had not been effected from the responsible employees who violated the USC policy.

DAC in its meeting held on January 17, 2011 directed the management to finalize the disciplinary cases and recover the amount at the earliest. No progress was reported till finalization of this report.

11.6.4.6 Appointments of 3,830 persons in violation of rules/regulations

According to press advertisement dated July 24, 2008, 3,520 vacancies of BPS- 2 to 16 were published for 14 categories. As per Service Rules of USC, appointments in BPS-10 to 16 were required to be made through committee comprising Managing Director, General Manager (A&P) and General Manager concerned. The relaxation in qualification or experience as a special case can be granted by the next appointing authority for the post after disclosing the reasons for relaxation.

USC made 3,830 appointments of various categories of employees and officers in BPS-2 to BPS-16 against 3,520 advertised posts. In categories such as Area Managers, Assistant Accounts Officers (BPS-16) and Junior Area Managers (BPS-14) the appointments were made less by 122 as against advertised posts whereas 708 persons were excess appointed as against advertised posts as detailed below:

Description	I/C W.H (BPS-14)	Acctt./Audit Asstt. (BPS-11)	D.E.O (BPS-9)	Reord Keeper (BPS-9)	Jr. Acctt/ Audit Asstt. (BPS-8)	ASM (BPS-5)	Helper/ Loader/ Picker (BPS-3/2)
Posts advertised	10	20	10	10	20	1500	100
Appointed	15	38	25	33	54	1683	530
Excess appointed	**5**	**18**	**15**	**23**	**34**	**183**	**430**

Following observations are made in this regard:

i. NOC from Prime Minister Task Force was obtained for 3,520 posts whereas 708 employees were appointed in excess of the approval in seven categories as indicated above.
ii. 3,520 posts were advertised but 3,820 persons were appointed.
iii. NOC was not obtained for excess appointments than the advertised posts as indicated above.
iv. BBA, LLB and BIT etc degrees were not equivalent to Master degree but the gazetted posts were filled with under-qualified persons.
v. Recruitment Committee for appointment in BPS-10 to 16 officials was not constituted.
vi. Abnormal surplus staff was appointed in Lahore zone, which debarred the candidates of other zones of the country in violation of the article 4 of the Constitution.

Due to above violations, the appointments were made on the basis of favourtism and in utter disregard of NOC, advertisement, qualification and regional quota. The protection of inalienable rights of the elegible candidates of the country was not taken care of as mandated by the Constitution of Pakistan.

The irregularity was reported to the management on April 28, 2010 and the Ministry on December 4, 2010. The management stated in their replies dated June 18, 2010 and December 31, 2010 that excess appointments were made in lower cadre in lieu of the posts of BPS-10 to 16. Recruitment committees were constituted for each station for proper test/interview and the officials having qualification of BA (Hon), LLB, B.Sc (IT) and BBA were appointed in BPS-16 based on HEC Notification dated March 29, 2007. Moreover, excess staff appointed in Lahore Zone was later on transferred to other places. The reply was

not acceptable as appointment were made based on favourtism and in utter disregard of NOC, advertisements, qualifications and regional quota. The protection of inalienable rights of the eligible candidates of the country was not taken care of as mandated by the Constitution of Pakistan.

DAC in its meeting held on January 17, 2011 directed the management to submit the revised reply by giving verifiable facts within 15 days. No progress was reported till the finalization of this report.

11.6.4.7 Un-authorized / irregular provision of gratuity – Rs 254.345 million

Finance Division, Regulation Wing-II vide OM No.G.15(3)R-14/84 dated October 16, 1984 issued instructions to Ministries / Division to direct such Autonomous / Semi Autonomous Bodies and Corporations under their administrative control, where the pension scheme does not exist, the payment of gratuity in addition to C.P.F should not be allowed to their employees on their quitting the services. However, the above facilities were allowed to the employees of autonomous bodies and corporations as available to them prior to October 16, 1984 as a special case vide Finance Division OM dated February 11, 1985.

In violation of above instructions, USC (HO), Islamabad extended the facility of gratuity in addition to the provision of C.P.F scheme to their employees who were appointed after October 16, 1984 i.e. July 01, 2008. A provision of Rs 254,345,575 was made on account of gratuity for non-entitled employees during 2008-09 and 2009-10. Due to non-observance of Government instructions, corporation made irregular provision of gratuity amounting to Rs 254.345 million.

The matter was reported the management on November 02, 2010 and the Ministry on December 4, 2010. The management in its reply dated December 31, 2010 stated that in accordance with provision contained in Section-12 of the Standing Orders Ordinance 1968, regular employees irrespective of their date of appointment was entitled for payment of gratuity. As per provision of Memorandum and Articles of Association and power conferred in the Companies Ordinance, 1984, the BOD of the corporation was empowered to approve the service rules and matters regarding gratuity to employees who joined service after

October 16, 1984. BOD in its meeting held on August 27, 2009 approved the eligibility of gratuity of all categories of permanent regular employees of the Corporation. The reply was not convincing, as these employees were not entitled for the facility of gratuity under the instructions of Finance Division.

DAC in its meeting held on January 17, 2011 directed the management to get the matter clarified from the Regulation Wing of the Finance Division. No progress was report till finalization of this report.

11.6.4.8 Un-authorized payment due to re-employment of consultant after the age of superannuation - Rs 1.120 million

In terms of Establishment Division OM No.10/6/2004-R-2 dated June 21, 2005 engagement of retired officers as consultants / advisors shall require prior permission of the Government invariably i.e. Establishment Division. It was also clarified that the consultancies granted after the age of superannuation would be treated as re-employment and will be subject to the same rules as are applicable to re-employment after superannuation. Moreover as per Government of Pakistan Establishment Division UO No.11-3/2001-MSW-III dated January 25, 2002, the following guidelines were to be kept in view before appointment of consultants:-

a) To ascertain as to whether or not the required expertise is available within the organization/Government;
b) The post/consultancy should be widely advertised;
c) Financial sanction for the appointment of consultant and the terms & conditions recommended by the Selection Board should be obtained from the competent authority;
d) No person retired from a Government organization will be hired as a consultant only to re-employee him/her;
e) Consultants should not be appointed to perform routine functions of an organization.

Utility Stores Corporation (HO), Islamabad reemployed four retired officers as consultants after attaining the age of superannuation. The officers re-employed on monthly salary ranging from Rs 25,000 per month to Rs 50,000 per month without prior approval of the Government. This resulted in un-authorized

payment of Rs 1.120 million due to re-employment of consultants after the age of superannuation.

The matter was reported to the management on November 02, 2010 and the Ministry on December 4, 2010. The management in reply dated December 31, 2010 stated that due to increase in network of USC in the years 2007-09 and ban on recruitment, the Corporation was facing acute shortage of officers, hence consultants were appointed with approval of BOD. The reply was not convincing as the officers were engaged without advertisement and prior permission of the Establishment Division.

DAC in its meeting held on January 17, 2011 directed the management to fix responsibility for deviation from the government policy and submit the case to MOIP for regularization from the Cabinet Division. No progress was reported till the finalization of this report.

11.7 ENAR Petrotech Services (Pvt) Limited

11.7.1 Introduction

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.

11.7.2. Comments on audited accounts

Annual Audited Accounts of the Company for the years 2009-10 were not furnished by December 31, 2010.

11.7.3. COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1989-90	02	02	--	100
2.	1990-91	03	02	01	67
3.	1991-92	03	03	--	100
4.	1992-93	03	03	--	100
5.	1993-94	02	02	--	100
6.	1995-96	04	03	01	75
7.	1996-97	02	02	--	100
8.	2000-01	01	01	--	100
9.	2001-02	01	01	--	100
10.	2005-06	05	04	01	80

The overall compliance with the PAC directives by PAO was satisfactory except for the years 1990-91, 1995-96 and 2005-06.

11.8 Heavy Mechanical Complex (Pvt) Limited

11.8.1 Introduction

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 dated July 3, 2007 with a new Board of Directors.

Heavy Mechanical Complex (Pvt) Limited was incorporated in Pakistan under the Companies Act, 1913 (as amended Companies Ordinance 1984) in July 1975. It is a wholly owned subsidiary of State Engineering Corporation (Pvt) Limited. The Company was put under direct control of Ministry of Industries, Production and Special Initiatives vide Administrative Order dated July 3, 2007 with a new Board of Directors.

Corporate Information

The principal place of business of the Company is situated at Hattar Road, Taxila. The principal activities of the Company are:

- To manufacture, supply and install machinery for cement, sugar, oil, gas and energy sector industries;
- To engineer, design, manufacture and supply cranes, boilers, defence and construction equipment;
- Production of ferrous and non-ferrous metals and alloys, castings and forging.

Outlook

The Company has brought forward operational losses from previous years due to business circumstances prevailing at that time. However, Company is meeting its current obligations except long outstanding liabilities towards Financial Institutions and suppliers. For discharge of these liabilities, it is essential that new

initiatives are undertaken and profitable projects are acquired for the Company with necessary assistance from the shareholders, Federal Government and other agencies.

11.8.2 Comments on audited accounts

11.8.2.1 The working results of the Company for the year 2009-10 as compared with the previous years are given below:

(Rs in million)

	2009-10	% Inc/ (Dec)	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07
Sales	1,983.408	4	1,915.725	25	1,530.514	(13)	1,767.755
Cost of sales	1,781.277	(6)	1,898.630	41	1,347.073	(15)	1,584.773
Gross profit	202.131	1,082	17.095	(91)	183.441	-	182.982
Operating expenses	183.162	(1)	184.643	23	150.706	23	122.554
Operating profit/(loss)	18.969	-	(167.548)	(612)	32.735	(46)	60.428
WPPF	0.063	100	-	(100)	133.000	(19)	165.000
Financial charges	78.141	(14)	90.769	12	81.304	(2)	82.865
Other income	60.427	8	55.885	9	51.221	99	25.727
Net profit/(loss) before taxation	1.192	-	(202.432)	-	2.519	(19)	3.125
Prior year adjustment	11.487	-	(83.412)	-	8.285	(47)	15.676
Taxation	9.917	100	-	(100)	7.653	(13)	8.839
Net profit / (loss) after taxation	3.122	-	(285.844)	-	3.151	(68)	9.962
Accumulated loss brought forward	(2,876.242)	10	(2,609.140)	(1)	(2,633.116)	(1)	(2,666.217)
Transfer to incremental depreciation	16.868	(10)	18.742	(10)	20.825	(10)	23.139
Accumulated profit/(loss) carried forward	(2,856.252)	(1)	(2,876.242)	10	(2,609.140)	(1)	(2,633.116)

Source: Annual Audited Accounts

Gross profit margin increased from 0.89% in 2008-09 to 10% in 2009-10 mainly due to increase in sales and cut down in costs by 4% and 6% respectively. The increase in sales was not significant in 2009-10 as compared to increase in sales in 2008-09 over the year 2007-08. Therefore, strenuous efforts are required to boost up the sales and maintain the effort towards cutting costs. General and Administrative expenses increased by 20% to Rs 159.061 million in 2009-10 (2008-09: Rs 132.114 million). The main reason was increase in fuel and power expenses by 83% to Rs 73.180 million in 2009-10 (2008-09: Rs 39.993 million). As actual production of the Company decreased by 15%, to 15,710 M.ton in

2009-10 from 18,453 M.ton in 2008-09, so such huge increase (83%) in fuel and power expenses needs explanation.

11.8.2.2 The working of the estimates by the Company remained poor due to which the Company sustained loss of Rs 38.887 million on three sales orders (No. 410806, 110806 & 110807) on account of incurring cost over and above the contracted price. The reasons for costs over run from the original estimates may be explained.

11.8.2.3 Internal controls of stage wise inspection of individual items were poor due to which items manufactured under different jobs were rejected during final inspection. The Company sustained loss of Rs 20.544 million due to rejection of items at final stages.

11.8.2.4 Claims of Rs 73.523 million against the Company were in litigation as on June 30, 2010 against Rs 23.263 million as on June 30, 2009. Party wise detail of the claims under litigation along with status may be provided to audit.

11.8.2.5 Trade debts of the Company increased by 42% to Rs 486.920 million as on June 30, 2010 (2009: Rs 343.072 million), whereas the sales only increased by 4%. Thus, the debtors' collection period further deteriorated from 65 days in 2008-09 to 90 days in 2009-10. Early recovery of debts is stressed upon the management. The latest status of recovery and provision for doubtful debts of Rs 34.836 million may be elaborated.

11.8.2.6 The current ratio for 2009-10 was 0.92:1 (2008-09: 0.91), as compared to previous year there was no significant improvement in the ratio. Acceptable level should be 2:1 whereas in HMC was 0.92:1 well below the acceptable level which indicates that the entity might face liquidity problems in future as it does not have enough current assets to meet its short term obligations. HMC management should take steps to improve its conditions.

11.8.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1989-90	09	06	03	66
2.	1990-91	11	10	01	91
3.	1991-92	02	02	--	100
4.	1992-93	05	05	--	100
5.	1993-94	08	08	--	100
6.	1995-96	05	04	01	80
7.	1996-97	09	07	02	78
8.	1999-00	07	06	01	86
9.	2000-01	05	05	--	100
10.	2001-02	03	--	03	Nil
11.	2005-06	08	06	02	75
12.	2008-09	04	01	03	25

The overall compliance of the PAC directives was not satisfactory. The PAO may take necessary steps for 100% compliance of the PAC directives at an early date.

11.8.4 Audit Paras

11.8.4.1 *Loss due to non-compliance of contract agreement - Rs 7.235 million*

The management of HMC entered into tri-party Technical Collaboration Agreement (TCA) with M/s Bourne Drill, Australia (BD) and M/s Better Engineering Solution, Quetta (BES) in February 2, 2007 for co-manufacture, supply, servicing and marketing of Drilling Rigs in Pakistan. Heavy Mechanical Complex (HMC) was nominated as a lead contractor. Clause 6.1 of contact refered Exhibit-C of the agreement contains a note to deal with Currency Exchange Rate (CER). HMC & BES shall have the provision of CER fluctuation against an escalation in the contract. In case the client did not accept the same the parties shall share the impact if any, proportionate to their contract price.

HMC participated in tender enquiry of Directorate of Agriculture, Industries and Labour Welfare Department, Islamabad (AIL) for supply of Drilling Rig on May 3, 2007, and submitted their bid of Rs 35.950 million. The

contract for supply of drilling rig was awarded to HMC on July 21, 2007 but clause regarding CER was not included in the contract agreement. Later on the management asked the client for insertion of clause regarding CER but the client refused.

HMC placed purchase order No. PFE-7001 dated December 06, 2007 worth AUS $ 493,300 equal to Pak Rs 31.453 million on M/s Bourne Drill Australia for supply of Drilling Rig. CER impact of Rs 8.471 million was observed at the time of placement of purchase order. The management did not take up the matter with M/s BD Australia before opening of LC and LC was opened for full value. The matter was taken up with M/s BES Quetta and M/s BES informed that CER issue will be resolved among the parties. The management requested to M/s Bourne Drill, Australia to advise their bank to retain AUS $ 88,000 equal to Pak Rs 5.771 million on account of his proportionate share of exchange loss due to currency fluctuation, they refused to do so. This resulted in loss of Rs 7.235 million (BD share Rs 5.771 m + BES share Rs 1.464 million).

The matter was reported to the management on September 22, 2010 and the Ministry on December 10, 2010. The management in its replies dated November 02, 2010 and January 14, 2011 stated that they had retained Rs 1.575 million from BES and taken up the matter with Directorate of Agriculture, Industries and Labour Welfare Department, Islamabad (AIL) for payment of balance amount of loss. The reply was not convincing, as the clause to deal with CER was not included in the contract.

DAC in its meeting held on January 17, 2011 directed the management to expedite the recovery. No progress was reported till finalization of this report.

11.8.4.2 Loss due to acceptance of defective turbines - Rs 8.588 million

According to clause 8.1 of HMC Purchase Manual the certificate issued by the manufacturers with regard to quality specification and non-defectiveness including warranty /guarantee shall be acceptable to the company. However, the company may carry inspection before shipment through competent individuals/ parties such as Lloyd's, TUEV, SGS etc.

Heavy Mechanical Complex placed purchase order dated June 13, 2007 worth US$ 35,174 on M/s Prime Steam Turbines USA for supply of Steam Turbine. The management also placed repeat orders No. PFH-7045 & 7059 dated October 01, 2007 and January 31, 2008 worth US$ 70,438 on the same supplier for supply of two Steam Turbines of the same specification.

Turbines against the purchase orders were received. However, during inspection before commissioning, these turbines were found defective and not according to tender specification and rejected by the end user. The matter was taken up with the supplier on April 22, 2008 for replacement of all three turbines.

The management of HMC also placed purchase order No.PFH-8004 dated February 27, 2008 worth US $ 33,680 on M/s Jasa Aman Engineering Malaysia for supply of single stage pressure turbine. The turbine was received on May 29, 2009 and accepted against warranty/guarantee certificate. However, during commissioning the turbine could not operate at desired level. The matter was reported to the supplier. In response, the supplier sent his technical engineer for rectification, but the technical engineer failed to operate the turbine. The supplier agreed to send back the turbine to Malaysia for replacement. Later on, the supplier replaced certain parts in the turbine but the turbine could not become operative. The matter was again taken up with the supplier for replacement, but the supplier could not replace the same. Thus the organization sustained loss of US $ 139,292 (US$ 105,612 + US$ 33,680) equal to Pak Rs 8.588 million (US $ 105,612 x 60.80 = Rs 6.421 million) + (US$ 33680 x Rs 62.60 = Rs 2.108 million) due to non-replacement of defective turbine.

The matter was reported to the management on September 22, 2010 and the Ministry on December 10, 2010. The management in its replies dated November 02, 2010 and January 14, 2011 stated that deficiencies observed during operation of these turbines were communicated to the suppliers for rectification. However, the supplier could not rectify these deficiencies even after replacement of certain parts and the matter is being vigorously perused with the supplier.

DAC in its meeting held on January 17, 2011 observed that performance guarantee of HMC was not returned within prescribed period of 12 months from

the dates of installation of turbines. The DAC directed the management to submit the revised reply within 15 days. No progress was reported till finalization of this report.

11.9 Technology Upgradation and Skill Development Company

11.9.1. Introduction

Technology Up-gradation and Skill Development Company (TUSDEC) is a company limited by guarantee having share capital, incorporated in January 2005 and licensed under section 42 of the Companies' Ordinance 1984. The principal activity of TUSDEC is to upgrade technology & skills of the key and strategic Industrial Clusters and connect Pakistan to the global value chain. TUSDEC is subsidiary of Pakistan Industrial Development Corporation (Pvt.) Limited (PIDC). The principal office of TUSDEC is located at State Cement Corporation Building, Kot Lakhpat, Lahore, Pakistan.

11.9.2 Comments on audited accounts

During DAC meeting held on January 17, 2011, management deliberated that TUSDEC was created by investment of Rs 150 million from the Government in 2005. Thereafter the Company was being run by an independent board, and all the instructions / policies issued by the Government from time to time were not applicable on the TUSDEC, even the government audit should not be conducted, as the company had already been audited by the External Auditors i.e. Chartered Accountants. Audit was of the view that Company had earned all the income through initial investment of Rs 150 million by the Government. Subsequent funds were released from PSDP funds for establishment of other companies. Director General, Commercial Audit and Evaluation, Lahore was conducting the audit of more than hundred companies having the same status. The DAC directed that audit by the AGP representatives would be conducted in accordance with the Company's rules and regulations. In case of any deviation from the Government instructions/policies and instructions issued by government from time to time will overrule the Company's rules/regulations if any.

11.9.2.1 The working results of the Company for the year 2009-10 as compared to the previous years are given below:

(Rs in million)

	2009-10	% Inc/ (Dec)	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07
Income	13.711	(52)	28.405	33	21.418	(47)	40.095
Total expenditure	49.384	(6)	52.284	(16)	62.055	32	47.090
Excess of expenditure over income	35.673	49	23.879	(41)	40.637	481	6.995
Other income	13.647	37	9.957	5	9.494	(12)	10.828
(Deficit)/Surplus before taxation	(22.026)	58	(13.922)	(55)	(31.142)	-	3.833
Taxation	-	-	(3.719)	994	(0.340)	70	(0.200)
Net deficit for the year	(22.026)	29	(17.101)	45	(31.482)	-	3.633
Accumulated deficit	(82.920)	36	(60.894)	22	(49.923)	-	15.436

Source: Annual Audited Accounts

Income of the Company decreased from Rs 28.405 million in the year 2008-09 to Rs 13.711 million in the year 2009-10 registering a decrease of 52% mainly due to reduction in the income of Gujranwala Tool, Dies and Moulds Centre (GTDMC). The Centre was to make progress in the subsequent years, which needs to be looked into.

11.9.2.1 Trade debts increased by 34% to Rs 1.975 million as on June 30, 2010 from Rs 1.450 million as on June 30, 2009. The reason for increase in trade debts may be elucidated. The debtor days calculated shows that the days have increased considerably from 18.6 days in 2009 to 52.5 days in 2010. This indicates that the Company was having recovery problem. Efforts need to be made to expedite the recovery process.

11.9.2.3 An amount of Rs 167.950 million (Rs 50 million in the year 2006-07 and Rs 117.950 million in the year 2007-08) was received from Public Sector Development Program (PSDP) for the development of garments sector. Out of which only Rs 65.549 million could be utilized within four years. The management of TUSDEC consequently suspended the garments project and refunded Rs 102.401 million to the government treasury in 2010. This indicates that project was improperly planned which needs to be justified.

11.9.2.4 There was negative cash flow of Rs 138.956 million from operating activities that shows that the Company was not generating any cash from operating activities. Make efforts to improve the position of cash flow from operations in order to make the Company self-sufficient.

11.9.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Being new auditee organization there was no pending PAC directive for compliance.

11.9.4 Audit Paras

11.9.4.1 Loss due to non-payment of insurance claim – Rs 32.400 million

As per Clause-5.1 of Marine Cargo Policy dated June 24, 2009, the insurance was attached from the time, the subject matter insured leaves the warehouse, premises or place of storage for the commencement of the transit, continues during the ordinary course of transit and terminates either on delivery to the consignees or other final warehouse premises or place of storage at the destination or on the expiry of 30 days after unloading the subject matter insured at the final place of discharge whichever shall fist occur.

The management of Ceramic Development and Training Complex (CDTC), Gujranwala purchased shuttle kiln valuing Rs 24.795 million (£240,000) from M/s CDS (Pvt) Ltd, United Kingdom. It was got insured from M/s Reliance Insurance Company Limited, Karachi to save the company from any transit loss. The shipment arrived at Karachi Port on December 23, 2009. After clearance, it was to be shifted to Gujranwala. The truck containing half kiln met an accident at Karachi on January 09, 2010 and loaded items were broken. The surveyor of the insurance company conducted survey of the accidental kiln and did not accept the damaged claim of the kiln. The photocopies of damaged parts of the kiln were sent to the manufacturer for improvement and suggestion, who replied that repairing cost would be £.110,000 with the condition that it

should not operate at the required temperature. M/s CDS, UK also stated that the major drawback is that it will be very difficult to reconnect it with the save section of kiln and if it is replaced, then warranty and guarantees given by them would be canceled. Any slight variation in tolerances on fabrication or gaps around the re-factory brickwork on the kiln base and kiln cars, would result in poor performance of the kiln. It was further stated that only realistic solution of kiln work with all warrantees and guarantees as given in original tender documents is to order another new unit costing £ 240,000 (equivalent to Pak Rs 32.400 million). This resulted in loss due to non-payment of insurance claim by the insurance company.

The matter was reported to the management and the Ministry on February 8, 2010 and December 21, 2010. In replies dated May 31, 2010 and January 10, 2011, the management stated that after safe arrival of the kiln at Karachi seaport, met an accident and unfortunately one-half suffered major damage at Karachi. A comprehensive A-class insurance was obtained at the time of opening of L.C. Similarly, a customs clearing and forwarding company was appointed to take care of customs clearing and forwarding of the shipment. On incident, the Project Director immediately informed the insurance company and filed a claim of Rs 32.400 million (cost of new kiln) as total loss vide letter dated May 18, 2010. However, the insurance company, declined to honour the claim on the grounds that the vehicle carrying the kiln was unfit for safe carriage of kiln, legal proceedings were initiated against the insurance company. The reply was not acceptable as either the insurance coverage was not sufficient or the transport was not arranged as per requirement of the load/sensitivity of the kiln. As per manufacturer report, the chances of becoming operational of the kiln were remote.

DAC meeting was held on January 17, 2011. The management informed the Committee that the kiln had been got repaired with the expense of Rs 600,000 and would be made operational at the end of January 2011. Manufacturer has granted proper warrantee period. The DAC directed the management to pursue the insurance claim vigorously and produce performance report of the kiln on its becoming operational. No progress was reported till the finalization of this report.

11.9.4.2 Overpayment of salary in excess of MP-I scale – Rs 2.330 million

As per Finance Division OM No.F.3(7)R.4/98-Vol-II/07(A) dated April 11, 2007 regarding revision of management positions scales (MP-I, MP-II, MP-III), the Government of Pakistan approved salary package (Basic Pay, House Rent and Utilities) Rs 279,750 for MP-I category officer i.e. Chief Executive Officer in the public sector organizations.

Contrary to the above, the Acting Managing Director (also the Acting CEO) was appointed as CEO of the company. He was entitled to draw Rs 279,750 per month against the prescribed limit for MP-I category officer but the management allowed monthly salary of Rs 315,000. This resulted in extra payment of Rs 2,329,667 from July 31, 2007 to December 31, 2010 as detailed below:-

Period		**Months**	**Salary as per MP-I scale (Rs)**	**Salary paid per month (Rs)**	**Difference (Rs)**	**Extra payment (Rs)**
From	**To**					
01.10.05	31.07.07	22 months	186,500	225,000	38,500	847,000
11.08.07	31.08.07	20 days	124,333	150,000	25,667	25,667
11.09.07	31.12.10	40 months	279,750	315,000	35,250	1,457,000
					TOTAL	**2,329,667**

Further, the age of the CEO was more than 65 years at the time of his appointment, which was beyond the permissible age limit.

The matter was reported to the management and the Ministry on December 13, 2010. The management in its reply dated January 10, 2011 stated that rules of Ministry of Finance and other regulatory authorities were not applicable to TUSDEC. The BOD in accordance with Memorandum and Articles of Association, which do not restrict the age of CEO, made the appointment of

CEO. The Board approved the salary and terms. The reply was not tenable as the payment of salary above the MP-I scale was not permissible as per Government policy.

DAC in its meeting held on January 17, 2011 directed the management to send the case to MOIP for appropriate action in the light of the government policy. No progress was reported till the finalization of this report.

11.9.4.3 Un-authorized employment of a civil servant approval of the Establishment Division - Rs 6.610 million

As per FR 69(b), a Government servant on leave may not take any service or accept any employment without obtaining the previous sanction of the President or any lower authority empowered to appoint him, if the proposed service or employment lies in Pakistan.

TUSDEC appointed a Federal Government civil servant as Head Communication and Linkages on contract basis on July 27, 2007 for a period of two years at a monthly salary of Rs 140,000 along with medical, annual leave and provident fund and company's maintained car plus 300 liters fuel as per Company polices. The management extended the contract for a further period of two years w.e.f July 27,2009. The management also upgraded him to General Manager, (Business Development).

The officer is a civil servant in Federal Government and no terms & conditions were settled between employing company and lending government. The management intimated during discussion that the said officer was on extra ordinary leave (EOL) due to which he is serving in TUSDEC. Any notification for his posting in the Company was neither found available in his personal file nor did the Government in his favour sanction any extraordinary leave. This resulted in un-authorized payment of Rs 6,610,450 from July 27, 2007 to November 30, 2010.

The matter was reported to the management and the Ministry on December 13, 2010. The management in its reply dated January 10, 2011 stated

that appointment was made with the approval of Board as stated in recruitment and selection policy of HR Manual. The reply was not acceptable, as the Establishment Division cannot post any civil servant of the Federal Government in any Company without notification.

DAC in its meeting held on January 17, 2011 observed that the officer joined TUSDEC in violation of government policy and directed the management to send the case to Ministry of Industries and Production for appropriate action under government policy. No progress was reported till finalization of this report.

11.9.4.4 Wasteful expenditure due to ill-planned project – Rs 8.026 million

As per minutes of the Steering Committee meeting of TUSDEC held on April 25, 2009, the management conceived an idea to set up an Overseas Skill Qualification Institute at Lahore in order to introduce /offer overseas skill certificates/diplomas in Pakistan in collaboration with City & Guilds, UK and also conduct International Qualification Examinations for 1,000 external candidates. In addition, the Centre would also run 47 courses with 18 faculties and course duration would be from two to 6 months. The Centre will impart training to 1,200 students per year. A target was also fixed to earn revenue of Rs 16 million in a year.

TUSDEC established a centre in a hired building, at a monthly rent of Rs 125,000 w.e.f. May 2009. The Centre could conduct only 7 courses by training 41 students. An expenditure of Rs 8,462,006 was incurred on renovation of building, rent of building, advertisement expenses and other expenses. An income of Rs 436,500 only was earned. The Centre neither achieved its training targets nor absorbed its advertising expenses. The Centre was established without preparation/approval of PC-I and was closed. This resulted in wasteful expenditure of Rs 8.026 million – Rs 0.436).

The matter was reported to the management on November 30, 2010 and the Ministry on December 4, 2010. The management in its reply dated January 10, 2011 stated that to be financed from the Company's own resources the BOD approved the proposal and budget of project as such no formal PC-I and its

approval was necessary. It was not a wasteful expenditure but a breakthrough for the country to award internationally recognized certificates. The reply was not convincing as the project did not achieve the desired targets and was not operational.

DAC in its meeting held on January 17, 2011 observed that private building was renovated and lavish expenditure was incurred at the public expense and directed that the matter should be investigated to fix responsibility at Ministry's level. No progress was reported till the finalization of this report.

11.9.4.5 Loss due to purchase of land at higher rate - Rs 12.000 million

As per GFR-10 (i), every officer incurring or authorizing expenditure from public funds is expected to exercise the same vigilance in respect of expenditure incurred from public moneys, as a person of ordinary prudence would exercise in respect of expenditure of his own money. Under rule 20 of Public Procurement Rules, 2004, the procurement of goods, services and works shall be made on competitive bidding by the procuring agencies.

TUSDEC invited quotations through advertisement dated September 23, 2007 for purchase of two acres of land for Ceramics Development and Training Complex (CDTC). The interested parties were requested to submit their sealed quotations by October 13, 2007 along with necessary documents with specified conditions contained in advertisement. In response, three parties submitted the following rates:

	Party Name	**Cost of land (Rs in million)**
	Muhammad Afzal Hussain	30 million
	Magma Ceramics	25 million
	Zain Rice Mills	13 million

The management recommended to purchase the land from the lowest bidder i.e. M/s Zain Rice Mills but later on they ignored it on the plea that said

land is away from the cluster and purchased land from the second lowest party i.e. M/s Magma Ceramics for Rs 25 million. The condition of availability of land in cluster area was not mentioned in the advertisement. Due to rejection of the lowest rate and purchase of land at higher rate without any solid reasons, the Company sustained a loss of Rs 12 million.

The matter was reported to the management and the Ministry on March 8, 2010 and December 21, 2010. In replies dated May 31, 2010 and January 10, 2011, the management stated that the project advisory committee proposed to purchase the most suitable/easily approachable land that was not far from Ceramics Cluster and only one party M/s Magma Ceramics provided the required documentations as per requirements in the advertisement. The reply was not convincing as the conditions of the availability of land in cluster area was not mentioned in the press advertisement and the land was procured at higher bidding rates in violation of Public Procurement Rules, 2004 and General Financial Rules.

DAC in its meeting held on January 17, 2011 directed the management to provide the paper regarding ceiling of the prices, along with deliberation of the land purchase committee on the issue through revised reply and get it verified from audit. No progress was reported till finalization of this report.

11.9.4.6 Non-transparent procurement of machinery and lab equipments without international tendering and in-violation of PC-I – Rs 72.565 million

As per PC-I of Ceramics Development and Training Complex (CDTC), machinery and equipments listed therein were to be procured. Under rule 20 of Public Procurement Rules 2004, the procurement of goods, services and works is to be made on competitive bidding by the procuring agencies.

The management of Ceramics Development and Training Complex (CDTC), Gujranwala purchased eight costly machines and lab equipments valuing Rs 72.565 million that were not mentioned in PC-I from M/s Breton SPA, Italy and M/s CDS Group, UK vide purchase orders dated June 18, 2009

and June 22, 2009 respectively. The management was bound to procure only those items, which were listed in the PC-I, approved by the CDWP on March 20, 2007. This resulted in non transparent procurement of machinery & lab equipments valuing Rs 72.565 million without international tendering process and in-violation of PC-I.

The matter was reported to the management and the Ministry on March 08, 2010 and December 21, 2010. In replies dated May 31, 2010 and January 10, 2011, the management stated that CDWP approved the project with the condition that the scope of the project may be enhanced to cover the whole ceramics sectors. Therefore, the PC-I was modified accordingly. Thereby, the BOD granted approval to the purchase of these machinery and equipments and sent the case of re-appropriation of project cost to MOIP, which was pending with Planning Commission for approval. The reply was not convincing as procurement was made in non-transparent manner without inviting international tenders and in violation of PC- I.

DAC in its meeting held on January 17, 2011 directed the management to get the approval of revised PC-I at an early date. No progress was reported till finalization of this report.

11.9.4.7 Excess payment on account of salary – Rs 1.164 million

As per annex - 5 of PC-I regarding Eight Advanced CAD/CAM Training Centers, the salary ranges were fixed for each category of employees.

Contrary to the above, the management of TUSDEC paid salaries to various employees over and above the limit approved by CDWP in PC-I of the project. This resulted in excess payment of Rs 1.164 million on account of salary to the employees of the project.

The matter was reported to the management on November 30, 2010 and the Ministry on December 4, 2010. The management in its reply dated January 11, 2011 stated that salaries mentioned in the PC-I were based on the rates of 2005 hence could not be observed in 2008.

DAC in its meeting held on January 17, 2011 observed the deviation from PC-I and directed the management to send the case for revision of PC-I to Ministry of Industries and Production. No progress was reported till finalization of this report.

11.9.4.8 Irregular appointment of a consultant without advertisement – Rs 0.744 million

In terms of Establishment Division, U.O No.II.3/2001-MSW-III dated January 25, 2002 regarding policy for contract appointment of a consultant, the consultancy should be widely advertised indicating the range of compensation package various facilities depending on the nature of work involved.

TUSDEC Lahore, hired a consultant on contract basis with effect from May 20, 2009 @ Rs 40,000 per month without advertisement. The consultant was to visit the company twice a week. Thus, expenditure of Rs 744,510 incurred on his pay from May 13, 2009 to November 30, 2010 was considered irregular.

Matter was reported to the management on November 30, 2010 and the Ministry on December 4, 2010. The management in its reply dated January 10, 2011 stated that the consultant was hired under a contract in accordance with TUSDEC, HR manual duly approved by its BoD. The reply was not convincing as the consultant was hired without open competition.

DAC in its meeting held on January 17, 2011 showed its concern for deviation of the government policy and directed the management to follow the instructions of the government in future and submit the case to MOIP for regularization from the Establishment Division. No progress was reported till finalization of this report.

11.9.4.9 Irregular expenditure incurred on foreign visits / tours - Rs 0.871 million

As per Cabinet Division letter No.F-9-148/2002/Min dated February 19, 2003 and UO No.F-9-148/2002/Min-II dated May 17, 2008, no foreign official visit would be made without prior clearance by the Ministry of Finance and

approval of the Prime Minister. At the conclusion of a foreign visit, the official shall submit post visit report to the Ministry of Foreign Affairs and Economic Affairs Division within 15 days of completion of the visit.

In TUSDEC Lahore, three officers undertook foreign visits without obtaining clearance of the Ministry of Finance and subsequent approval of the Prime Minister. The post visit reports after completion of tours were not submitted to the concerned quarters. Therefore, expenditure of Rs 871,362 on these foreign visits was considered irregular.

The matter was reported to the management on November 30, 2010 and the Ministry on December 04, 2010. The management in its reply dated January 10, 2011 stated that foreign and domestic visits by the Company officials were made according to the TUSDEC Board of Directors approved travel policy. The reply was not acceptable as the public funds were involved in performing the foreign visits as such approval of competent authority was necessary.

DAC in its meeting held on January 17, 2011 showed its concern for deviation of the government policy and directed the management to follow the instructions of the government in future and submit the case to MOIP for regularization from the Cabinet Division. No progress was reported till finalization of this report.

11.10 State Engineering Corporation (Pvt) Limited

11.10.1 Introduction

State Engineering Corporation (Pvt.) Ltd. (SEC) was incorporated in 1973 under the Companies Act 1913 (amended Companies Ordinance 1984) with a paid up capital of Rs 836 million fully subscribed by the Federal Government. The Corporation is working under the administrative control of Ministry of Industries and Production. As at June 30, 2010, the Company has fully paid up capital of Rs 889.961 million. Moreover, the Company also has Government Equity Fund of Rs 2.250 billion (Rs 1.173 billion as on June 30, 2009) representing the funds available for issue of shares to GoP.

Corporate Information

The registered office of the Company situated at House # 1-C, Street # 20, F-7/2, Islamabad. The Corporation manages and controls important segments of engineering industry of Pakistan. The industrial units are dealing in designing, engineering, manufacturing and supply of variety of light, medium and heavy engineering plants and machinery.

The core objectives of the Corporation are as follows:

- To promote industrial self-reliance and build a sound technical/industrial base in the country;
- To upgrade facilities for maximum possible indigenization and maintenance of technological edge over other domestic competitors;
- 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 the Corporation:

i. Pakistan Engineering Company Limited (PECO)
ii. Heavy Electrical Complex (Pvt) Limited (HEC)
iii. Pakistan Machine Tool Factory (Pvt) Limited (PMTF)

11.10.2 Comments on audited accounts

11.10.2.1 The working results of the Corporation for the year 2009-10 as compared with those of preceding years are given below:

(Rs in million)

	2009-10	% Inc / (Dec)	2008-09	% Inc / (Dec)	2007-08
Income					
Service charges	36.743	40	26.300	177	9.500
Interest income	7.565	13	6.718	127	2.962
Dividend income	17.696	150	7.079	-	-
Total income	62.004	55	40.097	206	12.462
Expenditure					
Operating expenses	28.174	10	25.713	-	25.681
Operating profit /(loss)	33.830	135	14.384	-	(13.219)
Other income	10.109	7,616	0.131	(100)	39.952
Profit / (loss) before taxation	43.939	203	14.515	(46)	26.733
Taxation	(0.360)	(88)	(2.949)	205	(0.968)
Profit / (loss) after taxation	43.579	277	11.566	(55)	25.765

Source: Annual Audited Accounts

The interest / profit on bank deposit increased only by 12.60%. whereas short term investments increased to Rs 8.00 million as on June 30, 2010 from Rs 4.00 million against the previous year as on June 30, 2009. The financial statements did not disclose the rate of interest for previous year. Therefore, audit was unable to comment on the comparatively low increase in the interest income. The information about the rate of interest may be intimated to Audit. It is also stressed upon the management to determine the need of working capital and invest all surplus funds in long term or some other profitable schemes.

11.10.2.2 Operating expenses increased from Rs 25.712 million in 2008-09 to Rs 28.714 million during 2009-10. Employees pay and allowances constituted major portion of the expenses. Employees' strength needs to be rationalized in accordance with the decrease in SEC units.

11.10.2.3 Other income increased to Rs 10.109 million in 2009-10 from Rs 0.131 million during the year 2008-09 due to writing back the provision for gratuity amounting to Rs 10.057 million. Reasons of write back along with approval of the competent authority may be intimated to Audit. Moreover, format of the profit and loss account has been changed by including other income in the operational income of the Corporation. Previously it was included as a separate head after operating profit. This needs to be explained.

11.10.2.4 Short loans to the units increased from Rs 0.915 million as on June 30, 2009 to Rs 10.915 million as on June 30, 2010 included an amount of Rs 10 million that was outstanding against PMTF carrying interest rate of 14%. No recovery has been made from the unit despite the fact that permissible period of repayment as per agreement has elapsed. Early recovery of loans from the units is stressed upon the management.

11.10.2.5 Current accounts (receivables) with subsidiary companies namely Pakistan Machine Tools Factory and Heavy Electrical Complex increased by 184% (2010: Rs 36.551 million, 2009: Rs 12.867 million) and 743% (2010: Rs 6.814 million, 2009: Rs 0.808 million) respectively. The nature of these receivables and latest position may be elucidated.

11.10.2.6 The Company showed unrealized gain of Rs 2,228.593 million as on June 30, 2010 (2008-09: Rs 2,042.182 million) on change in fair value of investments. As per IAS-39 Para 46(c), investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliability measured should be at cost. Accordingly, unrealized gain of Rs 1,717.209 million and Rs 49.349 million on investment in PMTF and ENAR Petrotech respectively and loss of Rs 236.256 million on investment in HEC, has inflated the equity of these companies by Rs 1,530.302 million as on June 30,

2010. The wrong accounting treatment in contradiction of the IAS-39, may be explained.

11.10.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1989-90	06	04	02	67
2.	1990-91	02	--	02	-
3.	1991-92	03	03	--	100
4.	1992-93	03	03	--	100
5.	1993-94	05	04	01	80
6.	1995-96	02	02	--	100
7.	1996-97	05	05	--	100
8.	1999-00	05	03	02	60
9.	2000-01	05	04	01	80
10.	2001-02	01	--	01	Nil
11.	2005-06	06	04	02	67
12.	2008-09	22	10	12	45

The overall compliance to the PAC directives by the PAO was not satisfactory.

11.11 Heavy Electrical Complex (Pvt) Limited

11.11.1 Introduction

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.

Corporate Information

The registered office of the Company is situated at House No. 1-C St.# 20, Sector F-7/2 Islamabad. The company is engaged in the manufacturing of new Power Transformers as well as repairing of damaged Power Transformers. Currently the Company is under process of privatization vide letter No.PC / Priv /SEC-HEC/2005 dated December 19, 2006 of Ministry of Privatization & Investment (Privatization Commission) Government of Pakistan.

11.11.2. Comments on audited accounts

11.7.2.1 The working results of the Company for the year 2009-10 as compared with the preceding years are tabulated below:-

(Rs in millions)

	2009-10	% Inc/ (Dec)	2008-09	% Inc/ (Dec)	2007-08
Sales	965.109	21	797.106	6	749.757
Cost of sales	871.333	9	800.854	41	568.855
Gross profit / (loss)	93.776	-	(3.748)	-	180.902
Operating expenses				-	
Administrative expenses	(24.597)	(43)	(42.880)	76	(24.332)
Selling & distribution exp.	(30.559)	191	(10.507)	(72)	(37.767)
Operating profit	38.620	-	(57.135)	-	145.473
Other income	17.191	(33)	25.601	185	8.994
Financial charges	(22.426)	118	(10.279)	(17)	(12.311)
Foreign exchange loss	-	-	(0.284)	-	-
Profit / (loss) for the year before tax	33.385	-	(42.097)	-	131.320
WPPF	(1.669)	-	-	-	-
Provision for taxation	(7.660)	-	-	-	3.794

Profit / (loss) after taxation	24.056	-	(42.097)	-	127.526
Accumulated loss	(238.247)	(9)	(262.030)	73	(151.209)

Source: Annual Audited Accounts

Sales of the Company increased by 21.08% to Rs 965.109 million in 2009-10 (2008-09: Rs 797.106 million) whereas the corresponding cost of sales increased only by 8.80% to Rs 871.333 million (2008-09: Rs 800.854 million). This resulted in gross profit of Rs 93.776 million in 2009-10 as compared with gross loss of Rs 3.748 million during the preceding year. However, GP margin was 24% in 2007-08, which changed to gross loss of 0.47% of sales in 2008-09 and again in GP margin of 9.7% in year 2009-10. The Company is required to keep a uniform GP margin to keep the sustainability in future.

Selling and distribution expenses increased by 190.84% from Rs 10.507 million in 2008-09 to Rs 30.559 million in 2009-10. This increase was due to provision for bad debts and advances of Rs 22.346 million (2008-09: Nil). Otherwise, there was no significant change in expenses.

11.11.2.2 Financial charges increased from Rs 10.279 million in 2008-09 to Rs 22.426 million in 2009-10 registering an increase of 118.17%. This significant increase is attributable to Company's dependence on short term Running Finance Facility from the bank. Dependence on the running finance facility is required to be reduced to increase net profit. Further bank charges increased by 3 times of expense in 2008-09, which needs to be explained.

Short term running finance increased from Rs 25.733 million as on June 30, 2009 to Rs 298.436 million as on June 30, 2010. The Company has facility from Bank of Khyber which carries mark up @ three months KIBOR + 250 basic points with floor of 12% and is to be recovered on quarterly basis. Management is stressed to generate the funds through operational activities instead of running finance facility carrying a high rate of mark up.

11.11.2.3 Current ratio of the Company decreased to 1.82:1 in 2009-10 from 2.79:1 in the preceding year, which is indicative of decline in the liquidity

position of the Company. Efforts are required to be made to improve liquidity of the Company.

11.11.2.4 Debtors increased to Rs 435.705 million as on June 30, 2010, from Rs 367.183 million as on June 30, 2009, which registered an increase of 18.66%. The need for an early recovery and looking into the credit policy is recommended. Further, party wise breakup of doubtful debts amounting to Rs 56.481million (as on June 30, 2010) along with latest position of recovery may be intimated.

11.11.2.5 Material consumed to sales ratio increased from 70% in 2008-09 to 90% in 2009-10. The Company should control and try to minimize cost of materials consumed in order to maximize profit.

11.11.2.6 External Auditors pointed out in their report dated October 25, 2010 that:

i. The Company's policy in respect of provision for doubtful debtors is to provide 50% of the amount for the debtors due from one to three years and 100% for the debtors older than three years. Keeping in view the Company's business norms, we do not concur with the said policy. As per our judgment at least 50% amount should be provided for the debtors older than one year and 100% for the debtors above two years. Had the provision is created as per our judgment the amount of the provision for doubtful debts would have increased by Rs 50.044 million, thereby decreasing the profit for the current year by Rs 50.044 million.

ii. The Company charged depreciation on plant and machinery based on capacity utilization. Since 1997; the date of purchase, to June 30, 2009 only 20% of historical cost of machinery has been depreciated.

iii. The Company does not have reliable and appropriate estimates in respect of expected usage, physical wear and tear technological obsolescence arising from changes or improvements in production or from a change in the market demand for the product, of plant and

machinery. Moreover, the Company has not made assessment at the balance sheet date in respect of impairment of plant and machinery.

iv. Considering the total life of the plant and machinery being 25 years; on straight-line method the depreciation charge for the current and future years would be Rs 56.141 million per year. The difference, of depreciation charged by the Company and the depreciation to be charged on the straight-line method is Rs 38.187 million. Had the depreciation charge by the Company based on the straight-line method, the Company's profit for the year would have been reduced by Rs 38.187 million.

The position with reference to above qualifying opinion of the external auditors (Chartered Accountants) may be explained.

11.11.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1991-92	03	02	01	67
2.	1992-93	02	02	--	100
3.	1993-94	06	04	02	67
4.	1995-96	05	02	03	40
5.	1996-97	05	05	--	100
6.	1999-00	05	04	01	80
7.	2000-01	04	02	02	50
8.	2001-02	01	--	01	Nil
9.	2005-06	06	03	03	50
10.	2008-09	06	05	01	83
11.	1991-92	03	02	01	67
12.	1992-93	02	02	--	100

The overall compliance of the PAC directives by the PAO was not satisfactory. It seems that PAO was not taking interest in the compliance of PAC directives. The PAO is advised to ensure 100% compliance of PAC directives.

11.11.4 Audit Para

11.11.4.1 Loss due to ignoring the lowest bidder - Rs 11.235 million

According to the terms of gallop tender enquiry, dated November 23, 2009, for supply of Press Boards, there was no restriction of country of origin for the store to be supplied.

In response to the tender enquiry of HEC, dated November 23, 2009, six firms offered their rates. On evaluation of offers, material offered by M/s. Stark Corporation, M/s ESSA Corporation and M/s TF Trading Co. was rejected on the grounds that the same was of Chinese and Indonesian origin and HEC had not used this material previously. Purchase order was placed on M/s Impex International, Lahore for supply of 49,179 kg of eight types of Press Board valuing Rs 32.639 million. The rates of M/s Impex were much higher than landed cost of material offered by first lowest bidder i.e. M/s ESSA Corporation. This resulted in loss of Rs 11.235 million due to ignoring first lowest bidder in spite of the fact that the first lowest bidder provided all the requisite information that was available on the record.

The matter was brought to the notice of the management on October 04, 2010 and the Ministry on December 10, 2010. The management in its reply dated January 12, 2011 stated that offers of M/s ESSA Corporation, M/s Srark Corporation and M/s TF Trading Company were rejected because they did not provide the requisite information. The reply was not tenable as the requisite information was provided by the first lowest bidder but purchase order was placed on the 4th highest bidder.

In DAC meeting held on January 17, 2011, management apprised that press boards for transformers were being purchased from M/s Impex by ignoring the 1st three venders on technical grounds. Audit informed the Committee that the requisite information was provided by the 1st lowest bidder but his offer was not considered without any cogent reasons. DAC directed the management to submit revised reply covering all the aspects and get it verified from audit. No compliance was received till finalization of this report.

11.12 Pakistan Engineering Company Limited

11.12.1 Introduction

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 etc. The Company had earlier closed down its all divisions, except structure division, and is principally engaged in the manufacturing and sale of electricity transmission and communication towers. At present, structure, pumps, electric motor, foundry and rolling mills division are in operation. State Engineering Corporation Limited and Rotocast Engineering Company (Private) Limited holds 25% shares each, while the public holds 27% shares.

11.12.2 Comments on audited accounts

11.12.2.1 The working results of the Company for the year 2009-10 as compared to the previous years are tabulated below:-

(Rs in million)

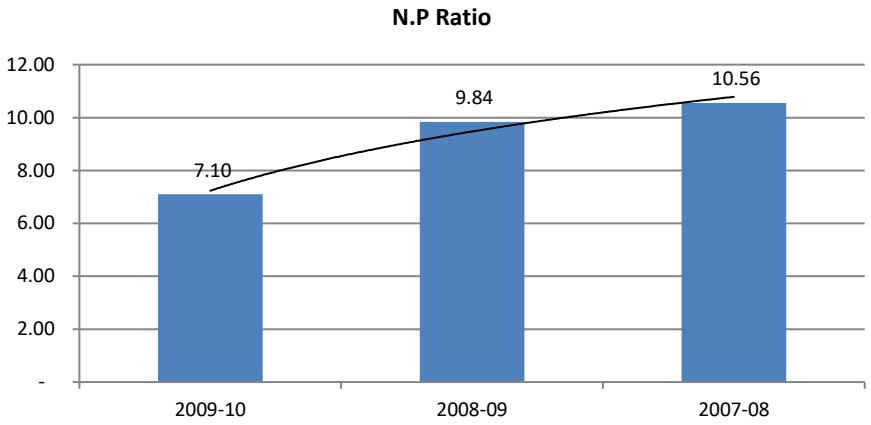
	2009-10	% Inc/ (Dec)	2008-09	% Inc/ (Dec)	2007-08
Sales	1,677.379	23	1,361.633	31	1,036.919
Cost of goods sold	1,371.129	32	1,035.306	27	815.731
Gross profit / (loss)	306.250	(6)	326.327	48	221.188
Selling and distribution expenses	11.961	(16)	14.168	67	8.492
Freight and forwarding expenses	25.587	15	22.182	99	11.159
General and administration expenses	49.916	19	41.807	21	34.660
Total expenses	87.464	12	78.157	44	54.311
Operating profit before financial charges	218.786	(12)	248.170	49	166.877
Other charges	0.757	51	0.501	(52)	1.054
Financial charges	26.118	(68)	82.551	899	8.260
Other income	5.880	(87)	44.309	135	18.784
Workers profit participation fund	9.596	16	8.256	5	7.878

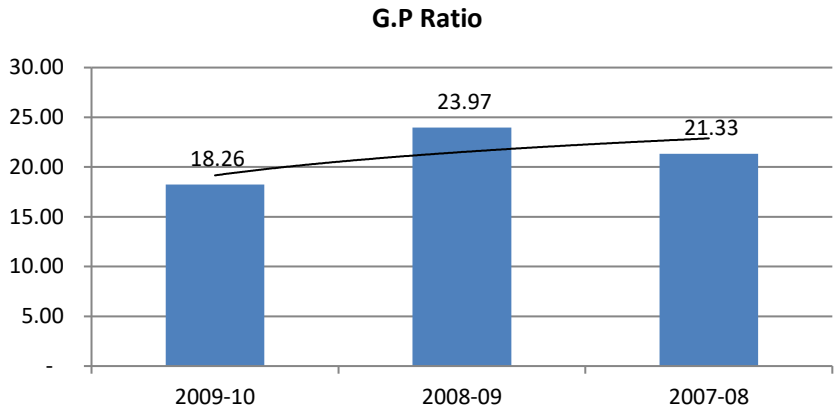
Profit/(loss) before taxation	188.195	(6)	201.171	19	168.469
Provision for taxation	69.091	3	67.223	14	59.022
Profit/(loss) after taxation	119.104	(11)	133.948	22	109.447
Accumulated profit/(loss) C/F	(994.063)	(6)	(1,056.203)	(10)	(1,168.990)
Earnings per share (Rs)	20.93	(11)	23.54	22	19.23

Source: Annual Audited Accounts

Sales increased to Rs 1,677.379 million during the year 2009-10 from Rs 1,361.633 million in the previous year 2008-09 registering an increase of 23.19% whereas the cost of sales increased by 32.44%. This un-even increase in cost of sales needs justification.

The ratio analysis shows that the Company's profitability was decreasing over the last three years.





11.12.2.2 Stores and spares consumed increased from Rs 76.591 million in 2008-09 to Rs 112.282 million in 2009-10 showing an increase of 46.59%. The reasons for this huge increase need to be elaborated. Increase in processing charges from Rs 17.474 million in 2008-09 to Rs 36.510 million in 2009-10 i.e. 108.93% may also be justified.

11.12.2.3 Repair and maintenance charges, included in general and administration expenses, increased by 113.46% from Rs 1.366 million in 2008-09 to Rs 2.919 million in 2009-10. Steps may take to control this cost.

11.12.2.4 Land held for sale is valued at Rs 314.724 million, while the fair value of land as disclosed in the financial statements was Rs 2,631.500 million. As per requirements of IAS-16, the land must be valued to reflect its fair value. The matter needs justification.

11.12.2.5 Actual production of the Company as compared to assessed capacity was very disappointing. Pumps Section, Electric Motor Section and Rolled Material Section had been operating at 4% to 9% of the assessed capacity, which was very low performance and needs to be justified. Steel fabrication production decreased by 15% due to decrease in orders, increase in cost of production and electricity crises.

Production Division	U/M	Capacity Assessed	% Capacity Achieved	2009-10	% Inc/ (Dec)	2008-09
Pumps/ Turbines	No.	4,000	10	392	6	371
Electric Motors	No.	6,500	8	543	99	273
Rolled Material	Tons	30,000	5	1,437	7	1,342
Steel Fabrications (STR)	Tons	30,000	37	11,206	(16)	13,286

(Annual accounts Note: 46)

Audit would suggest the management to sort out the reasons of decrease in sales orders and chalk out proper marketing plan to increase the sales. Moreover, efforts may be made to control the cost of production.

11.12.2.6 Raw material included in stock-in-trade, increased to Rs 133.368 million as on June 30, 2010 as compared to Rs 121.752 million as on June 30, 2009 registering an increase of 9.54%, which reflected an adverse procurement planning. The reasons of high stock level of raw material may be justified. Stock in trade also included stocks relating to closed down operations valuing Rs 25.338 million. The aging of these stocks may be provided and their retention be justified.

11.12.2.7 The management of PECO purchased 773.917 M.ton zinc ingot, out of which 377.272 M.ton zinc ingot was purchased locally from M/s Sunrise Metals (Pvt) Ltd. without any tendering procedure. Furthermore galvanizing contract was issued to M/s Sunrise Metals (Pvt) Ltd without following any tendering procedure. The management was arranging insurance from IGI Insurance Ltd. without getting competitive rates, which may be justified.

11.12.2.8 The management of Company announced 100% cash dividend amounting to Rs 56.902 million i.e. Rs 10 per share for the year under review. It is important to mention here that the issue regarding PECO shares sold by NIT is still under consideration of PAC. The Sub-Committee of PAC had recommended in its meeting held on December 18, 2008, that the Government receivables amounting to Rs 3.14 billion may immediately be recovered from the Company either through sale of land or pay back to start now before announcing dividends to shareholders. The PECO management got legal opinion from M/s Akhter Ali

& Associates dated October 23, 2010 who suggested to decrease the percentage of dividend so that the balance amount available with the Company is utilized for the repayment of loan/ interest to the Government of Pakistan. The Company has accumulated loss of Rs 1,056.203 million as on June 30, 2009 and Rs 994.063 million as on June 30, 2010. In view of these accumulated losses, the declaration of dividend needs to be justified.

Ministry of Finance vide UO No. 12 (14) Inv-III/97 dated June 30, 2009 stated that PECO owes Rs 3.314 billion to the Government of Pakistan. This amount included Rs 1.523 billion on account of interest payable to Government of Pakistan. The Company had not accounted for this liability in the financial statements, which is not in accordance with International Accounting Standards and Companies Ordinance 1984. Due to non-recognition of interest payable as liability in the Financial Statements, the Company showed profit. As per Section 245 of Companies Ordinance 1984, a dividend can only be declared out of profit and not in case of loss. Due to non- incorporation of interest payable on loans to the Government of Pakistan the management declared dividend. Further, a committee has been constituted for reconciliation of amounts payable to Government. Therefore, no dividend should have been paid till reconciliation was completed. The payment of dividend was, thus, not justified.

11.12.2.9 As per pattern of shareholding, 24.62% of shares are held by M/s Rotocast Engineering (Pvt) Ltd., which has taken control of PECO by acting in concert with other individuals without public announcement, thus violating rules of Substantial Acquisition and Control Ordinance, 2002. Therefore, an enquiry under Section 21 of Substantial Acquisition and Takeover Ordinance 2002 needs to be conducted by SECP against M/S Rotocast Engineering (Pvt) Ltd.

11.12.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1989-90	05	05	--	100
2.	1990-91	06	05	01	83
3.	1991-92	03	03	--	100

4.	1992-93	04	04	--	100
5.	1993-94	02	02	--	100
6.	1995-96	04	02	02	50
7.	1996-97	08	07	01	88
8.	1999-00	04	02	02	50
9.	2000-01	02	01	01	50
10.	2001-02	01	--	01	Nil
11.	2005-06	05	03	02	60
12.	2008-09	01	--	01	Nil

The compliance to the PAC directives by the PAO was not satisfactory.

11.13 National Fertilizer Corporation of Pakistan (Pvt) Limited

11.13.1 Introduction

National Fertilizer Corporation of Pakistan (Pvt.) Limited (NFC) was established in August 1973 as a private limited company to carry out the business of manufacturing, buying, selling, exporting and importing all types of chemical fertilizers. The Corporation has three subsidiaries including two institutes of engineering and one marketing company.

11.13.2 Comments on audited accounts

11.13.2.1 The working results of the Corporation for the year 2009-10 as compared to the previous years are given below:

(Rs in million)

	2009-10	% Inc/ (Dec)	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07
Income:							
Dividend	7.577	79	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	780.648	6	737.559	38	533.750	(24)	701.349
Other income	0.116	(80)	0.576	(94)	9.588	2172	0.422
Total income	788.341	-	784.485	39	563.001	(37)	892.246
Expenses and other charges							
Administrative and general expenses	93.318	5	88.687	2	87.112	(32)	128.943
Donations	-	-	29.453	-	0.025	(90)	0.250
Write off- receivable from Government of Pakistan	-	-	191.432	-	-	-	3,379.150
Financial charges/bank charges	0.008	100	0.004	(60)	0.010	67	0.006
Total expenses	93.226	(70)	309.576	255	87.147	--	(3,508.340)

Profit before taxation	695.115	46	474.908	(0.2)	475.854	--	(2,616.103)
Taxation	246.000	49	165.000	01	163.235	--	-
Profit after taxation	449.115	45	309.908	(01)	312.619	--	(2,616.103)

Source: Annual Audited Accounts

Dividend income of the Corporation increased from Rs 4.243 million in 2008-09 to Rs 7.577 million in 2009-10 registering increase of 79% but no dividend was received from State Enterprises Display Centre (Pvt) Limited (SEDC) during the year under review. Long-term investment of Rs 24.110 million in SEDC needs to be justified.

11.13.2.2 Profit on bank deposits and Government securities increased by 6% from Rs 737.559 million in year 2008-09 to Rs 780.648 million in the year 2009-10 whereas the amount kept in deposit accounts of the Corporation increased by 13% from Rs 5,372.146 million as on June 30, 2009 to Rs 6,080.669 million as on June 30, 2010. No break up of profit on bank deposits was given in notes to the accounts. This shows that the periodic investments were not made on the competitive rates, which need to look into.

11.13.2.3 NFC has three subsidiaries i.e. two institutes of engineering and one marketing company. The object of the company was to carry out business of manufacturing, buying, selling, expending and exporting all types of chemical fertilizers, which were being performed by NFML (its subsidiary company), and two institutes are also being upgraded to independent universities. Audit is of the view that an operating expense of Rs 93.218 million along with taxation of Rs 246.000 million in 2009-10 would have been avoided by winding up the NFC (HO) and allowing the subsidiary to work independently. The incurring of huge expenses without any function needs justification.

11.13.2.4 Current ratio of the Corporation indicates that too much amount was stuck up in loans and advances. The current ratio for the current and previous period was the same i.e. 58:1. The Corporation has over-invested its funds and should take steps to recover the amounts at the earliest from the subsidiary companies.

11.13.2.5 Accrued profit on investments amounting to Rs 114.723 million as on June 30, 2010 included Rs 24.512 million receivable from WAPDA First Sukuk certificates on October 22, 2009 and April 22, 2010 but the same was not realized on the due dates. Make efforts for early realization of the profit on investments.

11.13.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1989-90	39	39	--	100
2.	1990-91	49	49	--	100
3.	1991-92	31	20	11	65
4.	1992-93	28	28	--	100
5.	1995-96	36	35	01	97
6.	1996-97	34	34	--	100
7.	1999-00	28	27	01	96
8.	2000-01	35	31	04	89
9.	2001-02	17	15	02	88
10.	2005-06	36	36	--	100
11.	2008-09	14	12	02	86

The overall compliance of the PAC directives was not satisfactory.

11.13.4 Audit Para

11.13.4.1 Irregular payment due to irregular appointment of a consultant – Rs 0.837 million

According to Section 4(i) & (ii) of Establishment Division UO No.11-3/2001-MSW-III dated January 25, 2002, the requirement for hiring of consultants should be widely advertised. Advertisement will indicate the range of compensation package, including various facilities, depending on the nature of work involved.

The management of National Fertilizer Corporation of Pakistan (Pvt) Limited appointed a consultant on September 1, 2009 at a package of Rs 75,000 per month with other benefits in violation of the above procedure. The consultancy neither was advertised nor was the procedure of selection prescribed in the guidelines observed by the management. The appointment of consultant when all units of NFC had been privatized and payment of Rs 837,221 up to June 2010 was considered irregular.

The matter was reported to the management on November 01, 2010 and the Ministry on November 30, 2010. The management in its reply dated January 10, 2011 stated that the services of Mr. Niaz-ul-Haq who had rich experience in the field of fertilizer were hired. The officer assisted Chairmen, NFC on professional matters. However, services of the officer were terminted in October 2010. The reply was not convincing as the consultant was appointed without advertisement.

DAC in its meeting held on January 17, 2011, referred the case to Audit Committee of the Board for appropriate action against person(s) at fault. No progress was reported till the finalization of this report.

11.14 National Fertilizer Marketing Limited

11.14.1 Introduction

National Fertilizer Marketing Limited (NFML) is a subsidiary of National Fertilizer Corporation of Pakistan (Pvt.) Limited (NFC). It was operated on 'No profit no loss' basis as the total expenditure incurred by the Company in marketing of fertilizers was reimbursed as incidentals by associated companies /subsidiaries of National Fertilizer Corporation. All the companies of NFC have since been privatized and at present NFML is involved in the transportation and distribution of imported fertilizer (Urea) through its marketing system which is allocated to NFML by Government according to needs of the country by import through Trading Corporation of Pakistan (Pvt) Limited.

11.14.2 Comments on audited accounts

The management of the Company failed to provide audited accounts for the year 2009-10 till December 31, 2010. It may be added the accounts of the Company for the year 2008-09 were audited and certified by the chartered accountants on May 28, 2010.

11.14.2.1 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**	**% Inc/ (Dec)**	**2005-06**
Sales	12,317.802	522	1980.12 0	(7)	2,136.471	(56)	4,813.005
Cost of sales	10,005.993	460	1786.81 1	(12)	2,029.082	(57)	4,702.859
Gross profit	2,311.809	1096	193.309	80	107.389	(3)	110-.146
Provision for allowances of incidentals	-	-	(52.748)	-	174.740	(50)	346.124
Operating expenses							
Sales promotion and administrative expenses	74.857	39	53.681	(48)	103.703	(50)	209.016
Allowances to dealers	48.390	135	20.571	(46)	38.280	(45)	69:522
Storage expenses	60.200	258	16.839	(38)	27.086	(9)	29,753
Freight expenses	2,337.868	1149	187.195	3	181.099	(36)	284.541

Bank charges	0.279	262	0.077	(55)	0.172	(2)	0.176
Total expenses	2,521.594	806	278.363	(20)	350.034	(41)	593.009
Operating loss	209.785	-	137.801	-	-	-	-
Other income	352.011	155	137.801	102	68.211	(50)	136.740
Net profit/(loss) for the year	142.226	-	-	(50)	282.129	(38)	455:269

Source: Annual Audited Accounts

The above data indicates that sales of the Company amounted to Rs 12,318 million in 2008-09 as against Rs 1,980 million in 2007-08. Despite huge increase in sales by 522% in 2008-09 as compared to the previous year, the Company sustained an operating loss of Rs 209.785 million. However, due to other income of Rs 352.011 million, the operating loss of the Company turned into profit of R.142.226 million. As the Company is operating on no profit – no loss basis, the reasons leading to the operational loss need to be elaborated.

11.14.2.2 According to IAS-2, the cost of purchase can only be treated that are directly attributable to the determining of the costs of purchase. Further IAS-37 regarding recognition of provisions states that a provision shall be recognized when:

a) an entity has a present obligation as a result of a past event;

b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

c) a reliable estimate can be made of the amount of the obligation.

It is clearly mentioned in IAS-37 that if these conditions are not met, no provision shall be recognized. According to agreed price, the amount payable to TCP has already been shown in the accounts. Therefore, creation of provision on the assumption (that TCP can charge extra price) and increasing the purchase cost to that extent, is a violation of IAS 2 and IAS-37, which needs to be explained.

11.14.2.3 Trade debts receivable amounting to Rs 117.671 million as on June 30, 2009 included debit balance against dealers of Rs 30.717 million. The management should justify the reasons for appearance of debit balances in the books of account against dealers because as per Company's policy the fertilizer is sold to dealers only against advance payment.

11.14.2.4 The Company had a balance of Rs 3.163 billion in current accounts as on June 30, 2009. Keeping the heavy balance in current accounts does not depict a prudence funds management. Immediate placing of surplus funds in term deposits is stressed upon the management.

11.14.2.5 Other payables as on June 30, 2009 also included Rs 143.917 million representing different shortages, claims differentials, penalties and other old unclaimed liabilities etc. The management needs to critically review each of 139 items and in case chances of claim do not exit, the same may be considered for writing back and treated as income.

11.14.2.6 The External Auditors observed in their report to the members of the NFML Board dated May 28, 2010 that the quantities of closing stock of urea (local and imported) shown as "in transit" at the terminal date could not be reconciled as there appeared to be a difference of 6,647.500 metric tons valuing Rs 76.444 million (approximately) that was not received even until the date of their report. Accordingly, the value of stock in trade of urea remained un-reconciled and unverified by them to that extent. The reasons for non-reconciliation need to be elucidated.

11.14.2.7 The external auditiors also pointed out that the actual freight expenses incurred on the transportation of imported Urea procured from TCP having been more than the amount being allowed to be deducted from the payments thereof, which was subject to actual expenditure. They reported that an amount of Rs 253.556 million was neither debited to TCP Account nor claimed from TCP as yet i.e. May 28, 2010. This needs justification.

11.14.2.8 The external auditors further stated that the balance payable to TCP in the sum of Rs 4,665.610 million as appearing in the accounts remained unverified by them. Similarly, the balance receivable from Utility Store Corporation and Hazara Phosphate Fertilizers (Pvt) Ltd was Rs 89.671 million and Rs 204.31 million respectively as on June 30, 2009, which remained un-reconciled and unverified. Similarly the balances with Utility Stores Corporation (USC) Rs 89.071 million and Hazara Phosphate Fertilizers (Pvt) Limited – Rs 204.321 million at the terminal date also remained unconfirmed by them; and consequently remained unverified by them to that extent. The necessary reconciliation and verification may be done at the earliest.

11.14.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Consolidated status of PAC directives has been given in NFC (Para-11.13.3)

11.14.4 Audit Paras

11.14.4.1 Non-imposition of penalty on carriage contractor due to non-delivery of imported urea - Rs 4.460 million

As per clause 18(i) of the agreement with carriage contractor, in case the consignment not delivered to the consignee within 10 days of the dispatch, then on the 11th day the contractor will be liable to pay damages @ Rs 20,000 per 10,000 Kg. Further, as per clause 18(ii), in case the consignment not delivered to consignee within 15 days, then, on 16th day of the dispatch the contractor will be liable to pay end selling price of the fertilizer along with damages of Rs 40,000 per 10,000 Kg.

Review of the Journal Voucher No 6 / 248 of June 2010 and its allied details indicated that 1,115 metric ton fertilizer was dispatched through carriage contractor M/s Abdul Rasheed Judoon during January 2010, which did not reach at designated destinations. The contractor reported to NFML through his letter dated May 14, 2010 that the consignment had been stolen by thieves during transit and requested to adjust the cost of fertilizer @Rs 15,600 per metric ton against his pending freight bills of Rs 14.649 million and for the balance amount of Rs 2.745 million, he handed over the CDR to NFML. The damages of Rs 4.460 million @ Rs 40,000 per ten ton for 1,115 metric tons were not recovered from the party as required under the provisions of contract with the party.

The matter was reported to the management and the Ministry on November 30, 2010. The management in its reply dated December 23, 2010 stated that the authority competent as per agreement had waived off the penalty. The reply was not acceptable as theft of 1,115 M.ton was not possible and not proved through record. The chance of black marketing by the carriage contractor cannot be ruled out, as the sale price of urea fertilizer at that time was much higher due to shortage. Further, collusion of the NFML staff with the carriage contractor was not investigated and instead of forfeiture of security and blacklisting of the carriage contractor, the LD charges were waived off. Thus, undue favour was granted to the carriage contractor.

DAC in its meeting held on January 17, 2011 directed the management to send the case to FIA for investigation against the transport contractor as the chances of black marketing cannot be ruled out. Further, the transport company and its directors should be blacklisted for further business with NFML. No progress was reported till the finalization of this report.

11.14.4.2 *Excess reflection of freight charges than approved/authorized rates in the annual accounts - Rs 1.224 billion*

Economic Coordination Committee (ECC) of the Cabinet in its decision dated July 1, 2010 while according approval for additional charges for transportation of imported urea @ Rs 96.90 per bag from Gwadar to Karachi stated that transportation charges are subject to actual claim by NFML after reconciliation with TCP. The TCP at the time of import of urea in 2008-09 agreed that fright charges from Karachi to upward destination would be paid @ Rs 66 per bag subject to actual claim by NFNL after reconciliation with TCP.

As per annual accounts and other allied schedules of NFML for the years 2008-09 and 2009-10, the actual freight charges were Rs 7.818 billion whereas, the freight charges should have been around Rs 6.594 billion as allowed by Government / TCP reflecting huge variation of Rs 1.224 billion as detailed below:-

Year	port	Quantity of Urea (M.tons)	Freight allowed per bag (Rs)	Total freight allowed (Rs)	Actual freight (Rs)	Variation (Rs)
2008-09	Karachi	7,404,316	66	488,684,856	523,218,780	34,533,924
2008-09	Gwadar	10,029,648	66+96.90	1,633,829,659	1,787,907,111	154,077,452
2009-10	Karachi	3,771,724	66	248,933,784	407,484,690	158,550,906
2009-10	Gwadar	25,919,388	66+96.90	4,222,268,305	5,099,095878	876,827,573
		47,125,076		**6,593,716,604**	**7,817,706,459**	**1,223,989,855**

Freight charges incurred by NFML were over and above the authorized limit by Rs 1,223,989,855 during the years 2008-09 and 2009-10. Overall percentage of increase was 19%, which cannot be termed as normal increase. The freight charges required to be reconciled/verified with Trading Corporation of Pakistan for adjustment of payment of actual freight charges as the fixed freight charges were allowed subject to actual freight charges.

The matter was reported to the management and the Ministry on November 30, 2010. The management in its reply dated January 7, 2011 stated that freight charges were subject to actual expenses and reconciliation with TCP was yet to be done and after reconciliation with TCP, necessary adjustment

would be made. The reply was not convincing as reconciliation was pending since 2008-09.

DAC in its meeting held on January 17, 2011 directed the management to reconcile the accounts with TCP and send a summary to Ministry for revision of transportation charges. DAC also directed to explore the possibility of transportation through NLC and Railway to get the economical and competitive rates. No progress was reported till the finalization of this report.

11.14.4.3 *Loss due to non-replacement of torn / burst bags by the supplier - 0.743 million*

According to the provisions of the purchase orders, the respective firms supplying WPP bags were bound to supply the bags as per specifications and there would be no compromise on the quality of the bags. The bags not conforming to the specifications and printing design will be rejected and returned after printing the word "REJECTED" by indelible black ink on the face of the bags.

NFML purchased bags from different firms for the fertilizer imported at Karachi and Gwadar Ports during 2008-09 and 2009-10. NFML vide its letter dated November 21, 2009 informed to NFC (Head Office) that huge number of bags were received torn/burst and requested to advise the WPP bags manufacturers to replace the 25,000 torn/burst bags lying at different stores of NFML. It was, however, observed that the said bags had not been replaced by the firms and consequently NFML had to purchase the bags for re-bagging. Thus, the NFML had to sustain the loss of Rs 743,250 for which no claim had been lodged against the respective firms.

The matter was reported to the management and the Ministry on November 30, 2010. The management in its reply dated December 23, 2010 stated that torn out bags were supplied by M/s TCP. The TCP supplied 27.700 million bags and out of them 25,000 bags were found torn, the same had been requested for replacement. The reply was not convincing, as replacement of torn bags was not made.

The DAC in its meeting held on January 17, 2011 was not satisfied with the reply put forth by the management and directed them to submit the revised reply and get it verified from the audit. No progress was received till the finalization of this report.

11.15 NFC Institute of Engineering and Fertilizer Research (Pvt) Limited

11.15.1 Introduction

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.

11.15.2 Comments on audited accounts

11.15.2.1 The working results of the Company for the year 2009-10 as compared to the previous years are as under:

(Rs in million)

	2009-10	**% Inc/ (Dec)**	**2008-09**	**% Inc/ (Dec)**	**2007-08**	**% Inc/ (Dec)**	**2006-07**
Income							
Tuition fee	89.476	20	74.790	7	70.086	9	64.594
Other income	41.543	37	30.258	11	27.145	588	3.948
Total income	131.019	25	105.048	8	97.231	15	84.349
Expenses							
Research and development	9.315	41	6.614	16	5.723	5	5.474
Admn. and general expenses	24.572	20	20.484	8	18.925	20	15.782
Teaching expenses	78.239	20	65.142	16	56.246	35	41.535
Total expenses	112.127	22	92.241	14	80.894	29	62.474
Excess of income over expenditure	18.893	48	12.807	(22)	16.337	(24)	21.558

Source: Annual Audited Accounts

Income of the Institute increased to Rs 131.019 million in 2009-10 from Rs 105.048 million in 2008-09 registering an increase of 25% while administration and general expenses increased by 20% from Rs 20.484 million in 2008-09 to Rs 24.572 million in 2009-10. Effort need to be made to maintain the income and minimize the expenses.

11.15.2.2 Capital work in progress of buildings increased by 33% from Rs 391.753 million in the year as on June 30, 2009 to Rs 521.775 million as on June 30, 2010. The duration of civil work projects was 9 to 15 months, which were to be completed by June 11, 2009, but the same have not been completed till June 30, 2010. Reasons for non-completion of civil work within the scheduled time along with LD charges claimed from defaulting contractors may be made known to audit.

11.15.2.3 The management incurred an expense of Rs 729.984 million up to June 30, 2010 on development of infrastructure for upgradation of the Institute to university. Therefore, it is recommended that maximum Ph.D. faculty may be inducted at an early date and additional disciplines may be started for maximum utilization of infrastructure and labs. Efforts being made in this regard may be communicated. The details of efforts being made to up-grade the Institute to independent university may also be spelled out.

Moreover, the details of intake since inception of the Institute, pass out students' ratio and details of faculty may be communicated.

11.15.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Consolidated status of PAC directives has been given in National Fertilizer Corporation of Pakistan (Pvt) Limited at Para- 11.13.3.

11.15.4 Audit Paras

11.15.4.1 I. *Irregular appointment of a Project Director – Rs 2.119 million*
II. *Excess payment due to allowing work for four days in a week - Rs 1.370 million*

As per clause-II of Establishment Division OM No.6/02/2000/R3 dated May 6, 2000 regarding policy / guidelines for contract appointments in Autonomous/Semi-Autonomous Bodies, Corporations, and Public Sector Companies etc. owned and managed by the Federal Government, the appointments for projects which have a limited life, may be made on contract basis by the prescribed appointing authority after proper advertisement of the vacancies. The advertisement should indicate prescribed academic and professional qualifications, experience, age, provincial / regional quotas, special quotas etc. where applicable as per rules / government policy.

i. NFC-IEFR, Faisalabad management appointed a Project Director vide NFC letter dated May 30, 2008, terminable on 15 days notice on either side. The contract appointment was made without any advertisement in press and any request / application of the said officer. Therefore, an amount of Rs 2.119 million has been paid to the officer up to October 2009 was considered irregular.

ii. The said Project Director submitted his resignation on October 17, 2008 with the request that either his resignation may be accepted or he may be allowed to work only three days in a week. NFC management accepted his proposal. This resulted in loss of Rs 1,368,442 on account of remuneration due to allowing work for three days in a week.

The matter was reported to the management and the Ministry on November 30, 2010. The management in its reply dated January 10, 2011 stated that the Project Director having rich experience in the field of real estate development and construction was engaged under critical circumstances. The reply was not convincing as the officer was appointed on contract without advertising the post and allowing him to work for four days in a week.

DAC in its meeting held on January 17, 2011, management apprised that NFC Board had taken the irregular appointment of consultant seriously and terminated his services immediately. The DAC directed the management to submit the revised reply and get it verified from audit. No progress was reported till the finalization of this report.

11.15.4.2 Un-due payment of insurance coverage – Rs 0.259 million

According to Rule-8 of the Institute of Engineering and Fertilizer Research regarding grant of car/scooter/motorcycle purchasing loan to the employees, "the company will obtain in the joint name of the employee and company a comprehensive insurance cover of the car/ scooter /motorcycle at its own expense during the pendency of loan".

The management of NFC-IEFR, Faisalabad paid a sum of Rs 258,991 as insurance premium of the vehicles purchased by the staff out of the loans granted by the Institution during the year 2009-10 and did not debit the expense to the employees' personal account. When enquired, it was informed that payment being made as per approved policy of loaning and management is bound to pay the premium for 5 years (within repayment loan period) to secure the loan amount. The management's contention was not justified as the loans were already secured as the same was granted only to permanent employees.

The matter was pointed out to the management on November 1, 2010 and the Ministry on November 30, 2010. The management in its reply dated January 10, 2011 stated that as per approved policy of the company the cost of comprehensive insurance was born by the company. The vehicles were registered in the joint name of employees and the company to secure the loans. The reply was not convincing, as there was no need of providing insurance coverage to the loans granted to permanent employees. No such arrangement exists in any public sector company.

DAC in its meeting held on January 17, 2011 directed the management to place the para before Finance Committee of BoD to resolve the issue. No progress was made till the finalization of this report.

11.16 NFC Institute of Engineering and Technological Training (Pvt) Limited

11.16.1 Introduction

The Company was incorporated on June 26, 1984 as a private limited company under the name "NFC Technical Training Centre (Pvt) Limited". Subsequently, the name of the Company was changed to "NFC Institute of Engineering and Technological Training (Pvt) Limited" on August 30, 1994. 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.

11.16.2 Comments on audited accounts

11.16.2.1 The working results of the Institute for the year 2009-10 as compared to the previous years are given below:

(Rs in million)

	2009-10	% Inc/ (Dec)	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07
Income							
Tuition and training fee and other income	182.431	13	161.348	5	152.981	8	142.029
Expenditure							
Teaching	81.681	24	65.975	9	60.342	2	58.014
Training	6.475	13	5.708	16	4.924	(1)	5.348
Admn. and general	23.104	11	20.803	49	13.964	(6)	14.025
Bank charges	0.019	(10)	0.021	11	0.019	73	0.011
Total expenditure	111.279	20	92.507	17	79.249	3	77.398
Surplus before taxation	71.152	3	68.841	(7)	73.732	14	64.631
Taxation	0.478	-	-	-	0.469	2	0.460
Surplus after taxation	70.674	3	68.841	(6)	73.263	14	64.171

Source: Annual Audited Accounts

Income of the Institute increased to Rs 182.431 million in 2009-10 from Rs 161.348 million in 2008-09 registering an increase of 13% while the teaching expenses increased to Rs 81.681 million in 2009-10 from Rs 65.975 million in 2008-09 registering an increase of 24%, which needs to be elucidated.

Surplus percentage of current year and pervious year i.e. 39% & 43% respectively indicates that although income increased by 13% the increase in salaries, wages and other benefits under teaching expenses remained the main cause of decline in surplus earned salaries over 61% in the current year and 68% in the previous year of total teaching expenses which should be controlled.

11.16.2.2 The development fund increased to Rs 670 million as on June 30, 2010 from Rs 600 million as on June 30, 2009 registering an increase of 12%. The development fund needs to be utilized properly for improving educational facilities.

11.16.2.3 The addition in building and roads valuing Rs 1.379 million transferred from capital work in progress (2009: Rs 11.538 million) was appearing in notes to the accounts. The balance of work in progress of Rs 10.159 million was not shown in the balance sheet. An early completion of the building and roads needs be made and the treatment of work in progress be justified.

11.16.2.4 The Government of Pakistan has issued notification for up-gradation of Institute to Engineering University and an amount of Rs 553 million was lying with the Institute, which has been placed in short term investment. Efforts should have been made for development of infrastructure at an early date. The detail of efforts being made in this regard may be elucidated.

11.16.2.5 The detail of students in take, pass out and faculty employed since inception of the Institute may be communicated.

11.16.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Consolidated status of PAC directives has been given in NFC Para- 11.13.3.

Chapter-12
Ministry of Information and Broadcasting

12.1 Associated Press of Pakistan Corporation

12.1.1 Introduction

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.

12.1.2 Comments on audited accounts

Management till December 31, 2010 did not furnish annual audited accounts of the Corporation for the years 2003-04 to 2009-10.

12.1.3 COMPLIANCE OF PAC DIRECTIVES

Detail of Paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1988-89	06	06	--	100
2.	1989-90	05	05	--	100
3.	1990-91	02	02	--	100
4.	1991-92	03	03	--	100
5.	1992-93	06	04	02	67
6.	1993-94	02	02	--	100
7.	1994-95	08	06	02	75
8.	1997-98	02	02	--	100
9.	1998-99	02	02	--	100
10.	1999-00	04	--	04	Nil
11.	2000-01	02	02	--	100
12.	2001-02	02	02	--	100
13.	2005-06	09	09	--	100

The overall compliance of PAC directives by the PAO was satisfactory except for the years 1992-93, 1994-95 and 1999-00. The PAO was advised to ensure 100% compliance of the PAC directives at the earliest.

12.2 Pakistan Broadcasting Corporation

12.2.1 Introduction

Pakistan Broadcasting Corporation was incorporated on December 1972 under the Pakistan Broadcasting Corporation Act, 1973. Pakistan Broadcasting Corporation (PBC) is a Federal Government Corporation being managed through Ministry of Information and Broadcasting.

The core operational activities of PBC are to provide broadcasting services for general reception in all parts of Pakistan, the territorial waters thereof, on board ships & aircrafts (such services being hereafter referred to as Home Services) and in other countries and places (such services being hereafter referred to as External Services) for the purpose 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.

Financial highlights

- The Corporation's income increased by 7% to Rs 1,891.696 million (2007-08: Rs 1,767.313 million).
- Deficit before taxation further decreased by 9.5% to Rs 116.038 million (2007-08 Rs 128.245 million).
- Deficit after taxation decreased by 10% to Rs 116.038 million (2007-08: Rs 129.469 million).
- Deficit carried forward further increased by 21% to Rs 670.827 million (2007-08: Rs 554.789 million).

12.2.2 Comments on audited accounts

Annual Audited Accounts of the Corporation for the year 2009-10 were not furnished by the management till December 31, 2010.

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

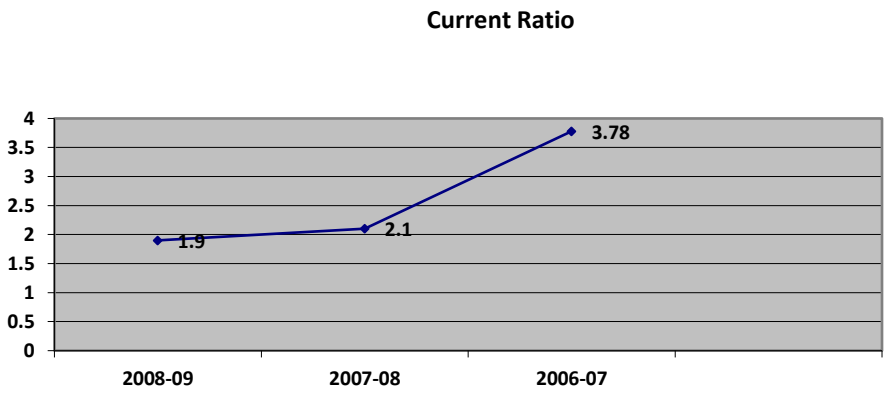
(Rs in million)

	2008-09	**% Inc / (Dec)**	**2007-08**	**% Inc / (Dec)**	**2006-07**	**% Inc / (Dec)**	**2005-06**
Advertisement Income	132.632	(19)	163.408	-	163.883	18	138.402
Subsidy from Govt.	1,720.744	9	1,576.000	5	1,500.000	15	1,304.000
Other income	38.321	37	27.905	7	26.064	(72)	92.161
Total income	**1,891.697**	**7**	**1,767.313**	**5**	**1,689.978**	**11**	**1,524.564**
Expenditure							
Salaries and allowances	786.187	8	727.420	8	670.673	10	608.506
Pension and gratuity	306.218	22	250.236	29	193.97	13	171.555
Personnel expenses	299.651	(2)	305.446	14	267.112	27	210.131
Traveling and conveyance	52.202	19	43.727	(2)	44.713	4	42.991
Programme expenses	109.365	(8)	118.799	(5)	124.665	19	104.487
News expenses	48.077	(11)	54.289	27	42.754	11	38.368
Other admn. expenses	125.244	17	107.263	(24)	86.552	2	84.805
Training expenses	0.006	(98)	0.342	(51)	0.705	553	0.108
Repair and maintenance	11.809	6	11.190	(24)	14.660	29	11.352
Legal and professional Charges	0.780	(1)	0.791	(2)	0.810	88	0.430
Power and fuel charges	179.181	10	163.557	2	160.554	-	161.07
Financial expenses	1.493	23	1.218	(10)	1.346	15	1.173
Stores and spares consumed	13.763	(50)	27.466		23.397	23	19.093
Write off of fixed assets	2.108	-	-	-	-	-	-
PBF loan written off	-	-	-	-	1.712	-	-
Transmitting equipment written off	0.95	-	-	-	-	-	-
Insurance claims loss	-	-	-	-	32.434	-	-
Provision for obsolete and slow moving stores and spares.	-	-	9.589	(54)	20.859	(58)	49.198
Depreciation	69.84	(4)	73.035	(1)	74.064	2	72.871
Amortization	0.016	23	0.013	(93)	0.19	-	-
Provision for doubtful debts	0.847	(28)	1.176	(26)	1.593	87	0.853
Provision for other receivables	-	-	-	-	-	-	0.221
Total Expenditure	**2,007.735**	**6**	**1,895.558**	**8**	**1,762.763**	**12**	**1,577.212**
Surplus/(deficit) before taxation	(116.03)	(10)	(128.245)	77	(72.621)	71	(42.647)
Provision for taxation	-		1.224	22	1	44	0.693

Surplus/(deficit) after taxation	(116.039)	(10)	(129.470)	76	(73.620)	70	(43.341)
(Deficit) brought forward	(554.789)	30	(425.319)	21	(351.697)	14	(308.355)
(Deficit) carried forward	(670.828)	21	(554.789)	30	22.40	21	(351.697)

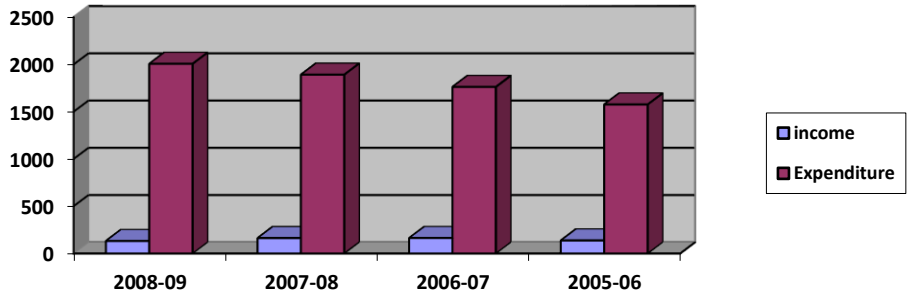
Source: Annual Audited Accounts

The current ratio is the primary test of the overall solvency of a concern. The below graph indicates that there was a significant variation in the current ratio of the Corporation as it was 3.78, 2.1 and 1.9 in 2006-07, 2007-08 and 2008-09 respectively. However, current ratio for the year was very low from the previous year. The management may take steps to improve the position.



Other comments:-

12.2.2.2 The advertisement income decreased from Rs 163.408 million in 2007-08 to Rs 132.632 million in 2008-09 resultantly financial burdens on the national exchequer on account of Government subsidy increased from Rs 1,576.000 million in 2007-08 to Rs 1,720.744 million in 2008-09. Due to poor operational performance, the deficit of the Corporation remained Rs 116.039 million in 2008-09 (2007-08: Rs 128.245 million). Efforts need to be made to control the expenditure.



12.2.2.3 The Corporation had not incorporated its liabilities towards the pension fund amounting to Rs 2,049 million as determined by the actuarial evaluation carried out as on June 30, 2003. Further actuarial valuation for the year ended June 30, 2008 had not been carried out.

12.2.2.4 Capital work in progress amounting to Rs 337.828 million was being shown from previous years, which may be completed at an early date.

12.2.2.5 Accounts receivables (un-secured) increased to Rs 121.589 million as on June 30, 2009 from Rs 114.511 million as on June 30, 2008 registering 6% increase. Early recovery of the outstanding dues is stressed upon the management. Debtors' turnover days increased from 70 days to 92 days in 2008-09. Efforts should be made to reduce debt collection period in order to improve working capital position.

12.2.2.6 Advances, deposits, prepayments and other receivables amounting to Rs 107.276 million as on June 30, 2009 included Rs 49.108 million on account of tax deducted at source payable to Income Tax Department. Early payment is stressed upon the management.

Liabilities related to payment of salaries to police guards increased from Rs 100.439 million as on June 30, 2008 to Rs 149.474 million as on June 30, 2009, which reflected, that management had no plan to clear the liability.

12.2.2.7 Stores and spares worth Rs 160.864 million as on June 30, 2009 included obsolete and slow moving stores worth Rs 79.647 million that were

49.5% of the total value of stores. This indicated weak inventory management, which needs improvement.

12.2.2.8 The management charged full year depreciation on assets in the year of addition where as no depreciation is charged in the year in which the assets are disposed off. The policy is not in line with the IAS-16 (International Accounting Standard). This needs to be reviewed.

12.2.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1	1989-90	08	08	--	100
2	1990-91	06	04	02	67
3	1991-92	11	10	01	91
4	1992-93	07	04	03	57
5	1993-94	10	09	01	90
6	1994-95	05	02	03	40
7	1995-96	06	06	--	100
8	1996-97	06	04	02	67
9	1997-98	09	04	05	44
10	1998-99	05	05	--	100
11	1999-00	06	02	04	33
12	2000-01	04	04	--	100
13	2001-02	02	01	01	50
14	2005-06	06	05	01	83
15	2008-09	15	03	12	20

The overall compliance of the PAC directives by the PAO was not satisfactory.

12.2.4 Audit Paras

12.2.4.1 Overpayment due to appointment of MD in M-I instead of M-II scale - Rs 4.200 million

As per Finance Division OM No.F.6(27)IMP-I/79 dated April 30, 1980, the post of Director General of Pakistan Broadcasting Corporation falls in Management Grade-II.

Contrary to the above, the DG, PBC was appointed on contract basis for two years in M-I instead of M-II scale, vide Cabinet Secretariat (Establishment Division) notification dated June 5, 2008. The post of DG, PBC was not upgraded to M-I. This resulted in overpayment of Rs 4.200 million on account of pay and allowances from June 16, 2008 to November 15, 2010.

The matter was reported to the management on September 05, 2010 and the Ministry of December 4, 2010. The management in its reply dated January 3, 2011 stated that Director General, PBC was appointed by the Government of Pakistan, Establishment Division, therefore, the case had been moved to the Establishment Division for comments. The response from the Establishment Division was still awaited.

DAC in its meeting held on January 13, 2011 decided to wait for the response of the Establishment Division. No progress was reported till finalization of this report.

12.2.4.2 Irregular payment due to appointment beyond the age of superannuation - Rs 1.180 million

In terms of Establishment Division OM No.10/6/2004-R.2 dated June 21, 2005 engagement of retired officers, as consultant/advisor etc. shall require prior permission of the Government. Furthermore, as per Government instructions issued by Establishment Division vide O.M. dated November 10, 2007 that it would be responsibility of the respective Secretaries and Heads of Office to ensure that the officers relinquished the charge on attaining the age of superannuation.

PBC management appointed an Advisor Finance & Audit at a monthly pay of Rs 60,000 w.e.f. April 19, 2010 and another person (without designation) at a monthly salary of Rs 30,000 w.e.f. June 1, 2010 for a period of 1 year on contract basis. Both the officers were retired from the PBC after the age of superannuation w.e.f. April 14, 2010 and May 31, 2010, respectively. Prior approval of the government was not obtained. This resulted in irregular payment of Rs 1.180 million.

The matter was reported to the management on November 5, 2010 and the Ministry on December 4, 2010. The management in its reply dated December 31, 2010 stated that due to retirement of Director (Finance) and Controller (Finance & Accounts) w.e.f March 31, 2010 and April 14, 2010 respectively. Mr. Mufti was engaged as Advisor Finance and Audit for one year and case for approval of the Prime Minister was moved on March 4, 2010. Similarly, on retirement of Mr. Gul-Taj was engaged as expert services in various ongoing projects for one year. The reply was not convincing because the officers were engaged after superannuation without prior permission of the competent authority.

DAC in its meeting held on January 13, 2011 directed the management that the case may be submitted to the Prime Minister for regularization and suitable persons may be appointed after due process in future. No progress was reported till finalization of this report.

12.2.4.3 Loss due to procurement of store at higher rates - Rs 0.840 million

As per Rule-30(i) of Public Procurement Rules-2004, all bids shall be evaluated in accordance with the evaluation criteria, other terms and conditions as set forth in the prescribed bidding documents. No evaluation criteria shall be used for evaluation of bids that had not been specified in the bidding documents.

PBC management invited sealed tenders through press for procurement of Branded complete sets of STL 30 watts/45 watts including Transmitter, Receiver, Antenna & cable. Three bids were opened on March 8, 2010. The rate of Rs 529,950 per unit, quoted by M/s. World Wide Vision, Islamabad was the lowest and their specifications were according to the tender documents. The equipment quoted by the other two firms was not in accordance with tendered specification. PBC management ignored the 1st lowest bidder without recording any reason and purchase order dated July 12, 2010 was placed on the 2nd lowest bidder i.e. M/s ESS Islamabad @ Rs 649,950 per unit valuing Rs 4,549,650. Due to ignoring the first lowest bidder, and award of purchase order to second lowest bidder, PBC sustained a loss of Rs 840,000.

The matter was reported to the management on October 29, 2010. The management in its reply dated January 3, 2011 stated that the best/latest technology was procured on the recommendation of the Technical Committee. The reply was not acceptable as the specifications of the store of the first lowest bidder were in accordance with the tender specifications.

DAC in its meeting held on January 13, 2011 directed the management to provide relevant record, complete in all respect to Audit for verification within a week. No progress was reported till finalization of this report.

12.2.4.4 Irregular appointment – Rs 0.290 million

According to policy, guidelines issued by the Establishment Division vide OM No.6/2/2000-R-3 dated May 6, 2000; all contract appointments are required to be made through press advertisement. Moreover, as per item No. 8(ii) of 360th BOD meeting held on February 6, 2009, the PBC Board imposed complete ban on all type of appointments.

Contrary to the above, Pakistan Broadcasting Corporation Islamabad hired Raja Mohsin Khalid as Resource Person in FM-94 on monthly-consolidated salary of Rs 20,000 vide letter dated December 11, 2009. Later on, the official concerned requested that his appointment/joining might be considered w.e.f. August 14, 2009 (i.e. on Gazetted Holiday). The approval was accorded by the Director General and conveyed to him vide letter dated December 23, 2009.

The appointment was made on the request of the applicant by ignoring all codal formalities. Further, no record was available in his personal file regarding his academic qualification as well as experience in the subject field. This resulted in irregular payment of Rs 290,000 from August 14, 2009 to October 31, 2010.

The matter was reported to the management on November 5, 2010 and the Ministry on December 7, 2010. The management in its reply dated December 31, 2010 stated that Raja Mohsin was appointed as resource person being suitable in planning and launching of FM-94 (English Channel). The engagement was not on

permanent footing and was paid as per PBC Artist. The reply was not tenable because the official was appointed without advertisement of the post.

DAC in its meeting held on January 13, 2011 directed the management to recover the back date benefits from the resource persons and policy for hiring the resource persons be formulated and submitted to the Ministry for its review/approval. No progress was received till the finalization this report.

12.3 Pakistan Television Corporation Limited

12.3.1 Introduction

Pakistan Television Corporation Limited (PTVC) was established as an un-quoted public limited company under Companies Act 1913 (Now Companies Ordinance 1984) on November 26, 1964. All its shares are held by Government of Pakistan. There is no change in the pattern of shareholding of Company, since incorporation.

Corporate information:

a) Main activities of the Company are as follows:

- Providing television-broadcasting services by telecasting programmes of all kinds, news pictorials and documentaries, local and foreign films of all kinds and nature for the purpose of disseminating information, education and entertainment.
- Carrying out instructions of the Government of Pakistan with regard to general pattern or policies of programmes, announcements, news, etc.
- To carry on the business of commercial advertisement by selling programmes and advertising time of television stations either directly or through advertising agencies or by setting up advertising agencies or by other means.

b) **AREAS OF OPERATIONS**

The Company has seven television centers located in four Provinces, Federal Territory & AJK namely: Lahore, Multan, Peshawar, Karachi, Quetta, Islamabad and AJK TV.

Outlook

Currently the main source of income of the Company is license fee that is almost 57% of the total revenues of the Company. If the Government withdraws the TV license fee, the Company will not be able to continue as a going concern. Moreover, income from advertisement that should be the main source of income of a commercial television corporation is continuously decreasing over past years, which needs to be looked into.

12.3.2 Comments on audited accounts

12.3.2.1 The working results of the Company for the year 2009-10 as compared with previous years are as under:-

(Rs in million)

	2009-10	% Inc /(Dec)	2008-09	% Inc /(Dec)	2007-08
Revenue - net	4,813.370	10	4,372.326	(4)	4,536.175
Operating expenditure	3,985.548	(7)	4,267.561	25	3,405.938
Admn. expenditure	1,114.407	(3)	1,147.769	17	978.327
Finance cost	1.336	(94)	23.084	548	3.560
	5,101.291	(6)	5,438.413	24	4,387.825
Operating profit / (loss)	(287.921)	(73)	(1,066.087)	-	148.350
Other operating income	320.435	112	151.044	27	119.405
Placement of funds in assignment account	-	-	1,034.000	-	-
Profit before Tax	32.514	(73)	118.957	(56)	267.755
Taxation	11.380	(73)	41.633	-	(5.288)
Profit after tax	21.134	(73)	77.324	(72)	272.983
Earnings per share (Rs)	0.52	(90)	5.06	(72)	17.85

Source: Annual Audited Accounts

As per IAS-18, revenue can only be recognized if it is probable that inflow of economic benefits would occur. Further as per IAS-10, adjusting events are only those that provide evidence of conditions that existed on the balance sheet date.

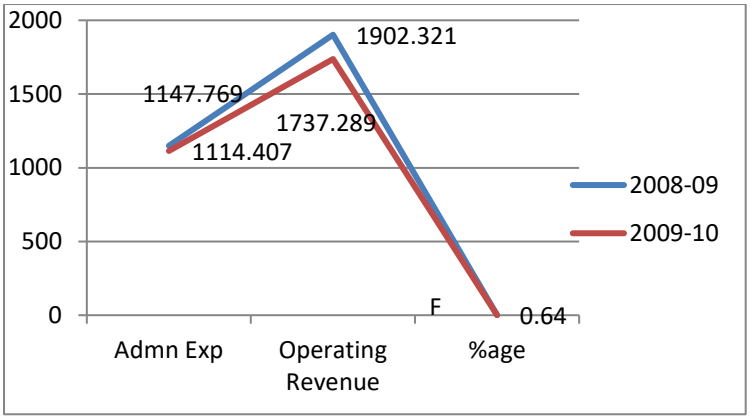
Contrary to the above, the PTVC in the audited accounts for the year 2009-10 vide note 13 to the accounts showed an accrued income of Rs 548.926 million. Further, profit and loss account for the year ended June 30, 2010 under the heading placement of funds in assignment account showed nil amounts. Whereas the Ministry of Finance sanctioned vide No. 2(63)/2009-Dev(PTVC)

dated October 3, 2009 an amount of Rs 1,034 million to cover the losses accrued by PTVC during the previous years and this amount was to be transferred in assignment account No. AAC-2447-9 as ceiling for the financial year 2009-10. PTVC treated this as "Other Income" in the accounts for the year ended June 30, 2009 whereas the Ministry of Finance sanctioned the funds on October 3, 2009 for the year 2009-10. This was a violation of the IAS and resulted in overstatement of profit for the year 2008-09. The treatment as well as disclosure resulted in a profit of Rs 118.957 million whereas the Corporation would have sustained a loss before taxation of Rs 915.043 million for the year 2008-09. The Corporation also paid bonus of Rs 31.251 million to its employees due to declaration of profit in the accounts by wrong treatment of IAS.

12.3.2.2 Overall revenue of the Corporation increased by 10% which was purely due to income from TV license fee collection which increased to Rs 3.078 billion in 2009-10 from Rs 2.470 billion in 2008-09 registering an increase of Rs 24.53%. However, income from advertisement and program sales decreased by 9% and 4% respectively. The reasons for decline may be explained. The Company management is required to focus on its commercial operations rather than TV licenses fee.

12.3.2.3 Operating expenses decreased by 7% in 2009-10 over the previous year 2008-09 mainly due to news bulletin, program purchase and sports program expenses, which gives an indication that the Company's core operational activities were declining as also evident from corresponding decrease in revenues from advertisements. The management was required to focus on operational activities to earn the revenues. Moreover, operating expenses to operational revenues (advertisements program sales) ratio was 229% (2008-09: 224%). This needs to be taken care of by the management.

12.3.2.4 Although the administrative expenses decreased by 2.91%, the ratio of administrative expenses to operational revenues (advertising & program sales) deteriorated from 60% in 2008-09 to 64% in 2009-10. This should be focused by the management as it is on much higher side for a commercial organizations.



12.3.2.5 Expenditure of Rs 7.421 million and Rs 7.462 million was recorded in the years 2009-10 and 2008-09 respectively under the head "License fee collection expenditure", this was in addition to the license fee collection charges of Rs 648.458 million and Rs 620.496 million for the year 2009-10 and 2008-09 deducted by WAPDA from the relevant income. The expenditure of Rs 7.421 million is required to be justified.

12.3.2.6 An amount of Rs 42.639 million was booked as provision for doubtful debts, in admn. expenses. This was due to change in accounting policy for creating provision of 2% of gross sales every year. The minutes evidencing the change in policy along with the brief notes may be provided.

12.3.2.7 Other operating income increased by 112%, which was mainly due to Misc. Receipts of Rs 248.870 million (2008-09: Rs 34.959 million). The detailed breakup of these may be provided, as notes to the accounts did not explain it.

12.3.2.8 Remuneration to Managing Director increased by 45% (2009-10: Rs 10.959 million, 2008-09: Rs 7.594 million) whereas the operational performance of the Company was much weak as compared to the previous year. This needs to be explained.

12.3.2.9 Debtors collection period during the years 2007-08, 2008-09 and 2009-10 being 280 days, 315 days and 385 days respectively, reflects weak debts collection policy and liquidity problems faced by the organization.

12.3.2.10 The Government has 97 % shares in PTV subsidiary, M/s Shalimar Recording and Broadcasting Company Limited through its Public Sector Corporations (71 % PTV, 19 % PBC & 7% PNCA). The subsidiary is not entertaining the audit by the Auditor General of Pakistan.

12.3.2.11 As per IAS 20 the Grant in Aid should be fully amortized when the project is completed. An amount of Rs 187.256 million remained un-amortized as on June 30, 2010, in-spite of the fact that the Project of PTV-2 channel is operative which needs to be explained.

12.3.2.12 Loan to PTV Foundation (Guarantee) Ltd, a subsidiary of PTV increased to Rs 41.080 million on June 30, 2010 as against Rs 34.644 million of June 2009 showing increase of 18.58% over the previous year. Since the Foundation is not earning any income, so there are much chances of non-recovery of loans. PTV management needs to take immediate action to dissolve the Foundation to avoid further losses on this account.

12.3.2.13 Programme purchased stock increased to Rs 186.355 million on June 30, 2010 as against Rs 136.631 million as on June 30, 2009 showing increase of 36% over the previous year. This shows that PTV is focusing on private production especially when there are over 100 producers available with PTV. This aspect needs attention.

12.3.2.14 The external auditors of the Company have qualified their opinion on the following grounds:

a) The Corporation during the year has credited Rs 399.278 million as prior year's adjustments through "statement of changes in equity" which are prior period (s) errors. This accounting treatment is not in accordance with paragraph 42 of IAS-8 (Accounting Policies, Changes in Accounting Estimates and Errors).

b) "Trade debts" as shown by note 12 include Rs 552.378 million past due for over three years' and include Rs 149.272 million against which cases are pending before the courts. Moreover, the Corporation has not incorporated impairment loss against "Loan to PTV Foundation (Guarantee) Ltd" of Rs 41.080 million as explained in note 8.2 to the financial statements. Taking cognizance of the situation it has been decided that the policy, stated in note 12.1, " of maintaining provision for doubtful debts for at least 2% of gross sales during the year" be replaced by creating the provision @ 2% on gross sales every year. Accordingly, the provision for doubtful debts of Rs 47.221 million for the year 2009 and of Rs 42.639 million for the year 2010 has been incorporated in the accounts to safeguard the doubtful debts.

c) The staff retirement liabilities as reported in the financial statements; pension payable of Rs 333.550 million is not in accordance with the requirements of IAS-19 (Employees Benefits), which requires that employees benefits should be evaluated by actuarial valuation. Moreover, actuarial valuation report relating to year ended June 30, 2009 indicates transitional asset to be recognized as shown by note 18 to the financial statements as a result of adoption of IAS 19 that has not been incorporated by the Corporation.

d) The Corporation has not prepared consolidated financial statements as required by section 237 of Companies Ordinance, 1984 and by IAS -27 (Consolidated and Separate Financial Statements) and IFRS-3 (Business Combinations) of its subsidiaries.

The reasons of non-compliance and the status of activities performed to remove such qualifications may be intimated.

12.3.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1989-90	09	08	01	89
2.	1990-91	06	02	04	33
3.	1991-92	07	06	01	85
4.	1992-93	05	02	03	40
5.	1993-94	06	05	01	83
6.	1994-95	05	01	04	20
7.	1996-97	05	01	04	20
8.	1997-98	09	05	04	55
9.	1998-99	06	04	02	66
10.	1999-00	09	01	08	11
11.	2000-01	08	07	01	87
12.	2001-02	03	02	01	67
13.	2005-06	12	10	02	83
14.	2008-09	13	03	10	23

The overall compliance of the PAC directives by the PAO is poor.

12.3.4 Audit Paras

12.3.4.1 Inadmissible payment of bonus due to violation of government instructions and international accounting standards - Rs 141.912 million

As per Finance Division O.M dated November 30, 2001 and March 18, 2002, the payment of bonus was subject to the approval of the Administrative Ministry and the concurrence of the Finance Division. The other mandatory conditions were as under:-

i) The bonus would be paid on operational profit of the organization only, excluding income from the other sources.

ii) The payment of bonus would not be made as customary but it would be on the basis of profit earned and as reflected in the annual audited accounts of the organization.

iii) No commitment of payment of bonus may be made during negotiations with the CBA because of the conditions mentioned (i) and (ii) above.

iv) Managing Directors and members of Board of Directors will not be entitled to receive bonuses.

Contrary to the above, the management of PTVC (HQ) Islamabad paid a sum of Rs 40.786 million and Rs 101.126 million as bonus to the officers and staff during the years 2008-09 and 2009-10 respectively on the eve of Eid Festivals. The Corporation sustained operating loss of Rs 1.066 billion and Rs 287.921 million during the years 2008-09 and 2009-10 respectively and as such bonus was not admissible to the employees.

Ministry of Finance granted vide sanction dated October 3, 2009, an amount of Rs 1.034 billion in the assignment account No. ACC-2447.9 to cover the losses incurred by PTVC during the previous year. (Note 29 of audited accounts for the year 2008-09). PTVC treated this as "Other Income" in the accounts for the year ended June 30, 2009. As per IAS-18, revenue can only be recognized if it is probable that inflow of economic benefits would occur. Further as per IAS-10 adjusting events are only those that provide evidence of conditions that existed on the balance sheet date.

The violation of the IAS-18 and 10 resulted in overstatement of profit for the year 2008-09. The treatment as well as disclosure resulted in a profit of Rs 118.957 million whereas the Corporation would have sustained a loss before taxation of Rs 915.043 million for the year 2008-09. Thus, due to non-observance of Government instructions, the profit was overstated in violation of the International Accounting Standards, which resulted in an inadmissible payment of Rs 141.912 million on account of bonus.

The matter was pointed out to the management on November 30, 2010 and the Ministry on December 10, 2010. The management in its reply dated January 3, 2011 stated that it was not the payment of bonus but ex-gratia. The reply was not acceptable as in the annual accounts the amount was reflected under the head of bonus. The Corporation sustained operating losses

/accumulated loss after taxation and as such, the payment of bonus was not covered under the instructions of Finance Division.

DAC in its meeting held on January 13, 2011 directed the management to investigate and fix responsibility at Ministrial level. No response was received till finalization of this report.

12.3.4.2 Unauthorized expenditure due to revision of allowances - Rs 3.240 million

According to Finance Division letter No.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).

Contrary to the above, PTVC Board of Directors in its meeting held on August 4, 2009 allowed to increase the car maintenance allowance from Rs 1,000 per month to Rs 4,000 per month to the substantive group-9 officers w.e.f July 01, 2009. The financial impact due to this revision came to Rs 1.872 million per annum. The Board also allowed increase in the house rent ceiling to the officers of group 8 & 9 from Rs 15,005 and Rs 12,840 to Rs 18,845 and Rs 16,205 for Islamabad and other cities respectively. This resulted in unauthorized expenditure of Rs 3.240 million during the year 2009-10 due to increase in allowances without getting approval from the Finance Division.

The matter was reported to the management on November 30, 2010 and the Ministry on December 10, 2010. The management in its reply dated January 3, 2011 stated that the BOD was competent to frame rules and regulations for the Corporation and its employees and as such, the Government Rules did not govern PTV. The PTV Board of Directors revised rental ceiling and enhanced car maintenance allowance being competent authority. The reply was not acceptable, as BODs was a recommendatory body and such allowances were required to be got approved from the Finance Division.

The matter was discussed in DAC meeting held on January 13, 2011. The Chairman of the Committee pended the Para and directed the Ministry to ascertain applicability of such order in other Public Sector Corporations. No progress was reported till finalization of this report.

12.3.4.3 Irregular procurement of IT equipment without advertisement – Rs 9.176 million

According to Rules 12 (ii) & 14 (b) of PPRs, 2004, it is mandatory for all procuring agencies to advertise all procurement requirements exceeding rupees two million.

Management of PTVC (HQ) awarded two contracts for IT equipments (capital and revenue items) for Rs 9,176,274 to M/s Ora-Tech Systems (Pvt) Ltd. Islamabad on February 17, 2007. The purchase order was awarded based on collection of three quotations from the open market by the special purchase committee after market survey. This resulted in irregular payment of Rs 9,176,274 on purchase of equipment without advertisement.

The irregularity was pointed out to the management on November 30, 2010 and the Ministry on December 10, 2010. The management in its reply dated January 03, 2011 stated that the equipments were required to be purchased on emergency basis for Election – 2008 due to which the proper procedure could not be adopted. The reply is not acceptable as the Election date was announced well in time and the management had sufficient time to adopt proper purchase procedure.

DAC in its meeting held on January 13, 2011 directed the management that the matter may be investigated under the Chairmanship of Joint Secretary M/o Information & Broadcasting. No progress was reported till the finalization of this report.

12.3.4.4 Non-transparent procurement of store in violation of PPRs – Rs 23.598 million

According to Rule 14 of PPRs 2004, it shall be mandatory for all procuring agencies to advertise all procurement requirements exceeding prescribed financial limit, which is applicable under sub- clause (i) of clause (b) of rule 42. However, under following circumstances deviation from the requirement is permissible with the prior approval of the Authority:

a) The proposed procurement is related to national security and its publication could jeopardize national security objectives; and
b) The proposed procurement advertisement, notice, or publication of it, in any manner, relates to disclosure of information, which is proprietary in nature or falls within the definition of intellectual property that is available from a single source.

PTVC (HO) Islamabad procured DVC pro 50-post production equipment valuing JP Yen 46,109,930 on FOB (equivalent to Pak Rs 23,597,587 @ 0.511768) as proprietary item from M/s Systec International Osaka Japan through their local agent M/s System Network, Karachi against contact dated October 29, 2005.

The store was procured without calling competitive rates through press, as these items were not covered under rule 42 of PPR. This resulted in non-transparent purchase of store of Rs 23.598 million in violation of the rules.

The matter was reported to the management on November 30, 2010 and the Ministry on December 10, 2010. The management in its reply dated January 03, 2011 stated that the store was of proprietary nature and procurement was made as per PTV Procurement Rules. The reply was not acceptable as on one side the management stated that the store was of proprietary nature and on other hand; three bids were obtained before placing the order.

DAC in its meeting held on January 13, 2011 decided that the Audit might examine the position in light of PTV's own rules on proprietary nature

procurement. Audit was of the view that the management got quotations from three firms, which proved that the store was of not proprietary nature and as such, the store was procured in non-transparent manner in violation of the PPRs.

11.3.4.5 Blockage of funds due to un-necessary procurement of store - Rs 46.781 million

As per Finance Division's OM No.F.15(13)R-14/82 dated September 5, 1982 the funds provided, acquired or generated by the autonomous/semi-autonomous bodies and corporations are public funds, which cannot be utilized at the sole discretion of the management. The funds should be utilized with due care and caution strictly in accordance with the prescribed rules or specific orders of the Government.

Pakistan Television (HQ) Islamabad, imported seven transmitters worth Rs 46.781 million from China out of Public Sector Development Programme (PSDP) funds during 2005-06. The transmitters were lying in parking area of PTV (HQ) in miserable condition since their import. Due to non-installation of transmitters since their import, the funds of Rs 46.781 million were blocked.

The matter was reported to the management on March 13, 2010 and the Ministry on December 10, 2010. The PTV in its reply dated January 03 2011 intimated that most of the transmitters have been installed. The reply was not convincing as no documentary evidence regarding installment of the store was produced in support of the reply.

DAC in its meeting held on January 13, 2011 directed the management to enquire the matter at Joint Secretary's level and report latest status of transmitters in the next DAC meeting. No progress was reported till finalization of this report.

11.3.4.6 Loss due to non-awarding of work at risk and cost of the defaulting contractor – Rs 7.028 million

Under clause 3.63 (C) of the tender documents, if the contractor failed to do work as required by the employer, the job shall be completed on the risk and cost of

the contractor and if the amount exceed the sum the employer is entitled to recover the additional amount from the contractor on the completion of the project.

PTVC awarded Civil Work for construction of PTV, RBS Bagh to M/s Zain - ul -Abdeen & Sons vide letter of intent dated March 02, 2005 at a total cost of Rs 11.243 million. The work was required to be started w.e.f March 2, .2005 and completed within 15 months. Due to October 08, 2005 earthquake, the work remained suspended till March 2006. On April 04, 2006, the contractor was asked to resume the work immediately but he could not start the work. Finally, the contract was cancelled on September 16, 2006 and an amount of Rs 812,164 was forfeited. The management did not award the work at the risk and cost of the contractor in spite of lapse of about three years. The contractor was not blacklisted and was allowed to participate in re-tendering process. In March 2010, the work was under process for awarding contract to M/s Shaukat Khan & Co. at a total cost of Rs 17.424 million.

As the contract was cancelled due to default of the contractor, the work was required to be completed at the risk and cost of that contractor, which was not done and PTV had to complete the project at excess financial burden of Rs 7.028 million (Rs. 17,424,522 (-) Rs 11,243,275 (-) Rs 846,602).

The loss was reported to the management on March 13, 2010 and to the Ministry on December 10, 2010. The PTV in its reply dated January 3, 2011 intimated that the contract was cancelled under clause - 3.63 of the agreement in April 2007 by forfeiting all the dues lying with PTV. Under this clause, the risk and cost amount will be determined after completion of said work, as the project has not yet been completed. Further, due to utilization of the PSDP Fund of the Project on other activity, the work has not yet been awarded. The reply was not convincing as the funds of this project were spent elsewhere and proper action was not taken against the defaulting contractor well in time, which led to increase in cost during retendering after six years. The risk and cost clause was not invoked.

DAC in its meeting held on January 13, 2011 directed the Joint Secretary M/o Information & Broadcasting to examine these cases with regard reasons for delay in awarding of contract at the risk and cost of the defaulting contractor. No progress was reported till finalization of this report.

12.3.4.7 Non-recovery of liquidated damages from the defaulting contractors - Rs 2.444 million

Under clause-1.51 of the tender documents, the contractor shall pay liquidated damages of Rs 500 per calendar day forever day the works remain un-finished after the time of completion under the contract. This amount, however, will not exceed ten percent (10%) of the contract price.

PTVC awarded contact of construction work of PTV, RBS Rawala Kot to M/s Muhammad Nabi & Brothers at a total cost of Rs 11.403 million on February 25, 2005. As per agreed schedule, the work was to be started on March 10, 2005 and completed within 15 months up to June 10, 2006. The contractor could complete only 25% of work up to August 2009. Keeping in view the slow progress and poor performance of the work, the contractor was liable to pay maximum compensation damages of Rs 1.140 million (i.e. 10%) but no such action was initiated against the contractor. Further, the contract agreement was signed on March 02, 2009 i.e. 2 ½ years after expiry of the contract period.

Similarly, another construction work of RBS Palandri was awarded to M/s Sardar Shamim Mung on June 06, 2006 at a total cost of Rs 13.035 million with the completion period of 15 months i.e. date of completion on September 14, 2007. The contractor failed to complete the job within agreed schedule and the work was under progress despite a lapse of about two years after the expiry of completion period. The contractor was liable to pay compensation charges of Rs 1.304 million (10% maximum) which was not imposed. This resulted in non-recovery of Rs 2.444 million as liquidated damages from the defaulting contractors.

The matter was reported to the management on March 13, 2010 and the Ministry on December 10, 2010. The PTV in its reply dated January 03, 2011 stated that due to earthquake in October 2005, court cases and slack seasons the work could not be completed within stipulated period and now due to non-availability of funds as the funds were utilized on AJK TV Centre, the work was not completed. The reply was not acceptable as the projects neither were completed nor was the penalty imposed/recovered from the contractors.

DAC in its meeting held on January 13, 2011 directed the management to furnish revised reply with most specific justification and also directed the Joint

Secretary M/o Information and Broadcasting to examine the case. No progress was reported till the finalization of this report.

12.3.4.8 Irregular expenditure of Rs 2.243 million on foreign visits involving non-adjustment/recovery - Rs 1.585 million

According to the Cabinet Division's policy letter No.F.9-148/202-Mir dated February 19, 2003 heads of autonomous/semi autonomous bodies and corporations will require prior approval of the Prime Minister to visit aboard. Further as per Finance Division's OM dated September 05, 1982, the funds provided, acquired or generated by the autonomous/semi-autonomous bodies and corporations are public funds which cannot be utilized at the sole discretion of the management. The funds should be utilized with due care and caution strictly in accordance with the prescribed rules or specific orders of the Government.

Managing Director PTV performed certain visits to Dubai and USA during the period from June, 2008 to October, 2008 but the approval of the competent authority i.e. Prime Minister was not obtained. This resulted in irregular expenditure of Rs 2,243,593. The officer has tendered his resignation from the Company service w.e.f. November 03, 2008 and did not render account due to which adjustment/recovery of Rs 1.585 million could not be carried out.

The matter was reported to the management on April 02, 2009 and the Ministry on November 25, 2010. The management in its replies dated February 24, 2010 and January 3, 2011 stated that matter had been referred to the Ministry of Information and Broadcasting for ex-post facto approval. The reply was not acceptable as the management was required to obtain prior approval of the competent authority and nothing was mentioned about non-recovery/adjustment of advance of Rs 1.585 million.

DAC in its meetings held on July 16, 2009 and January 13, 2011 directed the management to get ex-post facto approval from competent authority and produce record for adjustment/recovery of Rs 1.585 million to Audit within a week. No progress was reported till finalization of this report.

12.3.4.9 Irregular payment due to hiring of legal advisor without concurrence of Law and Justice Davison – Rs 0.703 million

The Ministry of Law, Justice and Human Rights vide its letter dated November 22, 2004 instructed to the head of all the Corporations/Autonomous Bodies and Government controlled organizations that no legal advisor, advocate or consultant shall be appointed or engaged by any department, in future, without the prior approval of the Ministry of Law and Justice. The Ministry further directed that no Department. Government/Semi Government or public corporate body would pay to their council/legal advisor fee exceeding Rs 100,000 including cumulative fee of similar or connected cases without prior intimation and approval of the Ministry of Law, Justice and Human Rights.

PTV hired the services of Justice (Rtd) Syed Haider Ali Pirzada to defend the case against M/s MNJ Communications and M/s Surridge & Beecheno to defend the case against M/s UNI, TV at a legal fee of Rs 202,500 and Rs 500,000 respectively. The legal advisors were engaged without prior approval of Law and Justice Division. In the absence of approval of the authority, hiring of the services of legal advisors was irregular which resulted in irregular payment of Rs 702,500.

The irregularity was reported to the management on April 2, 2009 and the Ministry on November 2, 2010. The management in its replies dated June 15, 2009 and November 27, 2010 stated that PTV Board of Directors was empowered to engage and pay legal fee without approaching Law, and Justice Division. The clarification from Law Division through their Ministry was still awaited. The reply was not acceptable because the instructions of the Law and Justice Division were also applicable on autonomous/semi-autonomous bodies and Corporations etc. Further, as per Section 506 of the Companies Ordinance, 1984, Federal Government is empowered to make rules for all or any of the matters which by this Ordinance are to be, or may be, prescribed by the Federal Government; for establishment and regulating the activities of any company or a class of companies.

The DAC in its meeting held on January 13, 2011 directed the management to pursue the case with Law and Justice Division. No progress was reported till the finalization of this report.

Chapter-13
Ministry of Information Technology

13.1 Pakistan Software Export Board (Guarantee) Limited

13.1.1 Introduction

Pakistan Software Export Board (Guarantee) Limited was incorporated in Pakistan under the Companies Ordinance, 1984 on June 13, 1998 as a limited company to carry on business activities previously performed by Pakistan Software Export Board.

Corporate Information

The Company is fully owned and controlled by Federal Government through Ministry of Information Technology. The principal objective of the Company is to make Pakistan as a key player in the global IT market, creating an environment that is conducive of IT business and strengthen domestic IT Industry.

13.1.2 Comments on audited accounts.

13.1.2.1 The working results of the Company for the year 2009-10 as compared with the previous years are as under:-

(Rs in million)

	2009-10	% Inc / (Dec)	2008-09	% Inc / (Dec)	2007-08
Income					
Federal government grants	47.050	27	36.934	(6)	39.102
Amortization of deferred grant - in kind	17.331	130	7.541	7	7.070
Revenue from bandwidth and related services	36.236	(5)	38.249	14	33.522
Registration and renewal fee	5.925	5	5.646	50	3.770
Other income	5.711	61	3.558	(72)	12.749
Total income	112.253	22	91.928	(4)	96.214
Expenditure					
Salaries, allowances and benefits	30.123	30	23.086	(15)	27.188
Data node bandwidth & related charges	21.228	6	20.066	1	19.858

Other expenses	47.180	38	34.305	(17)	41.282
Total expenditure	98.531	27	77.458	(12)	88.328
Surplus after taxation	12.458	(6)	13.252	74	7.638

Source: Annual Audited Accounts

Income of the Company increased from Rs 91.928 million in 2008-09 to Rs. 112.253 million in 2009-10 registering an increase of 22.11%. The increase in income was due to increase in the Government grant during the year. The management needs to increase income from their core activities.

Revenue from bandwidth and related activities decreased from Rs 38.249 million in 2008-09 to Rs 36.236 million in the year 2009-10 registering a decrease of 5%. On the other hand overall expenditure increased by 27.21% over previous year. Further data node bandwidth related charges which should be in line with the corresponding income, increased by 6 % to Rs 21.228 million in 2009-10 (2009 : Rs 20.066 million) Likewise advertisement and publicity expenses abnormally increased by 469% (2010: Rs 3.037 million, 2009: Rs 0.534 million) without any impact on the corresponding revenue income. The reasons for such abnormal relationship of revenues and expenditure may be explained.

13.1.2.2 Assets relating to PSDP projects (Restricted Funds) increased by Rs 27.077 million to Rs 681.982 million as on June 30, 2010 from Rs 654.905 million as on June 30, 2009. Major portion of these assets pertained to "Advances to Civil Aviation Authority against purchase of land" Rs 670.004 million (2009: Rs 643.241 million). The management is required to provide movement schedule of these advances and latest status of the land purchased as these huge funds are being kept idle. Secondly an amount of Rs 11.969 million (2009: Rs 11.641 million) has been kept in current accounts as on June 30, 2010 without any revenue generation. The reasons should be explained.

13.1.2.3 Loans and advances included Rs 590,700 advanced against professional services in 2006-07. The management created provision of Rs 590,700 against professional services receivable in the year 2007-08. Current status of the recovery or otherwise may be provided.

The current ratio of the organization increased from 13.91: 1 in 2008-09 to 15.76:1 during the year 2009-10 which shows that the Company has over-invested its

funds. The management should take steps to recover these amounts to prevent fund blockage in turn affecting the liquidity position of the Company.

13.1.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
	2005-06	02	02	--	100
	2008-09	04	03	01	75

Overall compliance to PAC directives in PSEB was satisfactory.

13.1.4 Audit Paras

13.1.4.1 Mis-appropriation due to fake purchase - Rs 0.271 million

In accordance with the general guidelines, the codal formalities required to be observed while utilizing public money on development projects (attached with the PC-1), the public money/ funds may be utilized exclusively for the purpose for which it was sanctioned. Expenditure should be incurred only on those heads for which provision of funds was provided in the PC-1.

Pakistan Software Export Board (PSEB) incurred an amount of Rs 271,000 on the installation of barbed wire, as fence around 14.9 acres land at Chak Shahzad, Islamabad without any provision in PC-1 of the Project, "Feasibility Study and Consultancy for Architectural and Structural Design of Software Technology." During physical inspection of the site by the Audit along-with Mr. Muhammad Akbar, Project Coordinator no barbed wire was found available on site. This resulted in mis-appropriation of Rs 271,000.

The purchase of barbed wire without any provision in the approved PC-1 and its non-existence at site proved that the same was not actually purchased but the amount was misappropriated.

The matter was reported to management on November 21, 2010 and the Ministry on December 4, 2010. The management in its replies dated December 15 and 23, 2010 stated that the barbed wire was cut and stolen away by locals of the area and

report was launched with local police station but the same was misplaced. The reply was not convincing as neither the cost of barbed wire was recovered nor the FIR lodged with police was shown to audit despite lapse of three years.

DAC in its meeting held on January 3, 2011 directed the management to pursue the case and provide copy of FIR (Roznamcha) to Audit. DAC further directed to make necessary arrangements for watch and ward at site. No progress was reported till the finalization of this report.

13.1.4.2 Blockage of funds due to non-possession/non-execution of the PC-I – Rs 499.850 million

As per PC-1, the project, "Purchase of Land from Civil Aviation Authority(CAA) at Jinnah International Airport (JIAP), Karachi and Allama Iqbal International Airport (AIIAP), Lahore for establishment of IT Parks" was required to be started w.e.f. June 30, 2007 and completed at total cost of Rs 1.02 billion within 24 months i.e. upto June 30, 2009. The main objectives of the project are to provide IT high value addition and becoming an engine of growth for Pakistan's economy. It would also provide substantial foreign exchange earnings and considerable huge potential employment directly & indirectly. Further, in 17th meeting of the BOD held in June 2010, the Chairman clearly expressed his view that he could understand reluctance of CAA to allow PSEB to build IT Parks on BOT basis due to security concerns and prevailing law and order situation in the country. As such the BOD directed the Managing Director, PSEB to explore alternate options in case CAA would not allow building of IT Parks on BOT basis at Karachi and Lahore Airports.

PSEB paid an amount of Rs 499.850 million to Civil Aviation Authority (CAA) for purchase of 6 acres land each at JIAP, Karachi and AIIAP, Lahore on lease basis for the establishment of IT Park on BOT model (Build, Operate and Transfer) basis for a period of 30 years on May 8, 2008. Despite making the entire payment as well as lapse of more than two years period, lease agreement with CAA was neither concluded nor was legal possession of the land taken over by the management. The CAA, however, sent a draft lease agreement to PSEB for approval and signature, which contained a special condition that restricted PSEB to build IT

Park on BOT Model or Joint Venture basis. The matter was not resolved till December 31, 2010. Thus, public money of Rs 499.850 million was blocked.

The matter was reported to management on November 26, 2010 and the Ministry on December 4, 2010. The management in its replies dated December 15 and 23, 2010 stated that the delay was due to absence of full time Managing Director since March 2008 to January 2010 and the present geo-political and economic condition of the country, which made foreign investment unfeasible and difficult. It was also stated that a summery was forwarded to the Minister of IT to take up the matter with the Chairman, Civil Aviation Authority but the decision was awaited. The reply was not convincing, as the matter with CAA was not finalized despite making payment of Rs 499.850 million in May 2008.

DAC in its meeting held on January 3, 2011 observed that proper clarification on the issue of Joint Venture (JV) and Build, Operate and Transfer (BOT) was not settled with the Civil Aviation Authority, which created problems. DAC directed the management to resolve the matter in the BOD's meeting and explore other options other than BOT/ JV. No progress was reported till the finalization of this report.

13.1.4.3 Blockage of funds due to purchase of disputed land – Rs 410.964 million

In accordance with the approved PC-1 of the project titled as "Purchase of land at National Park Area, Islamabad", and IT Park Phase-II was to be established over 37.5 acres land at Chak Shahzad with the capital cost of Rs 410.964 million within 24 months starting from September. 2007. Thereafter the project was to be developed on BOT basis through foreign investors. The project was to generate large scales employment for IT and Non-IT graduates directly and indirectly.

PSEB purchased land measuring 37.5 acres at total cost of Rs 410.964 million in Chak Shahzad from CDA on lease basis for a period of 33 years. The land at Chak Shahzad purchased on lease from CDA was already under dispute and litigation with the locals of that area. The entire amount was paid to CDA during 2007-08 but lease agreement was neither executed nor legal possession taken over till December 31, 2010. In the absence of the same, development of this mega project

was not started. Thus, due to lose internal control and mis-management a huge amount of Rs 410.964 million was blocked and the planned objectives could not be materialized.

The matter was reported to the management on November 26, 2010 and the Ministry on December 4, 2010. The management in its reply dated December 15, 2010 stated that they were not formally informed of any dispute concerning this piece of land, however CDA officials were required to handover the cleared land without any existing encroachment, if any. The reply was not convincing as Rs 410.964 million had been blocked without execution of lease agreement and taking over of legal possession of the land.

DAC in its meeting held on January 3, 2010 directed the management to take up the matter with CDA regarding the possession of land immediately as huge funds of Rs 410.964 million had been un-necessarily blocked. No progress was reported till finalization of this report.

13.1.4.4 Loss due to premature closure of two projects - Rs 25.961 million

As per Finance Division's OM No.F.15(13)R-14/82 dated September 5, 1982 the funds provided, acquired or generated by the autonomous/semi-autonomous bodies and corporations are public funds, which cannot be utilized at the sole discretion of the management. The funds should be utilized with due care and caution strictly in accordance with the prescribed rules or specific orders of the Government.

I) PSEB, Islamabad started work on the Project "Capacity Building of IT Park Industry" on January 28, 2005 but could not complete it within the time frame indicated in the PC-I i.e. June 30, 2007. The completion period was extended time and again up to December 31, 2008 but the management failed to complete the project within the extended period. On April 29, 2009, the management itself extended the project up to June 30, 2009 without obtaining proper approval from Ministry of Information Technology. The management failed to complete the project despite incurring huge expenditure of Rs 14.647 million. The management closed the project on February 2, 2010 and thus the

quantifiable benefits i.e. financial, economic, social and employment generation were not achieved. This resulted in loss of Rs 14.647 million.

II) PSEB, Islamabad incurred huge expenditure of Rs 9.314 million on the Project "Customer, Operations Performance Center". The relevant record pertaining to the project was not produced for ascertaining the factual position. The management verbally informed that all the relevant record of the above project was not traceable and had been misplaced. Only a copy of PC-1 and a statement of accounts were provided to audit which depicted that an amount of Rs 9.314 million had been incurred and thereafter, the project was closed without achieving its objective.

The matter was reported to management on November 26, 2010 and the Ministry on December 4, 2010. The management in its reply dated December 15, 2010 stated that the project (I) encompassed two types of training, i.e. corporate training in specialized areas and the general trainings in the field of project management, networks & system security, software architecture etc. All the general trainings were carried out in accordance with approved PC-1 whereas the specialized foreign trainings were not scheduled due to non-willing of foreign trainers to come to Pakistan because of law and order situation in the country.

Regarding the project (II above), the management stated that the record was missing since the Marriot Hotel blast on September 20, 2008 and that they would bring the same to the notice of the controlling Ministry and the PSEB Board. They further stated that they would try to collect the record available with the Ministry as well.

The reply was not convincing as the management closed the projects without achieving the desired objectives/targets and Government exchequer was put to a loss of Rs 25.961 million (16.647 + 9.314).

DAC in its meeting held on January 3, 2011 directed the management to investigate reasons for premature closure of the projects without achieving the desired objectives and produce the relevant record and break-up of the expenditure incurred on general training and specialized foreign training to audit for ascertaining

the factual position. No record was produced to ascertain factual position till finalization of this report.

13.1.4.5 Blockage of funds due to ill-planned capital investment - Rs 158.600 million

As per PC-1, land measuring 14.9 acres was required to be purchased at total cost of Rs 158.6 million for the establishment of an IT Park on BOT (Building Operate and Transfer) basis through foreign investment within a period of 18 months. The main objective of the Project was to establish state of the art technology city in Pakistan. As a result of this Project the IT Companies would get better business environment and physical infrastructure facilities to compete with the world and be able to contribute in the economic development of Pakistan.

PSEB purchased land measuring 14.9 acres on lease from CDA, Islamabad at a total cost of Rs 158.6 million for a period of 33 years. The price of lease land was paid in advance in 2005. The land selected by the PSEB is situated at Chak Shehzad, Islamabad where basic facility to attract the IT Companies is not available. According to clause (4) of allotment letter dated August 08, 2006, the lease agreement was required to be executed between CDA and PSEB within one month from the date of issue of allotment letter and got registered with the Joint Sub-Registrar, Islamabad.

The PSEB's Board of Directors in its 16th meeting held on July 7, 2008 decided to prepare an incentive plan to attract the investors before establishment of IT Park, but the management neither submitted any plan for approval of BOD and ECC nor lease agreement for construction of building was executed with CDA. The Project required to be completed within 18 months from May 30, 2005 to November 30, 2006 was not started despite lapse of four years. PSEB also paid Rs 465,048 on account of ground rent for four years. This resulted in blockage of Rs 158.6 million due to ill-planned capital investment.

The matter was reported to the management on November 25, 2010 and the Ministry on December 4, 2010. The management in its replies dated December 15

and 23, 2010 stated that the selection of site and purchase of land was finalized at government level and all basic facilities are available at the prescribed location. CDA official had advised PSEB to hold registration with Joint Sub-Registrar till final possession of 51 acres is delivered to PSEB. The reply was not acceptable, as an amount of Rs 158.6 million was paid in advance in 2005 but the IT Park could not be established till December, 2010.

DAC in its meeting held on January 3, 2011 directed the management to resolve the matter in the BOD's meeting as heavy amount was blocked and PSEB was paying ground rent without any benefit. No progress was reported till finalization of this report.

13.1.4.6 Loss due to creation of liability without taking legal possession and utilization of vacant portion - Rs 1.718 million

As per Finance Division's OM No.F.15(13)R-14/82 dated September 5, 1982, the funds provided, acquired or generated by the autonomous/semi-autonomous bodies and corporations are public funds, which cannot be utilized at the sole discretion of the management. The funds should be utilized with due care and caution strictly in accordance with the prescribed rules or specific orders of the Government.

PSEB, Islamabad entered into tenancy agreement with Evacuee Trust Property Board (ETPB) on June 18, 2009. As per agreement 2,200 sq. ft. @ Rs 55 per sq. ft. was to be possessed by PSEB, but no legal possession was taken by it. The RD Evacuee Trust Complex sent rent advices regularly, which accumulated to Rs 1.718 million from August 1, 2009 to September 30, 2010. This resulted in loss of Rs 1.817 million due to assuming of liability without possession/utilization of rented space from August 1, 2009 to September 30, 2010.

The matter was reported to the management on November 21, 2010 and the Ministry on December 4, 2010. The management in its replies dated December 15 and 23, 2010 stated that the tenancy agreement signed by PSEB on August 01, 2009 was sent to the RD Evacuee Trust Complex and was received back after about seven months. Moreover, the PSEB proposed two solutions vide letter dated May 25, 2010

including change of effective date of the agreement from August 1, 2009 to January 1, 2010 and deletion of security deposit clause from the agreement but the request was disapproved by the ETPB. Reply was not convincing as the issue was not resolved and the liability was increasing day by day.

DAC in its meeting held on January 3, 2011 directed the management to resolve the matter with ETPB to avoid further accumulation of liability. DAC further directed to avoid such expenditure in future. No progress was reported till finalization of this report.

13.1.4.7 Irregular appointment of a Director - Rs 13.222 million

In terms of Government of Pakistan Establishment Division OM No.6/2/2000-R-3 dated May 06, 2000 contract appointment should be made only after advertising the vacancies and making selection through regularly constituted Selection Committees/Boards.

PSEB, Islamabad advertised the post of Finance Manager on December 29, 2001. As per advertisement, the required qualification was Chartered Accountant Finalist with two years experience and age limit 26-30 years.

Contrary to the above, a Director Finance was appointed by the Managing Director for a period of three years on March 11, 2002. Initially orders of the officer were made as Manager Finance on the same day. For the post of Director Finance neither he fulfilled the eligibility criteria nor the post was advertised in the press. The officer was not CA (Inter) as clarified by ICAP and was not eligible even for the post of Manager Finance. After 114 days the officer was re-designated as Director (Finance & Administration) vide Office Notification dated July 02, 2002 while contract for his appointment as Director (Finance) for a period of two years was executed with him on March 11, 2005. The officer was still working as Director (Finance & Domestic Business). This resulted in irregular payment of Rs 13.222 million on account of pay and allowances for the period from March 2002 to June 2010.

The matter was reported to the management on November 21, 2010 and the Ministry December 4, 2010. The management in its replies dated December 15 and 23, 2010 intimated that the officer was appointed as Manager Finance and was looking after the post of Director Finance informally, later on given additional responsibility of the post of Director Administration. The reply was not convincing as he was assigned the post of Director, Finance from the date of appointment as Manager Finance and re-designated as Director (Finance & Administration) from July 2, 2002. The appointment was irregular as these posts of Director Finance, Director Finance and Administration and Director Finance & Domestic Business were not advertised in the press. Neither selection criteria for appointment against the above posts were framed nor proper method of selection was adopted.

DAC in its meeting held on January 3, 2011 observed that the officer did not fulfill the qualification and age criteria as he was not CA finalist as clarified by Institute of Chartered Accountants, Pakistan (ICAP) and he was of 39 years age against prescribed age of 30 years. He was not eligible even for the post of Manager, Finance while he was given the post of Director, Finance since his appointment as Manager, Finance. DAC directed to investigate the matter at Ministry level and fix responsibility for the same. No progress was reported till finalization of this report.

13.1.4.8 Irregular appointment – Rs 9.705 million

As per policy guidelines circulated by the Establishment Division vide OM No.6/2/2000-R-3 dated May 06, 2000 for contract appointments for posts in Autonomous/ Semi-autonomous Bodies, Corporations, Public Sector Companies etc. owned and managed by the Federal Government appointment may be made on contract basis by the prescribed appointing authority after open advertisement of the vacancies.

PSEB, Islamabad floated a press advertisement for appointment of Project Manager (Info. 2002), Regional Manager (Peshawar) and Assistant Marketing Officer (Karachi) on January 10, 2003. A post of Project Manager Industrial Automation was also lying vacant. Mr. Nasir Khan Afridi who was the runner-up in the above evaluation was appointed as Project Manager Industrial Automation on contract basis w.e.f. March 25, 2003, in violation of the advertisement.

As per criteria published in the newspapers for appointment of Director Projects on June 11, 2004, the candidates must possess the required qualification and experience i.e. MBA from IBA, LUMS or a reputable foreign university with eight years experience. Contrary to this Mr. Nasir Khan Afridi was appointed as Director (Projects) for a period of 2 years w.e.f. July 15, 2004 to July 14, 2006 and as Director, Infrastructure for development of IT Parks for 2 years from July 15, 2006 to July 14, 2008, the officer is still working in PSEB. The officer was B.Sc Civil Engineer instead of Software/ I.T Engineering and having no prior experience for this portfolio of handling such a sensitive program of developing I.T Parks. Further, the officer was provided a Toyota Corolla 1300 CC instead of 1000 CC as per his entitlement. This resulted in an irregular payment of Rs 9.705 million on account of his salaries paid up to September, 2010 due to irregular appointment.

The matter was reported to management on November 21, 2010 and the Ministry on December 4, 2010. The management in its replies dated December 15 and 23, 2010 intimated that the officer was runner-up in the evaluation process; possessed higher qualification; and was appointed as Director Industrial Automation, and Director Projects; and Director Infrastructure w.e. f March 25, 2003, July 15, 2004 and July 15, 2006 respectively. The management also stated that after allotment of new vehicle to MD, old vehicle model-2002 1300 CC was handed over to him as purchase of additional vehicle was not possible. The reply was not acceptable, as he was appointed on the posts, which were not advertised in the press, and did not possess the requisite qualification and experience. Moreover, the officer was provided Toyota Car 1300 CC, which was not covered under his contract agreement.

DAC in its meeting held on January 4, 2011 directed to investigate the matter at Ministry level to fix responsibility for appointment without advertisement/requisite qualification; provision of vehicle beyond his entitlement; and take corrective measures. No progress was reported till finalization of this report.

13.1.4.9 Non-transparent award of contract to a selected firm - US $ 165,775 (Pak Rs 9.919 million)

In terms of 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.

PSEB, Islamabad prepared and got approved PC-1 of the project titled" Strategic Studies and Promotion" to be completed at total cost of Rs 14.675 million on February 23, 2005. The PC-1 was subsequently revised in December 2005 and got approved from the Ministry of Information Technology vide Revised Administrative Approval dated June 29, 2006. The project was required to be completed at total cost of Rs 39.837 million with FEC component of US$ 165,775 equivalent to Pak Rs 9.919 million within 48 months. The management included the name of an Australian firm i.e. M/s Gartner in the revised PC-1 for completion of the job at total cost of US$165,775. As such, the contract was awarded to M/s Gartner at US$ 165,775 without floating national and international tenders. The award of contract to the firm was in violation of Public Procurement Rules.

The matter was reported to management on November 26, 2010 and the Ministry on December 4, 2010. The management in its reply dated December 15, 2010 stated that M/s Gartner Inc. was the world's leading information technology research and advisory company, therefore, their name was incorporated in PC-1 approved by the competent authority. The reply was not convincing as the contract was awarded to M/s Gartner at US$ 165,775 without floating national and international tenders. The award of contract to the firm was in violation of PPRs.

DAC in its meeting held on January 4, 2011 observed that the name of firm was included in the PC-1 in violation of rules. DAC directed to produce minutes of the meeting of DDWP and also intimate name of the person who ordered to include M/s Gartner in PC-1. No progress was reported till finalization of this report.

13.1.4.10 Wasteful expenditure due to non-achievement of objective – US $ 49,477 (Pak Rs 3.033 million)

In terms of Clause-2 of the triparty agreement executed between PSEB, M/s Xavor Pakistan (Customer) and M/s Moody International (Pvt) Limited (Appraiser) each party shall advise the other party promptly any event occurred which may prevent the fulfillment of any conditions or the obligations of any party. The parties shall use their reasonable best efforts to correct the event as expeditiously as possible. PSEB had right to appoint a monitoring team to ensure that the work was carried out in accordance with the requirements. PSEB shall work as a bridge between Appraiser and Customer for the smooth coordination and communications.

PC-1 of the project, "Standardization of Pakistani Software Industry (CMM Pakistan 2003-Capability Maturity Model-2003)" was approved by the DDWP in its meeting held on January 22, 2003 at total cost of Rs 31.5 million with completion period of 40 months. PSEB neither monitored the financial status of M/s Xavor Pakistan before entering into triparty agreement nor provided any support to them in the fulfillment of their contractual obligations. No monitoring team was appointed to ensure that the work being carried out was according to the requirement or otherwise. Resultantly, M/s Xavor Pakistan failed to achieve the desired objectives/ CMM level 3. In addition, the entire expenditure of US$49,477 was gone waste.

The matter was reported to the management on November 26, 2010 and the Ministry on December 4, 2010. The management in its reply dated December 15, 2010 stated that M/s Xavor failed to achieve the desired objectives because of their critical internal issues and as per contract; no recovery of US$ 49,477 could be effected. As per agreement, PSEB could not forfeit the bank guarantee of the appraiser.

The reply was not convincing as the tri-party agreement executed with the customer and appraiser was defective as neither any penalty clause existed in the agreement nor were the Customer and Appraiser kept bound to bear the loss. Even no bank guarantee was obtained from the Customer. The bank guarantee submitted by the appraiser was not forfeited as required under clause-2.3.4 of the agreement.

DAC in its meeting held on January 4, 2011, directed the management that facts finding inquiry may be conducted at Ministry's level as to why the Government interest was not safeguarded in the agreement executed with M/s Xavor Pakistan. No progress was reported till finalization of this report.

13.1.4.11 Irregular retention of public money - Rs 5.405 million

In accordance with the Finance Division letter No.F.3(4)-DS(BR-11)/2008 dated October 06, 2008, and provision contained in the Federal Treasury Rule-170, the unspent cash balances, out of releases from Federal Consolidated Fund, lying either in PLA/SDA or in commercial banks shall be deposited back to Government account.

PSEB, Islamabad closed some projects during the period from 2005-06 to 2009-10 and the unspent amount/ cash balances were retained in different accounts in Habib Bank Limited in violation of the rules and directives of the Finance Division. Details of amount lying in different accounts as on October 30, 2010 are as under:

Sr. No	Title of Project	Account Number	Amount Rs	Closing date
1	CMM 2003	HBL A/c # 2861-91	1,028,170	31-12-2009 (extended period)
2	COPC Pak 2004	HBL A/c # 2940-39	379,173	31-03-2006
3	Capacity Building in Local Industry	HBL A/c # 3324-05	3,803,264	02-02-2010 (Short closed)
4	R & D Capacity Building of Industry	HBL A/c # 3306-23	194,582	
		Total	**5,405,189**	

The matter was reported to management on November 25, 2010 and the Ministry on December 4, 2010. The management in its reply dated December 15, 2010 stated that they had moved the surrender request to the Ministry of IT in September 2010 and on receipt of approval, the balance amount would be deposited in the Government treasury. They further stated that the project, CMM Pak-2003 was still incomplete despite reminding the IT Companies repeatedly. If no positive response received till December 2010, the balance amount would be deposited in the Government Treasury. The reply was not convincing as the projects were closed the balance amount was to be surrendered well in time, which was not done.

DAC in its meeting held on January 4, 2011 directed the management to expedite the process of depositing unspent balances in the government treasury and provide documentary proof that no expenditure was incurred after closure of these projects. No progress was reported till finalization of this report.

13.1.4.12 Loss due to failure of the contractor and non-forfeiture of performance guarantee - Rs 0.899 million

In accordance with the clause (2.2.1) and (2.2.2) of the contract titled as "Application Software Development" signed between PSEB Guaranteed Ltd and Digital Research Labs (DRL) on October 1, 2005 for the open source software development for "Surgical Instrument Manufacture Association Pakistan (SIMAP),

the contractor was required to complete the project within schedule time as per PC-I i.e. June 30, 2006 by delivering the complete project modules in all respects.

PSEB, Islamabad awarded contract for execution of job at Rs 4.73 million on October 1, 2005. The contractor did not complete the project up to July 6, 2006. The contract was extended up to April 30, 2007 but DRL failed to fulfill their contractual commitment. On November 20, 2007 the PSEB management terminated the contract on account of non-fulfillment of contractual obligation by the contractor.

The contractor initiated a legal petition against PSEB and on the advice of legal advisor; a settlement agreement was signed with DRL on June 11, 2008. The expenditure of Rs 898,700 incurred on the project was gone waste as the desired objectives were not achieved. Further, the management did not forfeit the bank guarantee of Rs 473,000 well in time. The bank guarantee expired on November 30, 2006. Thus, PSEB sustained total loss of Rs 898,700.

The loss was reported to the management on November 26, 2010 and the Ministry on December 4, 2010. In reply dated December 15, 2010 the management stated that a settlement of agreement was signed with DRL on June 11, 2008. As per settlement agreement both the parties fully and finally released, acquitted and forever discharged each other from all claims, damages, expenses, liabilities etc concerning the development of the project under the contract of October 01, 2005. The reply was not convincing as the settlement agreement was executed without safeguarding the Government interest. The bank guarantee bond was not forfeited / en-cashed well in time as no penalty clause was incorporated in the contract.

DAC in its meeting held on January 4, 2011 directed the management to investigate the matter and fix responsibility for non-recovery. No action was initiated till finalization of this report.

Chapter-14
Ministry of Kashmir Affairs and Gilgit – Baltistan

14.1 Northern Areas Transport Corporation Limited

14.1.1 Introduction

Northern Area Transport Corporation (NATCO) was incorporated on February 23, 1989 as Private Limited Company. It took over business of Northern Area Transport Corporation (Pvt.) Limited ` (having its registered office at Gilgit) *w.e.f.* July 01, 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. The issued share capital of the company has been fully subscribed by the Federal Government since incorporation, and there is no change in pattern of shareholding of the company since them. The company is under the administrative control of the Ministry of Kashmir Affairs and Gilgit Baltistan.

14.1.2 Comments on audited accounts

Northern Areas Transport Corporation (NATCO) was incorporated on February 23, 1989 as Private Limited Company having its registered office at Gilgit. The Company is wholly owned by the Government of Pakistan. The Company is primarily engaged in providing transportation facilities in Northern Areas of Pakistan. The Company is under the administrative control of the Ministry of Kashmir Affairs and Gilgit - Baltistan.

14.1.2.1 The working results of the Company for the year 2009-10 as compared to the previous years are tabulated below:-

(Rs in million)

	2009-10	**% Inc / (Dec)**	**2008-09**	**% Inc / (Dec)**	**2007-08**
Revenue	1,026.693	39	737.716	61	458.306
Fleet expenses	855.845	40	611.653	62	376.685
Traffic expenses	49.649	12	44.329	51	29.305
Workshop expenses	9.733	6	9.182	40	6.549
Total direct expenses	915.227	38	665.165	61	412.539

Gross profit	**111.466**	**54**	**72.550**	**59**	**45.767**
Admn. expenses	29.007	23	23.618	36	17.406
Financial expenses	3.006	(22)	3.862	240	1.135
Total operating expenses	32.013	17	27.480	48	18.540
Operating profit / (loss)	**79.452**	**76**	**45.069**	**66**	**27.226**
Other income	15.331	(46)	28.464	33	21.582
Profit /(loss) before taxation	94.783	29	73.533	51	48.808
Profit after taxation	93.061	27	73.533	51	48.808

Source: Annual Audited Accounts

Revenue of the Company increased by 39% to Rs 1,026.693 million in 2009-10 (2009: Rs 737.716 million) whereas the direct costs increased by 40% resultantly there was no significant change in gross profit margin which was 10.85% (2009: 9.83%). Gross profit increased by Rs 38.916 million. Revenue from passenger operations increased by only 9% (2010: Rs 401.702 million, 2009: Rs 367.382 million) whereas the comparative cost of passenger operations increased by 22.83% (2010: Rs 359.293 million, 2009: Rs 292.523 million). The management should focus on this segment of operations. The main reason for increase in operational expenses was huge increase in repair maintenance charges 57% & tyres 87.51%.

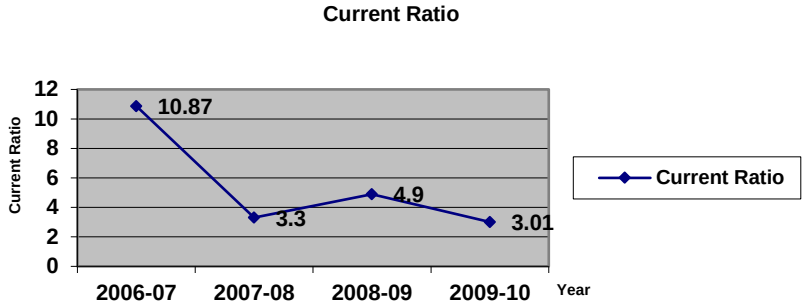
14.1.2.2 Trade and other payables increased by 140% to Rs 57.262 million as on June 30, 2010 as compared to Rs 23.856 million as on June 30, 2009. This was mainly due to other payables of Rs 21.266 million (2009: Rs 0.849 million). The breakup and reasons for increase may be provided to audit.

14.1.2.3 Trade debtors of the Company increased by 75% to Rs 145.288 million as on June 30, 2010 (2009: Rs 82.901 million), whereas the sales from cargo operations increased by 70%. Thus, the debtors' collection period increased to 85 days in 2010 from 82 days in 2009. The management was required to decrease this collection period to its normal business activity.

14.1.2.4 Company had invested a sum of Rs 40.00 million in Karakorum Cooperative Bank and an amount of Rs 41.680 million was also lying in Cash and Bank Balances as at June 30, 2010, whereas the management had obtained overdraft facilities of Rs 37.662 million from the same Bank and paid a sum of Rs 2.685 million on account of mark-up on overdraft facilities. In the presence of Company's own resources, the availing of overdraft facility and payment of

mark-up thereon require to be justified. Moreover, the management may intimate the rate of mark-up on over drafting and rate of mark-up on their short-term investments in the same bank.

14.1.2.5 Current Ratio of the Company during the financial year 2009-10 was 3.01: 1 as compared to previous year's Current Ratio 4.9: 1. The current ratio is on a high level as compared to the acceptable level of 2:1.



The reason being that the entity has overtraded, as its trade debts were significantly high. The Company should make efforts to recover these amounts to avoid liquidity problems.

14.1.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1987-88	02	02	--	100
2.	1988-89	06	05	01	83
3.	1989-90	08	08	--	100
4.	1990-91	01	01	--	100
5.	1991-92	05	03	02	60
6.	1992-93	05	05	--	100
7.	1993-94	04	04	--	100
8.	1994-95	02	02	--	100
9.	1995-96	03	03	--	100
10.	1996-97	06	04	02	67
11.	1997-98	05	05	--	100
12.	1999-00	01	01	--	100
13.	2000-01	04	--	04	Nil

14.	2001-02	05	05	--	100
15.	2005-06	03	02	01	67
16.	2008-09	04	03	01	75

The overall compliance of the PAC directives was satisfactory, except for the years 1988-89, 1991-92, 1996-97, 2000-01, 2005-06 and 2008-09.

14.1.4 Audit Paras

14.1.4.1 Blockage of funds due to impounding of bus by Chinese authorities – Rs 3.956 million

As per Finance Division's OM No.F.15(13)R-14/82dated September 5, 1982 the funds provided, acquired or generated by the autonomous/semi-autonomous bodies and corporations are public funds, which cannot be utilized at the sole discretion of the management. The funds should be utilized with due care and caution strictly in accordance with the prescribed rules or specific orders of the Government.

The Chinese Immigration Authorities impounded a bus GLT A-5833 of NATCO on September 20, 2008 at Kashgar with 17 kg of heroin and its driver and conductor were arrested. Despite all efforts, the bus was not released from Chinese authorities. Enquiry report revealed that name of the driver Malik Naseer was included in the register/ log book by striking out the name of driver to whom the duty was actually assigned. Further, the driver concerned was warned on several occasions on the charges of smuggling. In spite of his service record, he was again deputed on a route considered favorable for smuggling. This resulted in blockage of funds of Rs 3,955,994 (book value of the bus as on June 30, 2009) and Corporation deprived of significant amount of revenue, which could have been earned through the operation of bus.

The matter was reported to the management on October 4, 2010 and the Ministry on December 7, 2010. The management in its replies dated October 29, 2010 and December 24, 2010 stated that it was not possible to exercise control on a road transport like an aircraft and the issue of release of bus was being taken with the Chinese authorities through diplomatic channels. The reply was not

acceptable as the management deployed the same driver who was found involved in smuggling due to which the bus was impounded by the Chinese authorities.
DAC meeting could not be held by the PAO in spite of request vide letter No.3783/DAC/Kashmir Affairs & Gilgit/2010-11 dated December 21, 2010 followed by written / verbal reminders.

14.1.4.2 Non-deduction of income tax – Rs 0.889 million

Contract agreement dated January 04, 2010 was executed between the NATCO, Gilgit and M/s Shahan Bus Body Works, Lahore for the fabrication of 10 Daewoo Type Bus Bodies. Under clause (K) of agreement M/s Shahan Bus Body Works, Lahore was responsible to make payment of income tax as per rules and will produce proper deposit receipts. First tax receipt will be produced after making the payment of first bill. Second payment of bill was to be made on production of deposit of tax receipt of first bill. In case of any violation, the amount of tax was to be deducted from final bill of the firm.

NATCO handed over 10 Daewoo type Bus Chassis to the above firm. The firm completed fabrication work and NATCO paid Rs 14.815 million to the firm. The management did not deduct income tax @ 6% from the final bill of the firm. This resulted in non-deduction of income tax amounting to Rs 0.889 million.

The matter was reported to the management on December 09, 2010 and the Ministey on December 11, 2010. The management in its reply dated December 24, 2010 stated that as per agreement the payment of income tax was responsibility of the firm and firm had informed that Commissioner Income tax had issued exemption certificate. Reply was not convincing as the firm applied for exemption certificate and there was no exemption letter from the Income Tax Department. The deduction of Income Tax at source was the responsibility of NATCO.

DAC meeting could not be held by the PAO in spite of request vide letter No.3783/DAC/Kashmir Affairs & Gilgit/2010-11 dated December 21, 2010 followed by written / verbal reminders.

14.1.4.3 Non-recovery / adjustment of advances – Rs 4.235 million

Federal Treasury Rule 668 stipulates that advances granted under special order of competent authority to Government officers for departmental or allied purpose may be drawn on the responsibility and receipts of the officer for whom they are sanctioned, subject to adjustment by submission of detailed accounts supported by vouchers or by refund.

NATCO Gilgit granted advances of Rs 4.235 million to the employees for different purposes during December 2007 to May 2010 but these were not adjusted / recovered till November 2010.

The matter was reported to the management and the Ministry on December 11, 2010. Management in its replies dated December 20, 2010 and December 24, 2010 stated that advances of Rs 2.550 million had been adjusted. The reply was not convincing as an amount of Rs 1.685 million was still to be adjusted / recovered despite lapse of a considerable period.

DAC meeting could not be held by the PAO in spite of request vide letter No.3783/DAC/Kashmir Affairs & Gilgit/2010-11 dated December 21, 2010 followed by written / verbal reminders.

14.1.4.4 Wasteful expenditure due to failure of tracking system for vehicles – Rs 0.696 million

Departmental committee of NATCO recommended installation of tracking system to overcome operational problems and exercising proper control.

NATCO hired services of M/s United Tracking System for installation of tracking system in 20 vehicles. Advance payment of Rs 696,000 was made on account of cost of trackers and annual monitoring charges to M/s United Track System (Pvt) Limited in June, 2007. The firm failed to complete the installation and provision of website services. NATCO served notice vide letter dated February 22, 2008 for re-fund of amount but no refund was made by the firm. Agreement with the firm was not available in the record due to which terms and conditions could not be ascertained.

Because of unsatisfactory performance of trackers, the firm discontinued the services with effect from March 1, 2009. This resulted in wasteful expenditure of Rs 696,000 due to failure of tracking system.

The matter was brought to the notice of the management on October 4, 2010 and the Ministry on December 7, 2010. The management in its replies dated October 29, 2010 and December 24, 2010 stated that tracking system was installed in 20 buses on trial basis on the recommendations of NATCO consultant. It was also replied that tracking system proved successful on Rawalpindi – Karachi route and up to Mansehra but failed on KKH up to Khunjarab top because mobile telephone operators had not installed the system on KKH. The reply was not convincing as system was installed without ascertaining the mobile telephone operations in the KKH area, which rendered the expenditure as wasteful.

DAC meeting could not be held by the PAO in spite of request vide letter No.3783/DAC/Kashmir Affairs & Gilgit/2010-11 dated December 21, 2010 followed by written / verbal reminders.

14.1.4.5 Loss due to theft of vehicle – Rs 0.399 million

As per Finance Division's OM No.F.15(13)R-14/82 dated September 5, 1982 the funds provided, acquired or generated by the autonomous/semi-autonomous bodies and corporations are public funds, which cannot be utilized at the sole discretion of the management. The funds should be utilized with due care and caution strictly in accordance with the prescribed rules or specific orders of the Government.

NATCO allocated Land Cruiser No. GLT- 38 to Syed Shamsuddin (Manager O&M) which was stolen on July 26, 2008 from his residence. The book value of the vehicle was Rs 398,770. Departmental enquiry conducted by the GM Finance disclosed that incident took place due to negligence of the officer; the vehicle was in custody of the officer since long without any authority; and the vehicle was not insured due to which the Corporation had to suffer loss on this incident.

Instead of recovering the cost of vehicle from the officer held responsible, only two increments were withheld as punishment for his negligence vide office order dated November 19, 2008. This resulted in loss of Rs 398,770 due to theft of vehicle.

The matter was brought to the notice of management on October 4, 2010 and the Ministry on December 7, 2010. The management in its replies dated October 29, 2010 and December 24, 2010 stated that enquiry was conducted and FIR with the police was lodged by the officer concerned and was not traceable. The reply was not convincing as vehicle was allocated for official duties but the same was used by the officer for private/un-official purposes, which resulted in theft of the vehicle.

DAC meeting could not be held by the PAO in spite of request vide letter No.3783/DAC/Kashmir Affairs & Gilgit/2010-11 dated December 21, 2010 followed by written / verbal reminders.

Chapter-15
Ministry of Labour and Manpower

15.1 Employees' Old Age benefits Institution

15.1.1 Introduction

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.

During the year 2008-09 minimum EOBI pension was enhanced from Rs 1,500 to Rs 2,000 per month and employers' contribution rate was increased from Rs.276 to Rs.360 as a consequence of increase of minimum wage rate from Rs 4,600 to Rs 6,000 per month.

15.1.2 Comments on audited accounts

The organization did not submit audited accounts for the year 2009-10. However, the accounts for the year 2008-09 were received and working results thereof as compared to the preceding years are given as under:

(Rs in million)

	2008-09	% Inc/ (Dec)	2007-08 (Restated)	% Inc/ (Dec)	2006-07	% Inc/ (Dec)	2005-06
Income	18,117.483	(21.57)	23,101.060	(11.21)	26,018.728	49.1	17,452.928
Benefits paid	(5,786.938)	36.61	(4,236.159)	(222.94)	(3,445.697)	18.8	(2,899.362)
Management expenses	(691.048)	16.69	(592.192)	1.18	(585.266)	(7.9)	(635.534)
Reversal/ (Provision) against other receivables- FIBs	-		-	-	14.839	(50.51)	30.000
Surplus for the year	11,539.497	(36.85)	18,272.709	(16.95)	22,002.604	57.75	13,948.032
Fund balance	160,554.152	7.74	149,015.655	12.93	26,018.728	49.08	17,452.928

(Source: Annual Audited Accounts)

15.1.2.1 Income decreased by 21.57% during the year 2008-09 as compared to the previous year which reflected decrease in surplus for the year by 36.85% (Rs 11,539.497 million as on June 30,2009: Rs 18,272.709 million as on June 30, 2008). The decrease in the income during the year under review needs to be justified especially when the number of active registered employers had increased from 36,612 during 2007-08 to 40,097 during 2008-09.

15.1.2.2 The deficit on revaluation of financial assets held for trading stood at Rs 6,469.456 million as on June 30, 2009 as compared to Rs 2,233.258 million as at June 30, 2008. Further, the deficit on revaluation of securities "available for sale" stood at Rs 13,000.908 million in 2009 as compared to deficit of Rs 4826.956 million as at June 30, 2008. The heavy losses picked up during the year under review on the investment needs to be justified especially in view of management investment decision rationale.

15.1.3 Brief comments on the status of compliance with PAC Directives

The management of EOBI has reported compliance of 69 Audit Paras out of total 76 Paras discussed by PAC in respect of Audit Reports 1987-88 to 2008-09. The percentage of compliance was 91%.

15.2 Overseas Employment Corporation (Pvt) Limited

15.2.1 Introduction

Overseas Employment Corporation (Private) Limited was incorporated as a private limited company with 100% shares held by the Government of Pakistan.

The main activities of the Company are:

i. Recruitment of manpower in Pakistan against specific orders from employers abroad and supply the right type of persons to them.
ii. Survey of international demands for expatriate manpower.
iii. Survey of local availability in the specific categories required abroad.
iv. Co-ordination of training, trade testing and classification of manpower in Pakistan against specific requirements of employers abroad.

15.2.2 Comments on audited accounts

Annual Audited Accounts of the Corporation for the year 2009-10 were not furnished by December 31, 2010.

15.2.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1989-90	05	03	02	
2.	1990-91	05	03	02	60
3.	1991-92	09	06	03	66
4.	1992-93	07	05	02	71
5.	1996-97	10	09	01	90
6.	1997-98	07	05	02	71
7.	1998-99	01	01	--	100
8.	1999-2000	01	01	--	100
9.	2000-01	05	05	--	100
10.	2001-02	01	01	--	100
11.	2005-06	07	04	03	57
12.	2008-09	02	02	--	100

The performance of the PAO regarding compliance of PAC directives was un-satisfactory.

15.2.4 Audit Paras

15.2.4.1 Non-recovery from government officials on account of air ticketing – Rs 7.173 million

As per Para-a(i) & (ii) and Para-b of Overseas Employment Corporation Standing order No.5/2007 dated December 17, 2007, credit sale of air ticketing shall be allowed to the senior officers of Government Departments, Corporations / Institutions working under the control of Government against proper requisition. Maximum period for grant of credit will be 30 days only. Executive Director (Travel), Manager (Travel) and Assistant Manager (Travel) shall be responsible for recovery of dues within the specified period.

Travel Division of Overseas Employment Corporation (OEC) issued air tickets valuing Rs 7.173 million on credit to the Federal Ministers and Government officials during the years 2007-08 and 2008-09 but recovery thereof could not be effected in spite of a lapse of more than 30 days.

The matter was reported to the management on September 23, 2010 and the Ministry on December 10, 2010. The management in its reply dated January 14, 2011 stated that as per their record the outstanding amount was Rs 5.630 million as against Rs 7.173 million pointed out by audit, out of which Rs 3.720 million had been recovered. Audit confirmed Rs 7.173 million with supporting documents; the management claimed that they had recovered Rs 6.181 million. However, the recovery could not be confirmed during verification by audit. It was also noticed that the credit sale was made without proper requisition from concerned officers.

DAC in its meeting held on January 18, 2011 showed its concern over liberal credit sale by the OEC management and directed to make strenuous efforts for early recovery. No progress was reported till the finalization of this report.

15.2.4.2 Non-recovery from travel agents on account of credit sale of air tickets - Rs 2.675 million

As per Para-a(i) & (ii) and Para-b of Overseas Employment Corporation standing order No.5/2007 dated December 17,2007, sale of air ticketing on credit shall be allowed to Limited Companies/Travel Agents in the private sector. They will, however, submit formal requisition on their letter head by giving undertaking to the effect that they will pay the bill within 30 days of the issue of the tickets. Tickets will be issued to the Travel Agents against advance/post-dated cheques encashment within 30 days.

Contrary to the above, Overseas Employment Corporation made credit sale of the air tickets of Rs 2.675 million to travel agencies during the period from March 15, 2005 to December 31, 2009. The credit sale of air tickets to travel agents was continued without recovery of the long outstanding amount. The unjustified credit sales to seven defaulting travel agents resulted in accumulation to the extent of Rs 2.675 million as on December 31, 2009.

The matter was reported to the management on September 23, 2010 and the Ministry on December 10, 2010. The management in its reply dated January 14, 2011 stated that Rs 370,000 had been recovered leaving a balance of Rs 2.305 million. The reply was not convincing as management had made credit sales against the prescribed credit policy resulting in accumulation of default amount.

DAC in its meeting held on January 18, 2011 directed the management that strenous efforts be made for early recovery. No progress was reported till the finalization of this report.

Chapter-16
Ministry of Livestock and Dairy Development

16.1 Korangi Fisheries Harbour Authority

16.1.1 Introduction

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.

16.1.2 Comments on audited accounts

(The organization is included in the Annexure-III: Non-submission of Audited Accounts)

16.1.3 Brief comments on the status of compliance with PAC Directives

The management of KoFHA has reported compliance of 46 Audit Paras out of total 49 Paras discussed by PAC in respect of Audit Reports 1986-87 to 2008-09. The percentage of compliance was 94%.

16.1.4 Audit Paras

16.1.4.1 Inaction to realize the deposited amount of dues with the court - Rs 1.589 million

Rule-4 of GFR provides that all transactions to which any officer of Government is a party in his official capacity must be brought to account without delay.

In Korangi Fisheries Harbour Authority (KoFHA), an amount of Rs 1.589 million was outstanding as port dues against a firm, M/s. Ali Fisheries (Pvt.) Ltd. for operating its two fishing trawlers. Sindh High Court awarded decree to another party for its claims against M/s. Ali Fisheries (Pvt.) Ltd and that party secured attachment of two trawlers with its execution application. Subsequently, the decree holder deposited the full share of KoFHA with the Nazir of the Court through two Pay Orders dated May 29, 2008 for one million rupees and Rs 0.589 million . However, the management failed to complete the legal formalities in

order to recover the amount deposited with Nazir of the Court till close of audit in August 2010. The laxity on the part of the management to realize the deposited amount from the Court was indicative of loose internal controls prevailing in the organization.

The matter was taken up with the management in September 2010. Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures.

The matter was discussed in the DAC meeting held on December 03, 2010. The DAC observed that the matter was under litigation and the Authority was making all possible effort to recover the dues from the sales proceeds of fishing trawlers. The action taken by the Authority during the course to get the recovery will be verified by Audit. Audit stressed that the recovery shall be pursued more vigorously as the amount has been deposited for more than two years with the Nazir of High Court.

16.1.4.2 Non-recovery of outstanding dues from allotees and others - Rs 5.273 million

Chapter VI (24) of Korangi Fisheries Harbour Authority (KoFHA) Ordinance, dated July 12, 1982 provides that all fees and sums due on account of property for time being vested in the Authority and all arrears of tolls, charges, rates and dues imposed under this Ordinance or any regulations may be recovered as arrears of land revenue, in addition to the other modes provided by the Ordinance.

In KoFHA, an amount of Rs 5.273 million was outstanding against different parties as on June 30, 2010 as detailed below:

(Rs. in million)

S. No.	Description	Outstanding Amount
1.	Utilities charges from the allottees	0.591
2.	Outstanding dues from fishing trawlers, coastal vessels and local boats.	3.823
3.	Occupancy charges & Annual Ground Rent from the allottees.	0.859
	Total	**5.273**

The outstanding dues were lying un-recovered since the year 2003, which reflected that the management had not taken effective action of recovery from the defaulters under the provision of the Ordinance.

The non-recovery was pointed out to the management in September 2010. Audit suggested taking effective steps for recovery of the dues and strengthening internal controls in this area.

The matter was discussed in the DAC meeting held on December 03, 2010. The DAC observed that the Authority had succeeded in recovery of a substantial amount of dues against utility charges from the allottees amounting to Rs 0.591 million, hence decided to settle the Para to the extent of that amount subject to verification by Audit. As regards outstanding dues of Rs 3.823 million at Sl. 2 above, the DAC noted that all cases of recovery of dues were still under trial at High Court of Sindh. The trawlers had already been auctioned by the Court and the sale consideration was lying with Nazir, High Court. The record showed that the cases were being actively followed by the Authority to recover the dues from sales proceed. Audit stressed that recovery should be pursued.

As far as non-recovery of dues amounting to Rs 0.859 million is concerned, the DAC observed that the Authority had succeeded in recovery of a substantial part of the outstanding dues and necessary safeguards were their to ensure recovery of remaining amount with compensation for late payment. DAC decided that the recovery shall be verified by Audit and the balance recovery shall be made good by the management under intimation to Audit. However, progress was awaited from the management till finalization of this report.

16.2 Livestock and Dairy Development Board

16.2.1 Introduction

Livestock and Dairy Development Board (the company) was incorporated on October 27, 2005 as a Guarantee Limited Company and is registered under section 42 of the Companies Ordinance, 1984 as a nonprofit organization. The controlling Ministry of the Company is Ministry of Livestock and Dairy Development. The Company has been set up as a consequence of Loan Agreement dated June 14, 2005 between ADB and the Islamic Republic of Pakistan for agribusiness development project for which funds are to be provided by ADB. The Company's registered office is located at 76-W, First Floor Umar Plaza, Jinnah Avenue, Blue Area, Islamabad. Under the loan agreement, ADB is to provide funds to the Government of Pakistan to the Project.

Corporate Information

The principal activity of the Company is to promote and facilitate livestock development (including dairy, meat, poultry and allied areas) in Pakistan. Part of the loan proceeds is provided to the Company as a grant by GOP, which is utilized for the execution of the project component assigned to the Company. In addition to the loan proceeds, GoP has also provided the grant for execution of PSDPs from its own resources. A performance agreement has been signed between the Company and MINFAL. During the year 2008-09, an assignment account has been opened with MINFAL and now all grants are received on quarterly basis according to the budget provided by the Company.

Comments on Operational Activities

Income of the Board increased from Rs 33.457 million in 2006-07 to Rs 302.996 million in 2007-08 and Rs 401.250 million in 2008-09 registering increase of 806% and 32% over respective previous year. Increase in income was mainly due to increase in government grant. The expenditure of the Board increased from Rs 33.033 million in 2006-07 to Rs 282.539 million in 2007-08

and Rs 373.383 million in 2008-09 registering increase of 755% and 32% over respective previous year. Increase in expenditure was due to increase in expenditure on Meat & Milk Project. Detailed breakup of individual projects expenses showed that a significant portion of the expenditure incurred was of administrative nature (salaries, vehicles expenditures, TA/DA etc). The management may provide the detail of achievements in respect of each project with reference to initial plans / targets / benchmarks (if any), as during the years 2006-07, 2007-08 & 2008-09 a total sum of Rs 688.955 million was incurred on the projects.

16.2.2 Comments on audited accounts

16.2.2.1 The Annual Audited Accounts of the Board for the year 2009-10 were not furnished by December 31, 2010.

16.2.2.2 The working results of the Board for the year ended June 30, 2009 as compared to previous years are as follows:

(Rs in million)

	2008-09	**% Inc /(Dec)**	**2007-08**	**% Inc /(Dec)**	**2006-07**
INCOME					
Grants income recognized	373.383	32	282.539	750	33.257
Income on investments	27.651	35	20.456	10,179	0.199
Other income	0.215	-	-	-	-
Total income	**401.250**	**32**	**302.996**	**805.64**	**33.457**
EXPENDITURE					
Meat project	209.331	48	141.105	644	18.965
Milk project	102.342	16	87.910	1,014	7.889
Improving Reproductive Efficiency in Cattle & Buffaloes Project (IREC&B)	41.571	141	17.249	-	-
Australian Centre for International Agricultural Research Project (ACIAR)	9.680	149	3.892	-	-
National Program for control and prevention of Avian influenza (NPCPAI)	0.120	(99)	23.526	-	-
Foot and mouth disease program (FMD)	0.264	-	-	-	-
LDDB Project Support	10.075	14	8.857	43	6.180
Total expenditure	**373.383**	**32**	**282.539**	**755**	**33.033**
Surplus for the year	27.866	36	20.456	4,736	0.423

16.2.2.3 The financial position of the Company as at June 30, 2009 as compared to previous year is as follows.

(Rs in million)

	2008-09	% Inc / (Dec)	2007-08	% Inc / (Dec)	2006-07
Accumulated Surplus	48.522	134.91	20.656	10,269	0.199
Deferred Grants	441.726	(19.15)	546.334	221	170.275
Current liabilities	32.785	8.26	30.283	847	3.198
Total	**523.033**	**(12.43)**	**597.272**	**244**	**173.672**
Property, plant and equipment	248.364	25.72	197.547	155	77.348
Store & consumables	-	-	2.204	-	-
Advances, deposits, prepayments and other receivables	6.415	(46.05)	11.890	184	4.190
Short term investments	140.000	(62.71)	375.412	401	75.000
Cash and bank balances	128.255	1,155.03	10.219	(40)	17.135
Total current Assets	274.670	(31.29)	399.726	315	96.324
Total	**523.033**	**(12.43)**	**597.272**	**244**	**173.672**
Current ratio (Approx)	**8:1**	**-**	**13:1**	**-**	**30:1**

Source: Annual Audited Accounts

Accumulated surplus increased from Rs 0.199 million as on June 30, 2007 to Rs 20.656 million as on June 30, 2008 and to Rs 48.22 million as on June 30, 2009. This accumulation was due to non-utilization of full grant amount during the years from 2006-07 to 2008-09. Non-utilization of grant amount for the purposes for which the same was granted needs justification.

16.2.2.4 In note 6.3 of financial statements for the year 2008-09, stated that vehicles costing Rs 5. 314 million were in the possession of Ministry of Livestock and Dairy Development. The reasons, authority and usage of the vehicles in the hands of Ministry need to be intimated.

16.2.2.5 Current ratio of the Company was (approx) 30:1, 13:1 and 8:1 at the yearend 2007,2008 & 2009 respectively. On one hand, it indicates that the Company's short-term liquidity position was very strong whereas at the same time it also indicates that the management had invested too much in the working capital. The management may ascertain its minimum working capital requirements and use the balance funds for its main operational activities.

Chapter-17
Ministry of Overseas Pakistanis

17.1 Overseas Pakistanis Foundation

17.1.1 Introduction

Overseas Pakistanis Foundation, Islamabad is a Company limited by guarantee incorporated under the Companies Ordinance 1984. All the operations of the Foundation are managed under the overall control of the Board of Governors appointed by the Federal Government and its working is controlled through Ministry of Overseas Pakistanis. The Welfare Fund established under Rule-26 of the Emigration Rules, 1979 vests in and is controlled by the Foundation and the income and receipts related to Fund are reflected in the books of the Foundation.

Corporate Information:

The main objectives, for which the Foundation was established, are:-

- To advance social welfare of the Pakistanis working overseas and their families and dependents in Pakistan, by identifying their problems and by contributing to their solutions.
- To establish, maintain or aid vocational training institutions for providing training in such trades as are in demand overseas.
- To establish housing societies, colonies, townships for overseas Pakistanis and their families in Pakistan and Azad Jammu & Kashmir.

17.1.1.1 The management failed to provide audited accounts of the Foundation for the years 2008-09 and 2009-10 by December 31, 2010.

17.1.2 Comments on audited accounts

17.1.2.1 The working results of the Foundation for the year ended June 30, 2008 as compared to previous years are given as under:-

(Rs in million)

	2007-08	% Inc / (Dec)	2006-07	% Inc / (Dec)	2005-06	% Inc / (Dec)	2004-05
Welfare Fund receipts	396.985	67.09	237.590	48.66	159.821	(2.53)	163.963
Income							
Interest on Welfare Fund Bank Deposits / Bonds	213.950	4.89	203.982	3.08	197.887	80.77	109.468
Housing Division	21.874	--	0.065	(99.35)	10.016		0.175
Training Division	--	--	0.123	(68.05)	0.385	(36.26)	0.604
Welfare Division	2.049	30.93	1.565	(29.12)	2.208	58.28	1.395
Education Division	108.464	0.70	107.705	16.85	92.171	(3.88)	95.889
Publicity & Marketing Cell	0.187	(4.59)	0.196	(8.84)	0.215	(45.15)	0.392
Service Charges-UNCC	--	--	0.598	(94.35)	10.599	326.52	2.485
Other income	47.518	60.63	29.582	1.50	29.146	30.66	22.306
Total revenue	**394.043**	**14.61**	**343.815**	**0.35**	**342.627**	**(13.62)**	**396.677**
EXPENDITURE							
Housing Division	27.289	86.55	14.628	38.35	10.573	(6.21)	11.273
Welfare Division	56.122	31.89	42.553	(31.32)	61.959	30.43	43.105
Training Division	2.082	(60.86)	5.319	(52.53)	11.205	12.48	9.962
Education Division	161.812	21.01	133.720	13.86	117.439	5.93	110.868
Publicity & Marketing Cell	7.041	(2.55)	7.225	39.99	5.161	27.94	4.034
Administrative	160.552	11.60	143.867	13.80	126.417	6.55	118.647
Provision for earned leave	19.453	26.21	15.413	143.00	6.343	-	-
Provision for gratuity	15.185	(53.29)	32.510	526.88	5.186	-	-
Total expenditure	**449.535**	**13.74**	**395.235**	**14.80**	**344.282**	**15.57**	**297.890**
(Deficit) / Excess from operations	(55.492)	7.92	(51.420)	3016.08	(1.654)	-	98.787
Gain of housing schemes	--	--	3.213	-	-	-	-
Other expenses	(0.142)	--	(0.015)	-	-	-	-
(Deficit) before taxation	(55.634)	15.37	(48.222)	3968.00	-	-	-
Taxation:							
Current	2.098	10.48	1.899			-	-
Deferred	3.123	(88.25)	26.583	87.17	-		
(Deficit) for the year after taxation	(60.856)	(20.66)	(76.704)	470.75	-	-	-

Source: Annual Audited Accounts

The Welfare Fund receipts of the Foundation increased from Rs 237.590 million in 2006-07 to Rs 396.985 million in 2007-08 registering an increase of 67% over previous year. The income of the Foundation increased by 14.61% from Rs 343.815 million in 2006-07 to Rs 394.043 million in 2007-08, whereas the expenditure increased by 13.74% from Rs 395.235 million in 2006-07 to Rs 449.535 million in 2007-08. The major increase in expenditure was under the heads of Housing, Welfare & Education Divisions that needs clarification.

17.1.2.2 The Welfare Fund receipts for the year 2007-08 amounted to Rs 396.986 million (2006-07 – Rs 237.590 million). The Welfare fund receipts included interest on promoters' security as clarified in Emigration Rules, 1979. The portion of interest received on promoters' security needs to be mentioned separately. Actually, management was un-aware about the total number of Promoters registered with Emigration Department, and amount received on this account during the year. Further, the practice of reconciliation of figures with Emigration Department was not being followed. The management may justify its position in this regard.

17.1.2.3 Capital Reserves of Rs 156,250 as on June 30, 2008 represented the cost of land donated by the Government of KP to the Foundation for Poly Trade School, Peshawar. The management-ceased activities of Poly Trade School and the staff had been redundant and laid off. As the land was donated by the Government of KP specifically for Poly Trade School, in these circumstances when OPF suspended the functions of Poly Trade School, the management may explain the usage of land.

17.1.2.4 Non-current assets included investment of Rs 87.647 million in OPF Girls College, Islamabad as on June 30, 2008 (Rs.87.647 million as on June 30, 2007). The Profit and Loss account is silent on return of this investment. The position needs to be explained.

17.1.2.5 The work in progress (housing scheme) increased to Rs 960.987 million as on June 30, 2008 from Rs 906.020 million as on June 30, 2007 registering increase of 6% over previous year. Some housing schemes were 15 to 20 years

old but were not completed. Early completion of schemes is stressed upon the management.

17.1.2.6 Short term investments increased to Rs 1,309.927 million as on June 30, 2008 (Rs.1,180.089 million as on June 30, 2007) registering an increase of 11% over previous year. The annual accounts showed short term investment of Rs 750 million in term deposit receipts at a markup of 13.15% per annum whereas Rs 559.927 million in Treasury bills at a markup of 9.40%. The reasons for investment in treasury bills need explanation.

17.1.2.7 Administrative expenses increased from Rs 139.002 million in 2006-07 to Rs 157.011 million in 2007-08 registering an increase of 13% over previous year. The amount included Rs 2.233 million incurred on foreign tours. The position needs clarification with regard to purpose of tours and approval of competent authority.

17.1.2.8 Receivable from Overseas Pakistanis Pension Trust (OPPT) increased to Rs 108.679 million as on June 30, 2008 (2007: Rs 8.679 million) representing an increase of Rs 100 million. The detailed justification of fund transfer should be provided.

17.1.2.9 Further an amount of Rs 19.673 million was written off in 2006-07 on account of receivable from OPPT. However, in year 2008-09, the comparative figures were restated with the same amount without disclosing the restatement on the face of Income & Expenditure Account and the Balance Sheet. The circumstances under which the amount was written back, the restatement was not shown and advance of Rs 100 million need clarification.

17.1.2.10 There was a significant increase in the Housing Division income, which was due to transfer fee, surcharge and other charges. Detail of these fees and surcharge be provided with bifurcation against what projects these had been charged.

17.1.2.11 Addition of Rs 19.458 million had been made in vehicles when the entity was experiencing a deficit of Rs 60.856 million. Reasons of purchasing these vehicles need to be explained.

17.1.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1989-90	12	09	03	75
2.	1990-91	05	04	01	80
3.	1991-92	06	01	05	16
4.	1992-93	05	03	02	60
5.	1993-94	04	04	--	100
6.	1994-95	07	04	03	57
7.	1995-96	10	06	04	60
8.	1996-97	12	10	02	83
9.	1997-98	07	05	02	72
10.	1998-99	02	02	--	100
11.	1999-00	03	02	01	67
12.	2000-01	14	11	03	79
13.	2001-02	02	01	01	50
14.	2008-09	10	03	07	30

The overall performance of the PAO regarding compliance of the PAC directives was not satisfactory.

17.1.4 Audit Paras

17.1.4.1 Loss due to allotment of plots without development charges – Rs 14.996 million

As per Finance Division, clarification vide OM No.F.15(13)-R-14/82 dated September 5, 1982, the funds provided, acquired or generated by the autonomous/semi-autonomous bodies and corporations are public funds, which cannot be utilized at the sole discretion of the management. The funds should be utilized with due care and caution strictly in accordance with the prescribed rules or specific orders of the Government.

The BOG of OPF in its 59th meeting held on July 8, 1996 resolved that the members of BOGs be allotted a plot in Islamabad Housing Scheme out of Minister of State quota, which would be exempted from payment of development charges, and payment schedule similar to OPF employees would be implemented. In line with said decision, the OPF management allotted plots of various sizes valuing Rs 17.400 million to six members of BOG at a price of Rs 2.404 million without including development charges. This resulted in a loss of Rs 14.996 million (Rs 17.400 million – Rs 2.404 million) to OPF due to undue favour to the members of BOGs.

The matter was reported to the management and the Ministry on December 4, 2010. The management in its reply dated January 3, 2011 stated that the Senate Standing Committee on Labour, Manpower & Overseas Pakistanis in its meeting on October 7, 2008 unanimously recommended that allotment of the plots made to the then members of BOGs of OPF should be immediately withdrawn. The cancellation letters had been issued to the allottees. The reply was not acceptable, as the allottees had got stay order from the Court.

DAC in its meeting held on January 11, 2011 directed the management to pursue the court cases. No further progress was reported till the finalization of this report.

17.1.4.2 Loss on account of payment of non–utilization charges due to non-construction of college building – Rs 8.583 million and delayed payment of premium – Rs 1.103 million

As per clause-8 of the Capital Development Authority (CDA) allotment letter the construction was required to be completed in all respects within 2 years from the date of issue of the letter of allotment. The Authority further clarified under clause-9 of allotment letter that the extension in building period may be allowed by the Chairman on payment of extension surcharges if the application for extension is submitted within 60 days before the expiry of the period.

The CDA vide its letter dated November 25, 1999 allotted a plot measuring 4.10 acres (19,844.44 sq. yard) to OPF Girls College on 33 years lease

basis extendable for two subsequent terms of 33 years each for establishment of its boys wing in Sector F-11/2, Islamabad. The premium of the plot was Rs 14,883,330. The Authority fixed annual ground rent @ Rs 1 per sq. yard per annum increasable @ 10% per annum, payable in advance in first week of every year. The possession of the plot was handed over to OPF Girls College on December 20, 1999. The OPF BOG in its 103rd meeting held on March 26, 2007 accorded approval for the construction of College building.

The management of OPF failed to construct building within free construction period, even the dues of CDA (premium of land) could not be paid timely due to which the Authority imposed delayed payment charges of Rs 1.103 million, which were accordingly paid by OPF Girls College, vide cheque dated October 23, 2001. The CDA vide its letter dated December 13, 2002 demanded extension charges amounting to Rs 833,711 up to June 30, 2002. The OPF Girls College paid the said charges vide pay order dated April 11, 2002. The formal agreement with CDA was signed on April 13, 2002. The management further paid an amount of Rs 7,749,321 to the CDA on account of delayed extension/non-utilization of plot charges on April 14, 2006 and May 5, 2009.

Due to delay in construction, extension charges amounting to Rs 8.583 million (Rs 0.834 million + Rs 7.749 million) were paid to the CDA. Moreover, due to non-payment of premium on time, delayed payment charges of Rs 1.103 million were also imposed on OPF.

The matter was reported to the management and the Ministry on December 4, 2010. The management in its reply dated January 3, 2011 stated that the administrative control of the College was taken over by OPF in March 2005 in the light of High Court decision. OPF Board on March 26, 2007 approved construction of building. The estimated cost of building was Rs 100 million and due to heavy cost it was decided by the Board on September 13, 2010 that project may be established on public /private partnership basis which was under process. The reply was not acceptable as the College had sufficient funds and to avoid losses, the management was required to construct the building at the earliest. A period of more than 11 years had since lapsed but the construction work had not been started.

DAC in its meeting held on January 11, 2011 directed the management to inquire into the reasons of delay by constituting an in-house committee and submit report in this regard to the Committee/Audit. No progress was reported till finalization of this report.

17.1.4.3 Risky investment with banks in violation of investment policy – Rs 44.000 million

The Finance Division vide OM No.F.4(1)/2002-BR-II dated July 2, 2003 circulated the investment policy of surplus funds belonging to public sector enterprises and local/autonomous bodies under Federal Government. As per said policy, for the sake of the safety and security of deposits, the bank/financial institutions taking a deposit should have a minimum "A" rating (long term) as appearing on the web site of the SBP. It was further clarified that the process of selection of banks should be transparent. Therefore, prior to placing deposits with a bank under this new policy, the selection of the banks as well as the terms of deposits will be approved by the concerned Board on the basis of competitive bids from at least three independent banks.

Overseas Pakistanis Pension Trust (OPPT) invested its funds of Rs 25 million with Trust Investment Bank on January 22, 2009 in Trust TDR for one month rollover basis @ 15% and was lying with the Bank up to October 22, 2010. Further, an amount of Rs 5.00 million was also invested with the Bank @ 13.90% on July 02, 2010. The rating of Trust Bank as per Pakistan Credit Rating Agency was BBB.

The management of OPPT invested an amount Rs 14.00 million with NIB Bank Limited @ 14.98% for seven years. The credit rating of NIB Bank was AA-. As per instructions of the Finance Division, in case the rating of the deposit-taking bank drops below "A" the concerned enterprise/local /autonomous body will shift new deposits within a period of one month and old deposits within a period of two months to a bank with at least "A" rating. Both the investments were made without getting competitive rates from at least three banks. This

resulted in a risky investment of Rs 44 million without fulfilling the requirement of the investment policy circulated by the Finance Division.

The matter was reported to the management and the Ministry on December 4, 2010. The management in its reply dated January 3, 2011 stated that the investment made with Trust Investment Bank had been en-cashed in September 2010. As regard investment in NIB Bank, the management stated that the rating of the Bank was satisfactory. The reply was not acceptable as the rating of the Bank was AA- and the management did not comment on the procedure adopted for the selection of banks.

DAC in its meeting held on January 11, 2011 directed the management that the matter may be referred to the Finance Division for clarification of AA- rating and procedure adopted for the selection of said banks be provided to audit. No progress was reported till the finalization of this report.

17.1.4.4 Irregular appointment – Rs 4.362 million

The OPPT has not framed its own appointment rules, thus, the Employees (Service) Regulations of OPF are being adopted in OPPT for the appointment of its employees. As per OPF Service Regulations, the highest scale is OPF Grade – 12 i.e. Executive Director.

The management of OPPT advertised the post of Finance and Investment Analyst in press on August 16, 2007 without mentioning the pay scale and fringe benefits of the post. The management appointed Mr. Abrar-un-Nabi Baig as Finance and Investment Analyst at a consolidated monthly salary of Rs 100,000. The officer joined the Trust on November 15, 2007. His salary was increased to Rs 123,000 w.e.f. July 01, 2008 to Rs 131,983 w.e.f. July 01, 2009 and further increased to Rs 175,000 w.e.f. February 15, 2010.

The appointment was made at a heavy package without mentioning the pay scale in the press advertisement. Moreover, the pay scale was not covered under OPF Service Regulations. This resulted in irregular payment of Rs 4,362,500.

The matter was reported to the management and the Ministry on December 4, 2010. The management in its reply dated January 3, 2011 stated that the Fund Manager was appointed after press advertisement, however, contract of the Analyst, expired on November 15, 2010 was not further extended. The matter of appointment and subsequent increase in salary package was being referred to the Board of Trustees whose decision in this regard would be communicated to Audit. The reply was not acceptable as funds were not utilized with due care and caution strictly in accordance Finance Division's instructions vide its OM No.F.15(13)R-14/82 dated September 5, 1982 whereby the funds provided, acquired or generated by the autonomous/semi-autonomous bodies and corporations are public funds which cannot be utilized at the sole discretion of the management.

DAC in its meeting held on January 11, 2011 pended the Para for further deliberation in the Ministry. No progress was reported till finalization of this report.

17.1.4.5 Wasteful expenditure on futile exercise for appointment of employees – Rs 2.946 million

As per OPF Service Regulations, "initial appointments to posts in OPF shall be made by the appointing authority on recommendations of the Selection Board constituted in accordance with sub-regulation (1) of regulation 3.07". Clause – 6 of the said Regulations further provides that the vacancies shall be advertised in the national press.

Moreover, the Cabinet Division vide its letter dated June 9, 2008 conveyed the directives of Prime Minister of Pakistan. According to said directives, the Prime Minister of Pakistan had been pleased to constitute a Task Force on employment for overseeing and coordinating the recruitment in various Ministries/Divisions, attached departments, subordinate offices, autonomous and semi autonomous bodies of the Government and creation of self-employment opportunities and other schemes for employment.

The management of OPF advertised its vacant posts in July 2007; however, after short listing and carrying out written tests/interviews of

candidates, the process to fill the vacant posts was pended. Thereafter, the Cabinet Division conveyed the advertisement of 98 vacant posts of OPF by Task Force, constituted by the Prime Minister. The Cabinet Division instructed the management of OPF to fill the vacant posts by following the recruitment procedure already prevalent under the existing rules and policy. The management constituted selection committees and after written tests and interviews, the Secretary OPF vide his note – 70 intimated that the Minister In-charge directed to postpone the exercise for the time being. In March 2009 the management again made an advertisement in newspapers to fill certain vacant posts, however, the idea to fill the vacancies was again dropped by the management. The management incurred a wasteful expenditure of Rs 2,946,001 (Advertisement Expenses Rs 1,953,051 + TA/DA Expenses Rs 539,387 + Test Expenses Rs 453,563) on said futile exercises.

The matter was reported to the management and the Ministry on December 4, 2010. The management in its reply dated January 3, 2011 stated that first process of appointment was quashed as the issue had become controversial and questionable in the light of the reservations of the former Managing Director as well as in the press. On other occasions, the vacancies could not be filled due to similar reasons. This time process of recruitment took about two and half years which may put many questions at later stage. The reply was not acceptable as funds were not utilized with due care and caution strictly in accordance with Finance Division's instructions vide its OM No.F.15(13)R-14/82 dated September 5, 1982 whereby the funds provided, acquired or generated by the autonomous/semi-autonomous bodies and corporations are public funds which cannot be utilized at the sole discretion of the management.

DAC in its meeting held on January 11, 2011 directed the management that a detailed report showing all the reasons due to which the vacancies could not be filled in despite incurring huge amount may be provided to audit. No progress was reported till finalization of this report.

17.1.4.6 Loss due to imprudent investment – Rs 48.800 million

The Finance Division vide OM No.F.4(1)/2002-BR-II dated July 02, 2003 circulated the investment policy of surplus funds belonging to public sector enterprises and local/autonomous bodies under Federal Government. As per said policy, eligibility criteria for non-government investment instruments will be investment in public listed shares/units should have a total return comprising the dividend paid, any appreciation in value, which exceeds the average six months Treasury bill rate for the last three years. Policy further clarified that total investment in the shares of a company not to exceed 5% of total paid-up capital of the company or 5% of the total funds managed by the public sector entity, whichever is lower and investment in share of green field projects/companies will not be eligible. It was further clarified in the policy that it will be necessary for public sector enterprises to use the services of professional fund managers approved by SECP.

Contrary to the above, OPPT made investments in various banks, financial institutions and stocks. Annual accounts of the OPPT for the year ended June 30, 2009 revealed that the Trust sustained loss of Rs 48.800 million on re-measurement of its investments in share market. OPPT did not provide the details of the investments i.e. companies whose shares were purchased; purchase / sale / present value; and dividend income etc.

The matter was reported to the management and the Ministry on December 4, 2010. The management in its reply dated January 3, 2011 stated that the loss had reduced to Rs 6.9 million. The reply was not acceptable as the investments were made in violation of the policy guidelines circulated by the Finance Division.

DAC in its meeting held on January 11, 2011 directed the management to provide the detailed information i.e. details of companies in which the management made share investment; return in shape of dividend; return in shape of shares price; and shares that have been continuously in declining trend etc. to the Ministry / Audit. No progress was reported till finalization of this report.

17.1.4.7 Non-recovery from a defaulting company – Rs 2.830 million

As per clause-2 of the special terms and conditions of opening of accounts with AMZ Securities, the amount deposited as security margin by the Account Holder(s) with Broker shall only be used for the purposes of dealing in securities, such as trading and/or settlement of deliveries of securities on behalf of the Account Holder(s). The Broker shall not use such amounts for their own use.

Overseas Pakistanis Pension Trust (OPPT) opened a CDC account with M/s AMZ Securities for investment of its funds in share business on August 6, 2007 and placed funds to the tune of Rs 30 million to Rs 50 million with the Company for investment. The Company went into default in December, 2008 was no more in business and recovery of the outstanding amount seemed bleak. This resulted in non-recovery of Rs 2,830,218 from M/s AMZ Securities.

The matter was reported to the management and the Ministry on December 4, 2010. The management in its reply dated January 3, 2011 stated that an amount of Rs 918,418 was outstanding against the Company. The reply was not acceptable, as no documentary evidence was provided by the management in support of recovery effected.

DAC in its meeting held on January 11, 2011 directed the management to provide supporting documents in support of its contention regarding recovery made from the Company and efforts be made for effecting the remaining recovery. The Committee further directed the management to provide the parameters/procedure adopted for the selection of the Company for investments. No progress was reported till the finalization of this report.

17.1.4.8 Cancellation of membership of Financial Advisor from the Board of Governors of OPF

The Finance Division vide its memo No.F.3(11)-Exp-1/73 dated February 8, 1974 defined the financial powers of autonomous/semi autonomous organizations of the Federal Government. The Finance Division further clarified vide UO dated March 1, 2006 that the officers of Finance Division are nominated

to the Board of Public Sector Corporations/Autonomous Bodies etc. to represent Finance Division. Accordingly, the Finance Division nominated its officers (FAs/DFAs) at all the Board of Directors/Governors as representative.

Contrary to the above, the nominated Financial Advisor of Finance Division was removed from the panel of OPF Board in 2007. The exclusion of the Financial Advisor from the Board against the mandatory requirement resulted in defective decisions having financial implications.

The matter was reported to the management and the Ministry on December 4, 2010. The management in its reply dated January 3, 2011 stated that the Federal Government appointed all the Governors of the OPF Board. The reply was not acceptable as previously Joint Secretary M/o Finance was at the Board of OPF, thereafter; the representation of the Finance Division was removed from the OPF Board. Further, for streamlining the financial implications, the representation of Finance Division on the Board was necessary.

DAC in its meeting held on January 11, 2011 agreed with the audit contention and decided that the matter would be taken up for the nomination of Finance representative at OPF Board. No progress was reported till the finalization of this report.

17.2 Kaghan Brick Works Limited

17.2.1 Introduction

Kaghan Brick Works (Pvt) Limited, Islamabad was established as a public limited company on April 16, 1977. The Company was principally engaged in manufacturing of all kinds of clay bricks. It is wholly owned subsidiary of the Overseas Pakistanis Foundation (OPF).

The management failed to provide audited accounts of the Company for the years 2007- 08, 2008-09 and 2009-10, by December 31, 2010. Even the accounts for the year 2006-07 furnished to Audit were unsigned and undated.

The OPF Board of Governors (BOG) decided in its 61st meeting held on December 8, 1996 to close the Factory, dispose of the entire assets through an open auction, and convert the status of KBWL land into Agro Farming Units / Cluster House with the approval of CDA. The Factory operations were closed on September 30,1996. The proposal for conversion of project land into Agro Farming could not be started for the last five years. The accumulated losses rose to Rs 89.011 million as on June 30, 2007, which completely eroded its capital of Rs 6.500 million.

The Company completely suspended its operations from September 1996, disposed off majority of its plant / machinery, and lay off employees. The lease of land of the Company had expired and the CDA has cancelled the lease of land and refused to renew the lease. Auditors have reported that the assets and liabilities reflected in the financial statements have not been re-classified to incorporate adjustment for realization of its assets and liquidation of its liabilities, which is necessary in view of the Company's existing status under which it is not a going concern. The OPF management should make efforts for liquidation of the Company to avoid further accumulation of losses.

17.2.2 Comments on audited accounts

The audited accounts for the years 2008-09 and 2009-10 were not received till the finalization of this report.

17.2.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:-

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1989-90	11	11	--	100
2.	1991-92	05	05	--	100
3.	1992-93	03	03	--	100
4.	1993-94	03	03	--	100
5.	1994-95	06	04	02	66
6.	1995-96	06	05	01	83
7.	1996-97	05	04	01	80
8.	1997-98	01	01	--	100
9.	2000-01	01	01	--	100
10.	2005-06	03	03	--	100
11.	2005-06	10	01	09	10

The overall compliance by the PAO regarding compliance of the PAC directives was satisfactory, except 2008-09.

Chapter-18
Ministry of Petroleum and Natural Resources

18.1 Pakistan Petroleum Limited

18.1.1 Introduction

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, the 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 32 exploration licences (19 operated and 13 partners operated blocks including 3 offshore areas in Pakistan and 1 block in Yemen).

18.1.2 Comments on Audited Accounts

18.1.2.1 The working results of the company for the year 2009-10 have been compared with the last three years' results hereunder:

(Rs in million)

	2009-10	**% Inc/ (Dec)**	**2008-09**	**% Inc/ (Dec)**	**2007-08**	**% Inc/ (Dec)**	**2006-07**
Sales	59,961.616	(2.6)	61,580.072	34.7	45,716.789	19.1	38,382.645
Field Expenditure & Royalties	(25,349.117)	22.9	(20,624.486)	27.2	(16,210.385)	17.1	(13,841.367)
Operating Profit	**34,612.499**	**(15.5)**	**40,955.586**	**38.8**	**29,506.404**	**20.2**	**24,541.278**
Total Other Charges	(2,722.787)	(14.8)	(3,196.898)	48.6	2,151.991	(18.8)	(2,649.530)
Other Income	2,638.495	(36.4)	4,149.732	34.2	3,092.142	25.4	2,465.022
Profit before Taxation	**34,528.207**	**(17.6)**	**41,908.420**	**37.6**	**30,446.555**	**25.0**	**24,356.770**
Taxation	(11,207.689)	(21.1)	(14,205.629)	32.3	(10,739.157)	41.5	(7,588.996)
Profit after Taxation	**23,320.518**	**(15.8)**	**27,702.791**	**40.6**	**19,707.389**	**17.5**	**16,767.774**

(Source: Annual Audited Accounts)

PPL's net sales decreased during the year 2009-10 by 2.63%. The company's performance in respect of 'Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) was also reduced in ratio of Gross Sales (10.14%) and Net Sales (8.03%). In 2008-09, PPL's production was 10,218 MMCF which was less than the production of 2007-08 (2.79% less) yet the company managed to reap profits by virtue of its price mechanism which is based on international oil prices. During the year 2009-10 there was not much improvement as only 487 MMCF (0.14%) of gas was produced more than the year 2008-09. In fact, the Audit observed that since 2002, PPL's price mechanism (as per Gas Price Agreement of PPL with Government of Pakistan) has been more instrumental in earning windfall profits than the increment in production. Further, the details provided in the management's response also confirmed this audit observation.

18.1.2.2 Audit observed that from 1994 (the oldest data made available to Audit) to 2002, 40,515 MMCF (13.6% more) was added to the annual production of gas but from 2003 to 2010 the production went down by 18,675 MMCF (5.5% less). Nevertheless, due to the linking of prices of natural gas with international oil market prices the company still earned sizeable profits. The Audit was of the opinion that the company should focus more on exploration outside Pakistan, self-sufficiency in survey and drilling and coverage of security risks etc. to increase the quantum of its reserves and cost control rather than depending on consumer-burdening price mechanisms.

The management in their response stated that a number of opportunities had been evaluated for expansion beyond Pakistan. These evaluations were going to help in taking prompt decisions and in fact, a proposal from PPL was under Government's consideration for PPL's participation in international exploration as well as development opportunities. The management further added that they had taken effective measures to counter the security risk.

18.1.2.3 Declining trend in 'Fixed Assets Turn Over' revealed that PPL's ability to generate sales was reduced by 22% (or 28.76% on average assets) in 2010 in addition to the 30% decline (or 12.05% decline on average assets) in 2008-09 which resulted in an overall decline of 52% in operating assets' efficiency (or 37.3% on average assets) in the past two years. It implies that the cost of fixed assets was increasing but it was not generating complementing produce as well as revenue. The management in their response stated that increase in investment in Fixed Assets was 97% of 2007-08 while sales were increased by 31% over the last two years. They added that sales do not increase with corresponding pace because it takes time to achieve results of the investment in fixed asset.

Audit was of the view that 31% increase in sales reflected increase in sales value only (i.e. the impact of increased price of the product and exchange gain). The management could not justify that why investments in Fixed Assets did not increase the sales with corresponding pace and what exactly was the timeline to achieve that.

18.1.2.4 'Debtor Turn Over' ratio depicted slow pace of collection against sales as it declined by 42% (or 32% on the basis of average receivables) from 2008-09's figures. Receivable balance cycle reached 178 days in 2009-10 from 121 days in 2008-09 and 89 days in 2007-08. This deteriorating situation must be plugged immediately. The management in its response stated that funds to the tune of Rs 21 billion were tied up in inter-corporate circular debt. They added that Ministry of Petroleum and Natural Resources was also requested to intervene and PPL was also considering the option of litigation for settlement of outstanding dues. However, the position of PPL dues had not yet improved.

18.1.2.5 Current and Quick ratios of 3.21 and 4.62 respectively showed improvement but it was mainly attributed to increase in trade debts. Absolute Cash ratio was also positive as it increased from 0.997 to 1.410 in 2009-10 but it was not due to increased cash collection; rather it was attributed to reduced capital expenditure (Rs 6.900 billion or 46.89% less than 2008-09) and reduced payment of dividend (Rs 1.830 billion or 22% less than 2008-09). The dwindling operating performance resulted in reduced amount of tax which though helped improve the absolute cash ratio cannot be considered a positive indicator.

18.1.2.6 Earnings per Share (EPS) ratio declined by 15.82% from the year 2008-09 (Rs 23.42/share in 2009-10 as against 27.82/share in 2008-09). Price Earnings Ratio (Rs7.86 in 2009-10 against Rs6.81 in 2008-09) had a better showing but it was mainly due to the decline in EPS and not because of any improvement in the operating results. Moreover, this improvement did not complement the falling trend in P/E ratio which started since the listing of the company's securities at stock exchange in 2004-05 (i.e. Rs. 24.84/share). The management needs to take measures to enhance investors' confidence in PPL stocks.

18.1.3 COMPLIANCE OF PAC DIRECTIVES

Brief comments on the status of compliance with PAC Directives

The management of PPL has reported compliance of 20 Audit Paras out of total 20 Paras discussed by PAC in respect of Audit Reports 2000-01 to 2008-09. The percentage of compliance was 100%.

18.1.4 Audit Paras

18.1.4.1 Systemic issue: Discretionary recruitment of officers resulting in payment of - Rs 7.448 million in salaries

Competitive selection of candidates through open advertisement of vacancies is a generally accepted principle for transparent recruitment in public sector enterprises.

The recruitment policy of Pakistan Petroleum Limited (PPL) as intimated to Audit through letter No.GMF/COM-AUD-09-10-53 dated August 19, 2010 provides that PPL is an Equal Opportunity Employer and does not discriminate on the basis of gender, race, religion, disability, or any other factor whatsoever.

PPL has adopted an in house recruitment policy with the approval of its Managing Director. Under this policy, the applications for employment are received without open advertisement of vacancies/ pay package and kept on record in a data base. As and when a vacant position is to be filled in, the selected applicants from the data base are invited for interview and subsequently appointed as officers in regular basic. By enforcing above method of recruitment, the management recruited a total No. of 73 officers on regular basis during the year 2009-10 on different positions at a salary range of Rs.40,000 to Rs.540,000 involving annual impact of Rs 7.448 million. All the appointment process was without any advertisement.

Audit was of the view that this policy leads to a discretionary procedure for benefit of only those persons who are aware of the system of submitting their application without having a notification of vacancy but only by means of personal contacts with officials of the Company. The policy even does not provide a system of periodical advertisement of seeking applications from the candidates in advance for undeclared vacancies to provide an equal opportunity to all deserving persons.

The system of recruitment of discretionary appointments by the management negated the manifesto of Equal Opportunity Employer as provided in the recruitment policy, which was indicative of weak internal controls in acquiring Human Resources thus needed remedial measures.

The matter was taken up with the management through a preliminary observation memo dated September 03, 2010 and Audit Inspection Report dated October 11, 2010. The management in its reply dated September 16, 2010

contended that they regularly receive application for employment which is kept on record in the data base. They added that as and when a vacant position is to be filled in, these applications are reviewed and suitable candidates meeting the qualification and experience criteria are invited for interviews. They also added that during a ban on recruitment during the period July 01, 2009 to February 11, 2010, the appointments of officers were also made by observing the above procedure of recruitment after obtaining relaxation against the ban from the Ministry of Petroleum and Natural Resources.

The reply was not tenable as the recruitment system is non-transparent. Further the contention of management that Ministry had relaxed the ban on recruitment in PPL for a particular period does not relieve the management from the responsibility of adopting a competitive and transparent procedure of recruitment.

Audit suggested for fixing responsibility on the person(s) at fault and adopting remedial measures for removing defect in the recruitment system.

The matter was discussed in the DAC meeting held on December 11, 2010. The DAC directed the management to make a reference to MP&NR seeking policy guidance in this regard within one (1) week. However, no progress was reported by the management till finalization of this report.

18.1.4.2 Irregular expenditure on advertisement in an international Journal "Foreign Affairs" - € 140,000 (PKR 17.000 million)

Rule-12 (2) of PPRA Rules 2004 provides that procurement over two million rupees shall be advertised on the Authority's website as well as in other print media or newspapers having wide circulation.

Pakistan Petroleum Limited (PPL) contributed its share of € 28,000 along with PARCO, PSO, OGDCL and SNGPL to have an advertorial (advertisement + editorial content) published at a total cost of € 140,000 in an international journal *viz.* Foreign Affairs. The payment was made to SML Strategic Media USA rather under extraneous pressure of Federal Minister for Privatization (DO letter July 28, 2009) and Federal Minister for Finance & Economic Affairs (DO letter August 26, 2009) and also on persuasion of the Ministry of Petroleum & Natural Resources.

SML Strategic Media USA gave following quotations for different types of advertisements:

S.No.	Type of Advertisement	Price in Euro	PPL Share (Price divided by 5)
1	Double page	131,000	26,200
2	Single page	72,800	14,560
3	Junior page	58,700	11,740
4	Half page	43,700	8,740

On September 29, 2009, the PPL Board of Directors had initially approved the payment of €14,000 (being the share of PPL against total cost of €70,000) for the said advertisement (presumably going for Quote 2). However, on another intervention of the Ministry of Petroleum & Natural Resources, a second approval was given on October 31, 2009 for additional €14,000 raising the amount to €28,000 being the share of PPL against revised total cost of €140,000 (for Quote 1 with some enhancement).

The Audit observed:

i. That PPRA Rule 12(2) was violated as the selection of the magazine was not done through competitive process.
ii. That the expenditure was incurred with an aim to extend undue favour to SML Strategic Media USA and its partner 'Foreign Affairs' as the contents of the publication were in no way for the development of the business PPL is involved in.
iii. That the payment in Euros to a USA based firm makes the deal suspicious.
iv. That payment of €28,000 (making it €140,000 for the consortium) was €9,000 more than the quoted price.
v. That the same edition of the journal (Jan/Feb 2010) contained advertorial pages pertaining to Karachi Port Trust, Port Qasim Authority, Pakistan National Shipping Corporation and National Bank of Pakistan which gives the impression that SML Strategic Media USA and its partner 'Foreign Affairs' were on an aggressive campaign of acquiring business in Pakistan and in doing that they exercised political as well as bureaucratic influence over PPL and other Public Sector Enterprises which ultimately resulted in the loss of public money.

The matter was taken up with the management through a preliminary observation memo (September 03, 2010) and Audit Inspection Report (October 11, 2010). The Audit further observed that the management's plea of feeling it unnecessary to invoke PPRA rules as the publication was made on parent ministry's directives was too weak to hold ground. The

Audit did not receive a satisfactory answer regarding payment in Euro and that too of more than the quoted price.

The Audit suggested investigation in the matter at appropriate level for fixing the responsibility on the person(s) at fault and strict measures to avoid recurrence.

The matter was discussed in DAC meeting held on December 11, 2010. The DAC discussed the Para in detail. The management explained the rationale of advertisement, i.e., to promote investment in Pakistan. However, Audit did not agree to the contention of the management.

18.1.4.3 Irregular contract appointment of an Advisor involving remuneration for one year amounting to Rs 7.200 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.06/2000-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.

In Pakistan Petroleum Limited (PPL), the management submitted a proposal to the Board of Director (BoD) in its meeting held on August 24, 2009 for contract appointment of a person (Mr. Khalid Zaki) as Advisor on Business Development/Exploration – New Ventures at lump sum remuneration of Rs.400,000 per month. The person was then holding position of Chief Executive Officer in a private firm, M/s. Oil & Gas Investment Limited (a subsidiary of AKD Group) and was due to retire on superannuation in September 2009. However, before making this proposal, the management did not observe the regulation notified by the Government for contract appointment as neither the standing instruction from the administrative ministry specifying the post and parameters governing contract appointment were obtained nor the post was advertised. The BoD approved the contract appointment for one year at the remuneration of Rs.400,000 per month. However, the person upon contact for agreement expressed reservations over the term of appointment which included demand for increased remuneration up to Rs.600,000 per month. The BoD

approved the revised remuneration as Rs.600,000 per month on October 31, 2009, Finally, the management appointed the person through a letter dated November 24, 2009.

Since the management did not observe the regulations for the transparent/competitive contract appointment, the remuneration paid to the incumbent with annual financial impact of Rs 7.2 million (Rs.600,000 x 12 months) was irregular.

The irregularity was pointed out to the management through a preliminary observation memo dated August 25, 2010 and Audit Inspection Report dated October 11, 2010. The management in its reply dated September 09, 2010 stated that the person was appointed on contract after approval of the Board whose Directors are nominated by the Government of Pakistan. They contended that the regulation referred by Audit were not applicable on PPL in relation to this appointment. They further added that PPL had benefited in business development by engaging the person as Advisor.

The reply of the management was not tenable as the directors of the Public Sector Companies are to be appointed by Government of Pakistan being the major share holder. However, such appointments do not relieve the management of compliance with specific directives of the government providing parameters for transparent recruitment on contract. The securing benefit for the organization from the person irregularly appointed cannot be made a justification for the non-transparent recruitment.

Audit suggested fixing of responsibility on the person(s) at fault and adopting remedial measures to strengthen internal controls in this area.

The matter was discussed in DAC meeting held on December 11, 2010. The DAC directed the management to make a reference to MP&NR seeking policy guidance in this regard within one (1) week. However, no progress was reported by the management till finalization of this report.

18.2 Pakistan State Oil Company Limited

18.2.1 Introduction

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.

18.2.2 Comments on Audited Accounts

18.2.2.1 The working results of the Company for the year 2009-10 as compared with those of the previous years are given below:

(Rs. in million)

	2009-10	**% Inc/ (Dec)**	**2008-09**	**% Inc/ (Dec)**	**2007-08**	**% Inc/ (Dec)**	**2006-07**
Net Sales	742,757.951	21.2	612,695.590	23.7	495,278.530	41.6	349,706.000
Cost of Products Sold	(713,591.707)	17.0	(609,685.480)	31.0	(465,254.910)	37.9	(337,447.000)
Gross Profit/(loss)	**29,166.244**	**868.9**	**3,010.110**	**(90.0)**	**30,023.620**	**144.9**	**12,259.000**
Operating Expenses	(9,411.885)	(13.0)	(10,815.120)	16.5	(9,283.020)	54.4	(6,013.000)
Other Operating Income	1,479.054	1.9	1,451.666	362.5	313.860	(81.6)	1,703.000
Operating Profit/(loss)	21,233.413	(434.2)	(6,353.344)	(130.2)	21,054.460	164.9	7,949.000
Other income	6,095.348	684.8	776.686	147.5	313.860	(81.6)	1,703.000
Financial Charges	(9,882.010)	58.6	(6,232.060)	355.6	(1,367.900)	18.1	(1,158.000)
Profit /(Loss) before share of associate	**17,446.751**	**247.7)**	**(11,808.718)**	**(159.0)**	**20,000.420**	**135.5**	**8,494.000**
Share of Profit of associates	516.401	14.3	451.850	53.5	294.320	(10.8)	330.000
Profit/(loss) before Taxation	**17,963.152**	**258.2**	**(11,356.868)**	**(156.0)**	**20,294.740**	**130.0**	**8,824.000**
Taxation	(8,913.556)	(291.3)	4,658.330	(36.4)	7,323.620	(401.1)	(2,432.000)
Profit /(Loss) after Taxation	**9,049.596**	**(235.1)**	**(6,698.538)**	**(124.3)**	**27,618.360**	**332.1**	**6,392.000**

(Source: Annual Audited Accounts)

The Gross Profit increased from Rs 3,010 million during 2008-09 to Rs 29,166 million during the year under review, registering an increase of 868.9%. Net Profit of (Rs 9,050 million) during 2009-10 increased by 235.1% over the previous year which was mainly due to increase in other income of Rs 6,095 million during the year 2009-10 which increased by 684.8% during the year under review.

18.2.2.2 During the year under review the company had further dropped its sale of White Oil by 268 thousand tons (i.e. 4.5% decline in comparison with 2009)

which had already dropped by 591 thousand tons in 2009 i.e. 9.1% decline in comparison with 2008. The company also lost its market share in White Oil by 4.0% in 2010 which had already dropped by 2.4% in 2009. Further the company also lost its market share of LDO by 11.6% in 2010 which had dropped by 5% in 2009. The decline in market share and sales along with reasons, responsibility, corrective measure and subsequent position needed explanation.

18.2.2.3 Various power generation companies including WAPDA, KAPCO, HUBCO and KESC and the PIAC owe an amount of Rs 111 billion of the company. Government of Pakistan owes Rs 11.86 billion on account of Price Differential Claim (PDC). This created acute financial crunch. Consequently, the company owed Rs 81 billion to local refineries and had to rely on short term borrowings for its needs. Despite being profitable, the company continued to face liquidity problems due to ever increasing receivables which increased from Rs 80 billion in 2008-09 to Rs 117 billion during the year 2009-10, registering a remarkable increase of 46.2% which needed strenuous recovery efforts by the company.

18.2.2.4 Provision against doubtful debts stood at Rs 2,630.792 million as on June 30, 2010 as against Rs 2,388.823 million as on June 30, 2009. There was a net increase of Rs 241.969 million i.e., of 10.13% which showed an increasing trend and needed to be looked into.

18.2.2.5 Further, the improvement in company's current ratio (1.14 times) and quick ratio (1.07 times) was 6.59% and 5.17% respectively. This improvement was mainly due to piling up of a huge amount in receivables which also reflected in debtor turnover (8.9 times against 12.57 in 2009). Speed of collection of receivables was declined by 3.67 times in 2010. In other words, blockage of funds in receivables was increased by 41.2% as compared with last year. This resulted in deterioration in company's ability to meet short term commitments by 52.8% as reflected in absolute cash ratio that declined to 0.01 times from 0.02 in 2009.

18.2.2.6 A huge quantity of inventory amounting to Rs 58.598 billion piled up in stock in trade during the year 2009-10 as against Rs 40.698 in the year 2008-09 registering an increase of 43.9%. The huge inventory in the stock shows lack of control over inventory management which needs to be reviewed.

18.2.2.7 The company had to rely over heavy bank borrowings (facilities) which resulted in high financial costs. Financial charges of Rs 9.882 billion were paid by the company as compared with Rs 6.2 billion in the year 2008-09, i.e., an

increase of 59%. Significant improvement in both inventory and receivable turnover is required to improve liquidity and reduce finance cost to improve profits of the company.

18.2.3 COMPLIANCE OF PAC DIRECTIVES

Brief comments on the status of compliance with PAC Directives

The management of PSO has reported compliance of 78 Audit Paras out of total 103 Paras discussed by PAC in respect of Audit Reports 1986-87 to 2008-09. The percentage of compliance was 76%.

18.2.4 Audit Paras

18.2.4.1 Loss due to fraud in credit control department – Rs 66.030 million

Pakistan State Oil Company Limited (PSO) offers sales promotion incentives on its products taking into account the market dynamics. One of the incentives is discount in the form of 'Credit Notes' through automated system (SAP), which is given to its big industrial customers such as WAPDA, OGDCL, and National Logistic Cell (NLC) etc. PSO's Credit Control and Billing Department (CCB) calculates the incentive amount and Retail Fuel Department issues Credit Invoice taking into account the Credit Notes generated in the system by CCB department.

During the scrutiny of PSO record for the year 2009-10 it was observed that CCB department generated fake Credit Notes in the name of WAPDA, OGDCL, and NLC. By manipulating the electronic data these Credit Notes were transferred to seven other retail outlets. The operators of these outlets were in fact the accomplices of the criminal element of PSO involved in making wrongful gains by committing fraud through computer system. Once the fraud was detected an internal inquiry was conducted which calculated the pilfered amount as Rs 94.507 million and the period of fraud spanning about three years. Two accused officers were arrested by FIA and they are in judicial custody.

During a presentation of the case made by the management to Audit it was informed that an amount of Rs. 28.310 million has been recovered from some of the dealers involved and recovery of the remaining amount is being followed.

The Audit observed that the fraud of a heavy amount of Rs 94.507 million,

continuing for three years was an alarming sign and it showed weakness of internal controls at supervisory and at ERP level (authorization etc.,).

The matter was brought to the notice of the management on September 29, 2010 through preliminary observation and on November 01, 2010. The matter was discussed in DAC meeting held on December 11, 2010. The DAC directed the management to pursue the recovery till its completion. However, no progress was reported by the management till finalization of this report.

Audit recommends suitable remedial action to strengthen internal controls and report complete recovery of the amount. It may also be ensured that retail outlet operators involved in the crime are blacklisted and criminal proceedings are vigorously pursued against them as well as against the PSO employees involved in the case.

18.2.4.2 Loss due to misappropriation/theft of prepaid cards – Rs 32.828 million

As per clause-11 of SOP for prepaid cards in PSO the activation request from system (hard copy) is approved by DGM Cards Finance and forwarded to ORIX through fax/e-mail for activation.

As a result of an internal check in Pakistan State Oil Company Limited (PSO) during the year 2009-10, 1400 prepaid Cards worth Rs 7.000 million were initially found missing. The blame was apportioned on two officials who had collected the missing cards from PSO stock for the activation of these cards from ORIX without making entries into the SAP system and their wrongful use. An FIR was lodged on December 10, 2009 and criminal proceedings were underway, both the officials have been released on bail though. As far as PSO's internal action is concerned, one of the culprits, being an outsourced person, has been dismissed from service but the other one is still serving in the company.

The Audit observed that the weakness of internal control was evident in this case as the person who possessed prepaid cards was also the custodian of all necessary documents which were required for the issuance of these cards.

The matter was brought to the notice of the management on September 29, 2010 through preliminary observation and on November 1, 2010 through Audit Inspection Report. The management in its reply dated December 10, 2010 intimated that after internal investigation it had been revealed that Rs 33 million had been misappropriated through fake entries in the activation

sheet by the accused employees.

The matter was discussed in the DAC meeting held on December 11, 2010. The DAC was informed that out of Rs 32.828 million, an amount of Rs 3.033 million had been recovered. The DAC stressed upon the management to pursue the criminal proceedings. However, no progress was reported by the management till finalization of this report.

Audit would suggest follow up of criminal proceedings and strengthening of internal controls to avoid recurrence.

18.2.4.3 Abnormal loss of Furnace Oil at Lalpir Depot – Rs 68.060 million

The Standard Operating Procedure of Operations Department of Pakistan State Oil Company Limited (PSO) provides as under:

The duty officer concerned shall check/arrange correct line-ups for receiving products into the designated storage and monitor progress of pumping.

In PSO, Lalpir Depot, an abnormal loss of 1,244 M/Tons in Light Sulphur Furnace Oil (LSFO) worth Rs 65.660 million and 50.000 M/Tons in High Sulphur Furnace Oil (HSFO) worth Rs 2.40 million was reported on June 29, 2010 for one day activity. To hide the abnormal losses, depot staff continued to receive the product from the tank wagons but did not report its receipt in the books.

Audit observed that as on February 28, 2010, both physical and book balance showed an abnormal loss of 2,258 M/Tons (LSFO & HSFO) during the period from March 1, 2010 to June 30, 2010 as depicted from the table given below:

Month	**Variance in HSFO**		**Variance in LSFO**	
	Quantity in Metric Tons			
	Reported	**Adjusted**	**Reported**	**Adjusted**
March 2010	65.24	(1,077.46)	76.31	(1,129.56)
April 2010	43.01	1,185.71	42.36	1,052.23
May 2010	10.26	10.26	(250.65)	(1.235.65)
June 2010	(535.26)	(535.26)	(1,709.92)	(528.92)
Total	**(416.75)**	**416.75**	**(1,841.90)**	**(1,841.90)**

This abnormal loss might be due to theft/misappropriation by active depot management and the Tank Lorrie's mafia and other influential of the area involved in malpractices.

The depot staff failed to report such abnormal loss to the management until it was subsequently discovered at the time of change of Depot In-charge. This showed weaknesses of internal controls due to which company suffered a loss of Rs 68.060 million. The management may improve the internal controls and adopt remedial measures to avoid such losses in future.

The matter was brought to the notice of the management on September 29, 2010 through preliminary observation and on November 01, 2010. The matter was discussed in DAC meeting held on December 11, 2010. The DAC directed the management to complete the inquiry in the matter and submit to Secretary MP&NR by December 31, 2010, to decide the administrative action against the responsible persons. However, progress was awaited till finalization of this report.

Audit would suggest that apart from taking strict disciplinary action against the employees involved in malpractices and the cartage contractors who have been found involved in malpractices, the amount should be recovered and internal controls may be strengthened to avoid such incidents in future.

18.2.4.4 Irregular payment of Advertisement Tax on behalf of dealers - Rs 5.266 million

Clause-20.1 of Article – 20 of the Standard Dealership License Agreement in Pakistan State Oil (PSO) states as under:

- *"*All taxes, including property and betterment tax, assessed and calculated (by the local/assessing authority) in respect of the site and the structure (or New Facilities) on the site shall be borne by Dealer".

- "All taxes and charges levied by the local/assessing authority on PSO's permanent logos and signage at the petrol station shall be borne by the Dealer."

PSO paid an amount of Rs 5.266 million to City District Government, Karachi (CDGK) on account of Advertisement Tax on behalf of 19 dealers during the year 2008-09 and 2009-10. CDGK had issued notice in the year 2006-07 for payment of Advertisement Tax on Dealer Financed Sites for the

period 2003-04 onwards. Accordingly, the said payment made by PSO comprised of Rs 4.213 million on account of arrears of the tax up to 2007-08 and Rs 1.053 million for the year 2008-09.

Audit was of the view that payment by PSO was in contravention of the Dealership License Agreement. The dealers were responsible for payment of all such taxes; whereas, PSO cleared the dealer's liability to avoid demolishing of the signage by CDGK.

The matter was brought to the notice of the management on August 23, 2010 through preliminary observation memo. The management in reply dated September 30, 2010 stated that they had asked CDGK to directly bill the tax to relevant dealers, as they had to clear such taxes as per Dealership License Agreement. But the CDGK advised that it is the responsibility of PSO to clear the taxes and company paid the said tax under protest.

The reply was not tenable as the management was expected to enforce terms of agreement with the dealers.

The matter was discussed in DAC meeting held on December 11, 2010. Audit suggested fixing of responsibility on the person(s) at fault and recovery of the amount from dealers on whose behalf the tax was paid.

The DAC directed the management to pursue the matter with City District Government and to recover the amount (if applicable) during current Financial Year. However, no progress was reported by the management till finalization of this report.

Audit would suggest immediate implementation of DAC directives.

18.2.4.5 Irregular appointment of a retired officer as Consultant - Rs 4.492 million

Establishment Division, Management Services Wing issued guidelines regarding appointment of consultants in Ministries / Divisions and Organizations under their administrative control its U.O. No.11-3/2001-MSW-III, dated January 01, 2002 which mainly provides as under:

(1) "Engagement of retired officer as Consultants/Advisors etc shall require prior permission of the government, invariably, i.e.,

- Establishment Division in case of retired civilian officers;
- Defence Division in case of retired defence officers; and
- Law, Justice and Human Rights Division/Supreme Court/High Courts in case of retired judiciary officer.

(2) Consultancies granted after the age of superannuation will be treated as re-employment and will be subject to the same rules as are applicable to re-employment after superannuation.

- Consultancy should be widely advertised indicating the requirements.

- Consultants should not be appointed to perform routine functions of an organization

In Pakistan State Oil (PSO), services of a retired officer were hired on contract on September 08, 2008 without advertisement and without formal approval of the Establishment Division which was mandatory in this case, as at the time of appointment he was 62 years of age. His remuneration was fixed @ Rs.150,000 per month along with other perquisites. Subsequently, his consultancy fee was enhanced to Rs. 294,500 per month w.e.f. January 01, 2010

The case of extension of contract was submitted to Board of Management (BoM) in its meeting held on June 22, 2009. BoM initially regretted the extension, but on the recommendation of the Chairman PSO, his contract was renewed for a period of two years w.e.f. October 19, 2009. The management sent a letter dated January 13, 2010 to Ministry of Petroleum and Natural Resources for approval. However, no approval was found on record by Audit till June 30, 2010. The payment of Rs 4.492 million on account of consultancy fee was irregular due to violation of Establishment Division guidelines in the contract appointment.

The matter was brought to the notice of the management on September 28, 2010 through preliminary observation memo. The management in reply dated October 14, 2010 stated the retired officer was initially taken on contract basis with the approval of competent authority and w.e.f. January 01, 2010 his services were acquired as consultant as per approval of MD PSO as he was competent to do so.

The reply was not tenable as the procedure / guidelines of the Establishment Division were not observed by the management. Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures.

The matter was discussed in the DAC meeting held on December 11, 2010. The DAC directed the management to make a reference to MP&NR seeking policy guidance in this regard within one week. However, no progress was reported by the management till finalization of this report.

Audit would suggest immediate implementation of DAC directives.

18.2.4.6 Expected Loss due to imprudent decision for award of contract - Rs 815.000 million

As per Security Exchange Commission of Pakistan (SECP) law as well as Code of Corporate Governance the approval of all the members of the Board of Management on 'Resolution by Circulation' and its subsequent ratification by the BoM is mandatory.

If a public sector enterprise enters into a business with a company that is involved in litigation an NOC must be obtained from Ministry of Law.

Investment made by a public sector enterprise should be transparent, equitable and on level playing-field basis. Before entering into any business, joint venture with company a review of the counter-part entity's history, performance, and reputation is essentially required.

As per directives of the Government of Pakistan PSO took up 'LPG Autogas Station Project' and started to pursue long term associations with potential private business partners having experience of LPG business and requisite infrastructure/capability to supply LPG to its Autogas Stations. For this purpose PSO obtained a license from the Oil and Gas Regulatory Authority (OGRA) Pakistan too.

The project envisaged PSO's granting permission/license to interested parties for 10 years and setting up of 400 Autogas Stations over a period of 5 years at selected PSO retail outlets. For this purpose, an agreement was executed on March 25, 2010 between PSO and M/s. Petrosin for the establishment of LPG Autogas Stations. However, on May 06, 2010 PSO informed M/s. Petrosin that its BoM had not approved of this business relationship due to the reasons that Petrosin was involved in a number of court cases and that true financial picture of Petrosin had been concealed from PSO. Petrosin, however, opted for the legal course claiming that by April 21, 2010 it had already invested an amount of Rs 815 million in the project. The case was decided in favor of Petrosin and PSO

went into appeal with more litigation expenditure of Rs 1.500 million and the case is pending.

The Audit observed that the impending loss of Rs 815 million plus damages and litigation expenditure was avoidable. The management failed to exercise pre-requisite checks as mentioned in the above-mentioned audit criteria and as a result there is an imminent danger of losing the said amount.

The matter was brought to the notice of the management on September 29, 2010. The matter was discussed in the DAC meeting held on December 11, 2010.

Audit suggested investigation into the case at appropriate level and suitable remedial action as well as action against the concerned officers/officials to avoid recurrence of such irregularities.

The DAC directed the management to conduct an inquiry in the matter and submit the report to Audit with specific replies to their observations. However, no progress was reported by the management till finalization of this report.

18.2.4.7 Loss due to sale of sizeable quantity of products before upward revision in tariff - Rs 248.884 million

As per practice, the management of Pakistan State Oil Company Limited (PSO) issues circulars to its depots in the last week of each month, instructing that the sales be made to dealers on the basis of average of last three weeks sale.

The mission of the company has been envisaged that it shall maintain sustained growth in earnings in real terms.

Audit of accounts of Pakistan State Oil Company (PSO) for the year 2009-10 revealed that its supply chain was involved in sales of sizeable quantity of petroleum products one day before the upward revision in tariff. PSO sold petroleum products to a few of its customers on the last date of the months, especially when the price was to rise very next day. Audit analyzed the sales record and found the abnormalities in sales. The details of excess sales more than the average sales have been shown in Annexure-VIII.

It is evident from the Annexure-VIII that the company sustained a loss of Rs 248.884 million due to poor decision of the management.

The analysis revealed that the company issued High Speed Diesel and MOGAS to 36 Petrol Station in different parts of the country especially on January 29 and 30, 2010, a quantity of 23,631 Kilo Liters (KL) just a day or two days before the notification of the new prices while on March 30 and 31, 2010 a quantity of 7,270 KL HSD was sold. Thus 36 dealers out of a total of 3600 dealers lifted HSD amounting to Rs.77.982 against Rs104.75 million on 29 & 30 January 2010 and Rs25.445 million against Rs29.279 million on March 30 & 31, 2010, which reflected that undue favour was extended to these 1% dealers.

Audit was of the view that the sales of HSD and MOGAS in above mentioned days before the announcement of new prices led to loss of Rs 248.884 million to PSO. Despite instruction to depots about the sales in last week, excess per day average sales to the selected dealers were made, who ended up making windfall profits in 24 hours.

The matter was brought to the notice of the management on October 1, 2010. Audit suggested to probe into the matter for fixing responsibility and recovering the said amount from the concerned person(s) who are at fault.

The matter was discussed in DAC meeting held on December 11, 2010.The DAC observed the correctness of audit observation therefore directed the management to conduct inquiry in the matter and submit a report to this effect expeditiously. However, no progress was reported by the management till finalization of this report.

Audit would suggest immediate implementation of DAC directives.

18.3 Saindak Metals Limited

18.3.1 Introduction

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 it was converted into a public limited company on January 16, 1996.

The company has 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.

18.3.2 Comments on Audited Accounts

18.3.2.1 The working results of the Company for the year 2009-10 as compared with those of the previous years are as under:

(Rs. in million)

	2009-10	**% Inc/ (Dec)**	**2008-09**	**% Inc/ (Dec)**	**2007-08**	**% Inc/ (Dec)**	**2006-07**
Income	2,411.384	87.59	1,285.46	(49.5)	2,546.58	52	1,675.15
Depreciation, administrative & other Expenses	(768.728)	(10.21)	(856.186)	(9.9)	(950.709)	(7.07)	(1,023.03)
Operating profit/(loss)	**1,642.656**	**282.66**	**429.276**	(73)	**1,595.87**	144.7	**652.121**
Financial charges	(0.351)	2,093.75	(0.016)	(100)	(50.821)	(126.6)	(191.396)
Other income	478.785	8.06	443.074	26.24	350.954	5.8	331.65
Profit/(loss) before Taxation	**2,121.090**	**143.15**	**872.334**	(53.9)	**1896.00**	139.3	**792.375**
Income tax expenses	(12.194)	6.41	(11.459)	800	(1.273)	(84.8)	(8.376)
Profit for the year	**2,198.896**	**155.43**	**860.875**	(55)	**1,894.73**	141.7	**783.999**
Accumulated losses	**(12,133.240)**	**(14.96)**	**(14,267.89)**	**(6)**	**(15,105.27)**	**11.1**	**(16,999.99)**

(Source: Annual Audited Accounts)

During the year under review, trade debts increased by 102%, i.e., from Rs 660.400 million in 2008-09 to Rs 1,335.100 million in 2009-10, which was due to share of profit receivable from MRDL amounting to Rs 674.700 million and on account of stores and spares from MRDL amounting to Rs 660.400

million. Efforts need to be made to recover such outstanding balance as expeditiously as possible.

18.3.2.2 During the year under review, External Auditors identified an amount of Rs 660 million as receivables from MRDL on account of stores and spares, while MRDL confirmed Rs 459 million only on account of consumed stores and spares. Moreover, the physical condition and value of unconsumed store and spares could not be verified. Reconciliation of Rs 201 million needed to be done and efforts needed to be made to recover the outstanding amount of receivables from MRDL. In addition, physical verification of unconsumed stores and spares needed to be made with the help of external auditors in order to ascertain its condition and value.

18.3.2.3 External Auditors also identified that the company classified Rs 23.240 billion invested by Government of Pakistan under its equity. The nature of this amount as to whether it was a loan or equity was not confirmed by the Government of Pakistan. Necessary confirmation needed to be obtained in order to ensure true and fair view of financial statements.

18.3.3 COMPLIANCE OF PAC DIRECTIVES

Brief comments on the status of compliance with PAC Directives

The management of SML has reported compliance of 44 Audit Paras out of total 56 Paras discussed by PAC in respect of Audit Reports 1986-87 to 2008-09. The percentage of compliance was 79%.

18.4 Sui Southern Gas Company Limited

18.4.1 Introduction

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. SSGCL is serving more than 2.247 million consumers in Sindh and Baluchistan. The Company has over 56 years of experience in operation and maintenance of high pressure gas transmission and distribution systems.

18.4.2 Comments on Audited Accounts

18.4.2.1 The working results of the Company for the year 2009-10 as compared to the previous years are tabulated below:

(Rs. in million)

	2009-10	**% Inc/ (Dec)**	**2008-09 (Restated)**	**% Inc/ (Dec)**	**2007-08**	**% Inc/ (Dec)**	**2006-07**
Net sales	107,736.781	(0.4)	108,151.087	44.9	74,625.569	8.0	69,084.403
Cost of gas	-	-	-	-	(69,238.236)	9.6	(63,157.107)
Cost of Sales	(104,896.047)	(3.5)	(108,672.507)	-	-	-	-
Gross profit	**2,840.734**	-	**(521.420)**	-	**5,387.333**	(9.1)	**5,927.296**
Transmission, distribution and selling cost, administrative and other operating expense	-	-	-	-	(8,114.643)	21.9	(6,655.741)
Administrative and selling Expenses	(2,448.711)	12.2	(2,181.773)	-	-	-	-
Other operating Expenses	(752.037)	(68.0)	(2,352.918)	-	-	-	-
Share of Expenses of Joint Venture	(40.754)	9.7	(37.153)	-	-	-	-
Other operating income	3,789.522	(3.1)	3,910.328	(31.5)	5,707.221	115.2	2,651.960
Operating profit / (loss) before finance cost	**3,388.754**	-	**(1,182.936)**	-	**2,979.911**	54.9	**1,923.515**
Other non operating income	8,640.557	43.8	6,009.427	239.0	1,772.395	48.9	1,190.456
Finance cost	(5,015.893)	13.7	(4,409.792)	86.0	(2,370.674)	33.3	(1,778.740)
Profit/(loss) before taxation	**7,013.418**	1,583.1	**416.699**	(82.5)	**2,381.632**	78.4	**1,335.231**
Taxation	(2,614.269)	1,542.0	(159.210)	(88.6)	(1,390.560)	33.1	(1,044.846)
Profit/(loss) after taxation	**4,399.149**	1,608.5	**257.489**	(74.0)	**991.072**	241.3	**290.385**

(Source: Annual Audited Accounts)

The Company earned profit of Rs 7,013.414 million before tax in 2009-10, as compared to Rs 416.695 million in 2008-09. The increase in profit was mainly due to decrease in operating cost by 29.41% and increase in other non operating income by 43.8% during the year 2009-10 as compared to previous year. Net Sales of the Company decreased by 0.4% during 2009-10, in comparison of the previous year incorporating impact of GDS that was chargeable to company of Rs 4.537 billion in year 2009-10 against Rs 4.012 billion recoverable from Government in year 2008-09. Company's sales (net of sales tax) were increase by 7.8% against volume increase of 1.12% in comparison of last year, whereas company's ability to generate sales per rupee of fixed asset was declined by 1.43% in comparison of last year.

18.4.2.2 Further financial statements reflects that, sales per customer were declined by 3.027%, additional sales per km addition in distribution network was declined by 44.24%, New connections per km addition (distribution) were declined by 7.76%, and additional sales per new connection was declined by 39.55%, in comparison of last year.

18.4.2.3 Moreover the company had changed classification of its "Transmission and Distribution Expenses" and added them as component of Cost of sales in contrary to separate line items of Cost of Gas (incorporated in Gross profit) and Transmission and Distribution Expenses (below gross profit) in Profit and loss statement. Current reclassification had reduced gross profit and so as Turn Over of company for minimum tax resultantly this reclassification has cost the Government Rs 17.767 million on account of Turnover tax (i.e., @ 0.5% transmission and distribution cost reclassified x share of equity other than Government). The Company in its reply dated January 11, 2011 has stated in response to audit query about approval from OGRA for this reclassification, that "the reclassification has been accepted by OGRA". Evidence of OGRA's approval required for audit perusal. Further, this reclassification does not make any difference over true and fair view of company's performance as "the transmission and distribution expenses" and do not form part of Guaranteed Rate of Return (GRR) i.e the actual performance of SSGCL's, but surly have a tax impact (that was not denied by management in its reply).

18.4.2.4 Further, Transmission and distribution expenses were increased by Rs 3.283 billion in 2009-10 registering an increase of 51.9% in comparison of last year against increments of 6.42% in distribution activity during 2009-10. This increase is mainly on account of increase in Salaries, wages and benefits of Rs 2.940 billion in 2009-10 in comparison of last year.

18.4.2.5 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 2009-10 was 35,010 MMCF representing 8% against the target fixed by OGRA at 7%. In financial terms, this caused disallowances of Rs 934 million during the year as compared with 33,501 MMCF representing 7.9% causing disallowance of Rs 2,818 million in the preceding year 2008-09 against target of 4.8%. Remedial measures are required to be taken to control the UFG.

18.4.2.6 Further, the management's reply stating that major portion of UFG relates to Domestic network and connections also alarm inefficiency of management towards control of UFG, as 66% of total customers belongs to Domestic-Karachi, and 38% (the highest amount among three regions) of total UFG was reported for Karachi for the year 2009-10. Loss due to failure to control UFG in excess of targets needs to be justified.

18.4.2.7 Further audit observed that it is the cost that was paid against disallowed UFG by the company, but Government is loosing GDS portion on this disallowed quantity (i.e., the difference between prescribed price and customer price).

18.4.2.8 The age-wise analysis of the debtors indicated that the debtors increased to Rs 43.815 billion as on June 30, 2010 from Rs 32.568 billion as on June 30, 2009. Thus there was an increase of 34.53% in debtors as compared to previous year. The company in its reply stated that Rs 31.250 billion out of this total balance was receivable from KESC, WAPDA, and Pakistan Steel Mill and others were Rs 12.564 billion. The company had recovered Rs 10.933 billion (out of Rs 21.280 billion) from KESC, Rs 6.327 billion (out of Rs 8.258 billion) from WAPDA and Rs 1.005 billion (out of Rs 1.713 billion) from Pakistan Steel Mills. The company need to take more efforts to recover its dues within due dates hence the Company should re-consider the existing policies / rules to safeguard from default amount.

18.4.2.9 Finance Cost increased by 13.7% from Rs 4.410 billion in the preceding year 2007-08 to Rs 5.016 billion during the year 2008-09. 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 increased to Rs 43.815 billion at the end of current year 2009-10. In view of critical cash position, efforts towards recovery of receivable need to be made to avoid dependence over costly borrowings / swaps.

18.4.2.10 Further, The cash and cash equivalent at the end of 2009-10 were in negative (deficit) of Rs 3.100 billion, reason being addition of short term borrowings liability of Rs 3.721 billion as on June 30, 2010. SSGCL need to take aggressive measures to improve its liquidity and decline of 58% in cash and bank balances in current year.

18.4.2.11 SSGCL charges a Guaranteed Rate of Return (17% of its net operating assets) from Government for its operational activities. Hence Sales and Cost of Sales, disclosed in Profit and Loss Account did not reflect SSGCL revenue and cost therefore irrelevant in ascertaining SSGCL's operating performance (in financial terms). Audit is of view that the company needed reflect in its accounts a movement/ reconciliation in reference to Guaranteed Rate of Return (GRR) earned by company and expenses charged there against to reflect a fair view of SSGCL's Profit and loss for the year.

18.4.3 COMPLIANCE OF PAC DIRECTIVES

Brief comments on the status of compliance with PAC Directives

The management of SSGCL has reported compliance of 64 Audit Paras out of total 67 Paras discussed by PAC in respect of Audit Reports 1988-89 to 2008-09. The percentage of compliance was 96%.

18.4.4 Audit Paras

18.4.4.1 Loss due to leakages / theft of gas in Quetta - Rs 1,129.635 million

Section-6.1 of Standard Operating Procedure of Surveillance & Monitoring (S&M) Department dated August 29, 2008 states that "Theft observed / witnessed by company staff during routine / specific operations or evidenced by any external / independent source at any premises / and or in any vicinity reported verbally or in writing i.e. letters / complaints be compiled through a system for necessary preventive action".

In Sui Southern Gas Company Limited (SSGCL), it was observed that the total Unaccounted for Gas (UFG) in Quetta was 5,778 MMCF during the year 2008-09, resulting in loss of Rs 1,129.635 million (Rs195, 540 X 5,778MMCF), but the Surveillance & Monitoring Department of Quetta detected only two cases of gas theft comprising only one (1) MMCF out of total 5,778 MMCF of UFG in Quetta. The S&M Department, Quetta deals only with 53 industrial and 1673 commercial customers in Quetta; whereas, 138,993 domestic customers are not monitored by the S&M Department, as was intimated by the management. The

huge loss on account of gas theft indicated loose controls prevalent in the Company on the part of S&M Department, CRD and Distribution Department.

The matter was brought to the notice of Ministry/management on August 16, 2010. The management in its reply dated October 22, 2010 admitted the present unsatisfactory role of S&M Department, CRD and Distribution Department but did not furnish reply for the control weaknesses to the extent of negligence and poor performance of management in controlling gas theft in Quetta. The management also admitted the correctness of figures of UFG in Quetta but stated that the said UFG represented all factors, i.e., theft, leakages etc. However, no documentary evidence was provided in this regard.

The matter needed to be investigated with a view to fix responsibility for loss upon person(s) found at fault, under intimation to Audit.

In its meeting held on December 11, 2010, the DAC directed the Company to show steps taken by the management towards reduction of UFG so that Audit could review and assess their impact. The Audit had to provide its review report to the Company and the Ministry accordingly.

As per directives of the DAC, the steps taken by the management for reduction of UFG were verified by Audit, which included replacement of 9,742 meters from July to November, 2010 on account of Passing Unregistered Gas (PUG), Direct Passing Gas (DPG), tampering, etc., and disconnection of 804 connections on account of illegal use of gas. However, the UFG position from July to October 2010 was as under:

	July	August	September	October
Current	27.3%	27.9%	29.8%	35.8%
Previous	24.8%	24.5%	28.6%	39.3%

The increasing trend of UFG was evident of the ineffectiveness of the steps taken by the management even after adopting the above stated measures. No significant reduction was noticed in the quantum of UFG as the latest rate of 35.8% as against normal 5.5% fixed by OGRA.

Audit would, therefore, suggest taking concrete remedial measures to avoid losses on this account.

18.4.4.2 Loss of millions of Rupees to the Company by way of illegal use of gas

Oil & Gas Regulatory Authority (OGRA) Letter No.OGRA–9(1) / 2005 dated August 16, 2005 stated that "In case of strong evidences leading to confirmation of the act of theft, the Company will disconnect the gas supply of the consumer / defaulter immediately and will remove all devices which can facilitate the consumer / defaulter in illegal restoration of gas supply".

In Sui Southern Gas Company Limited (SSGCL), the management carried out physical checking and joint action against illegal gas users in Tando Mir Mehmood Jurial Shah Colony, Aliabad, and Tando Agha of Hyderabad Zone on September 23, 2008. Before this, SSGCL had several times disconnected gas supplies of theft cases and FIRs were lodged with the police in February 2008 but the gas theft users reconnected the gas supplies. According to the report, there were 960 houses whereas the number of registered customers was only 308 in the billing zone and remaining houses were using gas illegally through the rubber pipes extensions.

The matter was brought to the notice of Ministry/management on August 16, 2010. The management in its reply dated October 22, 2010 intimated the past progress of the case but did not intimate the latest progress towards the control of illegal use of gas. While admitting its failure to stop this ongoing theft, the management put the onus on the society at large by declaring these occurrences as "a sorry reflection of the moral fiber of the society where there is no respect of laws." The reply was not tenable, as the management had failed to take concrete steps as per OGRA directives to control the theft of gas.

The DAC directed the Company in its meeting held on December 11, 2010 to show the steps taken by the management towards reduction of UFG. The Audit had to review and assess the impact. The Audit had to provide its review report to the Company and the Ministry accordingly. However, no record was provided to audit for verification till finalization of this report.

Audit would, therefore, suggest taking concrete remedial measures to avoid losses on this account.

18.4.4.3 Short receipt of Security Deposit from commercial consumers - Rs 369.941million

In Sui Southern Gas Company Limited (SSGCL), the contract for supply of new gas connection to commercial consumer lays down that immediately at the time of the execution of the contract, the consumer shall pay to the Company as security deposit in cash or bank guarantee or in any other form as approved and offered by the Company from time to time equivalent to three months estimated natural gas consumption during a year.

During audit of accounts for the year 2009-10, it was observed on test check basis that the management of SSGCL was required to obtain Rs 14.779 million as security deposit on providing new gas connection to 73 commercial consumers equivalent to three months estimated natural gas consumption during 2008-09. However, security deposit amounting to Rs 5.417 million only was obtained resulting in short security deposit of Rs 9.362 million.

The matter was brought to the notice of the ministry/management on August 16, 2010. The management in its reply dated October 22, 2010 intimated the procedure of obtaining GSD but the reason of the short receipt of security deposit and recovery thereof were not explained.

Audit was of the view that the short/non-obtaining security deposit had increased the risk of non-recovery of gas consumption charges.

The DAC in its meeting held on December 22, 2010 directed the management to show the progress on the cases highlighted by the Audit within one (1) week along with justification for not addressing the issue through the automated system which was already in place.

The position was verified by Audit on the basis of record supplied by the management. The short receipt of GSD Rs 396.941 million was observed in the cases of total 9,149 commercial consumers up to June 2010 as detailed below:

(Rs. in million)

Total No. of commercial customers	GSD required	GSD received	GSD outstanding
9,149	768.206	371.265	396.941

The verification results were even more alarming as the outstanding GSD turned out to be Rs 396.941 million which strengthened the earlier audit contention of a weak internal control system. Audit would suggest that the management should adopt measures to recover due GSD in advance to avoid default in payment of bills by commercial consumers.

18.4.4.4 Irregular award of contract for LPG Extraction Plant

According to clause-6.2 of the pre-qualification document, the application submitted by consortiums/joint ventures of two or more companies/firms as, partners shall comply with the requirement that "any change in a pre-qualified joint venture will be subject to the written approval of SSGCL prior to the deadline for submission of bids – such approval may be denied if partners withdraw from a joint venture and the remaining partners do not meet the qualifying requirement".

Sui Southern Gas Company Limited (SSGCL) awarded a contract Liquefied Petroleum Gas (LPG) extraction project on Build, Own and Operate (BOO) basis at Jamshoro, Hyderabad on August 19, 2002 to M/s. Jamshoro LPG Joint Venture, Islamabad (JJVL). The audit examined the procedure of award of contract and following discrepancies were found:

JJVL submitted names of five (5) companies/firms as partners of the Joint Venture at the time of pre-qualification. However, after the prequalification JJVL changed its partners which was an outright violation of clause–6.2 of prequalification document.

Moreover, JJVL changed the specification of the proposed plant and instead of developing and designing a new plant installed a used one. The plant is extracting 90% Propane instead of 100%.

The matter was brought to notice of the Ministry/Management on August 16, 2010. The management in its reply dated October 22, 2010 stated that as only one bid was received from M/s. JJVL, the issue of change in partnership was put up to the Board of Directors and proceeded as per Board's advice.

Management did not respond to the observation over installing second hand plant by JJVL against specification which was also pointed out by the consultant but no action was taken by the management.

Audit was of the view that the changed specification should have been communicated to all the parties and re-tendering procedure should have been adopted to provide equal opportunity to all the bidders which was not done and the procedure adopted for tendering was not transparent for which the management was responsible.

The DAC in its meeting held on December 11, 2010 directed the management to provide the rationale for the partnership to Audit along with full justification regarding second hand plant and re-tendering issue within one (1) week. However, no record was provided to audit for verification till finalization of this report. Audit would, therefore, suggest fixing of responsibility on the person(s) at fault.

18.4.4.5 Irregular procurement of wet test meters - US$ 12,875 (Rs 1.320 million)

Rule-23 (3) of PPR-2004 provides that any information, that becomes necessary for bidding or for bid evaluation, after the invitation to bid or issue of the bidding documents to the prospective bidders, shall be provided in a timely manner and on equal opportunity basis. Where notification of such change, addition, modification or deletion becomes essential, such notification shall be made in a manner similar to the original advertisement.

Sui Southern Gas Company Limited (SSGCL) invited bids for procurement of Wet test Meters on May 26, 2009. In response, two bidders quoted rates. M/s. Shinagawa Corporation, Japan stood first lowest who quoted rates at FOB price of US$ 17,850. Whereas, M/s. Abcop International Inc USA, the second lowest bidder offered two models; one wet test meter at quoted FOB price of US$20,488 and another alternate dry test meter at FOB price of US$ 12,725. They deposited only one earnest money of Rs 34,000 as such their alternate offer should have been rejected. The offered equipment was sent for technical evaluation. In Technical Evaluation, the wet test meters offered by both bidders were found technically compliant. However, the alternate equipment of second lowest bidder was also found compliant, but instead of dry test meter it was also evaluated as wet test meter. On receipt of technical evaluation, the Material Management department also ignored the price quoted by second lowest bidder for wet test meter and made it first lowest by mentioning the price of dry test meter. Thus the bids were technically and financially evaluated wrongly at Measurement Department and Material Management Department.

The purchase order was placed on October 12, 2009 to second lowest bidder for wet test meter at US$12,725 which was the quoted price of dry test meter. An irrevocable L/C was opened in favour of supplier. However, at the time of shipment, the consignment was stopped due to technical observation. The supplier realized that they had quoted for dry test meter and received purchase order for wet test meter. The supplier intimated that the wet test meter was much expensive but more accurate than dry test meter. The supplier suggested two solutions: one was to go for dry test meter for which they offered next higher model (BG-10) with no increase in cost and second was to buy wet test meter for which they reduced the price to US$ 17,750 to qualify as first lowest vide their letter dated: January 18, 2010. The DGM (Measurement) recommended for option two; whereas, on February 08, 2010, the DGM (ORM) recommended for dry test meters to material management department. The material management department amended purchase order for dry test meters (BG-10) instead of wet test meters and purchased dry test meters at a total cost of US$ 12,875, Rs 1.320 million.

Hence, due care was not taken by the management in procurement process as the alternate offer should have been rejected and not included in technical/ financial evaluation. Due to carelessness of both the departments, the procurement of lower grade equipment was made as compulsion. The PPRA rules were also violated because other bidders could not quote for dry test meter, as bids for this item were not invited. Therefore, equal opportunity was not given to all bidders; besides, the company also could not get competitive bids. Thus, the procurement was irregular and in violation of PPRA Rules.

The matter was reported to the management on November 04, 2010. There is a need to investigate the matter with a view to fix responsibility upon person(s) at fault.

The matter was discussed in the DAC meeting held on December 11, 2010. The DAC directed the management to conduct an inquiry and fix responsibility. However, progress was awaited from the management till finalization of this report.

18.4.4.6 Irregular appointments of executives on contract basis involving impact of - Rs 34.573 million per annum

Government of Pakistan, Establishment Division through letter No.06/2000-R-3 dated May 6, 2000 laid down the policy guidelines regarding

contract appointments for the posts in Autonomous / Semi Autonomous Bodies, Corporations, Public Sector Companies which provided as under:

1. Standing instructions from the concerned Administrative Ministry / Division specifying such posts and parameters governing the contract appointment may be obtained.

2. Vacancies should be advertised in the leading national and regional newspapers.

3. Consultation with Board of Directors of concerned organizations and appointments should be made through regularly constituted Selection Committee / Board.

4. The appointment on contract basis can be made for a maximum of three periods of two years.

In Sui Southern Gas Company Limited (SSGCL), the management appointed 64 executives on contract basis during the period spanning from 2002 to 2010. These executives were appointed in violation of the above mentioned standing instruction of the Government of Pakistan as the posts were never advertised in the newspapers.

The company was incurring an expenditure of Rs 34.573 million per annum on account of pay and allowances and other benefits allowed to the executives. Furthermore, 10 executives among them were working beyond the maximum time prescribed period of six years.

The matter was brought to the notice of Ministry/Management on August 16, 2010. The management in its reply dated October 22, 2010 stated that SSGCL is a public limited company and has its own set of service rules and policies duly approved by the BoD. The Managing Director exercises powers delegated by the Board to deal with all recruitment issues. The contention of the management was not correct, as the said instructions of the Government of Pakistan were applicable to all the public sector companies.

DAC in its meeting held on December 11, 2010 directed the management to provide the record along with the extension and copy of advertisement in this regard to Audit. Management was also directed to make a reference in this regard to Ministry of Petroleum and Natural Resources seeking policy decisions in this matter within one (1) week.

In compliance with DAC directives the management supplied a copy of advertisement to Audit for verification; however, other record particularly with reference to the extensions was not provided to audit. Further, no proof of a reference made to the parent ministry seeking policy decisions was provided to audit. Audit would, therefore, suggest fixing of responsibility on the person(s) at fault and taking remedial measures.

18.4.4.7 Irregular appointment of Legal Consultant on contract basis - Rs 2.885 million

Ministry of Law, Justice& Human Rights issued instructions for the appointment of Legal Advisor, Advocate or Consultant through its OM. dated November 11, 2004 as follows:

1. No Legal Advisor, Advocate or Consultant Legal shall be appointed or engaged by any department, in future without the prior approval of the Ministry of Law, Justice and Human Rights.
2. No department/government or semi-government or public corporate body would pay to their counsel/legal advisor fee exceeding Rs. 100,000 including cumulative fee of similar or connected cases, without prior intimation and approval of the Ministry of Law, Justice, and Human Rights. Any failure doing so will render the engagement of advocate/counsel etc., null and void and the fee involved will not be paid to such advocate/counsel.

In Sui Southern Gas Company Limited (SSGCL), Mr. Irshadullah Qureshi was appointed as legal consultant on September 24, 2008 at a consolidated salary of Rs.150,000 per month on his application received in SSGCL through fax from the Prime Minister Task Force. Initially, the appointment was for one year but the incumbent was working till time of the audit and a sum of Rs.2.885 million was paid to him on account of monthly remuneration till April 2010. It was however, observed that no formal approval of Ministry of Law, Justice& Human Rights was obtained for the appointment. Thus the appointment and the payment of Rs.2.885 million made to the legal consultant were irregular.

The matter was brought to notice of Ministry/Management on August 16, 2010. The management in its reply dated October 22, 2010 stated that SSGCL is a public limited company and has its own set of service rules and policies duly approved by the BoD. The Managing Director exercises powers delegated by the Board to deal all recruitment issues. The contention of the management was not

correct, as the said instructions of the Ministry were applicable to all the public sector companies.

In the DAC meeting held on December 11, 2010 the management explained that Companies, Ordinance 1984 empowers BoD of the Company to formulate procedures for such appointments and the legal consultants were appointed by observing the procedures. Audit pointed out that instructions of the Ministry of Law and Justice were to be complied with. DAC directed that Audit may review the Para on the aspect whether the instructions have overriding effect on the provisions of the Ordinance.

Audit was of the view that the standing instructions of the Government of Pakistan as referred above were specific in nature. They had been issued in the proprietary capacity and therefore are not in conflict with the Companies Ordinance 1984. Being the Govt. owned company, all the standing instructions of the Government of Pakistan are binding on the SSGCL.

18.4.4.8 Sale of gas at subsidized rate to fertilizers causing shifting of low cost burden on other industrial and commercial consumers- Rs 8,300.000 million

In Sui Southern Gas Company Limited (SSGCL) substantial subsidized rates for gas sale were charged to fertilizer. The subsidy given to fertilizers as reflected in table below, being cross charged to other industrial and commercial consumers which are already paying comparatively higher rates.

Year	Fertilizer rate as on July per MMBTU	July Industrial rate per MMBTU	Fertilizer rate as on Jan. per MMBTU	Industrial rate as on Jan. per MMBTU	Total subsidy Rs in Billion
2007-08	36.77	238.3	36.77	251.55	4.8
2008-09	36.77	329.54	102.01	339.43	3.5
Total subsidy					**8.3**

Audit was of the view that policy of cross charging fertilizer subsidy to other industrial and commercial consumers be reconsidered, as it is burdening cost to general industries and ultimately their produce that adversely affects their cost competitiveness in local and foreign market.

DAC agreed in its meeting held on December 11, 2010 that the act of the Company is in line with the Government Policy. However, Audit was of the view

that policy of cross charging fertilizer subsidy was burdening the general industry by affecting the cost of competitiveness in local and foreign market. Therefore DAC directed the Para to be placed before the PAC.

18.4.4.9 Undue / unjustified adjustment of exemption of sales tax by shifting burden on consumers – Rs 27.244 million

According to Clause 24 (4) of Sales Tax Act 1990, monthly adjustment of input tax claimed by a registered person under this chapter shall be treated as provisional adjustment and at the end of each financial year; the registered person shall make final adjustment on the basis of taxable and exempt supplies made during the course of that year.

In Sui Southern Gas Company Limited (SSGCL), an amount of Rs 27.244 million was worked out as exempted sales tax during the year 2009-10 against Aga Khan Development Network, which was exempted from payment of GST vide Central Board of Revenue (Sale Tax Wing) letter No.K.No.1/204-STT/99 dated April 12, 2000 without any expiry date. The GST was not being charged to the supplies of Aga Khan Development Network in their monthly bills. The burden of exemption was passed on to general consumers, as this exemption was being charged to cost of gas sales and company got its tariff revised, based on the cost of gas as major component. The adjustment in cost of gas sale was undue / unjustified as it resulted into increase in tariff and burden was shifted to the consumers.

The matter was reported to the management on October 27, 2010.

The matter needs to be taken up with CBR for either cancellation of exemption facility to above customer or making it zero rated so that the burden of exemption may not be charged to general consumers in the shape of increase in tariff.

The matter was discussed in DAC meeting held on December 11, 2010. The DAC directed the management to take up the matters with FBR to take the supplies to M/s. Aga Khan Development Network (AKDN) on zero rated basis of GST instead of exempted GST. However, progress was awaited from the management till finalization of this report.

18.4.4.10 Loss of revenue due to non-implementation of LPG project in time - Rs 11.257 billion and wasteful expenditure of Rs 13.210 million

As per PC-I submitted by SSGCL to Government of Pakistan in September 1992 for construction of LPG extraction plant at Hyderabad, the Company envisaged completing the project by in the year 1995.

SSGCL submitted a PC-I to Government of Pakistan in September 1992 for construction of LPG extraction plant at Hyderabad with a capital cost of Rs.390 million. Accordingly, ENAR Petrotech was engaged in November 1994 to prepare tender documents at the cost of Rs 13.210 million. The proposal was approved by the Cabinet and the Company was further directed to submit to the then Prime Minister the comparative cost of production of LPG at Hyderabad, Badin Town as well as other suitable place in District Badin. However, no further progress was made by the Ministry/management in getting the confirmation of the then Prime Minister for the location of the plant.

Subsequently, the Board in its meeting held on February 24, 2000 decided for setting-up LPG Extraction Plant on Built Own & Operate (BOO) basis at Hyderabad. The project was signed with JJVL and was completed in November 2004. JJVL made an average payment of Rs 1,125.672 million per annum to SSGCL on account of royalty for LPG components during the period November 2004 to July 2009. Due to this delay 350-400 Metric tons of LPG per day got wasted during the period of 1995 to November 2004 for which SSGCL was making the payment to BP Pakistan Exploration (formerly Union Texas Pakistan). Resultantly, SSGCL sustained a loss of Rs 11,256.720 million (Rs.1,125.672*10 years) of revenue during the period of 1994-95 to 2003-04 at an average yearly rate of Rs 1,125.672 million. Furthermore, a wasteful expenditure of Rs. 13.210 million was incurred by SSGCL on account of preparation of tender documents by M/s. ENAR Petrotech in November 1994 as the project was shelved and preparation of tender documents became futile exercise.

The matter was brought to the notice of Ministry/management on August 16, 2010. The management's reply dated October 22, 2010 was silent about getting the confirmation of the then Prime Minister by the Ministry/management for location of the plant which inaction resulted in perpetual loss to the exchequer. However, management admitted the loss and concluded that the delay was a national loss.

The DAC directed in its meeting held on December 11, 2010 that a fact finding inquiry may be conducted at the level of Ministry of Petroleum and

Natural Resources. The CF&AO - MPNR may conduct and after approval of the competent authority submit a report to audit within six (6) weeks.

Audit was of the view that a comprehensive inquiry should be conducted with a view to fix responsibility on the person(s) at fault for the loss to the national exchequer.

18.4.4.11 Imprudent Investment in Uneconomical Projects - Rs 44.990 million

Oil & Gas Regulatory Authority (OGRA) issued license to Sui Southern Gas Company Limited (SSGCL) in March 2002 to undertake the activities subject to the terms & conditions provided in the license. The relevant clauses of the license for economic viability of the projects are as under:

13. The Licensee shall provide licensed regulated activities to; Where Provision of services is technically and economically viable.

33.4 Subject to approval of Authority of tariff if applicable the Licensee shall comply, in so far as it is technically feasible and economically viable to do so, with any reasonable request:

Furthermore, Ministry of Petroleum & Natural Resources vide its letter dated July 26, 2008 laid down the criteria for investment for supply of gas to new areas/towns in Sindh as Rs.54,000 per customer.

In SSGCL 21 scheme were completed at the total cost of Rs 52.118 million in Sindh during 2008-09 and 2009-10 in which 132 prospective customers were available. Resultantly the per customers cost ranged between Rs 1.270 million to Rs 0.007 million which was high against Rs.54,000 per customer cost laid down by the Ministry for the supply of gas in Sindh. Due to irregular and imprudent investment, SSGCL and Government of Pakistan had to bear the additional cost of Rs 44.990 million as per calculation given below:

(Rs. in million)

Total Project Cost	**Prospective Customers** Nos.	**As per Criteria Total cost of the Projects (Rs. 54000 X 132)**	**Total Additional Cost incurred**
52.118	132	7.128	**44.990**

It had further been observed that no feasibility studies were carried out before undertaking these schemes to asses the economic viability of these projects.

The matter was brought to the notice of Ministry/management on August 16, 2010. The management in its reply dated October 22, 2010 while admitting the irregularity, stated that scarce financial resources of the Government should not be applied to projects with a small number of beneficiaries only. Extending pipeline network in remote areas is costly and causing problems of billing, recovery and the line leakages. The reply was not tenable as the management should have undertaken the projects after proper feasibility studies so as to fulfill the terms and conditions of its licence and standing instruction of the Ministry of Petroleum.

A DAC meeting held on December 11, 2010 in which the management explained that the projects had been undertaken on PM's directives. However, Audit pointed out that the projects were not financially viable and SSGCL being a commercial concern should have brought the facts to the knowledge of PM Secretariat.

Audit would suggest taking remedial measures to avoid incourrence of such additional cost .

18.4.4.12 Non-recovery of cost of replacement storage tank - Rs 8.680 million

Under Clause 1.3 of Sale/Purchase Agreement dated December 17, 2005 between Sui Southern Gas Company Limited (SSGCL) and a firm, M/s. Lub Gas Pvt. Ltd. (JJVL), it was an obligation of JJVL to provide an LPG storage tank at the premises of SSGCL's LPG-Air Mix Facility at Gwadar as long as the agreement remains effective. SSGCL had to borne the cost of installation only.

JJVL did provide the LPG storage tank in the year 2006 but it was found defective and OGRA advised to replace the tank. On March 28, 2006, OGRA allowed two months' time to SSGCL to replace the tank and later gave provisional permission to operate LPG Air Mix Plant up to December 31, 2009 but the defective storage tank could not be replaced.

The management's efforts with JJVL for the replacement of tank failed and after receiving a show cause notice from OGRA it decided to buy a new storage tank on its own. Accordingly, the new tank was purchased at a cost of Rs. 8.680 million in December 2009 and installed at Gwadar on July 08, 2010. Audit

observed that either JJVL should have provided the tank or should pay the cost of the tank that SSGCL purchased on its own. The amount so spent was a loss to SSGCL which must have been recovered from JJVL.

The matter was reported to the management on October 29, 2010 through an observation memo and it was later discussed in the DAC meeting held on December 11, 2010. The management contended that JJVL had provided the tank free of cost which, being too old (1966 Make), failed the third party inspectors' test. The management emphasized that JJVL had no contractual commitment to replace the tank. They further added that in order to meet the OGRA deadline it was inevitable to buy a new tank using SSGCL's own resources. The DAC settled the Para subject to verification.

However, upon verification Audit observed under the agreement JJVL was liable to make the tank throughout the effective period of the agreement. Therefore, the supply of an obsolete and defective tank of a 40 year old tank in 2006 did not absolve the firm of its contractual obligation.

Audit would suggest recovery of the cost of replacement tank from the defaulting firm and fixing responsibility on the person(s) at fault for their inaction against supply of defective tank.

18.4.4.13 Recurring expenditure due to re-appointment of Temporary Assignees - Rs 399 million

In Sui Southern Gas Company Limited, (SSGCL), certain appointments were made during the period from November 01, 1993 to November 30, 1996 as Temporary Assignees (TAs). Later, these employees were either sacked or given forced golden hand shake in order to retrench surplus personnel. They were given their final dues including one month's emoluments as *ex-gratia* during November 01, 1996 to December 31, 1998 by the orders of the then Government.

President of Pakistan promulgated the Sacked Employees (Reinstatement) Ordinance 2009 and as a result 2,508 former TAs were reinstated in February 2009 with retrospective benefits as detailed below:

Category/Grade	No. of Employees	Gross Salary Per person (Rs.)	Total Monthly Salary (Rs. in million)	Total Annual Salary (Rs. in million)
Executives	596	27,885	16.620	199.430
Staff Grade-I	715	8,560	06.120	73.440
Staff Grade-11	1,091	8,750	09.550	114.560
Staff Grade-III	106	9,251	00.980	11.770
Total	**2,508**	**-**	**33.270**	**399.200**

The financial impact of salary of the TAs is Rs 33.270 million per month. The Company earned a net profit of Rs 257 million during the year 2008-09 and the annual salary of TAs would be Rs 399 million which will turn a profitable company into a company in loss.

The matter was brought to the notice of Ministry/Management on August 16, 2010. The management in its reply dated October 22, 2010 stated that the reinstatement was carried out in compliance of Sacked Employees (Reinstatement) Ordinance-2009 and the company is making best efforts to cope up with the influx of this heavy number of employees. The financial impact is huge and the same is being allowed by OGRA in the price determination so ultimately it is borne by the customers of gas.

Audit was of the view that passing this burden on to the consumers was unfair. If the Company had to accept this extra payment for the sake of expediency it should seek financial assistance from the Government of Pakistan.

DAC meeting was held on December 11, 2010. The management explained utilization of reinstated employees in compliance with the Ordinance. It was also explained that due to utilization of these employees, the organization's earning had improved. The DAC settled the observation subject to verification by Audit.

Audit verified the earnings of the company which indicated that they improved in 2009-10, i.e., Rs 4,399.100 million as against Rs 257.500 million in preceding year 2008-09. However, the improvement had more to do with the revision of tariff. In fact, consumers were made to suffer with this reinstatement. The utility of these reinstated employees has remained unverified hence questionable. Therefore, Audit would suggest for remedial measures in this regard.

18.4.4.14 Payment not due made to supplier - Rs 2.691 million

As per conditions 7.10 and 7.11 of the tender executed between Sui Southern Gas Company Limited (SSGCL) and M/s. Ely Energy Inc. USA, the supplier committed to impart 5 day foreign training (inclusive of airfare, boarding and lodging expenses) as well as local training by foreign experts to SSGCL employee for the commissioning, maintenance and operations of the purchased plants.

On November 23, 2009, SSGCL invited bids for the supply of three LPG Air Mix Systems for Noshki, Surab, and Kot Gulam Muhammad. M/s. Ely Energy Inc. the only bidder won the contract on the basis of the consolidated quotation of US$ 192,936 per system and they were supposed to give item wise quotations though. The entries in the 'Specification Compliance Sheet' at items No.10 and 11 confirm that the supplier was committed for commissioning and giving the above mentioned trainings. However at the later stage, M/s. Ely Energy Inc. demanded additional charges of Rs 2.961 million, which the management of SSGCL acceded without contesting the claim.

Audit observed that the commissioning and the training were an integral part of the agreement between SSGCL and M/s. Ely Energy Inc. and paying extra for the commissioning and training was an undue favour to the supplier. The expenditure was, therefore, irregular.

The matter was brought to the notice of the management on November 08, 2010 and discussed in DAC meeting held on December 11, 2010. The DAC directed the management to get verified from Audit the training aspect as highlighted in the Para. It was also directed that the management must avoid such ambiguity in the agreements in the future.

On verification by Audit, it was found that as per Section-2 of the tender documents under Para-5 and 6 "specific responsibilities of bidder," it was clearly mentioned that plant commissioning and training was the responsibility of the supplier. The supplier also agreed it in the Compliance Sheet without mentioning / demanding the extra charges at the time of submission of bid. As such the payment made on this account to the supplier was not due.

Audit would suggest recovery of amount paid to the supplier over and above the contract provision and fixing responsibility on the person(s) who succumbed with the supplier's pressure for an undue payment.

18.5 Sui Northern Gas Pipelines Limited

18.5.1 Introduction

Sui Northern Gas Pipelines Limited (SNGPL) was incorporated as a private limited Company in 1963. It was converted into a public limited Company in January 1964 under the Companies Act 1913 (now Companies Ordinance 1984). The Company is listed on all the three Stock Exchanges of the Country. It is involved in the business of purchase, transmission, distribution and supply of natural gas. 31.68% shares of the Company are directly held by GOP. Other major shareholders are Dawood Hercules (15.59%), NIT (8.19%), PIDC (6.02%), NBP (8.04%), SNGPL employees (4.32%), EOBI (3.57%), SLIC (3.17%) and General Public (4.44%). However, direct and indirect shareholding of GOP is more than 55.06%.

The Company operates under a regulatory regime governed by Oil and Gas Regulatory Authority (OGRA). Gas sales price and cost of gas are regulated / fixed by OGRA. Most of the gas purchase agreements are linked with US $ and international crude oil prices. OGRA as a regulator revises the purchase prices of gas after every six months.

SNGPL is the largest integrated gas Company serving more than 3.672 million consumers in Northern and Central Pakistan through an extensive network in Punjab and Khyber Pakhtunkhwa (KPK) with 05 regional offices in Punjab province and 03 in KPK province whereas in other two provinces i.e. Sindh and Balochistan, a sister concern Company namely Sui Southern Gas Company Limited (SSGCL) is providing the same service. SNGPL 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 planning, designing and construction of pipelines, for both itself and other organizations.

License Condition No.5.2 of license granted to the SNGPL petitioner, states that the Authority shall determine total revenue requirement of the licensee to ensure that SNGPL achieves 17.5% and SSGCL achieves 17% return on its average net fixed assets in operation for each financial year, subject to the efficiency related benchmarks adjustments. The Authority accordingly, has been

determining the Final Revenue Requirement of the petitioners (SNGPL/SSGCL), providing the said return on net operating assets. OGRA fixed certain benchmarks for effective and efficient operation of both the companies and apply certain cuts on revenue requirement in case of failure to meet the said benchmarks. The Authority also fixed the UFG benchmark based on international / regional standards, while giving major discounts due to operational constraints prevalent in the country.

Operational Review:

Percentage of gas supplies to various sectors is given below:-

Table-1 Percentage of gas supplies to various sectors.

Sector	2009-10	2008-09	2007-08	2006-07	2005-06
Total Gas sales volume (MMcf)	586,741	584,895	597,913	576,658	571,481
Power	16%	18%	27%	25%	32%
Captive power	11%	11%	11%	10%	-
Fertilizer	8%	8%	7%	8%	9%
Cement	0%	1%	2%	2%	2%
General industries	22%	22%	19%	22%	34%
Commercial and domestic	30%	29%	24%	26%	23%
CNG	13%	11%	10%	7%	-
Total	100%	100%	100%	100%	100%

Source: Annual Audited Accounts

The sector wise distribution of gas indicates that ratio of gas sales in general industry decreased from 34% in 2005-06 to 22% in 2008-09 and remained at the same level in 2009-10. Supply of gas to power sector, which was 27% in 2007-08, decreased to 18% in 2008-09 and to 16% in 2009-10. The negative impact (like closure of industries, less production, idleness of labour and resultant increase in cost of production etc.) increased due to power crises and load shedding because of less supply of gas to power sector. The Company sold 571,481 MMcf (Million Metric cubic feet) gas in 2005-06 and 586,741 MMcf gas in 2009-10. Thus availability/sale of gas increased only 2.67% during four years while demand of gas kept on increasing due to normal population / house hold growth, addition of industries and change of life pattern of people (use of microwave ovens, split air conditioners, more vehicles etc). The gas mix in the

above table indicated that two new sectors i.e. captive power and CNG were allocated share of 11% and 13% in 2009-10 as against nil during 2005-06. This has disrupted the whole pattern of gas mix and considerably reduced the allocation to power and general industries sectors, which in turn, adversely affected the economy of the country to the greater extent.

18.5.2. Comments on Audited Accounts

18.5.2.1 The working results of the Company for the year 2009-10 as compared to the previous years are tabulated below:

(Rs in million)

	2009-10	% Inc/ (Dec)	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07
Gas sales quantity (MMCF)	586,741	0.32	584,895	(2.18)	597,913	3.69	576,658
Gas sales value	172,994.645	8	160,714.740	30	123,404.537	1	122,091.652
Add. Differential Margin / (Less gas development surcharge)	(11,364.817)	-	8,219.094	995	750.496	-	(9,514.600)
Net sales	**161,629.828**	**(4)**	**168,933.831**	**36**	**124,155.033**	**10**	**112,577.052**
Cost of gas sold	156,016.865	(5)	164,309.992	58	104,249.953	5	99,168.250
Gross profit	**5,612.963**	**21**	**4,623.839**	**(77)**	**19,905.080**	**48**	**13,408.802**
Other operating income	7,772.320	73	4,496.964	17	3,856.536	(2)	3,947.853
Operating cost	4,239.910	13	3,762.076	(79)	17,991.560	47	12,246.368
Operating profit	**9,145.373**	**71**	**5,358.727**	**(7)**	**5,770.056**	**13**	**5,110.287**
Financial cost	4,650.154	612	653.182	(17)	789.247	(28)	1,102.039
Other operating expense	615.500	(79)	2,975.305	211	957.194	297	241.324
Profit before taxation	**3,879.719**	**124**	**1,730.240**	**(57)**	**3,980.809**	**(6)**	**4,249.572**
Taxation	1,325.368	66	799.704	(46)	1,484.541	(6)	1,571.307
Profit after taxation	**2,554.563**	**175**	**930.536**	**(63)**	**2,496.690**	**(7)**	**2,678.343**
Earnings per share (EPS) –(Rs)	4.65		1.69		4.55		4.88

Source: Annual Audited Accounts

The Company sold 597,913 MMCF gas in 2007-08. The gas sales reduced to 584,895 MMCF in 2008-09 and slightly increased by 0.32% to 586,741 MMCF in 2009-10. On the other hand, number of customers increased from 3.156 million in 2007-08 to 3.417 million in 2008-09 and 3.672 million in 2009-10. This resulted in gas load shedding thereby effecting all sectors especially shutdown of gas in industrial units which led to a bad impact on national economy. Thus, increase in gas sales value was due to increase in gas price and not in volume. The gas sales value for the year ended June 30, 2010 increased to Rs.172.995 billion from Rs 160.715 billion in 2008-09 and Rs 123.405 billion in 2007-08. The profit before tax increased to Rs.3.880 billion during 2009-10 from Rs 1.730 billion in 2008-09 and Rs 3.981 billion in 2007-08. The profit after tax was Rs.2.555 billion in 2009-10 as compared to Rs 0.931

billion in 2008-09 and Rs 2.496 billion in 2007-08. Earnings per share increased to Rs.4.65 in 2009-10 as compared to Rs 1.69 in 2008-09, which was mainly due to increase in Unaccounted for Gas (UFG) benchmark in 2009-10 to 7% from 5% previously fixed by for the year 2009-10 and which was 5.15% in 2008-09 and 5.55% in 2007-08 against actual UFG losses of 9.63% in 2009-10, 8.11% in 2008-09 and 8.04% in 2007-08, SNGPL never succeeded in achieving the OGRA targets since 1991-92.

18.5.2.2 Less penalty imposed by OGRA for the year 2009-10 to bail out the Company is detailed as under:-

Sr. No.	Description	UFG @ 5%	UFG @ 7%
1	Gas available for sale as worked out as per OGRA (MMcf)	650,290	650,290
2	Allowed UFG losses at 5% and 7% (MMcf)	32,515	45,520
4	Actual UFG losses at 9.63% (MMcf)	62,638	62,638
5	UFG above the allowed limit (MMcf)	30,123	17,118
6	Avg. cost of purchase per MCF	220.41	220.41
7	Value of disallowance 2009-10 (Rs. in million)	6,639	3,773
8	Disallowance related to 2008-09	897	897
9	Total amount of disallowance (Rs. in million)	7,536	4,670
10	Lesser penalty imposed by OGRA (Rs 7,536 million – Rs 4,670 million)		Rs 2,866 million

Audit was of the view that undue favour was given by OGRA by enhancing the UFG target from 5% to 7% to make the Company more profitable otherwise there was no reason to enhance the UFG benchmark after year end on June 30, 2010. Had the above facility not been granted, the profit before tax of the Company would have been Rs 1,014 million in 2009-10 against Rs.1,730 million in 2008-09, which would have been 41% lower than the previous year. Thus, the payment of dividend @ 20% without any improvement in the performance / working results of the Company was unjustified.

The management in its reply dated January 11, 2011 intimated that the UFG was not the only factor which affected the EPS but there were some other disallowances which saved Rs.1,363 million and higher return on assets by Rs 2.299 million. The management has not explained the details of other disallowances. Moreover, the revision in UFG benchmarks was given after year-end when there was no major change in the prevailing factors.

18.5.2.3 The management spent Rs 5,317 million in 2009-10 on human resources in 2009-10 as compared to Rs 4,840 million in 2008-09 and Rs 4,070 million in

2007-08; thus there was an increase of 19% in 2008-09 and 10% in 2009-10 in spite of incurring huge cost on automation of all system. The number of executives had increased by 11.5% from 287 in 2008-09 to 320 in 2009-10 which caused increase in human resource cost as given below:-

(Rs in million)

Description	**2009-10**	**% Inc/ (Dec)**	**2008-09**	**% Inc/ (Dec)**	**2007-08**
Human Resource Cost	5,317	10%	4,840	19%	4,070

18.5.2.4 Repair and maintenance cost in Transmission Department increased by 31% in 2009-10 and 25% in 2008-09 as compared to previous years. Similarly, there was an extraordinary increase in other repair and maintenance cost which increased by 36% in 2009-10 and 51% in 2008-09 as compared to previous years.

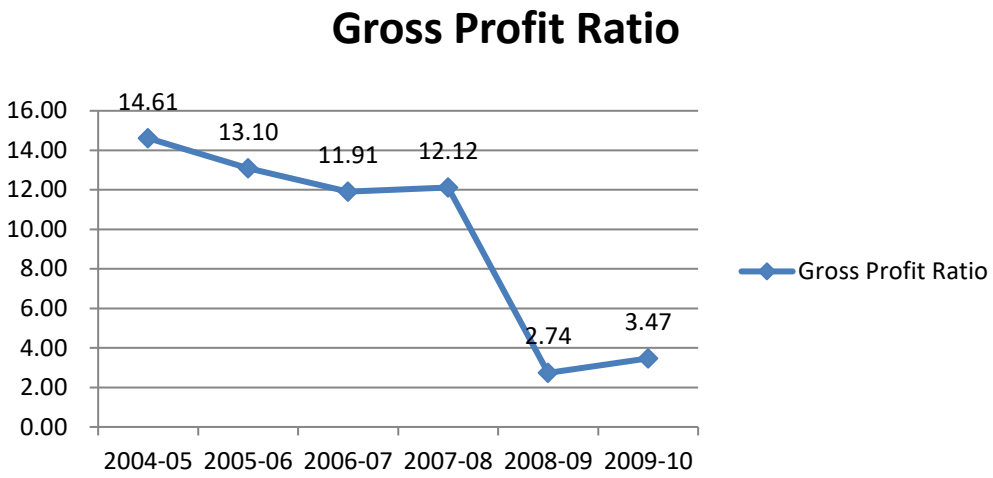
(Rs. in million)

Repair and Maintenance Cost	**2009-10**	**% Inc / (Dec)**	**2008-09**	**% Inc / (Dec)**	**2007-08**
Compression	12	(57%)	28	22%	23
Transmission	202	31%	154	25%	123
Distribution	421	2%	412	46%	283
Others	146	36%	107	51%	71
	781	11%	701	40%	500

The management in its reply dated January 11, 2011 intimated that increase in repair and maintenance cost of transmission was due to 27% increase in targets for re-coating of transmission lines from 37.78 miles in 2008-09 to 48 miles in 2009-10. The increase in repair and maintenance-others was due to computer repair and maintenance charges of Oracle CC&B licensing fee @ US $ 372,000 per annum (i.e. Rs 31.620 million) as no amount was accounted for against CC&B license fee as it was in development phase. Second factor explained for increase in other expenses was Rs.70.676 million for cost of gas blown off due to accidental rupture.

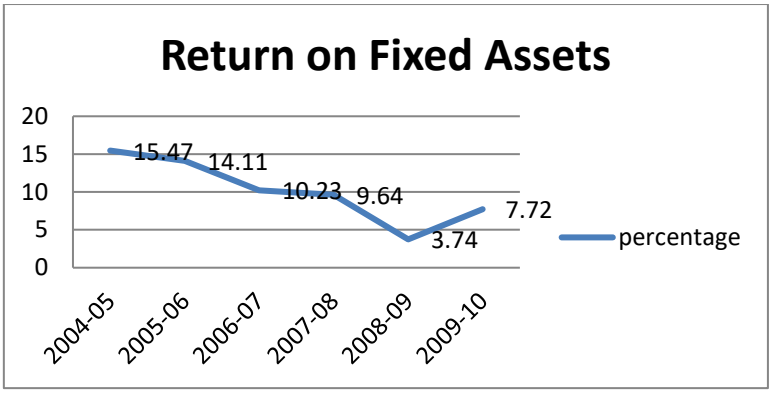
The audit is of the view that loss due to raptures should have been insured by the Company. The management has not worked out the financial impact while justifying increase in repair and maintenance cost-transmission.

18.5.2.5 Gross profit ratio of the Company was constantly decreasing as shown in the graphical analysis given below:



The above graph indicated that gross profit ratio drastically decreased from 12.12% in 2007-08 to 2.74% in 2008-09 and slightly improved to 3.47% in 2009-10. It was replied that profit of SNGPL is computed @17.5% of operating fixed assets, therefore fluctuation in gross profits/net-profit is mainly due to deduction made by OGRA because of UFG and other disallowances. The reply was not convincing as gross profit ratio was mainly decreased due to increase in cost of sales which needs to be controlled.

Although OGRA always allowed 17.5% return on operating fixed assets but the Company did not succeed to maintain the return ratio due to certain cuts applied by OGRA because of un-controlled UFG losses and other benchmarks on transmission, distribution and human resources costs etc. The return on fixed assets was constantly decreasing from 2004-05 to 2009-10 and Compnay had not achieved the required return on assets as shown below:-



18.5.2.7 As per generally accepted accounting practices, the work in progress must be shown against the material issued and expenditure booked to the jobs, which are under progress. The SNGPL management has shown Rs 12.657 billion as WIP under deferred credit. Audit demanded the detailed schedule in support of the figures shown under the head WIP but no such detailed schedule was provided. It was intimated that these schedules were not available as total receipt minus completed jobs are equal to WIP hence there is no need to prepare the detailed schedule of WIP. The management has shown the WIP on presumptive basis as no material, and other expense were booked to the jobs hence the same cannot be shown as WIP, instead these are the un-utilized grants available with the Company. Therefore, showing the WIP for Rs 12.657 billion as on June 30, 2010 and Rs 13.725 billion as on June 30, 2009 may be justified.

18.5.2.8 On December 02, 2010, record/information in respect 19 items was demanded for analysis and preparation of audit comments on the audited accounts for the year 2009-10 but the same was not provided (except copy of final accounts for 2009-10) in spite of repeated requests by the audit. The management in its reply dated January 11, 2011 explained that no such detailed record was available since the start of commercial audit in 1988. Audit is of the view that statistical data in shape of activity report, UFG report and detailed supporting schedule of the accounts were not made available on demand, which needs to be justified.

18.5.3 COMPLIANCE OF PAC DIRECTIVES

Detail of Paras in which PAC Directives were not complied with:

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1989-90	20	20	--	100
2.	1990-91	23	18	05	78
3.	1991-92	15	09	06	60
4.	1992-93	16	05	11	31
5.	1993-94	12	06	06	50
6.	1994-95	15	01	14	07
7.	1995-96	10	05	05	50
8.	1996-97	16	08	08	50
9.	1997-98	06	03	03	50
10.	1999-00	04	02	02	50
11.	2000-01	20	08	12	40
12.	2001-02	09	02	07	22
13.	2005-06	04	03	01	75
14.	2008-09	22	18	04	81

The compliance of the PAC directives was highly unsatisfactory. The PAO is advised to ensure 100% compliance of the PAC directives at the earliest.

18.5.4 Audit Paras

18.5.4.1 *i. Loss due to reduction of detection charges – Rs 21.679 million*
ii. Non-recovery of gas theft charges - Rs 12.304 million

As per clause 6.5 of Billing Manual, it is the duty of the meter reader to check/report violation of gas supply contracts, e.g. misuse of domestic gas connection for commercial purposes, un-authorized extension of gas supply, suspected gas pilferage cases *etc.* to Sales and Distribution Department for their action. As per clause D-3 of procedure for dealing with theft of gas cases issued by OGRA vide its letter dated August 16, 2005, in case of strong evidences leading to confirmation of the act of theft, the Company will disconnect the gas supply of the consumer/defaulter and will remove all devices which can facilitate the consumer/defaulter in illegal restoration of gas supply. As per clause D-9, testing of internal parts/operation of meter and flow proving shall be carried out in the laboratory and reported to the GM of the Region within five working days in case of industrial category.

The meter reader of SNGPL Area Office, Lahore visited M/s Haseeb Waqas Sugar Mills, Nankaka Sahib, on August 2, 2007 for meter reading and reported that seal of meter was tampered, the consumer had installed self-lock and was not allowing meter reading. SNGPL Engineering staff visited the site on August 15, 2007 and again on August 18, 2007 to replace the defective gas meter but the consumer did not allow to do so, on the plea of stay order. The consumer was disconnected from 6" dia line valve on October 11, 2008. The Regional Detection and Evaluation Committee recommended the recovery of gas theft charges for 366 days worth Rs 33,981,417 and the case was referred to HO Detection and Evaluation Committee for approval. The committee observed in its meeting held on December 1, 2008 that its detection charges did not co-relate with the data of sales, as the element of leakage, pilferage, meter stoppage *etc.* was not considered, and recommended pilferage charges on the basis of difference of percentage in gas sales with gas passed through SMS prior to disconnection and after disconnection of gas supply to consumer i.e. 10.96% worth Rs 12,302,602. The reduction of detection charges resulted in loss of Rs 21.679 million (33.981-12.302). Even reduced gas theft charges of Rs.12.304 million were not recovered. The General Manager, Lahore vide letter dated February 1, 2010 asked the consumer to deposit 20% of disputed amount but the same was also not complied with, by the consumer.

The matter was reported to the management on July 22, 2010 and the Ministry on December 6, 2010. The management in its reply dated January 3, 2011 stated that the consumer managed to obtain a stay order from the court and SNGPL was pursuing for vacation of stay order and recovery of amount. The reply was not tenable, as undue favour was granted by reducing the pilferage charges and allowing deposit of 20% of disputed amount, against the Company rules.

During DAC meeting held on January 08, 2011, the management apprised the Committee that matter of out of court settlement was in process, wherein the defaulter had agreed to pay Rs 7.639 million to the Company (reduction of 78% of actual pilferage charges) in addition to withdrawing the case from the Court of Law. DAC directed the management to provide copy of the agreement deed to Audit. No further progress was communicated till finalization of this report.

18.5.4.2 Non-transparent / mis-procurement of stores - US $ 97,500 (Rs 7.703 million)

As per clause 19.1, quotations from local agents must be accompanied by a letter in original from manufacturer/ principal authorizing them to act as their agents in Pakistan failing which their quotation is likely to be disqualified. As per clause-19.4 offers must be supported by the original copy of offer received from principal against this Tender enquiry. As per clause-2(f) of PP Rules 2004, corrupt and fraudulent practice means misrepresentation of facts in order to influence a procurement process. As per rule-18, the procuring agency shall disqualify a supplier or contractor if it finds, at any time, that the information submitted by him concerning his qualification as supplier or contractor was false and materially inaccurate or incomplete. As per rule-23(5) the procuring agency shall provide a set of bidding documents to any supplier or contractor, on request and subject to payment of price, if any. As per clause-1.2 of general terms to the bidding documents, no bidder will be permitted to alter his bid after the bids have been opened, but clarification not altering substance of his bid may be solicited and/or accepted. No bidder will be asked or required to alter the substance of his bid.

SNGPL management issued a tender enquiry for 100 ton of Steel Grits on February 9, 2008. The specification of the material mentioned was Steel / Aluminum Silicon clearing Grit. An amendment was issued on February 21, 2008 in which the specification was changed as Steel Grit G-25. Bids were opened on March 11, 2008 and three firms were declared technically responsive. M/s MK International did not purchase tender documents as specified in tender notice published in the press but was allowed to participate in the bidding process who was also declared technically responsive in spite of fact that it quoted the prices of Silicon Grit instead of Steel Grits. Financially 1st lowest bidder, M/s MK International was not eligible too include in the bidding process as the party did not purchase tender documents. SNGPL issued PO in violation of above rule-18 of PP Rules 2004 and clause 1.2 of general terms of bidding documents.

M/s MK International showed reservation for pre-shipment inspection vide letters dated June 12, 2009 and June 18, 2009. M/s Jinxing Steel China vide fax dated March 05. 2009 and July 1, 2009 intimated that M/s MK International was not its agent and however they offered SNGPL to fulfill purchase order without any change. M/s MK International requested to change the manufacturer from M/s Jinxing to M/s Oman Abrasive LLC vide letter dated March 28, 2009 and then M/s Mitsubishi Corporation vide letter dated April 01, 2009. This represented change in substance of the bid under clause 1.2 of the general terms of tender documents but SNGPL did not invoke this clause. However, its requests in both cases were not agreed to vide SNGPL letter dated April 02. 2009. Vide fax dated July 01. 2009 M/s

Jinxing intimated that M/s MK International were not their agent and they never supplied any material for M/s Interman through their exporter M/s Shanghai Hlfy. No action was taken against the agent. M/s MK International shipped the material on May 27, 2009 without inspection and release of inspection order. The material without pre-shipment inspection received at Uch Sharif and LC for US $ 97,500 (=Rs 7,702,568) was retired. On June 30, 2009 the management authorized the bank to accept the document in-spite of discrepancies. SNGPL advised the bank vide letter dated July 10, 2009 to stop the payment to the beneficiary, whereas the amount had already been released by the bank on July 07, 2009. M/s MK International was advised to collect the wrong supplied material vide letters dated July 15. 2009 and August 05. 2009 but no response was received.

Subsequently, the required material was purchased vide Purchase Order on November 26, 2009 from M/s Ali Enterprises representative of M/s TIAWANABRA TOR Co. Tiawan @ US $ 680 per metric ton against the rate of US 975 per ton quoted by M/s MK International. Thus, an amount of US $ 29,500 (97,500 – 68,000) equal to Rs.2,507,500 was excessively paid to the previous contractor in spite of inferior material. Audit was of the view that SNGPL management extended undue favour by declaring the contractor technically responsive in-spite of the fact that specification of material supplied by M/s MK International was of Aluminum Grit instead of Steel Grit. Secondly the purchase order could had been amended when the original manufacturer declared on March 05, 2009 that M/s M.K International were not their agent and they were ready to fulfill the obligation directly on the same terms and conditions. Thirdly undue favour was extended to the supplier for release of LC.

The matter was reported to the management on April 1, 2010 and the Ministry on January 6, 2011, the management in its reply dated February 7, 2011 intimated that due to receipt of defective material without 3rd party inspection, the local bank was advised not to release payment. The bank withheld the payment for sometime but on pressure the foreign bank, the local bank released the payment. SNGPL blacklisted the supplier and lodged a civil suit against the bank as well as supplier.

The reply was not tenable as the management did not publicize and communicate to the Public Procurement Authority regarding Blacklisting/barring action against M/s MK International as required under PPR-19. No enquiry was conducted to fix responsibility for above mentioned violations from tender specifications and PP Rules 2004 such as:-

i. Acceptance of technical/financial bids without purchase of tender documents by the supplier,
ii. Acceptance of technical bid without authority letter of the manufacturer,
iii. Non initiation of action for change in the substance of Bid,

iv. Acceptance of material without pre-shipment inspection,
v. Non recovery on account of defective material pointed out by indenter; and
vi. Non encashment of bank guarantee etc.

The DAC meeting was held on February 17, 2011. The management apprised the DAC that an internal inquiry was already being conducted by SNGPL to identify the grey areas into the matter. The DAC directed the management to complete the inquiry and submit the report to Audit within two months.

18.5.4.3 Non-recovery of gas pilferage charges from M/s Punhal Fabrics – Rs 43.673 million

As per clause D-3 of Procedure for dealing with the theft of gas cases issued by OGRA vide its letter dated August 16, 2005, in case of strong evidences leading to confirmation of the act of theft, the Company will disconnect the gas supply of the consumer/ defaulter and will remove all devices which can facilitate the consumer/ defaulter in illegal restoration of gas supply. As per clause 18.22 of Billing Manual, to avoid any possibility of pilferage of gas, CMS and other accessories installed at the premises of disconnected consumers shall invariably be removed immediately after three months of disconnection of gas supply. Fortnightly inspection of such consumer's premises may also be undertaken specially of disconnected industrial and commercial consumers.

SNGPL, Area Office, Lahore disconnected the gas connection of M/s Punhal Fabrics, Lahore from regulator on July 24, 2008 due to non-payment of dues of Rs 8.609 million. During night raid on August 7, 2009, the consumer was found enjoying the gas facility through self-reconnection. The consumer was disconnected from line modular tee to avoid pilferage and an FIR was lodged. The theft of gas was worked out for 56,753.43 MMBTU worth Rs 35.064 million from August 24, 2008 to August 7, 2009. This resulted in non-recovery of Rs 43.673 million (8.609 + 35.064) as on October 2009.

The matter was reported to the management on July 22, 2010 and the Ministry on November 25, 2010. Management in its reply dated December 24, 2010 stated that an amount of Rs 35.064 million was booked to the consumer. The consumer had been disconnected. The consumer approached the court of law against booking of violation charges. After decision, the recovery would be made. The reply was not tenable as the reconnection was detected after one year

and the service line of the consumer was not removed after three months as per Billing Manual.

DAC in its meeting held on January 08, 2011 directed the management to conduct inquiry to fix responsibility upon the supervisory officers for non-detection of illegal connection and pursue the case actively in the Court of Law. No progress was reported to Audit till finalization of this report.

18.5.4.4 Un-due installments allowed to M/s Flying Paper and M/s Zaman Paper resulting in arrears - Rs 131.896 million

As per clause 14 (3)(b) of SNGPL Billing Manual, it should be ensured that all industrial, commercial and domestic consumers whose bills exceed the security deposit are disconnected immediately unless a stay order has been issued by a court of law. As per clause 18.13, when the tampering of meter is established gas supply shall be disconnected immediately (within 24 hours). The consumer shall be placed under observation for a period of at least 6 months after restoration of gas, during the period the CMS will be visited by the Company personnel at least 8 times every month. As per minutes of executive management committee meeting held on December 11, 2001 those industrial consumers who request for payment of their gas bills in installments exceed Rs 3.000 million shall require approval of the Managing Director. The decision envisages that initially down payment of 40% of the total bill be recovered and balance amount be payable in maximum three installments along with current gas bill.

I. M/s Flying Paper Industries Limited (a Company of Flying Group of Companies) went into default for Rs 15.967 million in October 2002, which rose to Rs 44.418 million in December 2009. It was noticed that the management of the Company had been allowing the installments since June 2004 as a routine in contravention of the management policy. The Company was found involved in gas theft during November 2006 for which the gas theft charges amounting to Rs 18.980 million were booked for 39 days, against which the consumer appealed to OGRA, which was rejected on August 6, 2008. The Managing Director allowed 10 monthly installments @ Rs 2.400 million from April 2007 to January 2008 and again 12 monthly installments @ Rs 1.645 million from November 2008 to October 2009. It was also noticed that there was shortfall in security deposits, as the Company furnished bank guarantees of Rs 30.600 million against the default of Rs 44.418 million.

II. Similarly, M/s Zaman Paper and Board Mills (Pvt) Ltd. (another Company of Flying Group of Companies) also went into default. Amount of Rs

22.893 million was due on March 2004 but 10 monthly installments were allowed @ Rs 0.733 million from April 2004 to January 2005, again 12 monthly installments @ Rs 0.288 million were allowed from November 2008 to October 2009. The Company was found involved in gas theft during November 2006 for which gas theft charges of Rs 14.671 million were booked. The consumer was again found involved in gas theft for Rs 4.460 million in June 2007, from January 2007 for 39 days. The outstanding amount rose to Rs 52.141 million on February 29, 2008. There was huge shortfall in security deposit as the SNGPL had a bank guarantee only for Rs 15.100 million against the default of Rs 87.478 million.

Audit was of the view that the management extended undue favour to both companies of the same Group by allowing easy installments and were not kept under observation as per clause 18.13 of the Billing Manual. The overdue amount of both the companies was Rs 131.896 million (44.418 +87.478) against bank guarantees of Rs 45.700 million (30.600+15.100). The default amount also include Rs 49.643 million on account of LPS and Rs 33.403 million against theft cases. Thus, the companies were not paying the LPS, theft charges and even the current bills.

The matter was reported to the management on February 17, 2010 and the Ministry on December 4, 2010. The management in its reply dated January 3, 2011 stated that the consumers requested for installments and M/s Zaman had provided additional bank guarantee. The consumers had been disconnected on November 5, 2010 due to default in payment of outstanding gas bills and non-renewal of shortfall in bank guarantee.

In DAC meeting held on January 8, 2011, the management explained that the consumers would only be connected after recovery of outstanding amount. DAC directed the management to enhance the amount of bank guarantee and recover the default amount within prescribed period of eight months. No progress was reported till the finalization of this report.

18.5.4.5 Loss due to non-lodging of claims for refund of excess freight charges – Rs 28.158 million

In terms of clause 31.2 of the tender documents (Instruction to bidders) if purchase order is placed on FOB basis and if the freight to be eventually paid by the Company turns out to be more than that quoted in the bid, SNGPL in that case will recover additional freight charges from the successful bidder to whom the order is placed. As per Bid Evaluation Report dated September 5, 2008 and Agenda Item for the 217th meeting of the Finance Committee, the firm confirmed

that in case freight charged by the PNSC turns out to be more than that quoted in their bid, they will refund the additional freight charges to SNGPL.

I. SNGPL placed purchase order No. P9-171/08 for procurement of steel line pipe 12" dia at total cost of US$ 3.882 million on FOB basis on M/s Panyu Chu Kong Steel Pipe Company, China through their local agent M/s Rana Trading Company, Lahore on September 24, 2008. The consignment was received in April, 2009. The management paid Rs 57.695 million as ocean freight to PNSC, Karachi as against the freight charges of US$ 0.582 million (equal to Pak. Rs 42.050 million) quoted by the supplier. This resulted in loss due to excess payment of freight charges to the extent of Rs 15.646 million. The management neither lodged any claim for refund of excess ocean freight nor the same was shown as receivable in the books of accounts.

II. SNGPL placed purchase order No. NT-375/07 dated December 14, 2007 for procurement of 80,800 meter steel line pipe of 8" dia on M/s Oil Gas Industries Services, UK through their local agent M/s Armco International, Lahore at FOB value of US$ 1.919 million(Dalian Port, China). The port of shipment was changed as shanghai Port in January, 2008 and the date of shipment was May 31, 2008. The management paid amount of Rs 27.688 million to PNSC as ocean freight as against Rs 15.176 million quoted by the supplier. This resulted in loss of Rs 12.512 million due to payment of excess freight charges.

The matter was reported to the management on July 22, 2010 and the Ministry in November, 2010. The management in its reply dated December 24, 2010 stated that no claim is warranted to be lodged on the suppliers as the freight actually charged by PNSC i.e US$/W/M was exactly as per their freight certificate provided by the bidder alongwith the offer. Beside PNSC refused to quote on per meter basis and had provided only weight/volume basis, without taking into account any extra or future variations. The replies of the management were not acceptable as the suppliers quoted FOB rates per meter line pipe and the bids were also evaluated on the same basis whereas PNSC was paid on the basis of weight/measurement basis which was not covered in evaluation criteria. This resulted in loss of Rs 28.158 million due to payment of excess freight charges.

DAC in its meeting held on January 7, 2011 directed the management to clarify the position and get the same verified by audit. The compliance was awaited till finalization of this report.

18.5.4.6 Loss due to non-recovery of excess ocean freight and LD charges - US$ 49,543 (Rs 3.983 million)

As per clause-31.2 of the tender documents (Instruction to bidders), the excess freight charges paid by the Company over more than that quoted in the bid will be recovered from the successful bidder. Clause-4(a) of the tender documents (General Terms) provides that if the material has not been shipped as per stipulation in the contract, SNGPL shall be entitled to recover 0.5 % of the total value of the contract price of the delayed part of the material for each week of delay by way of liquidated damages subject to a maximum of 10% of the total value of the delayed parts of the material.

SNGPL placed purchase order No.D-1936/08 dated July 24, 2008 on M/s Paragon Technologies, Lahore for procurement of Polythene Thermoplastic Fittings (Imperial System) at total FOB value of US$ 467,753.78 (any USA seaport). The material was received vide Bill of Lading dated February 07, 2009. Pakistan National Shipping Corporation charged ocean freight of US $ 41,781 as against US $ 3,944 quoted by the supplier. This resulted in excess payment of US $ 37,837.

The supplier was required to ship the material within 4-20 weeks after receipt of an operative letter of credit, which was established on August 01, 2008, and as such, the shipment became due on December 31, 2008. The supplier however, shipped the material on February 07, 2009 *i.e.* delayed by 5 weeks. As such, liquidated damages amounting to US$ 11,706 equal to Rs 941,162 were required to be recovered from the supplier. The management neither recovered nor adjusted the amount against the performance guarantee amounting to Rs 3.370 million which expired on April 08, 2010. This resulted in loss of Rs 3.983 million (US$ 37,837 + US$ 11,706 x Rs 80.40).

The matter was reported to the management on July 22, 2010 and the Ministry on November 24, 2010. The management in its reply dated December 24, 2010 stated that the matter was taken up with the supplier for settlement of claim based on dates of bill of lading. The matter had also been referred to PNSC, Karachi regarding booking/ shipments of the vessels, but reply was awaited. The reply was not acceptable as the date of bill of lading was February 07, 2009 and a period of more than eleven months had been lapsed but the recovery had not been effected. Besides, excess payment ocean freight was required to be recovered from the supplier as per clause 31.2 of tenders documents.

The DAC in its meeting held on January 07, 2011 directed the management to decide the matter at the earliest. No progress was received till finalization of this report.

18.5.4.7 Loss due to premature forfeiture of bid bond - US $ 80,000 (Rs 4.800 million)

As per clause-3 of "Instructions to Bidders" the prices on the basis which purchase order (PO) was issued, shall remain fixed during the bidder's performance of the contract. As per clause-6 of the instructions, bids must remain valid at least for a period of 90 days from the closing date of the tender. As per clause-18, the supplier was given period of 30 days for acceptance of PO and provision of performance bond. Clause 17.3 of the tender documents provides that if the successful bidder refuse or fail to execute the agreement or to furnish the performance warranty bond / guarantee, the bid bond shall be retained or shall become payable to SNGPL as compensation for such default.

SNGPL floated tender on December 12, 2005 for purchase of 191,900 meters of 8" dia pipeline. The financial bids were opened on March 15, 2006. M/s Armco International, Lahore representing M/s Oil Gas Industries Services (OGIS), UK offered the lowest bid of US $ 16.5 and US $ 19.56 per meter for 8" dia (0.219 wt") and (0.250" wt) respectively. The offer was valid up to May 15, 2006. M/s Armco intimated on March 31, 2006 and April 4, 2006 that the prices were no longer workable due to steel prices hike in China market by 25% over last month. SNGPL issued purchase order on May 8, 2006 and opened LC on May 9, 2006. The bid bond of US $ 80,000 of M/s OGIS UK was valid up to June 30, 2006. The management en-cashed the bid bond on May 12, 2006. SNGPL was required to wait for formal response from supplier up till June 7, 2006 (within 30 days of PO) but bid bond was encashed 26 days before the validity period allowed for receipt of performance bond. The forfeited amount of bid bond was refunded to the supplier after getting BoD approval in its meeting held on February 29, 2008 by stating that there was no fault on the part of the supplier.

Audit was of the view that SNGPL took an extraordinary time from March 15 2006 to May 7, 2006, in issuance of purchase order as it was issued just one week before the end of bid validity period, although it was in the notice of management that the steel prices were going up day by day. Later on, undue favour was extended to the supplier by en-cashing the bid bond on May 12, 2006 without waiting receipt of performance bond due within 30 days i.e.

June 7, 2006, whereas bid bond was also valid up to June 30, 2006. Thus SNGPL suffered loss of US $ 80,000 (Rs 4.800 million) due to premature encashment of bid bond by extending favour to the supplier by the management.

The matter was reported to the management on July 22, 2010 and the Ministry on December 13, 2010. The management in its reply dated February 7, 2011 intimated that bid bond was encashed on May 23, 2006. The reply was not convincing as the bid bond was encashed 26 days before due date of expiry of bid bond. The matter needs detailed enquiry to make good the loss from responsible.

The DAC was held on February 17, 2011. The management explained that the BOD had taken cognizance of the issue and allowed the release of confiscated bid money. DAC directed further probe into the matter by a committee comprising CF&AO and DG (Gas) of the Ministry and report may be submitted within 30 days.

18.5.4.8 Less calculation of tampering charges recoverable from M/s Sandhu CNG - Rs 23.575 million

As per clause D-9 of Procedure for dealing with the theft of gas, issued by OGRA vide its letter dated August 16, 2005, testing of internal parts / operation of meter and flow proving shall be carried out in the laboratory and reported to the GM of the region within five working days in case of industrial category. As per clause F-1, unless the circumstances specifically necessitate, the period of suspicion shall be counted from the period the consumption behavior of the consumer has shown decline over the normal/connected load or consumption pattern of the past period till the date of raid/confirmation of pilferage. As per clause 7.5 of UFG Control Manual, cost of 40% of pilfered volume shall be levied as penalty in all gas pilferage cases in addition to charges for gas consumed.

SNGPL Area Office, Lahore commissioned the gas supply of M/s Sandhu CNG, on September 1, 2008. The meter was replaced on December 21, 2008 and sent for flow proving to Metering Workshop, Lahore. The flow proving of the meter was carried out on January 15, 2009 i.e. after 25 days in violation of the instructions of OGRA. The meter was again replaced on April 12, 2009. Further, on May 12, 2009, a raid was carried out and meter was disconnected as a wooden piece was found in the meter. The Regional Detection and Evaluation Committee calculated the gas pilferage charges as Rs 25,239,638 for 252 days according to OGRA policy. The HO Detection Committee worked out pilferage charges as Rs 8,400,136 for 195 days on the basis of consumption of nearby CNG stations.

Thus gas pilferage charges were reduced by Rs 16,839,502 and also did not impose 40% penalty of Rs 6,737,800 (40% of Rs 16,839,502) under clause 7.5 of SNGPL Billing Manual. This resulted in loss of Rs 23.575 million (Rs 16.839 + 6.736 million) due to reduction in pilferage charges and non-imposition of penalty. The consumer obtained stay order from civil court, Lahore against disconnection of gas supply. There was a wide gap of 300% between the calculations of two committees, which was in favour of the client. This shows that there were some inbuilt faults in calculation mechanism which always tilted in favour of the consumer.

The matter was reported to the management on January 29, 2010 and the Ministry on November 30, 2010. The management in its replies dated November 1, 2010 and January 3, 2011 produced the revised worksheets approved by HO Detection Committee based on nearby CNG stations. Audit was of the view that Regional Detection Committee had worked out the pilferage charges as per consumption pattern for the period as per OGRA policy but the HO Detection Committee granted undue favour to the consumer on the basis of consumption of nearby CNG stations. The calculation of the HO Detection Committee should had based on its Electronic Volume Corrector (EVC) data or the connected load and not on the consumption of nearby CNG stations.

DAC in its meeting held on January 08, 2011 directed the management that existing OGRA policy must be implemented in letter and spirit and the case be followed in the court of law. No further progress was reported till the finalization of this report.

18.5.4.9 Non-recovery from M/s Hassan Board Industries - Rs 20.159 million

As per clause D-3 of procedure for dealing with the theft of gas cases issued by OGRA vide letter dated August 16, 2005, in case of strong evidences leading to confirmation of the act of theft, the Company will disconnect the gas supply of the consumer / defaulter and will remove all devices which can facilitate the consumer / defaulter in illegal restoration of gas supply.

UFG team of SNGPL visited M/s Hassan Board Industries, Muridke, Lahore on October 30, 2008 and detected a direct bypass installed at the site through which gas was being pilfered. While disconnecting the bypass, security guards of the consumer started firing at the raiding team. Meanwhile, the factory workers managed to remove and take away the un-authorized pipeline. Only 15 feet rubber hosepipe line (1" and 2" dia) was recovered in the police protection

and the FIR was lodged. The Regional Detection and Evaluation Committee calculated pilferage charges of Rs 19.611 million for 366 days and the case was forwarded to HO Detection & Evaluation Committee for finalization. The pilfered charges were worked out to Rs 20.159 million for 365 days based on connected load of 21.6 MCF/Hr as per OGRA's policy. The gas connection was not disconnected due to stay order from civil court.

The matter was reported to the management on July 22, 2010 and the Ministry on November 30, 2010. The management in its reply dated January 3, 2011 intimated that the industrial meter installed at CMS of the consumer could not be disconnected due to stay order and the said meter was not flow proved. The reply of the management was not convincing as proper vigilance by the field staff was not exercised otherwise, the pilferage of gas could had been detected earlier.

The DAC meeting was held on January 8, 2011. DAC directed the management to provide complete information to Audit as required by them and to make sure that such information is provided in time in future. No further progress was reported till the finalization of this report.

18.5.4.10 Loss due to non-settlement of LD claims - Rs 17.200 million

In terms of clause-4(a) of the tender documents (General Terms), if the materials have not been shipped as per stipulation in the contract, SNGPL shall be entitled to recover 0.5 % of the total value of the contract price of the delayed part of the material for each week of delay by way of liquidated damages subject to a maximum of 10% of the total value of the delayed parts of the material.

SNGPL placed three purchase orders on M/s Shashi Steel Pipe Works (Pvt) Ltd. Islamabad for supply of steel line pipes of different sizes during June 2005 to March 2007. The supplier failed to deliver the material within the period stipulated in the purchase orders. As such, the management imposed liquidated damages amounting to Rs 17.200 million for delayed supply of material, but the same was not recovered, however supplier extended its bank guarantee up to June 30, 2010 which was further extended up to December 31, 2010.

The matter was reported to the management on July 22, 2010 and the Ministry on November 24, 2009. In replies dated November 1, 2010 and December 24, 2010 the management stated that LD claims were lodged but supplier had requested to waive off the claims on account of non availability of HR coils from Pakistan Steel Mills and late receipt of operative LC. The

representation of supplier was being examined and performance guarantees were valid upto December 30, 2010. The reply was not acceptable, as the LD charges were required to be recovered as per terms and conditions of purchase orders.

The DAC in its meeting held on January 07, 2011 showed its concern on the delay in settlement and directed the management to provide status of the case. No progress was reported to Audit till the finalization of this report.

18.5.4.11 Loss due to non-encashment of bank guarantees within validity period – Rs 49.654 million

In terms of Clause-9 of Local Purchase Order dated November 14, 2008 if the material has not been dispatched/delivered within the delivery period given in the contract, SNGPL shall be entitled to recover 1% of the total value of the contract price of the delayed part of material for each week of delay by way of liquidated damages subject to maximum of 10% of the total value of the delayed part of material.

SNGPL placed purchase order dated November 14, 2008 on M/s Data Steel Pipe Industries (Pvt) Ltd., Karachi for procurement of 35,000 meters steel line pipe at total cost of Rs 1,667.014 million. The supplier was required to start delivery within 140 days and complete the same within 180 days after receipt of operative LC. The delivery of material was required to be started on April 17, 2009 and completed up to May 27, 2009. Performance/Warrantee Bank Guarantee dated December 23, 2008 for Rs 142.480 million valid up to May 31, 2010 was extended up to June 30, 2010. The supplier, however, started delivery of steel line pipe from April 20, 2009 and completed the same on June 09, 2009. The management did not recover liquidated damages of Rs 2.609 million.

Besides, claims of Rs 47.045 million on account of liquidated damages were pending against M/s Data Steel Pipe Industries for non-compliance of delivery schedule in other six purchase order since 2002-03 to 2008-09. Timely action for recovery of LD charges was not initiated as such the LD charges accumulated to Rs 49.654 million (Rs 2.609 million + Rs 47.045 million) were outstanding against the firm.

The matter was reported to the management on July 22, 2010 and the Ministry on November 25, 2010. The management in its replies dated November 1, 2010 and December 24, 2010 stated that claims for encashment of performance / warranty bond guarantees were lodged but the supplier went into court of law. The reply of the management was not convincing as SNGPL did not recover the

LD charges even in a single purchase order, which were let to accumulate to Rs 49.654 million.

The DAC in its meeting held on January 07, 2011 directed the management to provide the record to Audit and actively pursue the case. No response was received till the finalization of this report.

18.5.4.12 Loss due to payment of excess freight charges – Rs. 3.108 million

In terms of clause 31.2 of the tender documents (Instruction to bidders) if purchase order is placed on FOB basis and if the freight to be eventually paid by the Company turns out to be more than that quoted in the bid, SNGPL in that case will recover additional freight charges from the successful bidder to whom the order is placed.

I. SNGPL placed purchase order No. C-1300/07 on M/s Serck Audco Valves, UK through M/s Pakmaco (Pvt) Ltd; Karachi for procurement of plug valves at total FOB value of Pstg. 657,900 (any UK port) on August 20, 2007. As per quotation, total freight charges from UK port to Karachi worked out to Rs 1.981 million. The entire material was received from March, 2008 to January, 2009. An amount of Rs. 3.917 million was paid to PNSC as against the freight charges of Rs 1.981 million quoted by the firm which resulted in a loss of Rs. 1.936 million. The excess freight charges were required to be recovered from the supplier but not such action was initiated.

II. Similarly SNGPL placed purchase order No. P-116/08 dated February 12, 2008 for procurement of plug valves worth Pstg. 781,715 on FOB basis on M/s Serck Audeo Valves, UK through M/s Pakmaco, Karachi. The entire material was received upto January 2009. The management paid an amount of Rs 4.292 million to PNSC against the freight charges of Rs 3.120 million quoted by the supplier. Thus an amount of Rs 1.172 million (4.292-3.120) was required to be recovered from the supplier but no such action was taken.

The matter was reported to the management on July 22, 2010 and the Ministry on November 24, 2010. The management in its reply dated December 24, 2010 stated that no claim was warranted to be lodged on the suppliers as total freight was paid by SNGPL to PNSC against multiple purchase orders. The reply was not tenable as the amounts were paid against the above purchase orders through various invoices and not against multiple purchase orders. Hence excess ocean freight of Rs 3.108 million over and above the quoted freight was recoverable from the suppliers.

DAC in its meeting held on January 7, 2011 directed the management to furnish detail of multiple purchase orders to Audit for verification. No record was produced to Audit till the finalization of this report.

18.5.4.13 Non-recovery of liquidated damages – Rs 82.701 million

In terms of Clause-11.5 of the tender documents (General Terms), whenever late delivery charges become payable, SNGPL shall quantify the same and serve a written notice upon the supplier requiring immediate payment thereof. If the supplier fails to remit payment within 15 days of receipt of such notice, SNGPL will become entitled to recover the same forthwith by calling upon the Performance Bond Guarantee.

SNGPL placed Local Purchase Order (PO) dated July 4, 2006 on M/s Indus Steel Pipes Limited, Karachi (ISPL) for procurement of 73,000 meters steel line pipes of different sizes at total price of Rs 167.005 million (excluding taxes). According to clause-7 of the PO the supplier was required to start delivery within 70 days and complete the same within 115 days after receipt of PO / operative LC. Inland letter of credit was established on July 08, 2006 and made operative on August 15, 2006. The LC was amended on November 25, 2006 and the date of shipment i.e. December 2, 2006 was extended up to February 2, 2007. The supplier failed to deliver the material within the stipulated period and as such, the management imposed LD charges amounting to Rs 6.275 million on them for delayed supply of material vide letter dated April 10, 2008. Neither the supplier deposited the LD charges nor were recovered / adjusted by the management by invoking his bank guarantee amounting to Rs 5.572 million, which expired on June 30, 2010. Thus, the Company sustained loss of Rs 6.275 million.

Similarly, amounts of Rs 76.426 million because of LD charges under other ten contracts/ purchase orders were outstanding against the above supplier since long. The management did not encash the bank guarantees, which had already been expired. This resulted in loss of Rs 82.701 million (Rs.6.275million+ Rs 76.426 million)

The matter was reported to the management on April 29, 2010 and the Ministry on November 21, 2010. The management in its reply dated December 24, 2010 intimated that the LD claim against respective purchase orders was lodged on M/s ISPL. They requested to waive off the LD charges because of force majeure, as SNGPL had not suffered any loss. The matter was under

consideration with the management. The reply was not acceptable, as the LD charges were required to be recovered as per terms and conditions of contracts.

The DAC was meeting held on January 7, 2011. The management of SNGPL explained that the Company's interests are safe in the shape of valid performance warranty bank guarantees amounting to Rs 44 million. The DAC showed its concern about the recovery and directed the Company to pursue the cases of encashment of bank guarantees expeditiously to en-cash Rs 44 million immediately and report to Audit along-with details of the remaining amount. No progress was reported to Audit till the finalization of this report.

18.5.4.14 Loss due to reduction in gas pilferage charges - Rs 17.339 million

As per clause 6.3 of Billing Manual, it is the duty of the meter reader to record his visual observation on meter reading card (MRC) regarding condition of meter counter / seals, meter's glass, if broken status of pressure gauges and functioning of regulator etc., report the discrepancies to Distribution Department for necessary action. As per clause 18.13 of Billing Manual, in case of unauthorized enhancement of pressure duly substantiated with documentary evidence, the recoveries against increase in delivery pressure will be affected for a maximum period of six months. If period can be indentified / verified from valid site record, recoveries will be based on actual.

SNGPL Area Office, Lahore commissioned the gas supply to M/s Style Textile Ltd., Lahore on May 10, 1993. The consumer was found involved in using 31 MCF per hour load against the sanctioned load of 13.5 MCF per hour. No amount was booked to the consumer for this unauthorized enhancement in load. The meter was replaced on January 20, 2008 and sent to Central Metering Workshop, Lahore. Based on Flow Proving Reports, impeller motion of the meters was found stopped by insertion of a wire. The Regional Detection and Evaluation Committee worked out gas theft valuing Rs 19.111 million for 285 days i.e. from April 11, 2007 to January 20, 2008. H.O Detection and Evaluation Committee did not agree with the calculation on the plea that the consumer provided a list of visits of SNGPL staff to their premises, who did not point out any gas theft and the meters were not replaced as per OGRA policy. The H.O Detection and Evaluation Committee on October 14, 2009 reduced gas theft charges to Rs 17.339 million for 272 days i.e. April 20, 2007 to January 20, 2008 at average 97 HM^3/day on the basis of corresponding period of 2005-06. The amount of Rs 17.339 million could not be recovered. The consumer was not dis-connected in spite of fact that party was found involved in the theft continuously from 2005 to 2008.

The matter was brought to the notice of management on July 22, 2010 and the Ministry on November 30, 2010. The management in its reply dated January 3, 2011 intimated that the consumer was billed properly for the volume of gas being consumed. The meter tampering charges, as reported by the Meter Inspection Report by insertion of wire, had been charged to the consumer. The HO D&E Committee had approved the detection charges in accordance with OGRA procedure. However, the consumer had lodged complaint with OGRA and in civil court. The reply was not tenable as the consumer was found involved in repeated gas theft cases and also enhanced the load from 13 Mcf to 31 Mcf which could have been detected as the consumer was not put under observation.

In DAC meeting held on January 08, 2011, the management explained that full amount of Rs 17.339 million had been recovered. DAC observed that management did not comment on consumption of the extra load i.e. 31 Mcf instead of 13.5 Mcf by the consumer and directed to provide the record of amount recovered from the consumer to Audit. No progress was reported till finalization of this report.

18.5.4.15 Mis-procurement of pre-printed gas bills - Rs 15.400 million and loss due to non-recovery of late delivery charges -Rs.1.054 million

As per rule-31 of Public Procurement Rules-2004, no bidder shall be allowed to alter or modify his bid after the bids have been opened. According to Clause-7 of the bidding documents (Instructions to Bidders), the bidder willing to offer discount if any, should indicate the same in the bid form/bid. Any discount or alternate price not read out at the time of bid opening will not be considered during bid evaluation. Rule-30 provides that all bids shall be evaluated in accordance with the evaluation criteria and other terms and conditions set forth in the prescribed bidding documents.

SNGPL floated tender for procurement of "Pre-Printed Gas Bills on Cut Sheets" on single stage two envelop system basis in June 2008. Three firms participated in the tenders opened on August 15, 2008 and two firms were found technically responsive. The financial proposals were opened on September 08, 2008. M/s Precision Peripherals, Lahore was the lowest with rate of Rs 1,549 per box of 2,000 sheets while M/s UBC Convertec, Lahore quoted higher rate of Rs 1,649 per box of 2,000 sheets. The 2nd lowest bidder reduced his rate to Rs 1,540 per box of 2000 sheets on October 13, 2008. The Chief Information Officer (CIO) vide his note dated October 15, 2008 stated that he along with In-charge Procurement visited M/s Precision and found that there was only one,

"two colour machine" which was out of order and there was no alternate arrangement for printing as well as electricity. He recommended to place order on M/s UBC Convertec. M/s Precision vide their letters dated November 10, 2008 and November 13, 2008 represented that they were the lowest bidder and reduced the rates to Rs 1,527.00 per box of 2,000 sheets including all taxes but the management took no positive action. They also stated that with the manipulation and token discount by the 2nd lowest bidder, a committee of 3-members visited their factory when the LESCO Electricity Bills were in printing process and a lot of raw material was available in stock. They requested the MD, SNGPL to confirm their performance and quality of work as well from any of the WAPDA Distribution Companies. The matter was required to be referred to the redressed grievances committee formed under PPRs but it was not done by the management.

The management, however, placed purchase order dated October 17, 2008 for supply of 10,000 boxes of pre-printed gas bills at total cost of Rs 15.400 million on M/s UBC Convertec (Pvt) Ltd., Lahore. The supplier delivered the entire 10,000 boxes during the period from December 29, 2008 to December 14, 2009 as against the delivery schedule i.e. 5,000 boxes up to December 28, 2008, and remaining 5,000 boxes up to March 23, 2009. The management imposed late delivery charges amounting to Rs 1,053,714 but the same were not recovered or adjusted against the performance bank guarantee of Rs 1,316,240 which expired on March 30, 2010. Thus, the Company had to sustain loss of Rs 1.054 million.

The matter was reported to the management on July 22, 2010 and the Ministry on December 6, 2010. The management in its reply dated January 3, 2011 intimated that before releasing of PO on November, 2008, Chief Information Officer (CIO) and Incharge Procurement visited both suppliers and observed that the only one two colours printing machine was available with M/s Precision which were out of order and there was no alternate arrangement for printing/power. Keeping in view the revised delivery schedule, the delivery period was extended and actual late delivery charges of Rs 59,577 were recovered on June 29, 2010. The reply was not tenable as both the parties were technically responsive and there was no justification to visit the premises of supplier after opening of financial bid as it was not required by any clause of tender documents. The 1st bidder was ignored on the ground that they would not be able to supply the printed material within prescribed time limits whereas the 2nd party was given undue favour by giving extensions. Thus, undue favour was extended to the 2nd supplier, which needed investigation.

The DAC meeting was held on January 7, 2011. The DAC directed the management to hold an in-house inquiry to fix responsibility for violation of Public Procurement Rules 2004. No progress was received till the finalization of this report.

18.5.4.16 Non-recovery of LD charges – Rs 11.594 million

In terms of clause-8 of the Purchase Order/Tender Documents, if the material is not dispatched/delivered within the delivery period given in the contract, SNGPL shall be entitled to recover 0.5% of the total value of the contract price of the delayed part of material for each week of delay as LD charges subject to a maximum of 10 % of the total value of the delayed part of the material.

SNGPL placed purchase order on M/s Crescent Steel and Allied Products Ltd. Karachi (CSAPL) on July 18, 2008 for procurement of 38,600 meters steel line pipes of 20" dia at total cost of Rs 507.014 million. As per clause-4.1 of the PO, the supplier was required to commence the delivery within 90 days and complete supply within 140 days after receipt of PO and operative Letter of Credit. L/C was established on July 18, 2008, which was valid up to January 07, 2009. The supplier, however, did not deliver the material within the stipulated period up to December 8, 2008 and supplied the material late by 18 to 52 days during the period from December 26, 2008 to January 29, 2009 as such late delivery charges amounting to Rs 11.594 million were imposed on them on May 8, 2009. The management did not initiate timely action for recovery of outstanding dues. The performance bond guarantee of Rs 43.583 million expired on January 28, 2009 (extended period). On the request of the management, the supplier provided performance bank guarantee dated January 14, 2010 for Rs 11.594 million to the extent of LD charges. The LD charges were, however, not adjusted against the above bank guarantee.

The matter was reported to the management on April 12, 2010 and the Ministry on November 25, 2010. The management in its replies dated November 1, 2010 and December 24, 2010 stated that the party had agitated by stating that the HR coil were received late from M/s Dawood Corporation. The request of the party was under consideration in SNGPL. Reply was not tenable as the claims of LD charges were lodged by SNGPL as per terms of the PO.

The DAC meeting was held on January 7, 2011. The management explained that performance warranty / bank guarantees against each purchase order are valid. DAC directed the management to decide the matter as early as

possible and report the status to Audit. No response was received till the finalization of this report.

18.5.4.17 Extra payment on account of conveyance allowance - Rs 40.793 million

As per Rule 26 of Service Rules of SNGPL for Subordinate Staff, not all employees provided with Company's transport and accommodation on job sites (Co. colonies etc.) will be paid an appropriate allowance for this purpose. Clause 2.2.3 of the CBA agreement of 1989 provided that a deduction @ 20% of basic will be made from the workmen provided with company's accommodation and / or availing company's transport to and from their place of work.

SNGPL provided conveyance facility to 1,060 employees but also allowed conveyance allowance to them. Nominal amount of Rs 180 was being deducted on account of conveyance facility. This resulted in extra payment of Rs 40.793 million during 2008-09.

The matter was reported to the management on July 22, 2010 and the Ministry on December 13, 2010. Management in its replies dated November 1, 2010 and January 03, 2011 intimated that the facility of conveyance was provided in accordance with clause 13.1 of the Union Agreement 2005-07, a deduction of Rs 180 per month, was being made from the conveyance allowance of the employees, to whom Company's motorcycles were provided. The reply was not tenable as there was no justification for payment of conveyance allowance when conveyance facility was provided at Company's expense.

The DAC meeting was held on January 07, 2011. The Committee directed the management to investigate the matter and initiate recovery from the persons who were availing pick and drop facility as well as drawing the conveyance allowance. No progress was reported till finalization of this report.

18.5.4.18 Loss due to non-replacement of defective meter of M/s Kamran Chemicals - Rs 8.299 million

As per clause 6.3 of Billing Manual, it is the duty of the meter reader to record his visual observation on meter reading card (MRC) regarding condition of meter counter / seals, meter's glass, if broken status of pressure gauges and functioning of regulator, etc. and also report these discrepancies on defect reports which are sent to Distribution Department for necessary action. As per clause 6.5, it is also the duty of the meter reader to check / report violation of gas supply

contracts, e.g. misuse of domestic gas connection for commercial purposes, un-authorized extension of gas supply, suspected gas pilferage case etc. to Sales and Distribution Department for their action.

UFG team of SNGPL visited M/s Kamran Chemicals, on September 20, 2008 and found that the consumer was involved in pilferage of gas. The theft of gas was proved vide flow-proving report (FPR) of the CMS on September 30, 2008. The Regional and Head Office Detection and Review Committees approved Rs 8.299 million as gas theft charges from February 1, 2008 to September 20, 2008 (233 days). The consumer lodged complaint to OGRA on July 20, 2009, which was decided on December 24, 2009 stating that tampering of meter was not proved as it became defective during disputed period from February 1, 2008 to September 20, 2008. Thus Company had to suffer a loss of Rs 8.299 million due to rejection of case by OGRA as the meter remained faulty/sticky from February 01, 2008 to September 20, 2008 but the staff of SNGPL failed to point out the same, timely.

The matter was brought to the notice of management on April 30, 2010 and the Ministry on December 4, 2010. Management in its reply dated January 3, 2011 intimated that internal defect of the meter could only be confirmed by Central Metering Workshop (CMW) hence, the meter was sent for checking. The competent committees assessed the detection charges as per OGRA procedure for tampered meter whereas OGRA decided that the case should be dealt as per clause-13, which deals with sticky meters. SNGPL had advised their staff to charge adjustment because of defective meter instantly instead of waiting confirmation from the CWM. The reply was not tenable as OGRA pointed out that management had charged the tampering charges on wrong facts whereas the meter was sticky from February 2008 to September 2008, hence the matter needed investigation for not pointing out the sticky meter for eight months period.

DAC in its meeting held on January 8, 2011 directed the management to hold an in-house inquiry with a view to fix responsibility for failure in timely reporting about defective meter. No progress towards conducting of in-house inquiry was reported till finalization of this report.

18.5.4.19 Non-recovery from industrial consumers – Rs 117.451 million

As per section 18.13 of the Billing Manual, when tampering of meter is established, gas supply shall be disconnected immediately (within 24 hours). The

consumer shall be placed under observation. After restoration of gas, the CMS will be visited by the Company personnel at least 8 times every month.

In SNGPL Area Office, Lahore an amount, of Rs 668.61 million was booked on account of gas theft charges from July 1, 2008 to May 31, 2009, which included 43 cases, detected by UFG department for Rs 117.451 million. The staff did not follow the prescribed procedure and prepared theft cases with in-built deficiencies/procedural faults, due to which SNGPL could not prove the claims.

The matter was reported to the management on April 9, 2010 and the Ministry on November 30, 2010. The management in its reply dated January 3, 2011 stated that all the cases were under litigation and the consumers had obtained stay order from the courts. The reply was not tenable as the consumers succeeded in obtaining the stay orders due to procedural faults on the part of SNGPL management.

DAC in its meeting held on January 8, 2011 directed the management to make sure that all codal formalities were completed while preparing the cases for prosecution / defense in the court of law. DAC also directed that cases be actively pursued for early settlement. No further progress was reported to Audit till finalization of this report.

18.5.4.20 Non-recovery of Rs 109.809 million due to expired bank guarantees –Rs 26.084 million

As per clause 14.3(a) of Billing Manual, the security deposits of all industrial and commercial consumers in no case be less than their anticipated consumption for three months based on latest available data. As per clause 14 (3-b), it should also be ensured that all industrial, commercial and domestic consumers whose bills exceed the security deposit are disconnected immediately unless a stay order has been issued by a court of law.

SNGPL was required to maintain security deposits from consumers whether in cash or in shape of bank guarantee equal to two/three months average consumption. SNGPL, Area Office Lahore, failed to encash or get the bank guarantees extended of eight defaulting cases before the expiry of bank guarantee.

The matter was brought to the notice of management on February 12, 2010 and the Ministry on December 6, 2010. The management in its replies

dated November 1, 2010 and January 7, 2011 intimated that the consumers mentioned in observation were under legal process of recovery. Prior to finalization for the recovery suits, cash security held with the Company had been adjusted and regarding encashment of bank guarantees, these cases had been referred to Area Accounts for taking up the matter with concerned Bank branch and for follow-up as per Company procedure. It was added that recovery of defaulted amount was expected after legal process of each consumer, which were subjudice in different courts.

Audit was of the view that the management had granted undue favour to all the consumers by delay in initiation of the court cases as the disconnections were made in 2006-07 whereas the legal cases were referred to Head Office in 2009-10. The extraordinary delay in referring the cases to Head Office needed to be investigated for fixing individual responsibility. The reasons for non-disconnection of M/s Baluchistan had not been intimated which needed justification. Moreover, details of security encashed to adjust the default amount were not provided to audit.

DAC meeting was held on January 07, 2011. The management explained the status of relevant bank guarantees. The Committee directed to recover the outstanding amounts at the earliest under intimation to Audit. No progress was reported till finalization of this report.

18.5.4.21 Loss due to non-award of contract to the second lowest bidder - Rs 9.224 million

As per Rule-38 and 50 of PPRs, 2004, the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity. Any unauthorized breach of these rules shall amount to mis-procurement.

OGDCL floated tender for construction of office building at Qadirpur Gas Project in the press on September 28, 2004. Three firms participated in the tender on October 21, 2004. The 1st lowest bidder M/s Israr Enterprises quoted Rs 22.728 million that was valid up to January 19, 2005 whereas the 2nd lowest bidder M/s A Hameed and Co offered Rs 26.169 million. The management did not finalize the award of contract within the validity period and the lowest firm requested for increase in his quoted offer in view of increase in cost of material.

The management did not issue letter of intent to the 2nd lowest bidder and resorted to re-tendering in February 2006. Resultantly the contract was awarded to M/s AFCCO Oil for Rs 35.391 million. This resulted in loss of Rs 9.224 million (Rs.35.391 million – Rs 26.167 million).

The matter was reported to the management on March 20, 2010 the Ministry on December 4, 2010. In replies dated May 25, 2010 and January 6, 2011, the management stated that the contractor failed to submit the required extension in bid validity up to May 2, 2005. The reply was not convincing, as the contract could not be finalized with the 1st lowest bidder within the bid validity period due to which he demanded increase in his offer. Instead of awarding contract to the 2nd lowest bidder, the re-tendering was resorted which caused loss.

DAC in its meeting held on January 10, 2011 directed the management to have the matter investigated at the level of BOD and take action accordingly. No action has been taken till finalization of this report.

18.5.4.22 Non-recovery of LD charges from a supplier - Rs 8.297 million

In terms of Clause-1 of the Performance Bond Guarantee, the guarantee is available for payment, without recourse to the opener, against beneficiary's first written call to do so accompanied by a written statement certifying that the opener failed to comply with the terms and conditions of the order.

As per clause-8 of Annexure-II to the Purchase Orders and Clause-11.3 of the tender documents (General Terms), whenever Liquidated Damages become payable, SNGPL shall quantify the same and serve a written notice upon the supplier requiring immediate payment thereof. If the supplier fails to remit payment within 15 days of receipt of such notice served under registered postal cover, SNGPL will become entitled to recover the same forthwith by calling upon the Performance / Warranty Bond Guarantee. Any withdrawals by way of LD charges out of Performance / Warranty Bond Guarantee will be made good by the supplier within 60 days of receipt of the above referred notice by way of amendment to the Performance / warranty Bond Guarantee failing which the remaining portion of this Guarantee would become en-cashable in favour of the Buyer on account of any such failure.

SNGPL placed 12 purchase orders on M/s Pak Precise Engineering (Pvt) Ltd. Lahore during the years 2000-2008 for supply of different material i.e. Domestic Gas Regulators, Meter Coupling (Aluminum), Gas Service Valves, Tamper Proof Domestic Gas Regulators etc. The supplier failed to deliver the

material within the stipulated period and SNGPL imposed liquidated damages amounting to Rs 8.279 million. The Procurement Department requested the Accounts Department through different letters from March 12, 2009 to December 24, 2009 for recovery of LD charges against respective Purchase Orders through encashment of Bank Guarantees of the above named supplier. However, the same were not encashed and the supplier managed to obtain stay order from the court on January 28, 2010.This resulted in loss of Rs 8.297 million.

The matter was reported to the notice of management on July 22, 2010 and to the Ministry on December 04, 2010. The management in its reply dated January 03, 2011 intimated that M/s. Pak Precise Engineering have submitted their representation for condonation of Late Delivery Charges which was under consideration. However, M/s. Pak Precise failed to provide any convincing justification for condonation of L/D against five out of 12 cases discussed with them. As such, their PWBG were invoked on January 28, 2010 for encashment. However, supplier approached the court of law and obtained stay order against all 12 purchases orders on the same day i.e. on January 28, 2010. The reply was not tenable as delayed action was taken to favour the contractor at public exchequer.

The DAC meeting was held on January 7, 2011. The management apprised about the detail of the case being subjudice in the Court of Law. The DAC directed the management to actively pursue and apprise the Audit about the status. No progress was reported till finalization of this report.

18.5.4.23 Irregular payment of house rent allowance to employees residing in Company allotted quarters - Rs 15.832 million

As per Rule 78(ii) of Service Rules of SNGPL for Subordinate Staff, employees allotted Company quarters will not be entitled to House Rent Allowance. Clause 2.2.3 of CBA agreement of 1989 provided that a deduction @ 20% of basic will be made from the workmen provided with Company's accommodation and/or availing company's transport to and from their place of work. Clause a and b of schedule-II of Industrial Relations Ordinance (IRO) 2002 states that the employer has right to manage, control and use the property of his enterprise and conduct his business in any manner considered appropriate by him and he have right to use available resources including human resources efficiently and effectively in the best interest of the enterprise.

Contrary to the above, SNGPL paid House Rent Allowance of Rs 15.832 million during 2008-09 @ 87% of the basic pay to those employees who were

residing in the Company's accommodations. Only a nominal deduction of Rs 220 per month was made in contravention to the Subordinate Staff Service Rules.

The matter was brought to the notice of management on July 22, 2010 and the Ministry on December 13, 2010. The management in its replies dated November 1, 2010 and January 3, 2011 intimated that the facility of House Rent allowance was provided in accordance with clause 13.1 of the Union Agreement 1983, and clause 13.2 of the Union Agreement 2005-07 allows deduction of Rs 220 per month, from the House Rent Allowance of the employees provided with Company's accommodation. Audit was of the view that IRO 2002 granted the employer the right to use available resources. Hence the double facility i.e. House Rent Allowance along with residential facility in big cities against Rs 220 per month only was provided under undue influence of Union against the interest of the Company. Payment of house rent allowance was also in violation of Company's Service Rules for sub-ordinate staff.

The DAC meeting was held on January 7, 2011. The management apprised the Committee that house rent allowance along with accommodation facility was being paid to the staff to retain them at operational sites. DAC directed that if the requisite number of staff at duty stations is required to be maintained, the management might consider adequate incentive package, which should be incorporated in the respective rules with the approval of the Competent Authority in lieu of house rent allowance. No progress was communicated to Audit till finalization of this report.

18.5.4.24 Loss due to undue favor to M/s Econo Gas CNG Station - Rs 7.842 million

As per clause F-3 of procedure for dealing with theft of gas cases issued by OGRA vide their letter dated August 16, 2005, the assessed working hours shall be based on type of business. Reference of sales survey report, specifying number of hours may be made. The working hours will be assessed by a three member committee comprising of one representative each, from Engineering, Sales and Billing Sections. As per clause 7.5 of UFG Control Manual, cost of 40% of pilfered volume shall be levied as penalty in all gas pilferage cases in addition to charges for gas consumed.

SNGPL's UFG team visited the premises of M/s Econo Gas CNG station on his complaint of stoppage of gas meter on December 3, 2008 and noticed that a wooden piece was inserted in the outlet of regulator, which caused the stoppage

of gas supply to the consumer. The supply was disconnected on December 6, 2008 and meter was sent to Central Metering Shop for flow proving. As per flow proving report dated December 20, 2008, the consumer's involvement in gas theft was established. The Regional Detection Committee after assessing the connected load and 12 working hours, calculated gas theft charges for 157 days amounting to Rs 9.419 million. Subsequently, HO Detection and Evaluation Committee, after hearing the consumer, decided to recover the gas theft charges for 147 day amounting to Rs 8.829 million. The consumer deposited 25% of gas theft charges and submitted appeal to review committee which further revised the decision of HO Detection Committee and recommended to re-calculate the gas theft charges based on 8 working hours instead of 12 working hours. The revised pilferage charges were worked out to Rs 4.519 million on August 25, 2009. Moreover, 40% penalty i.e. Rs 3.532 million was not imposed by violating clause 7.5 of UFG Manual. The consumer was favored unduly, as cases of M/s Wagha CNG, Hashmi CNG, Hassan Raza CNG and Bari CNG, were calculated on the basis of 12 working hours per day. Thus, Company had to sustain a loss of Rs 7.842 million (8.829 – 4.519 + Rs 3.532).

The matter was reported to the management on January 22, 2010 and the Ministry on November 11, 2010. The management in its replies dated November 1, 2010 and January 3, 2011, stated that the Review Committee accepted the view point of the consumer that in certain months gas sales of nearby CNG stations increased due to disconnection of M/s Bari CNG and M/s Hassan Raza CNG on September 16, 2008 and October 22, 2008, and his daily operation was not more than 6 hours per day. Based on 8 working hours operation instead of 12 hours previously worked out, pilferage charges were reduced from Rs 8.829 million to Rs 4.519 million. The reply was not acceptable as the HO Detection and Evaluation Committee worked out the pilferage charges as per OGRA policy but the Review Committee granted undue favour to the consumer by taking eight working hours instead of 12 hours. Further the penalty of 40% of pilfered volume was not imposed.

In DAC meeting held on January 8, 2011, the management explained that the review was based on guidelines set by OGRA rules. DAC directed the management to provide a copy of such guiding parameters along with all relevant documents to audit. The recovery made so far, also be intimated and got verified from audit. No further progress was communicated till the finalization of this report.

18.5.4.25 Non-recovery of detection charges from M/s SKM Urethane Textile - Rs 14.814 million

As per clause D-3 of procedure for dealing with the theft of gas cases issued by OGRA vide its letter dated August 16, 2005, in case of strong evidences leading to confirmation of the act of theft, the Company will disconnect the gas supply of the consumer/ defaulter and will remove all devices which can facilitate the consumer/ defaulter in illegal restoration of gas supply. As per clause D-9, testing of internal parts / operation of meter and flow proving shall be carried out in the laboratory and reported to the GM of the region within five working days in case of industrial category.

SNGPL Area Office, Lahore commissioned a gas connection to M/s SKM Urethane Textile Industries (Pvt) Ltd., Lahore on September 23, 2005. Later on, meter was replaced on September 12, 2006 and old meter was sent to Central Metering Workshop on September 13, 2006. The consumer was found involved in gas theft and disconnection advice was issued on October 5 and October 10, 2006. The flow proving report was received on October 31, 2006 after a delay of 15 days with the remarks that it was a case of meter tampering / pilferage of gas. The theft of gas was worked out to Rs 14,813,822 from October 29, 2005 to September 12, 2006. The consumer was disconnected on October 5, 2006. The Additional District Judge, Lahore issued order on October 8, 2007 for reconnection of the consumer. The consumer was again disconnected on March 20, 2009 but was restored without recovering theft charges. Thus, the Company failed to recover the theft charges and consumer was enjoying the gas facility.

The matter was reported to the management on July 22, 2010 and the Ministry on December 13, 2010. The management in its reply dated January 3, 2011 intimated that the consumer filed a suit in the court and managed to obtain a stay order hence the consumer was reconnected on court orders. The reply was not tenable as the consumer succeeded to get the relief from the court due to delay in finalization of Flow Proving Report.

The DAC meeting was held on January 8, 2011. The management informed that the matter was in the Court of Law. DAC directed that the matter may be pursued actively and a copy of bank guarantee and court document be provided to Audit. No progress was reported till finalization of this report.

18.5.4.26 Loss due to non-encashment of performance bank guarantee – US $ 83,864.09 (Pak Rs 6.080 million)

In terms of clause 4(a) & (c) of the tender documents (General Terms), if the material not been shipped as per stipulation in the contract, SNGPL shall be entitled to recover 0.5 % of the total value of the contract price, of delayed part of the material for each week of delay by way of liquidated damages subject to a maximum of 10% of the total value of the delayed parts of the material. If the supplier fails to remit payment within 30 days of receipt of such notice, SNGPL will become entitled to recover the same forthwith by calling upon the performance/warrantee bond guarantee.

SNGPL, placed purchase order on May 21, 2007 for procurement of 2,412 Electronic Volume Correctors at total FOB value of US $ 1,133,519.40 on M/s Dresser UK Limited (DI UK), England through their local representative M/s Marketing International Services (Pvt) Ltd. Karachi. The supplier failed to deliver the material within the scheduled period of 150 days. Management imposed liquidated damages of US $ 82,878.14 on September 17, 2008. Management neither recovered nor adjusted the amount of US $ 83,864.09 (including excess freight – US $ 960 + LC extension charges – US $ 25.95) from the Bank Guarantee of US $ 113,352, which was valid up to April 4, 2010.

The matter was reported to the management on July 22, 2010 and the Ministry on November 24, 2010. In reply dated December 24, 2010, the management stated that claim for US$ 83,864.09 was lodged but M/s DI UK made a representation, which was under consideration. Their performance guarantee had been extended up to March 31, 2011. The reply was not acceptable as the consignment received in the year 2007 but the performance guarantee not encashed under the agreement on the pretext that the supplier had made representation.

The DAC in its meeting held on January 07, 2011 directed the management to expedite the matter. No progress was received till finalization of this report.

18.5.4.27 Irregular grant of 20% increase in pay to the engineers appointed in 2000 - Rs 3.314 million

As per clause 31.1 of the Human Resources Manual, salaries are normally reviewed once a year following the performance appraisal process. All increments are awarded based on merit and are paid entirely at the discretion of

the Company. As per clause 31.2, a percentage of basic salary as per increment matrix is usually given as an increment once a year to the executive as per the rating achieved through Performance management System.

Increment Matrix

ACR Grading	% increase	Remarks
"A" Minimum	10%	Any amount greater than this to be decided by the management based on company's financial performance for the year under review.
"B" Minimum	7%	
"C" Minimum	4%	
"D" Minimum	0%	
"E" Minimum	0%	

SNGPL promoted 14 engineers to G-IV in May 2008 out of 25 engineers who were appointed in May 2000 in G-I and G-II. Later on, the management granted 20% increase as motivational incentive w.e.f. March 2009 to the remaining eleven engineers who could not be promoted to G-IV whereas maximum 10% increase is provided to employee who get "A" ACR grading. In May 2009, five more engineers out of these eleven engineers were promoted to G-IV. The basic salary of these engineers exceeded to the basis pay of engineers promoted earlier. Therefore, they also claimed the benefit of 20%, which was granted to them from January 2010. Thus, the Company has to bear an extra cost of Rs 3.314 million as 20% increase up to June 2010, which was not covered under the Company service rules.

The matter was reported to the management on July 22, 2010 and the Ministry on November 30, 2010. The management in its reply dated January 03, 2011 stated that in order to retain and make the salaries of young and qualified Executives of Grade I-III compatible with the prevailing market, a one time motivational rise of 20% was given across the board to all the directly recruited Executives in Grade I–III at that time and it was not linked to performance. The reply was not tenable as the management granted 20% motivational pay in violation of Companie's Service Rule.

DAC in its meeting held on January 7, 2011 took notice of the said increase and directed the management to adhere to HR policy and laid down salary structure as approved by the competent authority. No further progress was reported till the finalization of this report.

18.5.4.28 In-admissible payment on account of entertainment allowance – Rs 2.903 million

As per Union Agreement (CBA) for 1991-93, entertainment allowance @ Rs 30 per month is to be paid to all existing categories being treated as Office Staff. The rate was increased to Rs 150 per month in later agreements.

Contrary to the above, SNGPL paid an amount of Rs 2.903 million on account of entertainment allowance @ Rs 150 per month to 75 employees not falling under the category of Office Staff.

The matter was brought to the notice of management on July 22, 2010 and the Ministry on November 30, 2010. The management in its reply dated January 03, 2011 intimated that the amounts shown against entertainment allowance were not correct as per their record. However, if in some cases entertainment allowance was inadvertently paid that had been recovered subsequently. The reply was not tenable as the entertainment allowance was not admissible to field staff and no record was produced in support of recovery effected from the employees.

DAC in its meeting held on January 7, 2011 directed the management to initiate recovery from the concerned staff and get it verified from Audit. No further progress was reported to Audit till the finalization of this report.

18.5.4.29 Loss due to theft of pipes – Rs 1.291 million

As per Section-4 of Admin Manual of SNGPL, security means to secure, make safe/project men, material, equipment, important documents, key residences/installations/personalities; against theft, losses, damages, terrorism, sabotage, subversion, pilferage and espionage and prevention of losses of all kinds from whatever, cause.

I) In SNGPL (RO), Lahore 1,956 meters of 4" pipelines costing Rs 1,779,782 was found misplaced at Chak No.18/1-AL, Renala Khurd, District Okara. The material was issued from Dope Yard, Lahore but did not reach at the site. SGM (D) directed to conduct the departmental enquiry on June 30, 2009 but no departmental enquiry was found on the record of SNGPL. Due to theft of material, the job remained un-commissioned since three years in-spite of fact that 4,000 meters of 6" dia; 3,800 meters of 2" dia and 10,000 meters of 1" dia pipe had been laid.

II) SNGPL supplied 100 pipes of 6" dia for main pipeline against job No.10/33/1027-40 at Batapur, Lahore. On October 14, 2009, 20 pipes of 6" dia worth Rs 800,000 were stolen. Management lodged FIR on October 14, 2009 but no departmental enquiry was conducted.

The matter was reported to the management on February 17, 2010 and the Ministry on November 25, 2010. The management in its reply dated January 7, 2011 stated that the material was shifted to other site by the contractor; the pipes were re-shifted; and 540 meters pipes worth Rs 491,351 were found missing for which FIR by contractor was lodged on August 8, 2009. In 2nd case, an FIR for Rs 800,000 was lodged on October 14, 2009. The reply was not acceptable, as the management did not produce any record in support of its reply and admitted recovery; in addition amount of Rs 1,291,351 (Rs 491,351 + 800,000) was recoverable since 2009.

DAC in its meeting held on January 8, 2011 directed the management to recover the amount from the contractor at the earliest. No progress was reported till the finalization of this report.

18.5.4.30 Unauthorized laying of network at Islamabad – Rs 1.972 million

As per section 5.1(6) of UFG Manual, General Manager (UFG) was responsible to prepare / consolidate sector wise / SMS wise reconciliation reports and pinpoint gray areas and to monitor monthly trend of percentage of UFG and take up the matter with regions accordingly. As per clause, 111.3 of HR Manual, any deliberate breach or non-observance of SNGPL rules and policies may constitute misconduct.

SNGPL Area Office, Islamabad, deducted unauthorized networks on February 27, 2008 and March 26, 2008 at Ghouri Town, Dhok Kazim, Rah-e-Sakoon National Housing Scheme, Sadat Colony, Bilal Villas, Samarzar Colony etc. by area staff. The GM Islamabad vide his memo dated January 17, 2009 intimated that illegal lines of Ghouri Twon, Chak Shahzad were laid by unknown persons and an amount of Rs 1.972 million for 2" dia x 550 meters and 1" dia x 2000 meters for proposed network had been deposited by the developers of the society vide letter dated December 24, 2008. The request for job was sent to SGM Distribution – North for approval vide memo dated January 5, 2009. The plea of the local office was rejected by internal audit as the meters installed therein were drawn from stores by office bearers through material requisition.

The matter was reported to the management in July 2010 and the Ministry on November 30, 2010. The management in its reply dated January 03, 2011 intimated that a detailed investigation was carried out, three officers of sales section with two supervisors sales were held responsible for the illegal network and provision of 76 gas connections in the concerned areas. The responsible were being charge sheeted. However, the three Sales Officers already stood retired from the Company's services and the Company was handicapped to initiate any action against them. The reply was not tenable as the investigation was delayed since 2008 only to facilitate safe exit to the retiring employees.

In DAC meeting held on January 8, 2011 the management explained that inquiry against officials who were in service was ongoing. DAC directed the management to provide a copy of fact finding inquiry report along with the date of retirement of three officers to Audit. No further progress was reported to audit till finalization of this report.

18.5.4.31 Loss of business to Pakistan Steel due to procurement of imported HR coils - US $ 140 million (Rs.11,200 million)

As per rule 29 of Public Procurement Rules 2004, the procuring agencies shall formulate an appropriate evaluation criterion listing all the relevant information against which a bid is to be evaluated. Such evaluation criteria shall form an integral part of the bidding documents. Failure to provide for an unambiguous evaluation criteria in the bidding documents shall amount to mis-procurement.

The Cabinet vide case No.125/15/2000 approved in principle the Gas Infrastructure Augmentation Plans (GIDP) of SNGPL and SSGCL for utilization of 928 MMCFD gas under Phase I and Phase II, at an estimated cost of Rs 20.43 billion based on locally manufactured line pipe. SNGPL floated an international tender and specified API specification 5L grade X-70 PSL2 (42nd edition effective July 1, 2000) for procurement of HR Coils worth US $ 140 million which were qualified by the foreign manufacturer only. Patriotic engineers of SNGPL lodged a complaint dated March 18, 2003 and claimed that prescribed specifications deprived M/s Pakistan Steel of business opportunity and that there was no need to specify grade X-70 due to following reasons:-

(i) The pipelines to be laid under the said project are to be connected to the existing pipelines which have X-46, X-52 and X-60 materials,
(ii) The PSL2 specification made effective for the first time on July 1, 2000 and Pakistan is perhaps the only country to have chosen to use PSL2 material

without any knowledge about the implication of using high strength and high carbon equivalent material;

(iii) PSL2 material is being produced by only 3 or 4 steel mills in the world;

(iv) High strength material like grade X-70 and grade X-80 is being used in some countries for transporting gas at very high pressures i.e. 2000-2200 psig where in SNGPL system maximum allowable operating pressure is 1250 psig.

(v) Moreover, the pipe supplied by the manufacturers did not meet the mandatory requirements of API specification 5L 42nd edition for Grade-X-70 PSL2 in view of reasons mentioned in the complaint.

Public Procurement Regulatory Authority vide its letter dated April 27, 2004 concluded that it was a case of mis-procurement as the value for money was not taken into account altogether by SNGPL and advised the Secretary, Ministry of Petroleum and Natural Resources to take suitable action against culprits, as per decision of PPRA Board. The Director General Gas, Islamabad vide its letter dated July 21, 2008 advised SNGPL management that the matter be placed before the BoD for enquiry. The item of irregular purchase of HR Coils was presented at 355th meeting of the Board of Directors held on April 24, 2009 but deferred for consideration at a subsequent meeting, thus the complaint remained un-auctioned.

The matter was reported to the management on July 22, 2010 and the Ministry on December 13, 2010. The management in its reply dated January 3, 2011 intimated that Audit Committee put the recommendations to the BoD and after due deliberation the Board in its meeting held on May 30, 2009 expressed its satisfaction declaring it a prudent economic decision, to ensure procurement of high quality valves and bidding process was satisfactory as per Company procedure. Audit was of the view that independent enquiry was to be conducted as per advice of the DG (Gas) to judge the actual need of using higher standard material than the actual requirements, instead of relying on the recommendations of Audit Committee without in-depth investigation.

In DAC meeting held on January 8, 2011, the management informed that the matter was analyzed at higher forum. DAC directed that the working papers submitted to BoD alongwith other relevant record be provided to Audit for verification. No record was produced till the finalization of this report.

18.5.4.32 Irregular purchase of thin clients - Rs 17.087 million

Clause-20 of tender documents stipulates that payment to suppliers will be made by SNGPL within 30 days on receipt of goods. Clause 21 stipulates that

in case of deviation in the payment schedule offered by the purchaser, markup @ 14% will be charged from the seller and then bid will be revaluated. Rule-30 of PP Rules stipulates that no bidding criteria will be used which is not set forth in the prescribed bidding documents. Rule-31(i) of PP Rules stipulates that no bidder shall be allowed to alter or modify his bid after the bids have been opened.

SNGPL (HO) floated tender enquiry in November, 2008 for the procurement of 253 thin clients. Seven parties participated in the tender. The quotations were opened on December 22, 2008 and M/s Inbox Business Technologies, stood the lowest @ Rs 38,338 each which was reduced to Rs 33,755 during negotiation with management. M/s Inbox Business Technology, Lahore received advance payment of Rs 2.783 million in lieu of payment of 2nd and 3rd year extended warranty of Thin Clients @ Rs 6,000 per piece and for its batteries @ Rs 5,000 per piece. This was in violation of payment schedule and Public Procurement Rules 2004.

The matter was brought to the notice of management on January 29, 2010 and the Ministry on December 6, 2010. The management in its replies dated November 1, 2010 and January 3, 2011 stated that M/s Inbox reduced the price at its own with better specification. Advance payment was made only due to 2nd and 3rd year warranty for thin clients and batteries being essential part of package. The reply was not tenable as tender enquiry was floated without specifying the requirement of additional warranty for 2nd and 3rd year and facility of advance payment in lieu of warranty, beside the laptops were purchased in the name of thin clients.

The DAC meeting was held on January 8, 2011. The Committee directed the Company to verify the applicability of Public Procurement Rules for making the payment to the supplier within 30 days. No progress was reported till finalization of this report.

18.5.4.33 Non-recovery of late delivery charges – Rs 6.741 million

In terms of clause-18 of the tender documents (Instructions to Bidders), the successful supplier shall furnish Performance/Warrantee Bond Guarantee equal to 10% of the total value of the contract which shall remain valid for 12 months after the last portion of the goods and services have been shipped to the final destination indicated in the contract. Similarly in terms of clause-4 of the tender documents (General Terms), if the materials have not been shipped as per stipulation in the contract, SNGPL shall be entitled to recover 0.5 % of the total value of the contract price (for local suppliers total value of the purchase order) of

the delayed part of the material for each week of delay by way of liquidated damages subject to a maximum of 10% of the total value of the delayed parts of the material.

SNGPL placed purchase order dated September 8, 2008 on M/s Emerson Process Management, Singapore through their local agent M/s Pearl Engineering (Pvt) Ltd., Karachi for supply of control valves at total cost of US $ 726,838 within the delivery period of 22-23 weeks after receipt of operative L/C. The L/C was established on September 15, 2008 and made operative on October 15, 2008. Thus, the entire consignment was required to be shipped up to March 17, 2009. However, the shipment was made on June 22, 2009. The LD charges for delayed shipment were worked out to Rs 6.741 million which were not recovered/adjusted.

The matter was reported to the management on April 12, 2010 and the Ministry on November 30, 2010. The management in its replies dated November 1, 2010 and January 3, 2011 stated that claim of LD Charges in case of purchase order No.NT.511/08 was lodged and supplier had made a representation, which was under examination however, performance bond guarantee had been extended till December 31, 2010. The reply was not convincing because the SNGPL had to recover the LD charges as per terms and conditions of contract whereas the matter was pending since June 2009.

The DAC in its meeting held on January 8, 2011 directed the management to expedite the decision against the representation of the supplier. No progress was reported till finalization of this report.

18.5.4.34 Loss due to delay in encashment of performance guarantees – Rs 4.167 million

As per section 18.2.3 of instructions to the bidders, in the event that an item has wrongly been supplied or short supplied or found not in conformity with specification, the supplier is required to replace the item and if bidder failed to replace the defective items the Company has right to encash the performance warranty bond. As per terms and conditions of guarantee the guarantee is available for payments, without recourse to the opener, against beneficiary's first written call to do so accompanied by a written statement certifying that the opener failed to comply with the terms and conditions of the order."

SNGPL placed nine supply orders on the firms in 2007-08. These suppliers failed to deliver the supplies as per terms and conditions of the agreements, resultantly LD claims of Rs 4.167 million were lodged on them but

they failed to deposit the same. The management also failed to adjust the amount due to expiry of bank guarantees amounting to Rs 4.700 million. This resulted in loss of Rs 4.167 million.

The matter was reported to the management on April 1, 2010 and the Ministry on November 30, 2010. The management in its replies dated November 1, 2010 and January 03, 2011 stated that the guarantees were sent for encashment before their expiry dates but suppliers served stay orders on December 19, 2009 before the expiry of the guarantees. The reply was not tenable as the stay orders were valid till January 2, 2010 but no action was taken by the management for its encashment after expiry of stay orders.

The DAC in its meeting held on January 7, 2011 directed the management to actively pursue the case in the court of law and provide a copy of stay orders to Audit immediately. No progress was reported till finalization of this report.

18.5.4.35 Irregular payment due to appointment of officials based on fake certificates / degrees – Rs 0.447 million

According to SNGPL recruitment procedure for recruitment of permanent staff members, the open competition through advertisement in the press was mandatory. As per Section 3 of the Removal from Service (Special Powers) Ordinance 2000, the employees of any organization may entail dismissal, removal, compulsory retirement from service, reduction to lower post or pay scale or imposition of any penalty including recovery of the pay received on the basis bogus results card / degree**.**

SNGPL appointed four employees on career term basis in 2008. Their degrees were referred to respective Boards/Universities for verification. The respective institutions declared their degrees as bogus, resultantly, SNGPL dismissed three officials and resignation of one official was accepted. However, till proving their degrees as bogus, the salaries of Rs 447,195 had already been paid to them. Had there been any mechanism in SNGPL for verification of the credentials before appointing them, the irregular payment could have been avoided.

The matter was reported to the management on April 9, 2010 and the Ministry on November 25, 2010. The management in its replies dated November 1, 2010 and January 3, 2011 stated that there was no policy in practice for recovery of pay and allowances from officials who got appointments on fake certificates. The reply was not tenable because the casual employees were

appointed as permanent employees without adopting advertisement for recruitments in the press. They were recruited without open competition and authentication of academic qualification.

DAC in its meeting held on January 7, 2011 directed the management to evolve a system of verification of credentials; irregular payment of Rs 447,195 be placed before the Board of Directors for appropriate action; and observed that instead of dismissal of Mr. Shahid Hussain, the resignation was accepted which was not in harmony to the rest of the cases. No progress was reported till finalization of this report.

18.5.4.36 Appointment of 360 subordinate staff without open merit

As per SNGPL Non-Executive Service Rules, 20% vacancies in Grade-I will be filled through open merit and 15% vacancies in Executive G-I be filled as direct employees from amongst the children serving in the Company as well as the children of only those ex-employees who died or retired after 1st day of January 1999. Rules of Service for Subordinate Staff provide 30 years as maximum age for recruitment from outside on open merit as against 37 years prescribed for employment of blood relations.

SNGPL made an advertisement on February 18, 2006 for filling 345 vacant jobs on open merit basis and 156,834 applications were received from all over Pakistan**.** Instead of finalizing the appointment through prescribed criteria, it was considered by the management that it would be difficult to scrutinize the said applications and if database was prepared for the said applications, it would cost Rs 2.5 million. SNGPL management again issued a new advertisement in newspapers and at Company's web site on November 15, 2007 by adding the conditions that:-

a) Applicant with proven gas industry related experience (Transmission and Distribution) of an organization with head count of 2,000 or above will be given preference;
b) The last date for submission of the applications was November 21, 2007 i.e. just one week after advertisement; and
c) Applicant to justify relevance of experience with the criteria notified.

In response to above advertisement, out of 8,500 applications, 2,500 candidates were shortlisted, written test was taken on December 24, 2007, and finally 360 candidates were selected. The note for the appointment of the positions submitted to the MD was approved on February 15, 2008 and all the

appointment letters were issued on the same date to the candidates already working in SNGPL. It indicateed that the management was in a hurry to compensate the favorite candidates, through limited competition by violating tailor made conditions. It deprived the induction of young blood genuine candidates in the Company. The persons employed on contract without fulfilling the codal formalities were taken on Company's strength on permanent basis. It was against the decisions taken by Supreme Court of Pakistan, which had taken cognizance of violation of transparency in appointments in different organizations including PIA, CAA etc. due to which the legal advisor of the Company also advised not to make internal advertisement. Management debared 156,834 applicant by subsequent advertising tailor made discriminatory conditions and pointed 360 employees mostly from the contract/casual labour, already working in SNGPL. Thus transprancy was violated in violation of the provisions of the constitution of Pakistan.

The management in its reply dated August 7, 2008 intimated that there was no irregularity as the appointments were made after advertisement. Audit was of the view that Although the appointments were made after advertisement but the same cannot be treated as on open merit as the applicants were restricted by addition of two conditions i.e. only those applicants were allowed to apply who already have proven gas industry related experience of an organization with head count of 2,000 or above. The open merit was further restricted by addition of the condition that applications received through post would not be entertained. Moreover, only a week time was given to the applicants. Thus, all the candidates already serving in SNGPL on contract were appointed and undue favour was extended to the departmental candidates and outside applicants having better experience and qualification were deprived only 05 candidates were appointed out of 2,031 outside applicants.

The matter was again brought to the notice of management on April 1, 2010 and the Ministry on November 30, 2010. The management in its replies dated November 1, 2010 and January 3, 2011 intimated that the para on the subject was settled in DAC meeting dated December 24, 2010. The reply was not tenable, as new facts had been brought to the notice of management, which had not been attended to.

DAC in its meeting held on January 7, 2011 directed the management to investigate the matter and intimate Audit about the outcome of investigation. No progress was reported till finalization of this report.

18.5.4.37 Doubtful payment of crop compensation on account of trees - Rs 8.581 million

As per clause 10 of Project Manual of SNGPL, all timber not used for construction purposes and all trees tops, tree trimming / slashing, branches, brushes, stumps and other such debris collected during Right of Way (ROW) clearing should be completely removed from the ROW and be disposed off in an appropriate manner either by stocking at proper place for further disposal or burnt to ashes. As per clause 111.3 of the HR Manual, any deliberate breach or non-observance of SNGPL rules and policies may constitute misconduct. Alternatively, lapses in the expected standards of reasonable behavior and conduct may also be considered as misconduct.

SNGPL paid compensation amounting to Rs 8.581 million under Project-09 for trees against Jobs No. 841-Kohat - Nowshera and No. 901-AB-29 Mian Channu–68.14 KM SMS Sahiwal. The documents regarding auction / sale of trees tops, tree trimming / slashing, branches, brushes, stumps and other such debris collected during ROW clearance was not produced for scrutiny and it was explained that all the trees were disposed off by the respective land owners after receipt of compensation payments from SNGPL. Since the compensation of all the trees had been paid, all treetops, trimming / slashing, branches were to be collected and disposed off in an appropriate manner as laid down in the Project Manual. No such action was taken by SNGPL due to which payments made to respective landowners were considered doubtful.

The matter was reported to management on July 22, 2010 and the Ministry on December 13, 2010. The management in its replies dated November 08, 2010 and January 7, 2011 intimated that the amount of compensation paid against uprooting of trees falling in the ROW did not cover the cost of trees and stock registers were not maintained as the trees were neither stocked nor disposed / sold. If these trees were not handed over to the farmers they would have stopped the construction activities for one excuse or the other, which was not affordable by the Company. The reply was not tenable as the vouchers contained the details of heavy payment because of trees whereas no tree was disposed off as per laid down procedure. Matter needed detailed enquiry at higher level to find out the facts. Moreover, amount pointed out by Audit relate to two jobs only, whereas thousands jobs were being executed by SNGPL and thus amount on this account would be in millions of rupees.

DAC meeting was held on January 8, 2011. The management apprised the DAC about practical ground reality of entering into area in the ownership of

private persons and just to have a right of way, they are being accommodated by paying on fixed specified rates. This helps the Company in speeding up the operation, as well as saving transportation and disposal cost. DAC directed the Company to amend their relevant clauses of respective Manuals accordingly. DAC also directed to place the matter before the BOD for appropriate decision and intimate to Audit. Progress in this regard was awaited till the finalization of this report.

18.5.4.38 i) Non-imposition of liquidated damages on M/s LMKR - Rs 1.506 million

ii) Non-redressal of Request for Proposal (RFP) in proposed Future Process Model (FPM)

As per clause 4 of the agreement dated August 18, 2008 entered with M/s LMKR, duration of the project was ten (10) months. The timeline shall start after 14 days of the effective date and this phase will be considered as the mobilization. As per clause 12.4, in case of breach of the term of this agreement or any delay on the part of LMKR to implement the contract within 10 months, SNGPL shall be entitled to recover 0.2% of the total value of the contract price for each day of delay by way of Liquidated Damages (LDs).

SNGPL entered into agreement with M/s LMKR on August 18, 2008 for Solution Design Activity (SDA) and re-engineering of Entrepreneur Resource Planning (ERP) system. As per clause 10, SNGPL agreed to pay Rs 13.426 million. Another contract for Business Process Re-Engineering (PBR) was signed by SNGPL management with M/s IBM International on February 26, 2009 for re-engineering of all business processes of SNGPL. Thus, agreement with M/s LMKR was a duplication of the same scope of work. M/s LMKR failed to complete the project in stipulated time of 10 months with further extensions up to October 20, 2008 and November 24, 2009. Therefore, the contract was required to be cancelled and liquidated damages @ 0.02% of total contract value for each delayed day from June 19, 2009 to December 31, 2010 of Rs 1.506 million (Rs.13,426,295 x 0.02% x 561 days) were to be charged but no action was taken in this regard.

The matter was reported to the management on April 30, 2010 and the Ministry on December 06, 2010. The management stated that the complete integration of the module remained outstanding due to delay in the implementation of payroll module. It was delayed by SNGPL due to CBA agreement of 2007-2009, which resulted in a number of changes in the system. The reply was not tenable as the project was to be completed within ten months

but it was on going up till December 31, 2010 in spite of certain deficiencies pointed out by the Ex-GM (Finance) presently working as Acting CIO.

The DAC meeting was held on January 8, 2011. The Committee directed the management to have third party evaluation carried out upon completion of the project, intimate progress and justify non-imposition of LD charges. No progress was reported till finalization of this report.

18.5.4.39 Loss due to non-recovery of risk and cost – Rs 16.830 million

In terms of clause-19.6 of the tender documents (General Terms), if the purchase order placed on a supplier or part thereof is cancelled, SNGPL shall be entitled to make purchase from other source at his risk and cost and the difference if any will be recovered from the supplier.

SNGPL placed two purchase orders for supply of steel line pipes of different sizes on M/s Indus Steel Pipes Limited, Karachi during 2006-07. The supplier failed to deliver full ordered quantity within the contractual period. The management cancelled the purchase order and purchased the remaining store at the risk and cost of the supplier on higher rates. The management did not lodge claims on the plea that the supplier had already been informed vide letter dated August 21, 2007 that claims regarding difference in cost would be recovered from them. This resulted in loss of Rs 16.830 million.

The matter was reported to the management on July 22, 2010 and the Ministry on November 24, 2010. The management in its replies dated November 1, 2010 and December 24, 2010 stated that the claims were under consideration and further action would be taken accordingly. The performance guarantees were valid up to December 31, 2010. The reply was not convincing as the matter related to the year 2006-07 but risk and cost amounting to Rs 16.830 million was not recovered.

The DAC in its meeting held on January 7, 2011 directed the management to provide the status of performance warranty bond which was being invoked on December 22, 2010 at the earliest. No progress was intimated till the finalization of this report.

18.5.4.40 i) Non-forfeiture of performance warrantee bond of M/s Sidat Hyder Murshad Associates (Pvt) Ltd. (SHMA) - Rs 0.650 million

ii) Non-implementation of LD clause on M/s IBM International – Rs 1.188 million

As per caluse-2 of Procurement Manual of SNGPL, the Company while engaging in procurements shall ensure that the procurements are conducted in a fair and transparent manner, the objective of procurement brings value for money to the Company and the procurement process is efficient and economical. As per clause-30 and 41 of SNGPL procurement rules the bidder was bound to deposit bid money @ 2% and 10% as performance warrantee bond in case of successful bidder. As per clause 6.4(h) of the agreement dated February 26, 2009, the total duration of the project was maximum of nine (9) months otherwise the Company was bound to pay Late Delivery Charges @ 1% of implementation fee for that milestone for each week of delay not exceeding 5% of the fee of total milestone value.

SNGPL floated a press advertisement on July 20, 2007 for execution of Business Process Re-engineering (BPR) contract. Four parties participated in the bidding process and three parties were declared technically responsive. M/s Sidat Hyder Murshad Associates (SHMA) was the lowest bidder with Rs 23.750 million, who furnished the bid bond for Rs. 0.650 million. The draft BPR agreement was sent to M/s SHMA and SNGPL insisted to maintain certain clauses that were deemed by M/s SHMA one sided and were likely to expose them to legal and financial risks e.g. indemnification from foreign co-partner and liquidated damages. Thus the bid of M/s SHMA after proposing new amendments was declared non-responsive. The remaining two firms i.e. M/s IBM and M/s Techlogix who have total points 86.42 and 85, were also non-conforming firms as they limited the process to 1,200 and 500 processes respectively. The management recommended the MD on July 9, 2008 that M/s IBM having the higher total score amongst the two, be asked to make their offer compliant. In case of their non-affirmative reply, the other bidder M/s Techlogix be approached for similar action. Finally, the contract was awarded to M/s IBM on February 26, 2009 for execution of Business Process Re-engineering (BPR).

The following deficiencies in the contract were noticed:-

i) the advertisement was not published on PPRA website as required under rule-12 of PP Rules 2004,
ii) SNGPL had awarded the contract to 2nd lowest party i.e. M/s IBM International after negotiation in violation of PP Rule-40;
iii) 1st lowest bidder had offered to re-engineer all process for all functional area both technical and non-technical to bring in efficiencies in its various business processes without any limitation of process whereas M/s IBM offered to review 1,200 process and M/s Techlogix offered to review only 500 process with the same cost,
iv) Draft contract agreement was to be sent to M/s SHMA after receipt of acceptance of letter of Intent and 10% performance warrantee bond, and if the bidder failed to finalize the contract as per terms laid down in the bidding documents, the bid money of Rs 0.650 million should had been forfeited;
v) the Business Process Re-engineering (BPR) was to be completed before the implementation of ERP plan so that the new proposed future business flows/processes could be incorporated/customized within the new ERP plan but this was not solved due to inordinate delay in the award of contract and further delay in finlization of work on the part of consultant;
vi) same type of contract was also awarded to M/s LMKR at the cost of Rs 13.426 million which meant that SNGPL was going to spend double on the same assignment i.e. "As-IS" "To-Be" and GAP analysis of processes;
vii) Work was badly delayed, therefore, SNGPL was reqired to claim liquidated damages of Rs 1.188 million (Rs 23.750 million x 5%).

The matter was brought to the notice of management on April 30, 2010 and the Ministry on December 6, 2010. Management in its reply dated January 3, 2011 intimated that M/s SHMA did not agree with terms and conditions finalized by SNGPL in the contract. M/s IBM withdrew the limitation for the number of processes. The LD charges, if any, would be calculated at time of final sign-off and would be recovered from the supplier's final settlement. The reply was not tenable as SNGPL suffered loss due to awarding contract to 2nd lowest bidder, duplication of work, delay in finalization of BPR and non- imposition of LD charges.

The DAC in its meeting held on January 8, 2011 directed the management to intimate logical sequencing of the activity and provide justification for delay in the project implementation and intimate completion of the project within two weeks. No progress was reported till finalization of this report.

18.5.4.41 Non-recording of Cases under Process (CUP) in register

As per clause 28 (h) of the Sales Manual of SNGPL, each application shall be registered in the Case under Process (CUP) register, which shall be maintained for the purpose of tracking and monitoring the status of each application. In Regional / Sub Offices where new applications receipt process has been computerized, a hard copy of the daily activity report shall be maintained as CUP number register. As per clause 28(k) of the Manual, no sales representative / supervisor / superintendent was authorized to undertake survey of any premises, at his own unless and till so assigned in writing by the concerned executive. Non-compliance on the part of any Sales Representative / Supervisor / Superintendent shall be treated a willful act misconduct.

As per monthly progress report of SNGPL Sales Department, 480,572 applications were pending as on June 30, 2009. The hard / soft copy of the cases under process (CUP) register was demanded by the Audit. The staff of Regional Office, Lahore, stated that the same was available on server placed at SNGPL (HO), Lahore and they have no access to that server. When the same was demanded from SNGPL (HO), the management provided a report, which contained 171,712 applications against 480,572 applications shown in the monthly report as on June 30, 2009. Audit was of the view that it was a common complaint in the regions that SNGPL staff did not observe the seniority and they issued demand notices on their own sweet will without keeping in view the seniority of the applicants.

The matter was reported to the management on July 22, 2010 and the Ministry on December 6, 2011. The management in its reply dated January 3, 2011 intimated that in 2004 a Sales Information System (SIS) was launched in Lahore Area (Gulberg) only. In 2007, it was expanded to main office Multan and certain other regional offices. Till June 30, 2009, it was limited to 08 regional offices only. Its operation in the sub areas was not integrated and in remote areas, applications were still being received manually. As regards, provision of connection on out of turn basis, 50 connections were being provided on MNA's priority in newly commissioned areas to capitalize the Company's assets. 25% connections in such areas are provided on priority i.e. within 06 months, which is covered under Company's policy issued vide letter dated June 24, 2009. Customer Care & Billing (CC&B) was implemented in December 2009. Due to non-availability of infrastructure and other problems, applications were still being received manually at a number of locations and registered in CC&B at the time of issuance of demand notice. The reply was not tenable as the SNGPL management

had not observed the priority in the respective regions and all the connections were being provided on pick and choose basis as 763 connections were provided on the same day, 8,387 within 15 days, 5,791 within 30 days and 15,816 within 90 days and 41,307; 34,827; 80,097 and 15,481 applications were pending prior to 2007-08, from 2007-08, 2008-09 and 2009-10 respectively but the consumers were not being entertained. Moreover, the relevant record was not produced to audit on demand, the whole case needed detailed investigation. Moreover, the dates up till which the demand notices were being issued may be communicated to masses through local cable network and print media to educate the masses that up till which period the connections were being entertained.

In the DAC meeting held on January 07, 2011 the management apprised that the CUP record was being computerized which would take further five to six months. The DAC directed to expedite the automation process and regulate the priorities after automation. Further progress was awaited till finalization of this report.

18.5.4.42 Supply of material without pre-shipment inspection – US $ 20,037.97 equivalent to Pak - Rs 1.583 million

As per clause 7 (a) of terms and conditions of the purchase order, the pre-shipment inspection was to be carried out through a third party inspector appointed by SNGPL at works of the manufacturer. As per clause-15, if material is found faulty, short or defective, the supplier apart from replacing the store short- supplied, faulty or defective material or paying the full cost of replacement would also pay extra custom duty and sales tax etc. paid by SNGPL on that account.

SNGPL placed purchase order on M/s Interman Trading LLC Dubai, UAE through their local agent M/s MK International, Islamabad on January 1, 2009 for the supply of 27 items of Steel Flanges at FOB value of US $ 20,037.97. The delivery as per purchase order was due on May 31, 2009. The supplier vide letter dated June 27, 2009 advised SNGPL that their manufacturer had shipped the flanges from Korea without preshipment and expected to arrive at Dubai Port on July 25, 2009 and that the inspection be carried out there. SNGPL did not agree and asked the supplier to follow the terms and condition of PO and get the material inspected at manufacturer's works in Korea. M/s MK International vide letter dated December 23, 2009 intimated that the material had been shipped from Dubai Port to Karachi Port and requested to inspect the material at job site. This was also not agreed to by SNGPL management. The consignment arrived at Karachi port without pre-shipment inspection. When the SNGPL management advised the bank to encash the performance / warranty bond guarantee vide letter

dated January 1, 2010, M/s Habib Metropolitan Bank Ltd. vide their letter dated January 6, 2010 informed that M/s MK International had got stay order against the encashment of their bank guarantee of Rs.160,000. The said performance warranty was valid up to April 20, 2010.

M/s MK International submitted authority letters of different manufacturers against tender enquiry No.SNT-1454/08, SNT-1466/08, SN-2521/08 and SN-2527/08. The SNGPL management checked / enquired directly from the manufacturers, and the authority / warranty letters were declared fake.

The matter was reported to the management on April 1, 2010 and the Ministry on November 30, 2010. The management in its reply dated January 3, 2011 intimated that the bank guarantee was sent for encashment before its expiry due to the reason that supplier failed to honour the contractual obligations. However, the supplier obtained the stay order on December 12, 2009 before expiry of the bank guarantee and that last date of hearing was November 10, 2010. The reply was not tenable as the shipment was received in July 2009 whereas, the stay order was obtained on December 12, 2009 hence, the supplier was benefited by delayed action.

The DAC meeting held on January 7, 2011. The management informed about improvement in the system of verification of vendors. The DAC directed the management to improve the system of verification of suppliers' credentials before awarding the tender to avoid any losses in future and to actively pursue the instant case in the Court. No progress was reported till finalization of this report.

18.5.4.43 Non-transparent procurement of Store – Rs 1.463 million involving loss due to purchase at higher rates – Rs 0.140 million.

As per rule 13 of Public Procurement Rules- 2004, the response time for receipt of bids shall not be less than 15 days for national competitive bidding and 30 days for international competitive bidding from the date of publication of advertisement or notice. Clause-38 of PPR-2004 provides that the bidder with the lowest evaluated bid, if not in conflict with other law, rules, regulation or policy of the Federal Government be awarded the procurement contract within the original or extended period of bid validity.

SNGPL, invited bids for the procurement of 50,000 G.I. Barrel Nipples through press and tender enquiry on December 5, 2008 with opening date of December 24, 2008. M/s Universal Engineering Corporation, Lahore offered rate Rs 25 each (3rd lowest bid) including sales tax and special excise duty which was

approved and Purchase Order No.HO/L/002/2009 dated February 25, 2009 was placed on them. Thus sufficient time for obtaining competitive rates was not given to the interested bidders. This action of the management regarding invitation of bids without given minimum time of 15 days was against the PPRs 2004; hence the entire expenditure of Rs 1,462,500 million (Rs 1,250,000 + 12,500 + 200,000) including excise duty and sales tax of was incurred in violation of PPRs.

Furthermore, M/s SA Ismail & Co. Lahore quoted the lowest rate of Rs 22.20 per Nipple but the same was rejected on the plea that they submitted bid bond short by Rs 9,200. The Management was required to ask the bidder to deposit the short amount but this was not done. M/s Ahmad Enterprises, Lahore quoted the 2nd lowest rate Rs 23.95 but the same was also rejected without quoting any reasons. The management accepted the higher rates as last purchase rate of the same store was Rs 12.50 per unit during October 2006. The management placed supply order on M/s Universal Engineering Corporation, the 3rd lowest bidder which resulted into loss of Rs 140,000 (25.00 -22.20 = 2.80 x 50,000 nipples) to the Company.

The matter was reported the management on July 22, 2010 and the Ministry on November 8, 2010. The management in its reply dated January 3, 2011 intimated that in order to meet urgency of the requirement of G.I Barrel Nipples, tender enquiry No. LE-100/08 was press advertised on December 5, 2008 and then opened on December 12, 2008. Regarding minimum 15 days response time, it was stated that PP rule No.13(1) permits that no time limit shall be applicable in case of emergency. The bid bond of lowest priced bidder i.e. M/s. SA Ismail & Company was exorbitantly short by 41.44%, which was not acceptable as per terms and conditions of the tender enquiry. The bid of 2nd lowest bidder M/s. Ahmed Enterprises was rejected as the samples provided by the bidder had hardness lesser than specified in technical specification sheet. Therefore, an order was placed on M/s. Universal Engineering Corporation as lowest evaluated bidder as per terms and conditions of the tender enquiry. Audit was of the view that sufficient time was not given to the bidders by declaring the requirement as emergent whereas the purchase order was placed after three months.

The DAC meeting held on January 7, 2011. The committee observed that excessive time was taken in processing of procurement and directed to justify the purchase made on emergency basis. No further progress was reported till the finalization of this report.

18.5.4.44 Loss due to non-finalization of liquidated damages cases – Rs 5.864 million

In terms of clause-11.3 of the tender documents (General Terms), whenever Late Delivery Charges become payable, SNGPL shall quantify the same and serve a written notice upon the supplier requiring immediate payment thereof. If the supplier fails to remit payment within 15 days of receipt of such notice, SNGPL will become entitled to recover the same forthwith by calling upon the Performance Bond Guarantee. Any with-drawals by way of Late Delivery Charges out of the performance bond guarantee will be made good by the supplier within 60 days of receipt for the above referred notice by way of amendment to the Performance Bond Guarantee failing which the remaining portion of this guarantee would become encashable in favour of the Buyer on account of any such failure.

SNGPL imposed liquidated damages amounting to Rs 5.864 million on M/s Crescent Steel and Allied Products Limited, Karachi for delayed supply of steel line pipes under three purchase orders during 2004-05 to 2006-07. Timely action for recovery of liquidated damages or encashment of bank guarantees of the defaulting supplier was not initiated within the validity period of bank guarantees. This resulted in loss of Rs 5.864 million.

The matter was reported to the management on July 22, 2010 and the Ministry on November 24, 2010. The management replied on November 1, 2010 and December 24, 2010 that the party had requested to waive off LD charges because of non-provision of HR coil by Pakistan Steel Mills and delay in third party inspection. The bank guarantees were extended up to December 18, 2010.

The DAC in its meeting held on January 7, 2011 directed the Company to decide the matter as early as possible and report the status to Audit. No progress was received till finalization of this report.

18.5.4.45 Loss due to non-encashment of bank guarantees of defaulting supplier - Rs 1.729 million

In terms of clause 4(a) of the tender documents (General Terms), if the materials have not been shipped as per stipulation in the contract, SNGPL shall be entitled to recover 5 % of the total value of the contract price of the delayed part of the material for each week of delay by way of liquidated damages subject to a maximum of 10% of the total value of the delayed parts of the material.

SNGPL, Lahore placed purchase order No.P9-111/07 dated October 21, 2007 on M/s China Engineering, Islamabad for supply of 45 Nos. Horizontal Boring Augers at total cost of US$ 75,075 within the delivery period of 8-10 weeks after receipt of operative L/C. As per L/C established on January 25, 2008 the shipment of material was due on April 30, 2008. The supplier did not deliver the material within the stipulated period. The management imposed liquidated damages amounting to US$ 7,507.50 equal to Pak Rs 470,000 for delayed shipment of material vide letter dated March 26, 2009. Timely action for recovery/adjustment of Rs 470,000 was not initiated and the bank guarantee of Rs 470,000 expired on February 25, 2010. Besides, an amount of Rs 1.259 million on account of LD charges was recoverable from the supplier in other four purchase orders. This resulted in loss of Rs 1.729 million (Rs.470,000+Rs.1,258,662).

The matter was reported to the management on July 22, 2010. The management on November 1, 2010 and December 24, 2010 replied that performance bonds were sent for encashment before expiry but supplier obtained stay orders and now matter was subjudice. The reply was not tenable as the claim was lodged on March 03, 2009 whereas the supplier obtained stay order on December 19, 2009 *i.e.* after six months, which was sufficient time to encash the performance bond.

DAC in its meeting held on January 7, 2011 directed the management to provide record of recovery of Rs 240,470, status of rest of three cases in the Court along with the copy of stay order. No progress was received till finalization of this report.

18.5.4.46 Non-recovery of un-spent advance rent - Rs 2.529 million

SNGPL entered into agreements with M/s PAAF Associate, Lahore dated July 15, 2009 and with Mrs. Monima Khan dated July 22, 2009 for hiring of buildings for office use. As per clause 20 of the agreements, both the parties were bound to serve a prior notice in writing for vacation of premises at least 60 days before the expiry of rent agreements or pay 60 days rent in lieu of notice period.

I) SNGPL executed an agreement with M/s PAAF Associate, Lahore in July 15, 2003 for hiring of 9,314 Sq. ft. of 4th and 5th floor of PAAF building at 7-Kashmir Road, Lahore, which was extended / renewed periodically up till July 15, 2009. Final extension was valid up till July 14, 2010 for which an advance rent of Rs 5,364,864 for one year was paid on August 28, 2009. SNGPL served a notice for vacation of the hired premises on December 24,

2009 w.e.f. February 23, 2010. SNGPL vacated the building when there was an unspent advance of Rs 2,169,649 from February 24, 2010 to July 14, 2010.

II) SNGPL executed an agreement with Mrs. Monima Khan for hiring of 2,033 sq.ft. at 1st floor of Ajmal House at 4-Egerton Road, Lahore, which was finally extended for three years up till June 30, 2012 for which an advance rent for one year of Rs 1,014,144 was paid on August 11, 2009. SNGPL issued notice for vacation of the hired premises on December 24, 2009 w.e.f. February 21, 2010, thus there was an un-spent advance rent of Rs 359,176 from February 22, 2010 to June 30, 2010 (128 days).

This resulted in non–recovery of unspent advance rent amounting to Rs 2,528,825 (I+II above) from the owners of the buildings.

The matter was reported to the management on July 22, 2010 and to Ministry on November 30, 2010. The management in its replies dated November 1, 2010 and January 03, 2011 stated that recovery suit against landlady of hired premises of Ajmal House had been filed in the court of Senior Civil Judge, Lahore. No reply was, however, given in case of recovery of un-spent advance rent from owners of PAAF building.

DAC in its meeting held on January 7, 2010 directed the management to recover the unspent amount as pointed out by audit. No progress was reported till the finalization of this report.

18.5.4.47 Non-imposition of penalty on the contractor – Rs 1.387 million

SNGPL entered into agreement with M/s KAP Associate for recovery of outstanding amount from the defaulters, the minimum target of recovery @ 17% was Rs 110.961 million, out of amount outsourced of Rs 652.709 million and in case of failure to achieve the recovery target the Company was bound to pay a penalty of 2% of amount less recovered.

In SNGPL, Lahore Region, M/s KAP Associates (Pvt) Ltd., could recover only Rs 41.630 million from August 2007 to September 2008 in its 1st year's operation and Rs 69.331 million were less recovered by the contractor and the SNGPL did not impose penalty of Rs 1.387 million (2% x Rs 69.331 million).

The matter was reported to the management on July 22, 2010 and the Ministry on November 25, 2010. The management in its reply dated December

24, 2010 intimated that the contract has been terminated due to his poor performance. As regard recovery of penalty, SNGPL at the inception of agreement has obtained Rs 1.6 million from the contractor on account of performance warranty which is still with SNGPL. Therefore, the amount of penalty (Rs.1.387 million) is well covered.

The DAC meeting was held on January 8, 2011. The management informed that at the inception of agreement, Company had obtained Rs 1.6 million from the contractor because of performance warranty, which was still with the Company. DAC directed the management to get the documents verified from the Audit within one month. No documents were furnished to Audit for verification till finalization of this report.

18.5.4.48 Loss due to purchase of Customer Care and Billing (CC&B) System at higher rates - Rs 183.922 million

As per caluse-2 of Procurement Manual of SNGPL, the Company while engaging in procurements shall ensure that the procurements are conducted in a fair and transparent manner, the objective of procurement brings value for money to the Company and the procurement process is efficient and economical.

SNGPL planned to automate its operation in April 2004. An amount of Rs 64.91 million was utilized in Phase-I of the project for IT networks infrastructure. In Phase-II, to meet with OGRA requirements of Unified System of Accounts of SSGCL and SNGPL, an Oracle Financials E-Business suite was implemented in the SNGPL Head Office with estimated project cost of Rs 617 million. The management included an Oracle / SPL CC&B System in this phase. The agenda item for the approval of the project was submitted in 208th and 209th Finance Committee meetings held on June 21, 2007 and August 8, 2007 respectively. Two members of Finance Committee remarked that cost of Oracle Modules quoted was much higher, since the Oracle Modules were being already used by SSGCL, which cost only Rs 105 million against Rs 279.384 million of SNGPL. The item was again discussed in Finance Committee meeting held on August 18, 2007. The Committee advised the Managing Director, SNGPL to negotiate with the respective vendors as SSGCL had implemented the same at the cost of Rs 143 million against Rs 361.900 million being incurred by SNGPL. Finally, the BoD in its 341th meeting held on February 29, 2008 accorded approval for the total project cost of CC&B project including HR, licensing, implementation, training, hardware and allied third party software at a total cost of US $ 4,586,058 equal to Rs 288.922 million. Thus, the SNGPL has to suffer a

loss of Rs 183.922 million (288.922 – 105.000 million), in purchase from M/s Oracle Corporation, USA as proprietary item.

The matter was reported to the management on July 22, 2010 and the Ministry on November 30, 2010. The management in its reply dated January 7, 2011 intimated that comparison can only be performed if the items are comparable; SNGPL availed maximum discount from the vendor; and the slight higher rates were due to inflation in two years. The reply was not tenable as the SNGPL purchased CC&B as a package on proprietary basis and not on per consumer cost basis. The number of consumers in SNGPL was more by 1.5 million than SSGCL and the procurement on this base would have yielded more economical price.

In DAC meeting held on January 8, 2011, the management informed that the CC&B license was on per consumer cost basis. Audit informed the Committee that CC&B module was purchased on proprietary / package basis, which caused excess payment. DAC directed to provide the minutes of meetings of Finance Committee whereby rates were negotiated / reduced. No further progress was reported till the finalization of this report.

18.6 Oil and Gas Development Company Limited

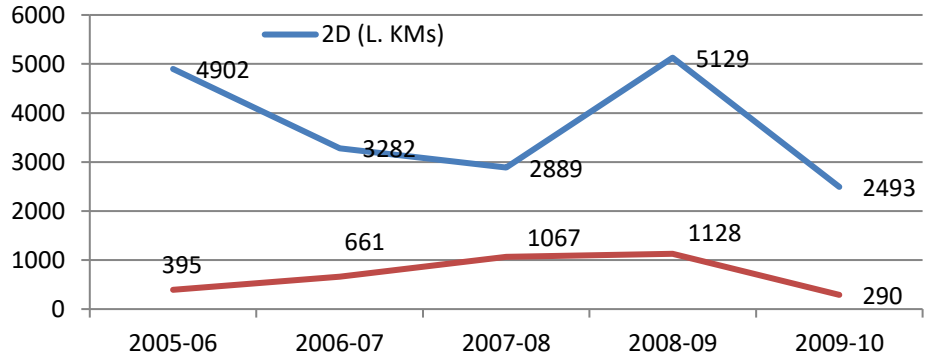
18.6.1 Introduction

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 became the first Pakistani Exploration and Production (E and P) Company listed on London Stock Exchange. In addition, Government of Pakistan also divested 0.50% of the total shares to the public in February 2007. After transfer of 10.2% GoP shares to OGDCL Employees Empowerment Trust under Benazir Employees Stock Option Scheme (BESOS) the GoP's shareholding in the Company reduced to 74.82% from 85.02% w.e.f. August 14, 2009.

18.6.1.1 Exploration and Development

Activity	Unit	2009-10	% Inc/ (Dec)	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07	% Inc/ (Dec)	2005-06
Seismic Survey – 2D	L.Km	2,493	(51)	5,129	78	2,889	(12)	3,282	(33)	4,902
Seismic Survey – 3D	Sq. Km	290	(74)	1,128	6	1,067	61	661	67	395
Exploratory and Development Wells Spudded	Numbers	26	(13)	30	(3)	31	(24)	41	37	30
Oil and Gas Discoveries	Numbers	6	200	2	(60)	5	(50)	10	100	5

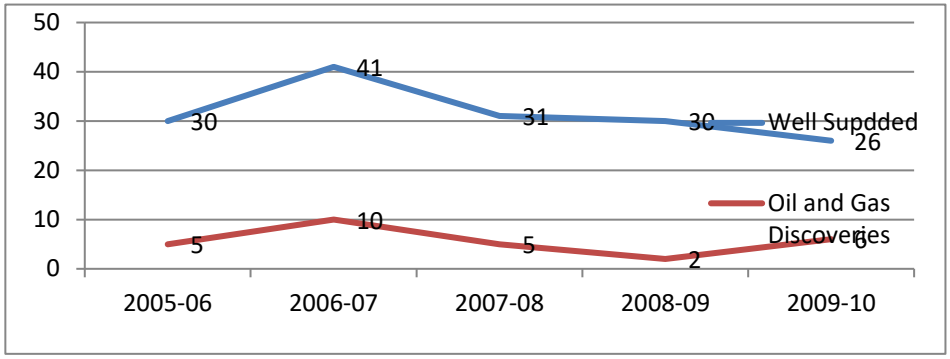
Seismic Survey – 2D and 3D



OGDCL's portfolio consisted of 48 exploration licenses. The Company was operating in 48 exploration blocks (22 blocks with 100% share and 18 blocks as operated Joint Ventures and 08 non-operated joint ventures, including 3 offshore blocks covering an area of 98,332.19 sq.km. The Company completed the survey of 2,493 L. Km of 2D and 290 Sq. Km 3D survey in 2009-10 against 5,129 L. Km and 1,128 Sq. Km in 2008-09. The drastic decrease by 51% and 74% in the area surveyed shows that seismic crews were not properly utilized. If the Company continues the present pace for completion of survey then it may take more than a century to compete the survey of 144,309 Sq. Km of 48 concessions acquired since 1989 onward. The reasons for which the survey of 33 exploration licenses acquired prior to 2006 could not be completed may be explained along with the details of area surveyed in each block of all 48 blocks since its acquisition.

18.6.1.2 The Company acquired four new exploration blocks during the year 2009-10 whereas three exploration licenses namely Thatta, Thatta East and Khairanwala were relinquished/surrendered. The reasons for surrendering of these three blocks need to be explained.

18.6.1.3 Wells Spudded / Oil and Gas Discoveries



The Company spudded 158 Exploratory and Development wells during the last five years from 2005-06 to 2009-10, whereas only 28 discoveries were made during this period, thus the success rate was only 17.72%. However, the Company acquired the development / mining leases of 09 wells, which was 32% of the total discoveries. It means that the Company was showing maximum number of wells spudded instead of giving priority only to those wells for which it has higher assurance of discoveries. Moreover, the less development leases during the last five years shows that out of 28 wells discovered only 09 were successful and remaining were either uneconomical or could not be developed due to some flaws in internal management system. The position needs to be elucidated.

Development Projects

18.6.1.4 Qadirpur Compression Project

The Company started the project to arrest the natural decline in the Qadirpur gas field. The installation of 14 reciprocating compressors was planned along with relocation of three more compressors from Pirkoh gas field. The planned date of installation / commissioning was June 2010. After commissioning of compression system, the daily production was to increase to 650 MMcfd. This project was to play an important role in reduction of gas shortage but it could not be completed up to December 31, 2010. Delay in initiating and completion of the project needs clarification.

18.6.1.5 Tando Allah Yar Project

Presently seven producing wells had been drilled at Tando Allah Yar (TAY). The project involved installation of surface facilities adjacent to the Kunnar Field, including a 25 km trunk line from TAY to the Kunnar Field and 30 km of gas transmission line from Kunnar to the SSGCL main line at Hyderabad as well as a liquid separation unit, and oil stabilization unit, an amine unit and a dehydration unit. Upon completion, project production was estimated to be 28 MMcfd gas, 2,500 bbl per day oil and 85 M. ton per day LPG. The project was approved in 74th BOD meeting held on April 10, 2006 at the cost of Rs 3,265 million. After evaluation of bids, letter of intent (LOI) dated April 19, 2006 was issued to M/s Petrosin Consortium. The project was to be completed within 12 months. OGDCL failed to enter into contract with M/s Petrosin, the lowest bidder. Due to inordinate delay by OGDCL management the Company not only has to sustain the production loss in addition to cost overrun and additional litigation expenses as M/s Petrosin filed a writ petition in the Supreme Court of Pakistan regarding non-execution of the contract after issuance of LOI and acceptance of performance bond amounting to Rs 325.000 million equal to 10% of contract value. Now the Company has gone for new press advertisement on July 12, 2010. The bid submission date was August 30, 2010 and the expected date of completion of project is May 2012. Due to delay in completion of project since 2006 on one or other reasons, the Company has to suffer a loss of production as detailed here under:

- 16,060,000 Barrels per annum of Condensate Oil
- 103,600 MMcfd gas per annum
- 141,255 M. tons LPG per annum

The inordinate delay in completion of the project may be justified.

18.6.1.6 Sinjhoro Development Project

OGDCL decided that Sinjhoro well fluids be processed at Bobi Oil Complex, which is the most optimal and cost effective option. The project would enhance OGDCL production capacity by 2,940 Barrels per day Oil, 25 MMcfd gas and 224 M. tons per day LPG. The project was approved in 74th BOD

meeting held on April 10, 2006 at the cost of Rs 5,528 million and letter of intent (LOI) dated April 19, 2006 was issued to M/s Petrosin Consortium. The project was to be completed within 12 months. In spite of issuance of LOI and receipt of performance bond and willingness of the contractor to start the work, the management of OGDCL failed to enter into contract with M/s Petrosin, the lowest bidder till August, 2006. The matter was again presented to the BOD in its 77th meeting held on August 15, 2006 on plea that the required procedural formalities were not fulfilled by the Ex-MD. Now the Company has decided to develop the field on its own by relocating Dhodak plant to Sinjhoro, and the project is expected to be completed by June 2011. The inordinate delay in the finalization of project was causing annual production loss as detailed hereunder:

- 1,073,100 Barrels oil
- 9,125 MMcfd gas
- 81,760 M. ton LPG

The inordinate delay in completion of the project needs to be justified.

18.6.1.7 Dakhni Expansion Project

The Dakhni gas processing facility was commissioned in 1989 with a designed capacity of 30 MMcf per day of sour feed gas. The project for expansion of Dakhni Project was approved by ECNEC in February 2002 at a total cost of Rs 1,056 million. The existing facilities were to be modified with the installation of new units, including a sulphur recovery unit. The project was to be completed in 4 years i.e. 2006. The management of OGDCL could not start the project till January 2006 and a revised project cost of Rs 1,803 million was submitted in BOD meeting held in January 2006. It was resolved in 77th BOD meeting held on August 15, 2006 that the present process of award of contract for procurement and setting up Sulphur Recovery Unit at Dakhni to M/s SIIRTEC NIGI, Italy be annulled and fresh process be expeditiously started for the award of contract.

As per original plan, the project was to be completed up to February 2006 whereas new contract for supply of Sulphur Recovery Unit (SRU) was signed in May 2008, SRU was received at site in February 2010 but the Refrigeration

Package, and hiring of services for procurement, construction and commissioning contract for installation / erection of SRU was under process. The new expected date of completion was October 2011. The inordinate delay in completion of the project may be justified.

18.6.1.8 Due to inordinate delay in the completion of the projects, the country has to sustain huge annual production loss e.g. condensate 17,395,900 barrels, 117,105 MMcfd gas, 227,395 M. ton LPG and 29,200 M. ton Sulphur as detailed hereunder:-

			Annual Production Losses			
Sr. #	**Name of Project**	**Original expected completion date of Project**	**Oil / Condensate (Barrels)**	**Gas (MMcf)**	**LPG (M. ton)**	**Sulphur (M. ton)**
1	Tando Allah Yar Project	April, 2007	16,060,000	9,125	81,760	
2	Sinjhoro Development Project	April, 2007	1,073,100	103,600	141,255	
3	Dakhni Expansion Project	February, 2006	262,800	4,380	4,380	29,200
	Total		**17,395,900**	**117,105**	**227,395**	**29,200**

The inordinate delay in completion of above three projects needs to be explained with full facts and figures.

18.6.1.9 The product wise production and sales of the Company during the year 2009-10 as compared to the previous years was as under:-

Production

Name of Product	Unit	2009-10	2008-09	2007-08	2006-07	2005-06
Crude Oil	Thousands Barrel	13,897	14,972	15,897	15,149	14,277
Gas	MMcf	356,240	365,365	356,240	345,655	336,059
Liquefied petroleum gas (LPG)	M.ton	73,730	79,570	123,735	140,890	128,654
White petroleum products	Barrel	N.A	N.A	N.A	N.A	959,000
Sulphur	M.ton	25,550	23,360	26,280	24,090	21,600

The above table showed that the production of crude oil decreased from 15,897,000 barrels in 2007-08 to 13,897,000 barrels in 2009-10. The production of gas increased from 336,059 MMcf in 2005-06 to 365,365 MMcf in 2008-09 and again decreased to 356,240 MMcf in 2009-10. LPG production decreased to 73,730 M. ton in 2009-10 from 140,890 M. ton in 2006-07.

Similarly, production of Sulphur decreased from 26,280 M. ton in 2007-08 to 25,550 M. ton in 2009-10, which needs justification.

18.6.1.10 Sales

Name of Product	Unit	2009-10	2008-09	2007-08	2006-07	2005-06
Crude Oil	Thousands Barrel	13,343	14,438	15,037	13,930	12,956
Gas	MMcf	354,327	364,036	358,868	344,032	344,164
Liquefied petroleum gas (LPG)	M. ton	73,881	79,145	125,482	139,480	128,654
White petroleum products	Thousands Barrel	20	25	29	17	22
Sulphur	M.ton	64	148	547	895	959

The above table showed decrease in sale of crude oil, gas, LPG, white petroleum products and Sulphur by 10.26%, 1.27%, 41.12%, 31.03% and 88.30% respectively during 2009-10 as compared to the year 2007-08.

18.6.2 Comments on Audited Accounts

18.6.2.1 The financial results of the Company for the year 2009-10 as compared to the previous years are tabulated below:

(Rs in million)

	2009-10	% Inc/ (Dec)	2008-09	% Inc/ (Dec)	2007-08
Sales	**142,571.863**	**9**	**130,829.579**	**4**	**125,445.674**
Royalty	16,728.843	10	15,155.667	(12)	17,262.493
Operating expenses	23,727.818	5	22,673.893	20	18,882.365
Transportation charges	1,492.267	(2)	1,522.489	3	1,472.615
Gross profit	**100,622.935**	**10**	**91,477.530**	**4**	**87,828.201**
Exploration and Prospecting expenditure	7,902.370	6	7,459.560	13	6,612.836
General and admn. expenses	1,598.161	20	1,332.982	7	1,244.030
Finance cost	1,273.312	37	926.027	74	531.599
WPPF	4,660.671	9	4,259.364	(3)	4,387.411
Share of profit in associate-net of taxation	64.118	12	57.503	44	40.000
Provision for impairment loss	-	-	-	-	320.000
Operating profit	**85,252.539**	**10**	**77,557.100**	**3**	**75,052.125**
Other income	3,300.214	(2)	3,370.823	(59)	8,308.809
Net profit before tax	**88,552.753**	**9**	**80,927.923**	**(3)**	**83,360.809**
Provision for tax	29,375.628	16	25,388.282	(25)	33,747.216
Net profit after tax	**59,177.125**	**7**	**55,539.641**	**12**	**49,613.593**
Earnings per share (Rs)	**13.76**	**7**	**12.91**	**25**	**10.31**

Source : Annual Audited Accounts

The operating expenses included Rs 132.734 million under the head charges related to minimum supply of gas – liquidated damages in 2009-10, which were Rs 4.228 million in 2008-09, thus there was an increase by 3,039% which needs justification for entering into such commitments without assessing the ground circumstances.

18.6.2.2 The gross profit ratio of the Company showed slight improvement over the period i.e from 69.60 in 2005-06 to 70.57 in 2009-10. The improvement was due to increase in prices of crude oil, gas and LPG as quantitative sales decreased over the period. Had the prices remained constant at previous years' level the profit would have been decreased by Rs 11.710 billion as worked out here under:-

Product	**Unit of measurement**	**2009-10**	**2008-09**	**Cost effect (Rs in millions)**
Crude Oil	Rs per Barrel	5,117	4,630	6,498.041
Gas	Rs per MCF	186.47	174.78	4,142.083
LPG	Rs per M. ton	51,415	36,935	1,069.797
				11,709.921

18.6.2.3 The return on capital employed (ROCE) decreased from 47% in 2008-09 to 42% in 2009-10. Similarly, the return on assets (ROA) / investment (ROI) also decreased from 34% in 2008-09 to 29% in 2009-10, which indicates that the management failed to control the expenditure properly, as the ROCE and ROA / ROI was on decreasing trend in spite of extraordinary hike in prices of products, which needs clarification.

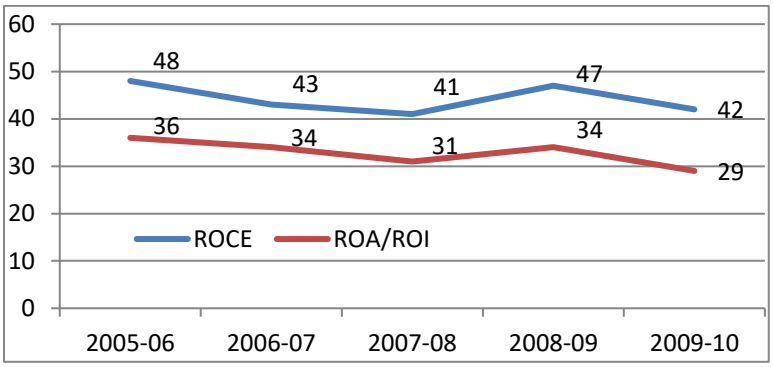
Return on Capital Employed

2009-10	**2008-09**	**2007-08**	**2006-07**	**2005-06**
42%	47%	41%	43	48

Return on Assets (RoA) / Return on Investment (RoI)

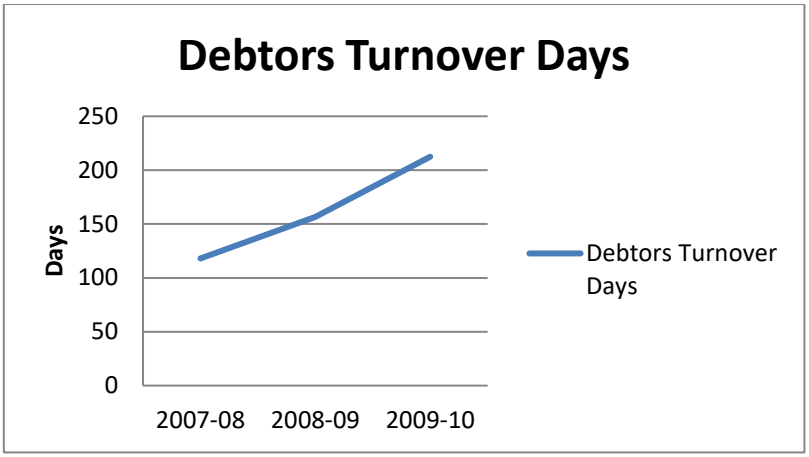
2009-10	**2008-09**	**2007-08**	**2006-07**	**2005-06**
29%	34%	31%	34%	36%

Graph for Return on Capital Employed (ROCE) / Return on Assets (RoA) / Return on Investment (RoI)



18.6.2.4 Provision for doubtful debts amounted to Rs 196.117 million as on June 30, 2010, which was Rs 113.309 million as on June 30, 2009. The increase of 73% (Rs 82.808 million) in the provision of doubtful debts shows the ineffective credit policy. Trade debts increased by 47% to Rs 82,992.291 million as on June 30, 2010 as against Rs 56,140.092 million as on June 30, 2009. The Company also failed to get its dues cleared under the circular debt in spite of fact that a high-level committee under the Chairmanship of Secretary Finance was formed in this regard to settle the issue. The credit policy needs to be reviewed to secure the interest of the Company.

18.6.2.5 Debtor turnover increased from 118 days in 2007-08 to 212 days in 2009-10, which was alarming and cast doubts on recoverability of debts. The slow recoverability of debts would in turn, increase in finance cost, as the Company would have to borrow funds in order to meet its expenses. Finance cost increased from Rs 926.027 million in 2008-09 to Rs 1,273.312 million in 2009-10, which may be justified.



18.6.2.6 Provision for slow moving and obsolete stores increased from Rs 871.030 million as on June 30, 2008 to Rs 1,122.898 million as on June 30, 2009 and Rs 1,537.567 million as on June 30, 2010. The increase in the provision shows defective procurement policy, which needs to be re-examined.

Fixed assets amounted to Rs 108,433.851 million as on June 30, 2010, which were only 47.38% of total assets whereas, the current assets excluding stores and spares, mainly comprised of cash or cash equivalents of Rs 105,906.522 million being 46.27% of total assets. The situation indicates that the management failed to invest its funds in diversifying its business i.e. development and exploration of oil and gas wells and products as most of its funds were lying with financial institutions. The un-appropriated profit of the Company also reached to Rs 110,523.486 million as on June 30, 2010. The need for chalking out a strategy to span out for development in oil and gas sector in Pakistan as well as in other countries stressed upon the management.

18.6.3 COMPLIANCE OF PAC DIRECTIVES

Detail of Paras in which PAC Directives were not complied with:

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1989-90	11	11	--	100
2.	1990-91	10	10	--	100
3.	1991-92	09	07	02	78
4.	1992-93	12	11	01	92

5.	1994-95	19	01	18	06
6.	1995-96	13	08	05	62
7.	1996-97	07	04	03	57
8.	1997-98	07	05	02	71
9.	1999-00	11	05	06	45
10.	2000-01	29	24	05	83
11.	2001-02	04	03	01	75
12.	2005-06	23	13	10	56
13.	2008-09	13	07	06	54

The compliance of the PAC directives is unsatisfactory. The PAO is advised to ensure 100% compliance of the PAC directives at the earliest.

18.6.4 Audit Paras

18.6.4.1 i. Blockage of funds on account of procurement of defective rigs - US $ 6.405 million (Rs.520.534 million)

ii. Non-recovery of demurrage charges from the supplier - Rs 0.379 million

As per Article-10 of Contract dated June 16, 2008 executed between OGDCL (Purchaser) and GEFCO (George E. Failing Company) USA (Seller) for procurement of rigs, the Purchaser or his authorized representatives shall have the right to inspect and/ or test the goods during manufacturing at works or at point of delivery to confirm their conformity to the contract specification. The Seller will give a notice to the Purchaser regarding readiness of the goods for inspection 30 days in advance indicating the place of inspection, and if, the Purchaser or his authorized representatives do not become available for inspection at manufacturing works, the Seller will conduct the final inspection and issue quality certificate. If the inspected or tested goods do not conform to the contract specification, the Purchaser will reject them and the seller shall either replace the rejected goods or make all alterations necessary to meet specification requirement.

OGDCL, Islamabad procured 12 Drilling Rigs worth US$ 6.405 million from M/s GEFCO USA vide Purchase Order dated June 3, 2008 (Contract dated June 16, 2008). The rigs received at Karachi Sea Port on June 19, 2009 without

pre-shipment inspection by third party inspector despite notices/reminders served by the supplier on OGDCL on March 9, 12 and 25, 2009. However, the supplier issued a quality certificate and effected shipment of the consignment, which arrived at Karachi port on June 19, 2009. Post shipment inspection report dated October 8, 2009 pointed out deviation in 33 items against tender specification. All discrepancies were reported to M/s GEFCO, USA through their local agent on November 10, and 17, 2009 but the same were not removed. The supplier went to the court of Senior Civil Judge, Islamabad against the post inspection carried out by the 3rd party inspector in February 2010, this resulted in blockage of funds - US$.6.405 million (Rs.520.534 million). In addition, the rigs arrived at Karachi Sea Port on June 19, 2009 whereas the supplier presented shipping documents very late, which caused demurrage charges of Rs 379,405 from June 21, 2009 to June 27, 2009.

The matter was pointed out to the management on March 20, 2010 and the Ministry on November 30, 2010. In reply dated January 6, 2011, the management stated that the issue of demurrage charges had been taken up with the supplier. The reply was evasive as no comments furnished on procurement of rigs other than the approved specification.

DAC in its meeting held on January 10, 2011 directed the management to submit afresh response to each sub-para to audit within seven days. No progress was received till finalization of this report.

18.6.4.2 Irregular award of contract for hiring of rigs without competitive biddings- US$ 38.789 million (Rs 3,103.120 million) and loss due to acceptance of de-mobilization charges- Rs 40.000 million

In terms of Clause-4.1 of OGDCL's Foreign Procurement Procedure (Manual) regarding International Competitive Bidding (ICB), the procurement should be made according to the prescribed International Tendering Procedure and requirement will be press tendered inviting sealed bids. Rule-12 (2) of Public Procurement Rules, 2004 provides that all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation.

OGDCL awarded a contract to M/s Oil and Gas Engineering Company SPA China for hiring of two deep drilling rigs No.SPA-04 and SPA-05 at estimated price of US$ 26,305,000 on single source basis for initial period of two years on January 30, 2006. Before the expiry of initial contract period, the management did not resort to international competitive bidding. The contractor submitted enhanced rates for rigs already hired by OGDCL for the same locations. This time the contractor inserted de-mobilization charges of US$ 500,000 i.e. US$ 250,000 per rig, which were zero in the original contract. The OGDCL management approved the extension at estimated contract price of US$ 38,789,333 for one year up to June 2009 on the rates proposed by the contractor on July 28, 2008 and June 26, 2009. Hence, the award of contract without competitive biddings on higher rates without ICB was irregular. The acceptance of de-mobilization charges for the same rigs deployed on the same locations with new terms and conditions put the Company into loss of Rs 40.000 million (US$ 500,000x Rs 80 per US$).

The matter was reported to the management on March 20, 2010 and the Ministry on December 4, 2010. In replies dated May 25, 2010 and January 6, 2011, the management stated that press advertisement was made for additional rigs but rigs No. SP 4 and SP-5 were already in use therefore the tender was closed. The reply was not convincing as the contract had been awarded on single source basis. Further, acceptance of de-mobilization charges for the same rigs and same locations with new terms and conditions put the Company into loss of Rs 40.000 million.

DAC in its meeting held on January 10, 2011 directed the management to provide verifiable justification to audit within seven days. No progress was received till finalization of this report.

18.6.4.3 Non-transparent/mis-procurement of cranes - US$ 1,025,788.74 (Rs.75.857 million)

As per Rule-31 (1) of the PPRs, 2004 no bidder shall be allowed to alter or modify his bid after the bids have been opened. However, the procuring

agency may seek and accept clarifications to the bid that do not change the substance of the bid. Rule-36 (i) and (ii) provides that the bidders shall first submit, according to the required specifications, a technical proposal without price. The technical proposal shall be evaluated in accordance with the specified evaluation criteria.

OGDCL invited tender for procurement of two Hydraulic Cranes through press, which was opened on November 7, 2007. During the course of technical evaluation M/s Burhani Enterprises, Karachi the local representative of M/s Manitowoc Crane/Grove Cranes World Wide Ltd. Germany informed the management on December 4, 2007 that the Crane Model TM500E offered in main bid would be discontinued from March 2008. They offered a new crane model TM500E-2. The technical evaluation committee declared the revised bid for alternate model as technically responsive while the other two bids were rejected being technically non-responsive. Financial bid of only one qualified firm was approved and purchase order for procurement of 2 Cranes, Model TM 500E-2 at a total cost of US$ 1,025,788.74 was placed on them on August 12, 2008. The firm changed the crane model from TM500E to TM500E-2 during the course of technical evaluation resulted in mis-procurement of cranes worth US$ 1,025,788.74 (Rs.75.857 million).

The matter was reported to the management on December 3, 2010 and the Ministry on December 4, 2010. In reply dated January 6, 2011 the management stated that the crane model TM500 E-2 has the same specification with some added advantages of better control features. The reply was not convincing as the actual requirement was not properly assessed and advertised in the press.

DAC in its meeting held on January 10, 2011 observed that the explanation provided by the management was not complete. Hence, the management was directed to provide verifiable justification to audit. No progress was received till finalization of this report.

18.6.4.4 Procurement of equipments without adopting international tendering procedure - US$. 21.900 million (Rs.1,773.900 million)

In terms of Clause-4 0f OGDCL's Foreign Procurement Procedure (Manual), for the emergent procurement a Gallop International Tender should be floated giving maximum 10-15 days time for submission of bids and for other than emergent requirement minimum 40-60 days time will be allowed for submission of bids.

Contrary to the above, OGDCL adopted Limited Invitation Tender (LIT) mode of procurement instead of international tendering. On the recommendation of the consultant M/s ILF Consulting Engineers (Private) Limited, Lahore vide email dated May 22, 2008, the management issued tender enquiry for supply of wellhead compressors to four venders on July 4, 2008. In the evaluation report, M/s ILF Consultant recommended the following two firms as technically responsive on November 4, 2008:

i. M/s Valerus Compression Services, USA.
ii. M/s A.G. Equipment Company, Broken Arrow, USA.

The financial bids of the above two companies were opened on November 20, 2008 and contract for supply of 14 Wellhead Compressors with spare parts at total cost of US$ 21.900 million (Rs. 1,773.900 million) was executed with M/s Valerus Compression Services, USA on May 18, 2009. In the meanwhile, local/ foreign firms requested the OGDCL for issuance of tender enquiry in order to generate healthy competition. The equipments were not of proprietary nature and were required to be procured through proper advertisement in national/ international newspapers which was not done. This resulted in procurement of equipments of US$. 21.900 million (Rs.1,773.900 million) without adopting international tendering procedure.

The matter was reported to the management on March 20, 2010 and the Ministry on November 30, 2010. In replies dated May 25, 2010 and January 6, 2011, the management stated that in order to avoid delay, eight companies were short-listed and four firms submitted their bids and OGDCL had never been

deprived of the benefits of competitive rates. The reply was not acceptable as there was no urgency as evident from the procurement process and due to not adopting international competitive bidding mode; the procurement was made without generating healthy competition.

DAC in its meeting held on January 10, 2011 observed that LIT mode of procurement was followed which took one year. Audit was of the view that international competitive bidding was avoided and transparency was compromised. The DAC directed that the matter be examined by BOD in the next regular meeting and appropriate action be taken accordingly. No progress was reports till finalization of this report.

18.6.4.5 Non-recovery of overdue installments- Rs 373.500 million

As per clause-1 to 5 of the agreement dated July 30, 2003 entered between Karachi Electric Supply Corporation (KESC) and Pirkoh Gas Company Limited (PGCL), the KESC accepted a liability of Rs 1,494 million to be paid to PGCL in 32 installments of Rs 46,687,500 each starting from February 29, 2004. An acknowledgement receipt for quarterly installment is to be issued by OGDCL in advance and payment is to be made by KESC within 7 days of the date of receipt.

Contrary to the above, KESC did not pay 8 installments due from November, 2008 to August, 2010 in spite of the fact that OGDCL issued quarterly invoices which were duly acknowledged by KESC. The continuous default in payments by KESC was badly affecting OGDCL's liquidity position, which was hampering its business activities. This resulted in huge outstanding amount of Rs 373.500 million against KESC as on September 30, 2010.

The matter was reported to the management on November 23, 2010 and the Ministry on December 04, 2010. In reply dated January 6, 2011, the management stated that KESC had been requested on September 29, 2010 to arrange a CFO level meeting but response was awaited.

DAC in its meeting held on January 10, 2011 directed the management to actively pursue the recovery. No progress was received till finalization of this report.

18.6.4.6 Un-justified expenditure on non-operational rigs – Rs 102.377 million

As per Store Procedure Note No. 50, stores at test wells will be issued on requisition or delivery notes duly signed by the authorized indenter and receiver. Store officer will be responsible to scrutinize the documents before issue of materials. For materials once issued by Store Department and taken to Rig site the responsibility will be of the Pakistani Master Driller who will look after such stores and keep necessary record of consumption etc.

Three drilling rigs of OGDCL remained non-operative i.e. 2 rigs since 2000 (auctioned on 23-01-2006) and one rig since 2006. Rig No. N- 306 burnt out completely during drilling operation in April 2000. The rig was shifted to Kot Adu Store and disposed off in January, 2006. Rig No. N- 301 remained non-operational since 2000 and were disposed off in January 2006. Rig No. T-50 B was non-operational since March 2006 and was under process of disposal. The management charged un-justified expenditure of Rs 102.377 million (i.e. pay and allowances Rs 37.470 million, stores Rs 7.711 million, and other charges. Rs 57.197 million) up to June 2009.

The matter was reported to the management on March 20, 2010 and the Ministry on December 4, 2010. In replies dated May 25, 2010 and January 6, 2011, the management stated that the expenditure on account of pay and allowances, stores consumed etc. was charged, as the staff was essentially required. The reply was not convincing as expenditure was incurred on non-operational rigs.

DAC in its meeting held on January 10, 2011 directed the management to provide verifiable justification to audit within seven days. No progress was received till finalization of this report.

18.6.4.7 Irregular payment of bonus to Managing Directors- Rs 2.475 million

As per Finance Division O. M. No.F.3(5)R.12/80®/2002-154 dated March 18, 2002 the Managing Directors and Members of the Board of Directors of autonomous/semi- autonomous bodies/ public sector corporations / organizations are not entitled to receive bonuses.

Contrary to the above, a sum of Rs 2.475 million was received as bonus by two Managing Directors of OGDCL during 2008-09, which was not covered under the Government policy.

The matter was reported to the management on March 20, 2010 and the Ministry on November 30, 2010. In replies, dated May 25, 2010 and January 6, 2011 the management stated that under Section-196 of the Companies Ordinance, 1984, the BOD is competent to approve payment of bonus to the Company's employees. The reply was not convincing as the bonus was paid in violation of the instructions of the Finance Division.

DAC in its meeting held on January 10, 2011 directed the management to refer the matter to the Ministry of Petroleum and Natural Resources for clarification in the light of Finance Division letter dated March 18, 2002 and office of the AGP letter dated April 10, 2008. No progress was reported till finalization of this report.

18.6.4.8 Mis-procurement of crane mounted trucks- Rs 45.361 million

As per Rule-48 of Public Procurement Rules, 2004, the procuring agency shall constitute a committee comprising of odd number of persons, with proper powers and authorizations, to address the complaints of bidders that may occur prior to the entry into force of the procurement contract. The committee shall investigate and decide upon the complaint within fifteen days of the receipt of the complaint.

OGDCL invited tenders for procurement of 4 crane-mounted trucks through press on January 18, 2009. Ten bidders participated on February 25, 2009. Three firms were found technically responsive while M/s Pakistan Vehicle Engineering (Pvt) Limited (PVE) was not technically qualified on the plea that they failed to provide authority letter of the manufacturer within the stipulated period. The PPRA (Cabinet Division) and TIP forwarded a representation of M/s PVE to the Chairman, OGDCL for comments on June 12, 2009 according to which they submitted the authority letter of Ghandhara Industries Limited (GIL) in original on March 05, 2009 (08 days after bid opening) which was also confirmed by the OGDCL on August 04, 2009 but was not considered for further technical evaluation. The un-opened financial bid was returned to M/s PVE without redressal of his grievances as required under the rules. The contract was awarded to M/s Burhani Enterprises for supply of 4 crane-mounted trucks at total cost of Rs 45.361 million on January 5, 2010, which resulted in mis-procurement.

The matter was reported to the management on March 20, 2010 and the Ministry on December 4, 2010. In replies dated May 25, 2010 and January 6, 2011, the management stated that M/s GIL vide letter dated May 18, 2009 had authorized only M/s Burhani Enterprises as their dealer. The reply was not convincing as M/s GIL vide letters dated August 06, 2009 and August 18, 2009 confirmed that they had issued authority letter to M/s PVE Limited to participate and offer their Isuzu 4x4 Truck chassis to OGDCL. Further, grievances of the bidder were not addressed.

DAC in its meeting held on January 10, 2011 directed the management to re-submit the comprehensive reply with special reference of complaint received from PPRA to audit within seven days. The compliance was not received till finalization of this report.

18.6.4.9 Irregular appointment of employees beyond the age of superannuation-Rs. 8.375 million

As per Establishment Division letter No. No.3/16/99-CP-6 dated May 26, 1999, no officer is allowed to continue in office after superannuation without approval of the Prime Minister of Pakistan. In case of unauthorized over stay financial liability for such irregularity shall rest upon the head of the department /organization and the officer concerned himself.

Contrary to the above, OGDCL appointed the following officers beyond the age of superannuation:

i. Mr. Safdar Abbas Dy. Manager Drilling retired from the service on August 17, 2007. The Managing Director of OGDCL re-appointed/ retained the officer on contract basis as Company man for the period from February 7, 2008 to February 19, 2009 vide letter dated July 2,2008. The appointment of the officer beyond the age of sixty years as well as payment of his salary of Rs 2,700,000 was irregular.

ii. Similarly, Syed Fahim-ud-din DS/OM retired from the service on October 11, 2004. The management re-appointed/retained the officer on contract basis as Company man(EG- V) vide letter dated August 15, 2007 for a period of one year at a monthly pay of Rs 150,000. His contract period was extended for 3 months on September 30, 2008 and again for 6 months on January 15, 2009, hence, the appointment as well as payment of salary of Rs 2.550 million was irregular.

iii. Mr. Saleh Muhammad Abro (OG-1809 - C), DY. Chief Driller retired from service on July 23, 2007. The management re-appointed/ retained the officer on contract basis as Company man vide letter dated August 15, 2007 for a period of one year at a monthly pay of Rs 150,000, which was further extended for a period of six months on November 21,2008. The appointment of the officer and payment of salary of Rs 2.400 million was irregular.

iv. Asghar Ali Khan retired from the service on December 31, 2007. The Managing Director, OGDCL re-appointed/retained the officer on contract basis as Company man vide letter dated February 07, 2008 for a period of one year at a monthly consolidated pay of Rs 150,000. The appointment of the officer as well as payment of salary amounting to Rs 725,000 was irregular.

The matter was reported to the management on April 2, 2009 the Ministry on December 4, 2010. In replies, dated April 22, 2009 and January 6, 2011 the management stated that BOD being the competent authority authorized MD/CEO

for the said appointments. The reply was not convincing, as the appointments of retired officers were not in line with the policy of the Company and directive of the Establishment Division.

DAC in its meeting held on January 10, 2011 advised the management to refer the case to Ministry of Petroleum and Natural Resources in light of Establishment Division letter dated May 26, 1999 and office of the AGP letter dated April 10, 2008. No progress was reported till finalization of this report.

18.6.4.10 Mis-procurement of screens- US $193,137 (Rs.15.450 million)

As per Rule-10 of the PPRs, 2004 the specification shall allow the widest possible competition and shall not favour any single contractor or supplier nor put others at a disadvantage. Specification shall be generic and shall not include references to brand name, model numbers, catalogue numbers or similar classifications. However if the procuring agency is convinced that the use of a reference to a brand name or a catalogue number is essential to complete or otherwise incomplete specification, such use or reference shall be qualified with the words "or equivalent."

Contrary to the above, OGDCL included make and country of origin of screens in the tender documents. Specific brand was given in the tender documents without making provision of "Equivalent." The country of origin was restricted to USA only. The management procured screens for shale shaker and mud cleaner make, "Derrick" at total C&F value of US$193,137 (Rs.15.450 million) from M/s Bronco Manufacturing Inc., USA vide purchase order dated July 30, 2008.This action of the management discouraged participation of other makes/brands conforming to the required specification and better quality as of "Derrick". This resulted in mis-procurement of screens worth US$ 193,137 equal to Pak Rs 15.450 million.

The matter was reported to the management on December 3, 2010 and the Ministry on December 4, 2010. In reply dated January 6, 2011 the management stated that the specific make or part numbers of screens were generic in the bidding documents. The reply was not convincing. If OGDCL wanted to procure

Derrick Screens only from USA, then an enquiry should have been sent to the concerned manufacturer without calling international bidding. Screens are common items easily available in markets and manufactured as per API/ISO standards in Canada and Europe.

18.6.4.11 Mis-procurement of tube bundle by ignoring a state owned agency – Rs 15.855 million

As per Rule-40 of the PPRs, 2004, no negotiations should be made with the bidder having submitted the lowest evaluated bid or with any other bidder. In accordance with Para-6 of the Statutory Notification dated December 3, 2001 issued by the M/o of Commerce, the requirements as to inviting of tenders/quotations and making of inquires, etc. shall be waived in cases where purchases by the government controlled units or public sector agencies are made from government controlled manufacturing units. Similarly in the light of PM's directives circulated by the PM Secretariat vide UO dated January 28, 1998, the M/o P&NRs directed all the organizations under its control vide circular dated September 21, 1998 to promote the use of local manufacturing facilities with HMC.

OGDCL invited bids for procurement of tube bundle for regeneration of gas cooler installed at Qadirpur Plant through press advertisement, which were opened on July 24, 2009. The financial bids of technically responsive firms were opened on October 8, 2009. HMC Taxila, a state owned organization being technically responsive offered the lowest rate of Rs 15, 853,485 while M/s I.E. Services quoted the second lowest rate of Rs 16,116,256. Certain clarifications were sought from HMC on October 14, 2009. HMC responded on November 3, 2009 and accepted all points/observations but the OGDCL already had price match confirmation from M/s I.E. Services, as such HMC was informed on the same day that their bid was not considered further. Local Purchase Order for procurement of tube bundle at a total cost of Rs 15.855 million was placed on M/s I.E. Services on April 16, 2010. M/s I.E. Services was the agent of M/s Fabsco Shell and Tube, LLC USA. Certificate of authorization produced by the supplier had already been expired on December 30, 2009 and hence was not valid. The Government agency was ignored and undue favoritism extended to

M/s I.E. Services. This action of the management was contrary to the rules and directives of the Federal Government and resulted in mis-procurement of tube bundle worth Rs 15.855 million.

The matter was reported to the management on November 6, 2010 and the Ministry on December 4, 2010. In reply dated January 6, 2011, the management stated that HMC was requested on October 14, 2009 and reminded on October 19 and 22, 2009 to confirm the points/observations up to October 24, 2009. The reply was not convincing as HMC responded within a short period of 20 days. Further, the management placed purchase order on M/s IE. Services after lapse of 5½ months, which proved that there was no urgency in procurement of the above equipment.

DAC in its meeting held on January 10, 2011 directed the management to submit revised reply containing detailed information in this regard. Revised reply containing proper justification was not received till finalization of this report.

18.6.4.12 Loss due to cancellation of lowest bid for procurement/fabrication of pressure vessels- Rs 3.897 million

As per Para-21 and 22 of Foreign and Local Procurement Procedure (Manual), those suppliers who supply material below the specifications and their performance and delivery has not been up to the mark, will be blacklisted. As per rule 19 of PPRs, 2004, procuring agencies shall permanently or temporarly bar the supplier who constantly fail to provide satisfactory performances. Such barring action shall be dully published and communicated to the Authority, provided the supplier to be blacklisted shall be accorded adequate opportunity of being heard. The OGDCL's management inserted Clause-19 in the bidding documents, according to which the companies, firms, local agents or their associated companies/partners etc. currently in litigation with OGDCL were not allowed to participate in tenders or business.

OGDCL invited tenders for procurement/fabrication of pressure vessels through press on February 27, 2008. Three suppliers participated in the tender on April 15, 2008. Being technically responsive and financially lowest, M/s Petrosin

Ravi Industries was recommended for placement of order at a total cost of Rs 32.081 million. Local Purchase Order for procurement/fabrication of Pressure Vessels at a total cost of Rs 35.977 million was placed on the 2nd lowest bidder M/s Descon Engg. Ltd. Lahore on January 1, 2009.

The 1st lowest evaluated bidder was ignored on the pretext of clause 19 of the tender documents. The insertion of clause 19 in the tender document was void as it was in contradiction with para 21 & 22 of OGDCL foreign and local procurement procedure and Rule 19 of PPRs, 2004. Further, in a similar case of agreement dated March 25, 2010 excuted by M/s PSO with M/s Petrosin Ravi Industries for supply and devlivery of LPG to the auto gas station. The management of PSO decided not to carry forward any business relation with M/s Petrosin Ravi on the plea that the party was involved in multipul cases of litigation and rescinded the contract, but the Lahore High Court, Rawalpindi Bench, decided the case in the favour of M/s Petrosin Ravi (the petioner). Accordingly OGDCL BoD with drew clause 19 of bidding documents whereby the firms in litigation with OGDCL were not allowed to participate in the tenders/business. This resulted in loss of Rs 3.897 million due to ignoring 1st lowest evelauated bidder on the wrong pretext and extension of undue favour to the 2nd lowest evelauted bidder.

The loss was reported to the management on November 23, 2010 and the Ministry on December 4, 2010. In reply dated January 6, 2011 the management stated that the case was finalized in line with the BOD's decision. The reply was not convincing, as the 1st lowest bidder should not have been ignored without his blacklisting on account of unsatisfactory performances within the meanings of rule 19 of PPRs, 2004.

DAC in its meeting held on January 10, 2011 directed the management to refer the decision taken earlier and the present decision taken by the BOD (regarding insertion and with-drawl of clause 19 of bidding documents) with respect to chronic litigants to M/o P&NRs for ascertaining the legal status. No progress was received till finalization of this report.

18.6.4.13 Extra payment due to modification of stand pipes manifold during currency of contract - Rs 9.748 million

As per Rule -30 (1) of Public Procurement Rules 2004, all bids shall be evaluated in accordance with the evaluation criteria and other terms and conditions set forth in the prescribed bidding documents. No evaluation criteria shall be used for evaluation of bids that had not been specified in the bidding documents.

OGDCL placed purchase order on M/s ADOS for the purchase of 4 sets of Manifold Pipe for US$ 1.135 million on November 8, 2005. During inspection of the first consignment on October 19, 2006, the inspection team suggested some modification in the equipment. The modification reflected that the requirement was not kept in mind while preparing the tender specifications. The firm carried out the requisite modification and claimed Rs 9.748 million over and above the contractual amount. This resulted in extra payment of US $ 123,400 (Rs.9.748 million).

The matter was reported to the management on April 02, 2009 and the Ministry on December 6, 2010. In its replies dated April 22, 2009 and January 6, 2011, the management stated that the required modification of equipment was carried out with the approval of Managing Director. The reply was not acceptable as the modification of the equipment after placement of purchase order was in violation of rules.

DAC in its meeting held on January 10, 2011 directed the management to take up the issue in the next meeting of BOD for examining and taking appropriate action. No action was initiated till finalization of this report.

18.6.4.14 Loss due to non-award of contract to the second lowest bidder- Rs 9.224 million

As per Rule-38 and 50 of PPRs, 2004, the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the

original or extended period of bid validity. Any unauthorized breach of these rules shall amount to mis-procurement.

OGDCL floated tender for construction of office building at Qadirpur Gas Project in the press on September 28, 2004. Three firms participated in the tender on October 21, 2004. The 1st lowest bidder M/s Israr Enterprises quoted Rs 22.728 million that was valid up to January 19, 2005 whereas the 2nd lowest bidder M/s A Hameed and Co offered Rs 26.169 million. The management did not finalize the award of contract within the validity period and the lowest firm requested for increase in his quoted offer in view of increase in cost of material.

The management did not issue letter of intent to the 2nd lowest bidder and resorted to re-tendering in February 2006. Resultantly the contract was awarded to M/s AFCCO Oil for Rs 35.391 million. This resulted in loss of Rs 9.224 million (Rs.35.391 million – Rs 26.167 million).

The matter was reported to the management on March 20, 2010 and the Ministry on December 4, 2010. In replies dated May 25, 2010 and January 6, 2011, the management stated that the contractor failed to submit the required extension in bid validity up to May 2, 2005. The reply was not convincing, as the contract could not be finalized with the 1st lowest bidder within the bid validity period due to which he demanded increase in his offer. Instead of awarding contract to the 2nd lowest bidder, the re-tendering was resorted which caused loss.

DAC in its meeting held on January 10, 2011 directed the management to have the matter investigated at the level of BOD and take action accordingly. No action has been taken till finalization of this report.

18.6.4.15 Un-authorized investment of Workers' Profit Participation Fund

As per clause-7 of the Workers Profit Participation Act (XII) 1970, the amount in the fund of the Company as required to be utilized by the Board for the purchase of any of the following namely:

i. ICP Mutual Fund Certificates.
ii. National Investment Trust Unit Certificates.

iii. Government securities including Defence and Postal Savings Certificates.
iv. Any other securities approved for the purpose by the Federal Government.

In accordance with Para-3 (b) of the Government Investment Policy dated July 02, 2003 the process of selection of bank should be transparent, therefore, prior to placement of fund with bank, the selection of bank as well as the terms of deposits will be approved by the concerned Board of Directors on the basis of competitive bids from at least three independent banks.

Contrary to the above, policy, the OGDCL Board of Trustees invested W.P.P. Fund of Rs 3.500 billion in the banks at mark up rate of 9 and 10% per annum in 2007-08. The investment was made in violation of Workers' Profit Participation Act (XII) 1970 as well as Investment Policy of the Government. As such, the General Secretary lodged a complaint with the Ministry of P&NRs and Auditor General of Pakistan on June 12, 2008 according to which the workers suffered losses due to investment of WPP Fund in banks.

The matter was reported to the management and the Ministry on January 5, 2010. In replies dated May 25, 2010 and January 6, 2011, the management stated that the Board of Trustees had acted in accordance with the powers vested with them. The reply was not acceptable as the Act neither permits investment of funds in banks nor the investment of fund was in line with the policy of OGDCL. Moreover, the investment was made in a non-transparent manner.

DAC in its meeting held on January 10, 2011 directed the management to provide Board's approved investment policy indicating the rating of the banks to which the investment could be made and certified statement of prevailing investment rate on the date of investment in various institutions including ICP, NIT, Government Securities, and scheduled banks vis-à-vis interest earned on WPPF for the years 2007-08 onwards. No progress was received till finalization of this report.

18.7 Pakistan Mineral Development Corporation (Pvt) Limited

18.7.1 Introduction

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 49.94% shares of Lakhra Coal Development Company Ltd. for which equity funds of Rs 25 million were provided by the Government.

Corporate Information

Main objectives of the Company are the extraction of mineral resources from the mines obtained on lease from the provincial governments. The product is subsequently sold in the market. Main buyers of the PMDC products are dealers and the industries. Following are the main units of the Corporation:

SALT PROJECTS

Salt Mines Khewra, Warcha, and Kalabagh and Salt Quarries Jatta Bahadur Khel.

COAL PROJECTS

Lakhra, Sharigh, Degari and Sor-Range Collieries.

OTHER MINERAL PROJECT

Silica Sand Project.

18.7.2 Comments on Audited Accounts

18.7.2.1 The working results of the Corporation for the year 2009-10 as compared with the previous years are as under:-

(Rs. in million)

	2009-10	% Inc/(Dec)	2008-09	% Inc/(Dec)	2007-08
Sales	1,282.203	13.02	1,134.513	(2.02)	1,157.855
Cost of sales	933.319	3.23	904.126	8.58	832.668
Gross profit	**288.884**	**25.39**	**230.387**	**(29.15)**	**325.187**
Operating expenses					
Admin expenses	133.323	16.40	114.540	37.71	83.173
Selling expenses	65.724	35.85	48.380	(6.21)	51.582
Total operating expenses	199.047	22.17	162.920	20.90	134.755
Operating profit	**89.837**	**33.16**	**67.467**	**(64.57)**	**190.432**
Other income	96.520	28.37	75.190	55.36	51.292
Workers Profit Participation Fund	(9.318)	26.64	(7.358)	(39.12)	(12.086)
Net profit before taxation	**177.039**	**30.85**	**135.299**	(39.12)	**229.638**
Provision for taxation	(62.045)	34.21	(46.228)	(36.99)	(73.369)
Net profit after taxation	**114.994**	**29.10**	**89.071**	**(40.12)**	**156.269**

Source: Annual Audited Accounts

Sales of the Corporation increased to Rs 1,282.203 million in 2009-10 from Rs 1,134.513 million in 2008-09 registering increase of 13.02%. Whereas the cost of sales increased by 3.23% to Rs 993.319 million (2009: Rs 904.126 million). Resultantly, gross profit increased to Rs 288.884 million in 2009-10 as against Rs 230.387 million of the previous year. This resulted in improvement of gross profit margin to 22.53% (2009:20.30%). The improvement in the performance of the Company needs to be maintained in the future.

18.7.2.2 Administrative expenses increased by Rs 24.605 million in the year 2008-09 and Rs 18.783 million in the year 2009-10 over the last two years at dis-proportionate ratio against increase in productive salaries by Rs 14.90 million in the year 2008-09 and Rs 6.467 million in the year 2009-10. Furthermore, pay and perquisites of the executives and staff were revised twice during the year 2008-09 and 2009-10 without the approval of Ministry of Finance.

The management paid bonus of Rs 59.805 million in 2009-10 (Rs.33.465 million : 2009-10 and Rs 26.234 million : 2007-08) to the employees of the

Corporation without the approval of the Ministry of Finance, which needs to be explained.

18.7.2.3 The working results of the Projects of the Corporation for the year 2009-10 as compared to the previous years are as under:-

Rs. in million

Projects	Gross profit			
	2009-10	**2008-09**	**2007-08**	**2006-07**
Khewra	40.417	14.887	39.307	23.548
Warcha	169.205	127.520	119.625	111.326
Jatta / B. Khel	6.387	1.583	1.542	1.138
Kalabagh	3.060	5.979	6.726	7.107
Total Salt Mines	**219.069**	**149.969**	**167.200**	**143. 119**
Degari	(3.132)	1.725	(3.270)	(7.406)
Sor Range	59.019	77.117	128.670	57.153
Sharigh	22.561	20.755	19.546	21.181
Lakhra	(8.422)	(19.210)	12.945	40.113
Total Coal Mines	**70.026**	**80.387**	**157.891**	**111.237**
Silica Sand	(211)	0.031	0.096	0.077
Total Projects	**288.884**	**230.387**	**325.187**	**254.237**

The overall performance of PMDC's Projects during the year remained satisfactory. The gross profit of Projects was Rs 288.884 million in 2009-10 as compared to Rs 230.387 million in 2008-09. Efforts are required for further improvement in profitability of the projects.

18.7.2.4 Lakhra Project sustained operational loss during 2009-10 and 2008-09 against gross profit of Rs 12.945 million in the year 2007-08 and Rs 40.113 million in 2006-07. This needs special attention of the management to improve performance of the project.

18.7.2.5 Trade debts of the Company increased from Rs 62.508 million as on June 30, 2009 to Rs 101.200 million as on June 30, 2010. The trade debts of the Khewra and Sor-Range abnormally increased by more than 100%. This indicates the poor credit / collection policy of the management. Early collection of trade debts is stressed upon the management. Debtor days increased slightly from 20 days in 2009 to 28 days in 2010 which apparently indicates no harm to the liquidity of the entity but PMDC should take steps to maintain its credit policy

18.7.2.6 The Company is not regularly depositing Income Tax deducted at source and Sales Tax collected from the raising contractors on production of coal. An amount of Rs 27.544 million was collected on account of Income Tax and Sales Tax during the year 2009 and 2010 but the amount was not deposited in government treasury till December 31, 2010.

18.7.3 COMPLIANCE OF PAC DIRECTIVES

Detail of Paras in which PAC Directives were not complied with:

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1989-90	48	48	--	100
2.	1990-91	37	37	--	100
3.	1991-92	41	35	06	85
4.	1992-93	43	42	01	98
5.	1993-94	44	40	04	91
6.	1994-95	32	28	04	88
7.	1995-96	39	37	02	95
8.	1996-97	34	28	06	82
9.	1997-98	18	10	08	56
10.	1999-00	28	20	08	71
11.	2000-01	07	06	01	86
12.	2001-02	01	01	--	100
13.	2005-06	05	04	01	80
14.	2008-09	04	04	03	57

The compliance of the PAC directives was satisfactory. The PAO is advised to ensure 100% compliance of the PAC directives at the earliest.

18.7.4 Audit Paras

18.7.4.1 Non-recovery of shortage of coal from Raising Contractor – Rs 4.657 million

PMDC awarded lease No.192 at Lakhra to M/s Haji Abdur Razaq Raising Contractor (RC) for excavation of coal vide agreement dated March 11, 2005 for

four years w.e.f August 11, 2004 to August 10, 2008, which was further extended for a period of four years up to August 10, 2012 on the same terms and conditions.

PMDC granted advances of Rs 13.250 million to the raising contractor for operating the mines against pledge of coal stock produced by the raising contractor. In May 2009, the PMDC Lakhra management constituted a committee with the approval of GM, Coal for adjustment of advances against the Raising Contractor. The PMDC (HO) approved the adjustment of advance of Rs 13.250 million against the stock of 10,205 M.Ton coal lying at various mines of the raising contractor @ Rs 1,358 per M. Ton as on May 09, 2009.

During physical verification of coal stock at various mines as on June 30, 2009 coal stock of 3,430 M. Ton was found short. The management of PMDC (HO), Islamabad vide OM dated July 31, 2009 directed the Project Manager, Lakhra Coal Project to reverse the adjustment of Rs 4.657 million against shortage of coal, and the advance would be recovered in a manner that 75% of the bill will be paid to the contractor for meeting the expenditure to operate the mines and 25% of the bills will be adjusted as recovery of advance from the Raising Contractor till recovery of the entire advance.

The Raising Contractor did not accept the decision of the management because as the stock was in possession of PMDC, therefore, it was un-justified to recover the cost of shortage from him and requested for waiver of the same. Resultantly the management could not recover the advance of Rs 4.657 million from the Raising Contractor till January 2011.

The matter was reported to the management and the Ministry on December 07, 2010. The management in its reply dated January 08, 2011 stated that the amount was recovered / adjusted. The reply of the management was not found correct because no documentary evidence in support of reply was produced to audit for verification.

The para was discussed in DAC meeting held on January 10, 2011. The DAC directed the Company to get the recovery verified from audit within 15

days. The contention of the management was not found correct because nothing was produced to audit during verification.

18.7.4.2 Loss due to sale of coal below the approved price – Rs 1.583 million

As per management of Pakistan Mineral Development Corporation (Pvt) Limited, HO approval dated July 16, 2009 communicated to project management vide OM dated July 16, 2009, the Project Manager of Lakhra was directed to sell the coal stock @ Rs 1,000 per M.Ton in open market.

The project management Lakhra sold 2,731 M.Ton coal @ Rs 420 per metric ton through open sale against the approved rate of Rs 1000/M.Ton to M/s Haji Abdur Razaq. This was viewed seriously by the management of PMDC (HO) and directed the project management to enquire into the matter and fix responsibility on the person at fault, but enquiry was not conducted.

However, it was observed that the Project Manager, Lakhra through Inter Departmental Note dated July 21, 2009 advised the Manager Accounts to recover/adjust the difference of Rs 580/ M.Ton on account of sale of coal at lower rate from M/s Haji Abdur Razaq but recovery was not effected from the raising contractor. Resultantly the organization sustained a loss of Rs 1.583 million (Rs.1,000- 420 = Rs 580 x 2,731 M.Ton) on this account.

The matter was reported to the management and the Ministry on December 7, 2010. The management in its reply dated January 8, 2011 stated that an amount of Rs 1.851 million was recovered / adjusted.

DAC in its meeting held on January 10, 2011 settled the para subject to verification of recovery by audit within 15 days. The contention of the management was not found correct because no documentary evidence was produced to audit during verification.

18.7.4.3 Non-recovery of development cost of lease from coal raising contractor - Rs 2.125 million

The Managing Director, PMDC vide letter dated September 17, 2008 approved the proposal of Project Manager, Lakhra for award of Lease No.88 to M/s. Haji Abdul Raziq, Raising Contractor subject to recovery of development cost of Rs 2.125 million incurred by PMDC.

The lease was awarded to the raising contractor vide work order dated November 11, 2008 for period of five years w.e.f July 01, 2008 to June 13, 2013. A committee of four members was constituted to assess and recover the development expenditure of Rs 2.125 million incurred on the mine.

The raising contractor started excavation of coal from the leased mine on issuance of the work order, but the management of PMDC did not execute formal contract agreement with him for recovery of development cost. This resulted in non-recovery of development cost of Rs 2.125 million.

The matter was reported to the management and the Ministry on December 7, 2010. The management in its reply dated January 10, 2011 stated that an amount of Rs 600,000 was recovered / adjusted and the balance amount would be recovered during the current year. The reply of the management was not convincing because the development charges were outstanding against the contractor since 2008.

DAC in its meeting held on January 10, 2011 directed the management to provide recovery scheduled to audit and to improve its operational procedures to avoid such omission in future. The management did not produce record in contention of the recovered amount and the balance amount of Rs 1.525 million till finalization of this report.

18.7.4.4 i. Loss due to irregular execution of contracts - Rs 4.093 million

ii. Non-deposit of collected Sales Tax in treasury - Rs 16.148 million

According to Section 3B of the Sales Tax Act 1992, person who has collected or collects any tax or charge, whether under misapprehension of an any provision of the Act or otherwise, which was not payable as tax or charge or which is an excess of the tax or charge actually payable, shall pay the amount of tax or charge so collected to the Federal Government. Any amount payable to the Federal Government under sub-section (1) Section 3B shall be deemed to be an arrear of tax or charge payable under this Act and shall be recoverable accordingly and no claim for refund in respect of such amount shall be admissible.

I. PMDC Collieries Sharigh, Quetta entered into excavation of mine coal agreements for top seam coal on June 30, 2006 with different Raising Contractors (RC) for extraction of coal from PMDC mines on net margin basis. Agreement with M/s Faran Coal Co. was made at net margin of Rs 215 per Metric ton whereas the remaining contracts were made at net margin of Rs 160 per Metric ton. Thus, the organization was put to a loss of Rs 4.093 million (93,854 MT – 19,431 MT = 74,423 MT x Rs 55 difference of net margin per Metric ton).

II. PMDC Sharigh collected Sales Tax worth Rs 16.184 million from the coal-raising contractor during the period from 1994 to 2000. However, the sales tax amount was not deposited in Government treasury.

The matter was reported to the management on February 3, 2009 and the Ministry on December 10, 2010. The management in its replies dated March 12, 2009 and January 5, 2011 stated that an amount of Rs 16.184 million was collected as Sales Tax during the period 1994 – 2000 from the contractors and their net margin was reduced with the condition that they would not claim the refund of Sales Tax under these agreements. Thus, the PMDC got benefit of Rs 12.091 million (Rs.16.148 million – Rs 4.093 million). The reply of the management was not acceptable because PMDC accepted less margin and Sales Tax collected but not deposited in Government Treasury.

The matter was discussed in DAC meeting held on January 10, 2011. DAC directed the management to get the GST payment challan verified from audit within one month and explain the decrease in net margin. No progress was reported till finalization of this report.

18.8 Government Holdings (Pvt) Limited

18.8.1 Introduction

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.

18.8.2 Comments on Audited Accounts

Annual Audited Accounts of the Company for the years 2009-10 were not furnished by December 31, 2010

18.8.3 COMPLIANCE OF PAC DIRECTIVES

Detail of Paras in which PAC Directives were not complied with:

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	2008-09	07	04	03	57

The compliance of PAC directives was not satisfactory. The PAO was advised to ensure 100% compliance of the PAC directives at the earliest.

18.8.4 AUDIT PARAS

18.8.4.1 Loss of sales revenue due to assignment of 2.5% shares out of GHPL shares in violation of petroleum concession agreement – Rs 35.044 million

In terms of Serial No.6.2 of the Government Holdings (Pvt) Limited (GHPL), delegation of financial powers, the Managing Director was delegated full powers to decide matters pertaining to the farm-in farm-out in exploration and production projects subject to prior approval of the Board of Directors. As per Article 5.1 and 5.2 (a) of the Petroleum Concession Agreement (PCA) executed between the President of the Islamic Republic of Pakistan and Petroleum Exploration (Pvt) Limited (PEL) in May 1994 the working interest throughout the area was Government Holdings (Pvt) Limited 05% and PEL 95%.

The management of GHPL transferred 2.5% working interest to PEL in Block-22 and 2.5% shares to Mari Gas Company Limited (MGCL) in Bolan Concession w.e.f. January 2004 without approval of the Board of Directors. No provision for transfer of additional shares out of GOP's working interest existed in the concession agreements. Prior to January 2004, the management had incurred expenditure in the joint ventures @ 25% and as such availed proportionate shares in sale revenues realized from Block 22. The additional shares out of GHPL shares were assigned to PEL and MGCL in the light of article 5.1 and 5.2(a) of the Petroleum Policy, 1997 which provides that a local exploration and production (E&P) Company investing with a minimum of 5% working interest during exploration phase will be assigned an additional share out of GOP's working interest after commercial discovery.

After delay of two and a half years, the matter regarding sharing percentage of Joint Ventures of GHPL was referred to BOD in its 23rd meeting held on June 25, 2007. The Board was informed that 2.5% shares had been

assigned to PEL and MGCL out of shares of GHPL in Block 22 and Bolan Concession respectively without stipulating the provision of this assignment in the Petroleum Concession Agreement (PCA).

The BOD took serious notice of the fact and resolved that the matter for variation in shares percentages of Joint Ventures of GHPL should be referred to the Ministry of Petroleum and Natural Resources for its review and reference to Law Ministry for advice as the issue in question involved legal interpretation. The Managing Director sent a note dated July 19, 2007 to the Secretary P&NRs/ Chairman, GHPL Board but legal opinion of Law Ministry was not obtained.

Due to transfer of 2.5% shares of GHPL (Block-22 Concession) in violation of PCA, the Government was deprived of proportionate sales revenue of Rs 35.044 million from January 2004 to April 2007. As per Development and Production leases, Block-22 concession comprised of three fields with initial term of lease of 10 to 14 years. Thus future tentative net loss for next 9 years worked out to Rs 97.288 million.

The matter was reported to the management on February 9, 2008 and the Ministry on December 4, 2010. In replies dated April 24, 2008 and December 16, 2010, the management stated that the assignment of 2.5% working interest was processed / approved by the Ministry of Petroleum and Natural Resources. The reply was not convincing as no such provision authorized M/o P&NRs to transfer the shares in violation of the PCA. Moreover, legal opinion of Law Ministry was not obtained as resolved by the BOD in its 23rd meeting held on June 25, 2007.

DAC in its meeting held on January 10, 2011 observed that the approval regarding transfer of 2.5% GHPL shares was required to be looked into at Ministry level as to whether there was any discrepancy in sharing the revenue of sales proceeds *viz a viz* expenditure being charged to GHPL. DAC also directed the management to investigate the matter to fix responsibility and take appropriate action and status report in this regard be shared with the audit and DAC be convened within 30 days. No progress was reported till finalization of this report.

18.8.4.2 Loss due to non-acceptance of time barred claim of Sales Tax by buyer-Rs 1.874 million

Khipro Petroleum Concession Agreement dated December 29, 1999 was executed between the Joint Venture Partners including Government Holdings (Private) Limited as sellers and the President of the Islamic Republic of Pakistan as buyer to sell Khipro crude oil/condensate to any nearest oil refinery/refineries designated by the buyer.

Under clause 6.4 of this agreement, Sales Tax shall be charged by seller by issuing Sales Tax invoices at the time of supply and shall be paid into designated branches of the bank in accordance with the provisions of the Sales Tax Act, 1990.

i. Each seller will promptly invoice buyer for the amount of Sales Tax payable on monthly basis.
ii. Buyer shall pay each seller's invoice for Sales Tax within 15 days after the receipt of such invoice by the buyer.
iii. Each seller shall be responsible to pay the respective Sales Tax on its gross sales (including royalty) to the GOP on monthly basis.

GHPL (sellers) supplied crude oil/condensate from Khipro Block Fields to National Refinery Limited, Karachi during the period August 2004 to April 2007. As per terms and conditions of the sales agreement, the management was required to raise the sales tax invoices at the time of supply of crude oil/condensate to the buyer. However, the sales tax debit invoice amounting to Rs 1,874,030 was submitted to NRL, Karachi as on June 30, 2007. The buyer (M/s NRL Karachi) refused to accept the claim of sales tax on the grounds that time limit of claiming input tax by the buyer had been expired. Resultantly late submission of claim of sales tax caused loss of Rs 1.874 million to the Company.

The matter was reported to the management on October 29, 2010 and the Ministry on December 4, 2010. In replies dated November 24, 2010 and December 27, 2010, the management admitted the fact of late submission of claim to NRL. It was further stated that extension was being sought from FBR

and the amount would be recovered after the extension is granted by FBR. The reply was not acceptable as a period of more than three years had been elapsed but the management did not recover the sales tax from the buyer.

DAC in its meeting held on January 10, 2011 directed the management to actively pursue the case with FBR to arrange immediate recovery. No progress was reported till finalization of this report.

18.8.4.3 Irregular expenditure on visits abroad – Rs 1.121 million

In terms of Cabinet Division's letter No.1-4/97-Min.II dated March 31, 1997 and November 29, 1999 and Finance Division's UO No.2(4)EF.Exp/2007-369 dated March 24, 2007, visits abroad by officers/officials of autonomous/semi autonomous bodies and corporations require approval of the Minister Incharge and prior clearance by the Ministry of Finance. Further, GHPL adopted foreign TA/DA Rules of the Federal Government.

Contrary to the above, Executives Officers of GHPL performed foreign tours during 2002-03 to 2007-08 without approval of Minister In-charge and prior clearance of the Finance Division. This resulted in irregular expenditure of Rs 1.121 million.

The irregularity was reported to the management on January 14, 2009 and the Ministry on June 11, 2010. The management in its reply dated February 26, 2009 stated that as per Company rules, MD/CEO was delegated powers by the Board of Directors to approve and grant TA/DA for foreign visits to Company employees. Reply was not convincing as the foreign tours were performed without approval of competent authority.

DAC in its meeting held on January 10, 2011 directed the management to refer the case to M/o Petroleum and Natural Resources for interpretation from the concerned quarters in this regard within 2 weeks. The interpretation from the quarters concerned was not reported till finalization of this report.

Chapter-19
Ministry of Planning and Development

19.1 National Logistic Cell

19.1.1. Introduction

National Logistic Cell (NLC) was established by the Government of Pakistan vide Notification No. 120/19/78-MIN dated August 12, 1978 with main objective of providing uninterrupted logistic facilities in the country. NLC is also engaged in construction activities mainly in the infrastructure rehabilitation, and development sector, toll collection and other engineering related activities. It is an attached department of Ministry of Planning and Development of Government of Pakistan.

Corporate Information

The main objectives are as under:-

- Transportation of commodities from one location to other by all available means.
- Hiring/ maintenance of storage facilities.
- Carrying out construction of roads and other engineering projects.
- Building of truck bodies and chassis of various makes.
- Revenue generation through toll collection.

19.1.1.2 The management furnished annual accounts of NLC for the year 2007-08 vide letter dated September 7, 2010 along with copy of annual audited accounts for the year 2008-09 only initialed by the chartered accountants. The management failed to provide audited accounts for the year 2009-10 by December 31, 2010. Therefore, the following audit comments are based on the unapproved / unsigned audited accounts for the year 2008-09.

19.1.2 Comments on Audited Accounts

Operational Highlights

19.1.2.1 The working results of the Cell for the year 2008-09 as compared to the previous years are hereunder:-

(Rs in million)

	2008-09	% Inc/(Dec)	2007-08	% Inc/(Dec)	2006-07
Revenue	19,271.214	30	14,857.643	71	8,697.897
Less:- operating cost	16,208.640	21	13,354.825	78	7,497.918
Gross profit	3,062.574	104	1,502.818	25	1,199.979
Less: - general and admn. Expenses	1,561.001	11	1,406.518	66	8,47.600
Add:- Other income	779.355	(8)	842.716	(14)	9,79.500
Operating profit	2,280.928	143	939.016	(29)	1,331.879
Less:- finance cost	852.399	30	656.135	154	257.889
Net profit for the year	1,428.529	405	282.881	(74)	1,073.990

Source: Annual Audited Accounts

The revenue of the entity increased by 30 % as compared to previous year *i.e.* from Rs 14,857.643 million in 2007-08 to Rs 19,271.214 million in 2008-09. The main reason of increase was due to revenue earned from construction activities, freight services and dry port. The increase in revenue resulted in 405% increase in net profit from Rs 282.881 million in 2007-08 to Rs 1,428.529 million in 2008-09. Operating cost increased by 21% mainly due to increase in operational vehicle running expenses and Hired Mechanical Transport charges.

19.1.2.2 A considerable amount of Rs 140.403 million was included in "Others" under operating cost. The detailed breakup of "Others" may be provided to audit to assess its reasonability. The general and admn. expenses increased to Rs 1,561.001 million in 2008-09 from Rs 1,406.518 million in 2007-08 *i.e.* 11%. Efforts should be made to curtail expenses to increase profitability.

19.1.2.3 Capital work in progress as on June 30, 2009 included an amount of Rs 800 million on account of completed projects, which required completion of documents. The management was stressed upon to complete the documentation of these projects and transfer the cost to operating fixed assets at the earliest.

Capital work in progress also included an amount of Rs 1,507.204 million paid in prior years to Capital Development Authority, Islamabad against purchase of 7,666 square yards land located in Blue Area, Islamabad. The management may provide the details of this transaction and pinpoint the reasons as to why adjustment of this advance payment could not be made after lapse of a considerable period.

19.1.2.4 As per Joint Venture (JV) agreement between NLC and Izhar Construction (Pvt) Ltd. dated May 29, 2007, further 176,000 shares were to be issued to NLC against consideration of 10 acres land provided by NLC/GHQ. However, shares against this land have not been issued to NLC. The management needs to be justified of non-issuance of shares.

The management of NLC made huge investment of Rs 3,414.905 million in the shape of long-term loan to wholly owned subsidiary Company i.e. NLC Developers (Pvt) Limited (NLCD). During the year 2008-09, markup income of Rs 255.256 million was earned by NLC. However, since January 18, 2009 interest on this loan has not been accrued because the management of NLC believes that due to poor cash flow situation of NLCD, recoverability of this markup is doubtful. The management of NLC may provide financial statements of the subsidiary Company to audit for its examination.

19.1.2.5 Long term advances included an amount of Rs 198.718 million paid to the contractors as mobilization advances which increased by 16% over the previous year. The management may provide party wise breakup of the said mobilization advances and security obtained from subcontractors against these advances.

19.1.2.6 Stores and spares decreased by 45 % during the year 2008-09 under review as compared to the previous year i.e from Rs 866.906 million in 2007-08 to Rs 479.226 million in 2008-09. Despite decrease in stores, spares inventory, the provision on account of slow moving stores, and spares increased from Rs 46.400 million to Rs 90.068 million registering an increase of 94 % over the

previous year. The increase in slow moving inventory shows poor inventory control in the organization.

19.1.2.7 Debtors turnover period showed an improvement from 93 days in 2007-08 to 75 days in 2008-09 whereas the creditors turnover period had a slight variation from 119 days in 2007-08 to 103 days in 2008-09. NLC should further try to improve the turnover days to manage their working capital. On the other hand, provision for doubtful debts increased by 132 % over the previous year. Such huge increase in doubtful debts during one year was alarming. The party wise breakup and aging of these doubtful debts along with reasons of considering them doubtful and efforts made for realization of the same needs to be elucidated.

19.1.2.8 Advances, deposits, prepayments and other receivables as on June 30, 2009 included an amount of Rs 992.370 million on account of advances to sub-contractors and suppliers which increased by 57 % over the previous year. Early adjustment of these advances is stressed upon the management.

19.1.2.9 Provision of Rs 75.000 million was created during the year under review under the head "Provision against short term loan-considered doubtful". The said unsecured loan was extended to Japan Power Generation Limited, at interest rate of 14% per annum. The circumstances leading to extending unsecured loan and recovery becoming doubtful need to be clarified.

19.1.3 COMPLIANCE OF PAC DIRECTIVES

Detail of Paras in which PAC Directives were not complied with:

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1988-89	11	10	01	91
2.	1989-90	23	20	03	87
3.	1990-91	05	02	03	40
4.	1991-92	08	03	05	38
5.	1992-93	04	03	01	75
6.	1993-94	14	14	--	100
7.	1994-95	11	05	06	45
8.	1995-96	06	05	01	83
9.	1997-98	09	05	04	56

10.	1999-00	11	01	10	09
11.	2000-01	06	06	--	100
12.	2001-02	03	01	02	33
13.	2005-06	15	13	02	87
14.	2008-09	07	01	06	14

The compliance of the PAC directives was unsatisfactory. The PAO was advised to ensure 100% compliance of the PAC directives at the earliest.

19.1.4 Audit Paras

19.1.4.1 Non-recovery of work done and escalation claims – Rs 182.534 million

As per escalation clause-II of MOU dated January 20, 1998, no increase in rate shall be allowed till June 30, 1998 (amended in Phase-II as on June 30, 2000) unless out of proportion escalation takes place for which Commissioner Faisalabad (Distt. Nazim in Phase-II) will be the final deciding authority. However, rates of any work entrusted and executed after July 1, 1998 shall be paid on the rates inclusion of any escalation because of increase in the basic prices of material/ labour involved.

NLC signed a MOU with Faisalabad Municipal Corporation (Later on City District Government) on January 20, 1998 for Faisalabad Road Rehabilitation Project (FRRP). Initially the project was started with the total value of Rs 200.00 million. Later on, the scope of work was enhanced with the inclusion of more roads and project was splitted in two Phases.

NLC carried out work "Faisalabad Road Rehabilitation Project" duly vetted by consultants worth Rs 1,543.893 million against Phase I and II. A total amount of Rs 1,458.553 million was received from the client leaving a balance of Rs, 85.340 million despite completion of work on Phase-I and II on July 25, 2001 and March 16, 2009.

Furthermore, NLC prepared an escalation claim of Rs 103.996 million against work done of Phase-I and II of the project. Against total claim of Rs

103.996 million, the consultant i.e. M/s NESPAK vetted claim of Rs 19.400 million. The remaining claims of Rs 84.596 million were lying with the consultant un-vetted. However, out of total vetted amount of Rs 19.400 million, an amount of Rs 6.802 million was received by NLC leaving a balance of Rs 12.598 million. Thus, a total amount of Rs 182.534 million (Rs. 85.340 million + 84.596 million+ 12.598 million) was outstanding on account of work done and escalation claim of Phase-I and II of FRRP even after lapse of a considerable period of 1 to 8 years.

The matter was reported to the management on April 27, 2010 and the Ministry on December 6, 2010. The management in its replies dated August 18, 2010 and February 08, 2011 stated that an amount of Rs 63 million including escalation claim was outstanding till date and management was confident for its recovery. The reply was not acceptable as huge amount was recoverable from the client.

In DAC meeting held on February 24, 2011, the management informed that they are actively pursuing the receivables from the client. DAC directed the management to actively pursue the receivables from the client. No further progress was received till finalization of this report.

19.1.4.2 Non-recovery from City District Government, Karachi - Rs 47.237 million

As per clause 60.10 of the contract, the amount due to the contractor shall be paid by the employer within 14 days.

NLC, Karachi entered into a contract dated May 24, 2005 with City District Government, Karachi (CDGK) for rehabilitation work of Sharah-e-Ghalib, Karachi at a cost of Rs 302.059 million to be completed within period of 12 months.

The rehabilitation work was completed by the NLC in 2007. The NLC submitted final bill of Rs 70.647 million to the CDGK on May 29, 2007 but

CDGK made a partial payment and did not pay Rs 47.237 million on account of contract amount and retention money.

The matter was reported to the management on April 27, 2010 and the Ministry on December 6, 2010. The management in its replies dated August 18, 2010 and February 8, 2011 stated that the client had promised that they would include the said amount in the revised PC-I of the project. However, it would take long time even after revision of PC-I. The contention of the management was not convincing because the issue of expenditure over and above the approved PC-I was required to be settled during execution of work.

DAC in its meeting held on February 24, 2011 directed the management to actively pursue the receivables from the client. No further progress was received till finalization of this report.

19.1.4.3 Non-recovery on account of execution of extra work not included in BOQ –Rs 72.685 million

The management of Project Control NLC, Karachi entered into an agreement on June 20, 2006 with M/s Defence Housing Authority (DHA) for construction of roads in Phase-VIII. As per clause 8.1 of the conditions of the contract, the contractor shall, with due care and diligence, design, execute and complete the works, and remedy any defects therein accordance with the provisions of the contract. Further, the contractor shall give prompt notice to the engineer with a copy to employer, of any error or omission or fault or other defect in the design or specification of the works which he discovers while reviewing the contract or executing work.

Contrary to the above, the NLC Engineers Karachi executed the work of removal of debris and garbage and unsuitable soil from the site of DHA Phase-VIII project in January 2007, which was not included in approved BOQ, and expenditure of Rs 72.685 million was incurred on this work. The management submitted request for payment but the bill was not approved by the client (DHA) on the ground that the work was not included in the approved BOQ. Thus, the organization could not recover expenditure of Rs 72.685 million due to irregular execution of the work.

The matter was reported to the management on April 27, 2010 the Ministry on December 6, 2010. The management in its replies dated October 18, 2010 and February 8, 2011 stated that the issue was taken up with the client and hopefully the client would accept their claim. The reply was not convincing, as these issues were required to be settled before execution of work at site.

In DAC meeting held on February 24, 2011, the management informed the DAC that contract was awarded to the sub-contractor after obtaining rates from four selected firms. However at present the contractors have been pre-qualified as per provisions of PPRs. DAC did not agree with the management's contention and directed the management to obtain ex-post facto approval of violation of PPRs from the NLB.

19.1.4.4 Non-recovery on account of carriage of sweet water and bricks - Rs 4.992 million

In 177th meeting of Campus Committee of University of Agriculture Faisalabad (UAF), it was decided that ground of water site area is brackish and cannot be recommended for construction work, therefore NLC will manage resource for development of water by pumping canal seepage water up to the site and the expenditure incurred for this purpose may be debited to the project. It was further decided in the meeting that the bricks of fine quality will be utilized for construction of campus building and as the fine quality bricks were not available in D.G.Khan, therefore, the same will be carried from Multan and extra expenditure incurred on carriage will be debited to the project.

NLC signed an MOU with University of Agriculture, Faisalabad (UAF) for construction of new campus of Agriculture College at Dera Ghazi Khan at a total cost of Rs 62.772 million. NLC arranged suitable sweet water from canal and fine quality bricks from Multan for construction of the project. Later on the client refused to accept the claim of NLC for carriage of sweet water and bricks on the plea that the same was not covered under the contract executed between UAF and NLC. Resultantly, an amount of Rs 4.992 million was outstanding.

The matter was reported to the management on April 27, 2010 the Ministry on December 6, 2010. The management in its replies dated August 18,

2010 and February 8, 2011 stated that the claim had been verified/vetted by the Engineer of the Project; therefore, the Client was contractually bound for payment. The reply was not acceptable, as the amount was not recovered.

In DAC meeting held on February 24, 2011, management informed that the client has accepted its liability. DAC directed the management to actively pursue the receivables from the client. No further progress was received till finalization of this report.

19.1.4.5 Loss due to imposition of penalty on account of delay in completion of project -Rs 4.119 million

As per contract between M/s NLC and University of Agriculture, Faisalabad dated April 29, 2004, NLC was required to complete the work within 20 months (i.e. up to end of February, 2006). In case of delay, NLC will be liable for imposition of penalty @ 2 % of the contract price per month.

A contract was entered into between M/s Agriculture University Faisalabad and M/s NLC for the construction of Agriculture University at D.G Khan in June 2004. As per schedule, the work was required to be completed up to February 2006. NLC awarded the subject work to sub contractor in July 2004 with completion period of 16 months up to December 2005 without including the clause of penalty for delay in the contract. The sub-contractor failed to complete the work within stipulated period and NLC terminated the contract on December 8, 2005 without imposing any penalty on the subcontractor. NLC completed the balance work on June 30, 2009 (in 60 months). The University imposed penalty of Rs 4.1l9 million on NLC in its meeting held on November 02, 2009. NLC did not recover the amount from the sub-contactor under clause-15 of the agreement.

The matter was reported to the management on April 27, 2010 and the Ministry on December 6, 2010. The management in its replies dated August 18, 2010 and February 8, 2011 stated that due to some disputes of contractor with the client, the contract was terminated at early stage, therefore, penalty was not imposed on the contractor. As regard penalty imposed on NLC, a case for issue of EOT (Extension of Time) and waiving off the penalty had been taken up with Higher Education Commission and management was confident for its

achievement. The reply was not acceptable as penalty clause for delay was not included in the contract with the sub contractor due to which penalty could not be imposed on the sub contractor.

DAC in its meeting held on February 24, 2011 pended the Para till receipt of response from the HEC. No further progress was received till finalization of this report.

19.1.4.6 Non-deposit of income tax deducted at source - Rs 66.099 million

Under Section 153 of Income Tax Ordinance 2001, it is liable for tax deducting authority that tax so deducted during the month shall be deposited in State Bank of Pakistan or in authorized branch of National Bank of Pakistan within seven days of following month through consolidated challan. Moreover, in addition to the principal amount of tax to be collected at source, by the withholding agent, a further additional tax is also payable at the rate of 12% per annum on the amount of tax not collected or not paid for the period commencing from the date of collection to date on which it is paid.

Project Control Office, Muzaffarabad (AJK) of NLC deducted income tax of Rs 66.099 million at source from the bills of contractors from July 2007 to December 2009 but did not deposit into Government treasury within specified time. Moreover, penalty of Rs 47.866 million @ 12 % per annum was also not deposited in the Government treasury by the NLC management.

The matter was reported to the management on April 27, 2010 and the Ministry on December 6, 2010. The management in its replies dated August 18, 2010 and February 8, 2011 stated that Income Tax Ordinance, 2001 is not applicable in AJK territory and on receipt of clarification from Income Tax Authorities same will be deposited in the respective treasury; moreover the client has filed the suit in the court of law. The reply was not acceptable as the income tax from contractors was deducted as per Income Tax Ordinance, 2001 and but lying with the management since 2007 and the management did not seek clarification from the Income Tax Authorities and retained huge amount of income tax un-authorizedly for a long period.

In DAC meeting held on February 24, 2011, management informed that a sub-contractor named M/s Essa Khan had filed a suit in the court of law regarding non-applicability of Income Tax Ordinance 2001 in AJK territory. DAC pended the Para till decision from the Court of Law.

19.1.4.7 Loss due to imprudent investment in non-viable joint venture - Rs 137.064 million

As per Section-6 of the investment policy of the NLC, the primary objective in the investment of NLC fund is to receive the highest investment return and main objective for the creation of NLC is to provide un-interrupted logistic facilities in the country beside engaged in construction activities or other activity assign by the Government.

The National Logistic Cell (HQ) entered into a joint venture (JV) with M/s ATS Enterprises on April 30, 2007 and the J.V. was registered under Company Ordinance, 1984. The Joint Venture was responsible for collection, storage, packing and sales of wheat straw in local and foreign market. The shares of NLC were 55% *i.e.* Rs 38.250 million. The NLC, in addition to its share also invested Rs 92.390 million as loan on June 30, 2007 at markup rate of 10% per annum. Interest on loan accrued to Rs 6.324 million up to March 2008.

The viability of the Project was based on assumption that wheat straw will be purchased at Rs 102 per maund with transportation cost of Rs 44 per maund and will be sold at a rate between Rs 200 to Rs 275 per maund. However, the actual operational results of the JVs up to March 2008 revealed that the JVs failed to achieve its prime objective and suffered a loss of Rs 30.631 million since its inception.

The establishment of the M/s ATS-NLC (Pvt) J.V. Limited was not in line with the core objective of NLC. As per investment policy, the surplus fund was required to be invested keeping in view the profitability and safety of the fund. The imprudent investment in non-viable project resulted in loss of Rs 137.064 million (i.e. Rs 38.250 million + Rs 92.390 million + Rs 6.324 million).

The matter was reported to the management on May 26, 2008 and the Ministry on December 6, 2010. The management in its reply dated February 8, 2011 intimated that as per dicective of DAC dated November 12, 2008 the inquiry was in progress in the court of inquiry ordered by Chief of Army Staff (COAS). The audit would stress for early finalization of the case.

In DAC meeting held on February 24, 2011, management informed that the issue was included in the inquiry being conducted on the directives of COAS. DAC pended the Para till finalization of said inquiry report.

19.1.4.8 Non-recovery from University of Agriculture, Faisalabad - Rs 1.594 million

As per clause 6(b) of MOU signed between University of Agriculture, Faisalabad (UAF) and National Logistic Cell (NLC) on July 16, 2002 for construction of International Housing Complex, Faisalabad at a cost of Rs 40 million, payment/adjustment of bill shall be made by the UAF within a period of two weeks after submission of bills.

NLC Project Control Office, Faisalabad carried out construction of International Housing Complex, Faisalabad at a cost of Rs 40 million. The work was completed and handed over to the user in March 2005. As per clause 12 of MOU, the maintenance period of building expired in March 2006. However, final bill regarding sewerage/water supply work of Rs 180,303 and escalation claim of Rs 1,413,333 duly vetted by the consultant (total Rs 1.594 million) was not paid by the client.

Non-recovery was pointed out to the management on April 27, 2010 and to Ministry on December 6, 2010. The management in its replies dated August 18, 2010 and February 8, 2011 stated that they were confident for its recovery. The reply was not acceptable as a considerable period of more than 4 years had been lapsed but the said amount was still recoverable.

DAC in its meeting held on February 24, 2011 directed the management to actively pursue the receivables from the client. No progress was received till finalization of the report.

19.1.4.9 Un-authorized enhancement of ration allowance – Rs 3.020 million

According to Rule-46 of NLC Service Rules, Ration Allowance at a rate as approved by NLB will be paid to all JCOs/ORs and civilian drivers.

NLC Board, Rawalpindi, approved Ration Allowance @ Rs 27 per day to officers, JCOs and ORs/UROs and @ Rs 100 per day to drivers. However, rates of Ration Allowance were revised from Rs 27 per day to Rs 50 per day and Rs 100 per day to Rs 125 per day *w.e.f.* April 01, 2008 with the approval of Director General, NLC. As per NLC's own Service Rules, DG, NLC was not competent to revise the rates of Ration Allowance and only NLB in consultation with standing Committee of Finance Division was competent authority to revise the rates of Ration Allowance. The payment of Rs 3.020 million from April 01, 2008 to March 31, 2010 over and above the approved rates of Ration Allowance was considered irregular.

The matter was reported to the management on April 27, 2010 and the Ministry on December 6, 2010. The management in its replies dated August 18, 2010 and February 8, 2011 stated that Ration Allowance for JCOs/ORs was revised by Government of Pakistan (Finance Division) vide letter dated May 18, 2010. The management's reply was not acceptable as rates of Ration Allowance were fixed by the Military Finance as for dry ration @ Rs 23.70 per man per day, Rs 25.75 per man per day for Special Services Groups, and for fresh ration Rs 40.45 per man per day, Rs 49.36 per man per day for Special Services Group. The rates of Ration Allowance in NLC were fixed by NLB. Therefore, any revision in these rates required approval from NLB, which was not sought.

DAC in its meeting held on February 24, 2011, pended the Para till ex-post facto approval of NLB for enhancement of rate of ration allowance of officers and civil divers. No progress was received till finalization of the report.

19.1.4.10 Irregular subletting of civil work - Rs 72.464 million

As per Rule-12 (2) of the Public Procurement Rules 2004, all procurement opportunities for goods / services over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation.

Contrary to the above, the management of Project Control NLC, Karachi sublet civil work costing Rs 72.464 million to M/s Development Construction Services on May 11, 2007 by inviting limited tenders from four selected firms.

The performance of the sub-contractor remained very poor from the start of the work, which was evident from the fact that in 12 months, the contractor could complete only 27% of the assigned job. The management informed the contractor about his slow progress vide memo dated March 28, 2008. Finally, on April 30, 2008 the management warned the contractor regarding cancellation of contract agreement if the work progress was not improved. However, neither the work was completed by the contractor within scheduled time nor the contract period was extended. The award of contract in violation of the laid down procedure as well as non-cancellation of sub contract was considered irregular.

The matter was reported to the management on April 27, 2010 and the Ministry on December 6, 2010. The management in its replies dated August 18, 2010 and February 8, 2011 stated that NLC had taken over the site and contract had been cancelled. The reply was not convincing, as the reply did not include the comments on violation of PPRs.

In DAC meeting held on February 24, 2011, management informed that contract was awarded to the sub-contractor after obtaining rates from four selected firms. DAC did not agree with the management's contention and directed them to obtain ex-post facto approval of violation of PPRs from the NLB. No progress was reported till finalization of the report.

19.1.4.11 Loss to Government ex-chequer due to non-deduction of Income Tax at source -Rs 6.228 million

Under Section 153 of the Income Tax Ordinance 2001, income tax @ 6% was required to be deducted from the bill of the contractor at source.

NLC awarded different construction works to M/s. Basit and Company at Peshawar Dry Port, Jamrud valuing Rs 103.809 million. Income tax of Rs 6.228 million @ 6% at source was not deducted from the contractor at the time of making payment.

The loss was reported to the management on May 27, 2008 and the Ministry on December 6, 2010. The management in its reply dated June 5, 2008 and February 8, 2011 stated that the contractor submitted a letter along with other documents under which he claimed himself exempted from the income tax. The same was forwarded to Directorate of Finance and Accounts NLC and on the recommendation of the Directorate, income tax at source was not deducted and already deducted tax was refunded to the contractor. However, case had been referred to FBR on January 26, 2011 for seeking the clarification. The reply was not acceptable as the letter provided by the contractor for exemption says that if a contractor is a *bona fide* resident of the tribal area, executed contract in the Tribal Area and payment is also made there, then there is no need to produce income tax exemption certificate. The contractor was not the resident of Tribal Area as per his identity card; besides payment was made to the contractor at Peshawar. Thus, deduction of income tax at source was mandatory and refund of tax to the contractor was not justified.

DAC in its meeting held on February 24, 2011, directed the management to provide a certificate regarding non-availability of any bank in tribal area i.e Jamrud. DAC further directed the management to submit revised reply within fifteen days, in the light of clarification received from FBR in pursuance of NLC letter No.27409/CAP-213/PSE dated January 26, 2011 wherein FBR has categorically decided to recover the refunded amount from the contractor. No progress was reported till finalization of the report.

19.1.4.12 i. Non-recovery on account of material - Rs 38.239 million
ii. Loss of revenue income due to non-charging of interest on secured advance – Rs 4.514 million

According to Clause 2(2.2) of the contract agreement between M/s NLC and M/s Prime Construction Company (Sub Contractor), the timely procurement of material shall be made by the contractor to avoid stopage of work.

I. NLC management provided material (i.e. cement and steel) worth Rs 49.886 million to sub-contractor against Package-9 of Lahore Ring Road Project in violation of the above-referred clause of the contract agreement. The contractor went into default and his contracts were terminated on July 29, 2009. An amount of Rs 38.239 million stood recoverable from the contractor till March 31, 2010. This resulted in loss of Rs 38.239 million due to extension of undue favour to the contractor.

II. NLC also suffered loss of Rs 4.514 million because of interest loss as the client *i.e*. Government of Punjab charged interest @ 10 % to NLC on mobilization advance.

The matter was reported to the management on April 27, 2010 and the Ministry on December 6, 2010. The management in its replies dated August 18, 2010 and February 8, 2011 stated that as per clause 1.3(b) Pt-II General Conditions, NLC provided the construction materials to the sub-contractor by charging the purchase cost plus 1%, hence issuance of store was justified as it was provided to enhance the pace of work. The reply was not acceptable as material/stores included construction material and its procurement was the responsibility of sub-contractor. Moreover, the management did not comment on non-charging of interest from the contractor despite the fact that the client charged interest @ 10 % to NLC on mobilization advance.

DAC in its meeting held on February 24, 2011 did not agree with the view point of management and directed to obtain ex-post facto approval from the competent authority for un-authorized provisioning of store and furnish verifiable revise reply to audit for verification. No further progress was reported till finalization of the report.

19.1.4.13 Non-recovery of transportation charges from M/s Honda Atlas Cars - Rs 19.935 million

According to clause-7.2 of the MoU, NLC will obtain 50% advance in cash of the freight value and on completion of the assignment, the balance 50% of freight value will be recoverable from the client within 7 days.

NLC Dry Port Lahore singed MoU with Honda Altas Car Pakistan Ltd. (HACPL) on February 1, 2007 for transportation of imported consignments parts / vehicles / equipments *etc*. NLC management did not recover transportation charges from the client as per terms and conditions settled in the MoU and the balance recoverable accumulated to Rs 19.935 million as on June 30, 2008.

When NLC submitted its claim of Rs 19.935 million for the payment of transportation charges, M/s Honda Atlas Cars adjusted an amount of Rs 15.481 million against demurrage charges. The balance amount of Rs 4.152 million was neither claimed by NLC nor paid by the client. Thus, due to failure in lifting of consignments, within stipulated time and none observing of terms of payment, the NLC could not recover Rs 19.935 million.

The matter was reported to the management on April 27, 2010 and the Ministry on December 6, 2010. The management in its replies dated August 18, 2010 and February 8, 2011 admitted that Rs 15.481 million were adjusted against demurrages charges paid by the client and also stated that efforts were underway to solve the issue.

DAC in its meeting held on February 24, 2011 directed the management to actively pursue the receivables from the client. No further progress was received till finalization of this report.

19.1.4.14 Non-recovery of outstanding dues - Rs 8.771 million

The management of NLC singed MOU with M/s Duty Free Shop Limited (DFSL) on January 26, 2006 followed by contract agreement on January 1,

2008 for transportation of Company cargo as per agreed rates in accordance with terms and conditions of the agreement.

As per clasue-2 (c) of the agreement, NLC will keep a record of all adjustment of transportation bills from revolving advance and reports will be forwarded to DFSL on fortnightly basis and DFSL is responsible to pay the amount within 15 days, after which 10% additional charges per day will be paid to NLC as late payment surcharge.

Contrary to above, no revolving fund was created as per terms and conditions of the agreement and transportation services were provided to DFSL on credit basis against the terms and conditions of the agreement. Further, the bills on fortnightly basis for transportation services were not collected from the Company. Resultantly a huge sum Rs 10.571 million was accumulated as on June 30, 2008; against which an amount of Rs 2 million was recovered.

The matter was brought to the notice of management on November 19, 2009 and the Ministry on November 24, 2009. The management in its reply dated February 8, 2011 intimated that Rs.2 million has been recovered and hectic efforts were being made to recover the balance amount. The audit would stress to recover the balance amount of Rs.8.771 million at an early date.

DAC in its meeting held on February 24, 2011 directed the management to obtain a letter from the new owner of DFSL regarding their acceptance of liability to be paid to NLC and directed the management to actively follow-up the receivables. No progress was received till finalization of this report.

19.1.4.15 Loss due to inadmissible payment of escalation- Rs 0.847 million

As per clause 1.19 of General Conditions Part-II of contract, no escalation will be admissible for work of one year or less, however if the same prevails over it and the client admit the escalation claim of NLC, the sub contractor would be permitted to claim the escalation as laid down by NLC.

NLC awarded sub contract to M/s Nawaz Construction Co., Lahore for leftover construction of road of main boulevard A&B Phase-V and VI, DHA, Lahore valuing Rs 56.447 million. The contractor completed one job within the completion period of contract i.e. 03 months and received his final payment accordingly and was not entitled for escalation. NLC management paid escalation of Rs 847,000 on account of construction material, diesel and labour to the contractor in violation of the contract agreement.

The matter was reported to the management on April 27, 2010 and the Ministry on December 6, 2010. The management in its reply dated August 18, 2010 and February 8, 2011 stated that according to clause 1.1 of "General Conditions and Particulars", the specifications and conditions of subcontracts were back to back as that of client. Since the client accepted the escalation claim of NLC, therefore subcontractor's escalation claims were accepted. The reply was not acceptable because the escalation to the subcontractor was only admissible if the construction work exceeded to one year. Therefore, payment of escalation for work completed within one year was not regular.

In DAC meeting held on February 24, 2011, management informed that escalation of Rs. 847,000 made in one job. DAC directed the management to recover the amount either from the contractor or from the person(s) at fault and in case of non-recovery; the matter may be taken up with NLB for write off sanction. No further progress was received till finalization of this report.

19.1.4.16 Loss due to purchase of concrete blocks at higher rates – Rs 1.425 million

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

Moreover, as per Rule-12 of PPRs 2004, Procurements over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the

Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency.

NLC Project Control Office, Muzaffarabad, AJK entered into two contract agreements dated April 19, 2007 and July 21, 2007 with M/s Concrete Concepts, Islamabad and M/s Pak Dream (Pvt) Limited, Hattar for purchase of Concrete Blocks (16"x8"x8") 500,000 and 950,000 respectively. The value of each contract was Rs 12.750 million and Rs 26.600 million respectively. The 1st contract was awarded at the rate of Rs 25.50 per unit, whereas the 2nd was awarded to the supplier at the rate of Rs 27.00 per unit, which indicated that the 2nd contract was given to the supplier at higher rate by Rs 1.50 per unit. Besides, both contracts were awarded to the suppliers without obtaining of competitive rates by advertising the requirement in print media. Thus, NLC sustained loss of Rs 1,425,000 (Rs.1.5 X 950,000) due to purchase of concrete blocks at higher rates.

The matter was reported to the management on April 27, 2010 and the Ministry on December 6, 2010. The management in its replies dated August 18, 2010 and February 8, 2011 stated that the blocks were procured on competitive rates and no loss occurred to the state. The reply was not acceptable as the 2nd contract was awarded at higher rate of Rs 1.5 per unit.

DAC in its meeting held on February 24, 2011 did not agree with the management's contention and observed that purchase orders were placed for Rs. 39.300 million on the basis of hand collected quotations in violation of PP Rules and directed the management to inquire the matter and fix responsibility for violation of rules within fifteen days. DAC also directed to avoid such violations in future. No progress further progress was reported till finalization of the report.

19.1.4.17 Irregular appointment of officers in MP-I and MP-II – Rs 14.387 million

In terms of para-4 of the, Establishment Division letter No.9/04/1991 R-S dated January 28, 2008 the cases of appointment to project posts carrying

emoluments beyond MP-III shall be submitted for the approval of the Prime Minister.

Contrary to the above, NLC management appointed seven officers in February, 2009 on monthly pay ranging from Rs 120,000 to Rs 302,500 i.e. the emoluments of appointees fell in the range of MP-I and II scales but the appointments were made without the approval of Prime Minister. This resulted in irregular payment of Rs 14.387 million from February 28, 2009 to February 28, 2010.

The matter was reported to the management on April 27, 2010 and the Ministry on December 6, 2010. The management in its reply dated August 18, 2010 and February 8, 2011 that request for reglariztion of the case is being initiated to Ministry of Planning and Development. The audit would stress for early finalization of the case.

In DAC meeting held on February 24, 2011, management informed that the officers were appointed after fulfilling all codal formalities and their appointments were not in MP-I or MP-II scales of Government. DAC directed the management to get the record of their appointments verified from audit for ascertaining whether approval of Prime Minister was required in these cases or not.

19.1.4.18 Irregular payment due to irregular appointment of legal advisor - Rs 5.453 million

As per instructions of M/o Law, Justice and Human Rights issued vide letter No.F.20/1/87-L.A. dated March 16, 2007 all Government and semi Government organizations, autonomous bodies, corporations etc. while appointing legal advisor involving expenditure of more than Rs 100,000 are required to get prior approval of the Ministry concerned.

Contrary to the above, NLC (Head Quarter) appointed Mr. Ahmed Atta-ur-Rahman as legal advisor at fix pay of Rs 300,000 per month on October 11, 2008. This resulted in irregular payment of Rs 5.453 million w.e.f. October 11, 2008 to March 31, 2010.

The matter was reported to the management on April 27, 2010 and the Ministry on December 6, 2010. The management in its reply dated August 18, 2010 and February 8, 2011 stated that request for regularization of the case has been forwarded on January 31, 2011 to Ministry of Planning and Development. The audit would stress for early finalization of the case.

In DAC meeting held on February 24, 2011, management informed that a case for seeking the approval of Law & Justice Division was forwarded to controlling Ministry. DAC pended the Para till receipt of clarification from the Law and Justice Division. No progress was received till finalization of this report.

19.1.4.19 Undue favour to the consultant due to non-imposition of liquidated damages - Rs 0.468 million

As per clause 12-3 of the Contract Agreement of December 2005, in case of failure in timely completion of the assignment, NLC have reserved the rights to impose penalty @ 2% p.m of the phase value during which the delay has been taken placed.

NLC entered into a consultancy contract for Human Resource Restructuring Project with Audit Services International (Pvt) Ltd. Karachi (ASI). The Project was required to be completed in phases in a period of six months commencing from December 2005.

The firm did not complete the assignment up to July 18, 2007 and was required to be penalized but no such action was initiated against the defaulter firm and penalty of Rs 468,000 was not imposed on the firm.

The matter was reported to the management in September 2007 and the Ministry on December 6, 2010. The management in its replies dated November 2007 and February 11, 2011 stated that a payment of Rs 775,000 was made, the remaining payment of Rs 4,025,000 has been withheld from M/s. ASI and an amount of Rs 468,000 would be adjusted from the final bill. The reply was not acceptable as no recovery was effected in spite of lapse of a considerable time.

DAC in its meeting held on February 24, 2011 directed the management to get the assignment completed from the consultant within 3 months and penalty be recovered from the final bill and get it verified from audit. No progress was reported till finalization of the report.

19.1.4.20 Irregular payment due to appointment of an officer without required qualification-Rs 0.852 million

According to Establishment Division OM 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.

NLC, HQ, Rawalpindi appointed a protocol officer (BPS-I7) w.e.f July 11, 2007 on monthly fixed pay of Rs 25,000. Subsequently his appointment was changed as Assistant Manager Marketing, (BPS-17) on August 29, 2007 on the same terms and conditions and his contract period was extended from July 2009 to July 2011 with the monthly pay of Rs 28,000.

Following observations were made in this regard;

i. As per qualification record, the officer under objection has the qualification of "O" level, which is equal to Matric; therefore, he was not eligible for the post of BPS-l7.
ii. As per advertisement dated June 23, 2007 the post of AM, Marketing was shown as BPS-I5 whereas he was appointed in BPS-17 despite the fact that he did not possess the initial required qualification. The first entry of the officer as Protocol Officer (BPS-17) was made without placement of advertisement in the press, which was another undue favour to the officer.
iii. Based on Matric qualification, neither the officer was entitled for appointment in BPS-17 nor was the NLC management competent to appoint him in BPS-l7 on this qualification. Therefore, the appointment and expenditure of Rs 852,000 incurred on pay and allowances of the officer was considered irregular.

The matter was reported to the management on April 27, 2010 and the Ministry on December 6, 2010. The management in its replies dated August 18, 2010 and February 8, 2011 stated that DG, NLC had downgraded the individual as Assistant to Area Manager (BPS-14) w.e.f. June 30, 2010 on the same terms and conditions. Reply was not acceptable as the appointment of the individual concerned was irregular due to having lesser qualification than the prescribed one for the scale of appointment.

DAC in its meeting held on February 24, 2011 observed that a lesser qualified person was employed in BPS-17 which was a gross violation of the rules. DAC directed the management to terminate the officer and make appointment after due process within fifteen days. No further progress was reported till finalization of the report.

19.1.4.21 Non adjustment advances on account of TA/DA and business promotion - Rs 4.375 million

In terms of para (3) of Finance Division letter dated December 30, 2006, full DA can be paid in advance in case of foreign tour. However, 50% of DA to cover accommodation charges will be admissible in final TA adjustment bills on the production of hotel receipts bills. Moreover, in terms of foreign TA/DA rules the employees are entitled for 15% of full DA as incidental charges to meet out miscellaneous expenditure during foreign visits.

NLC (HQ), Rawalpindi made payment of Rs 6.400 million as TA/DA advance including incidental charges @ 15 % of full DA to the officers for foreign tours from March 2007 to March 2008. The officers did not produce hotel receipts equal to 50 % of daily allowance to cover the accommodation charges. An amount of Rs 3.200 million was not adjusted through TA/DA adjustment bills. Further, an advance of Rs 2.169 million was granted on account of promotion of business activities; out of which Rs 0.994 million were adjusted leaving a balance of Rs 1.175 million. This resulted in non adjustment of Rs.4.375 million.

The irregularity was reported to the management on April 27, 2010 and the Ministry on December 6, 2010. The management in its reply dated August 18,

2010 and February 08, 2011 stated that the outstanding amount has been adjusted. However, management in its reply dated February 17, 2011 that hotel bills for Rs 2.6 million have been received and placed in the record and the remaining bills would be obtained and produced. As regards, advance of Rs 2.169 million, relating to promotion of business activities, an amount of Rs 0.994 million was surrendered by the individuals. The reply was not acceptable because the hotel receipts of the latest dates seem fake and an amount of Rs 1.175 million on account of advance given for business promotion activities were still recoverable from the individuals to whom the same was granted.

DAC in its meeting held on February 24, 2011 was not satisfied with the reply and directed them to furnish revised reply showing the category wise amount of recoverable where hotel receipts were required and where hotel receipts were not required under the rules and recover the advance for business promotion activities. No further progress was reported till finalization of the report.

19.2 Pakistan Institute of Development Economics

19.2.1 Introduction

The Institute was initially established on June 04, 1957 as "*Institute of Development Economics"*. The President of Pakistan was pleased to establish Pakistan Institute of Development Economics with effect from May 1, 1964. The administrative control of the Institute was transferred to the Ministry of Planning and Development for proper functioning and improving its academic performance.

The affairs of the Institute are governed by the Board of Governors. The sources of finance of the Institute are Government grant, gifts, endowments and self-generation sales and royalties of the publications and receipts for professional service. The objectives of the Institute are:

- To function as an agency for conducting and promoting research, surveys, seminars, conferences, experiments and demonstrations in the field of Development Economics, Islamic Economics, Economic demography and related social disciplines.
- To provide facilities for training in economics and economic demographic analysis and research techniques.
- Arrange to publish papers, studies and such other works as are completed at the Institute or are prepared in collaboration with it or which are otherwise of substantial value to the work of the Institute.
- To disseminate information and extend advice to the Government and other agencies based on original research in economics and related disciplines.

19.2.2 Comments on Audited Accounts

19.2.2.1 The working results of the Institute for the year 2009-10 as compared with the previous years are hereunder:-

(Rs. in million)

	2009-10	% Inc / (Dec)	2008-09	% Inc / (Dec)	2007-08
Income	159.966	11	144.239	5	137.379
Expenditure	165.233	15	143.304	24	115.427
(Deficit)/excess of income over expenditure	(5.267)	-	0.935	(96)	21.952

Income of the Institute increased by 11% which was mainly due to grants of Rs 128.350 million (2009:Rs.111.450 million) and tuition fee of Rs 19.175 million (2009: Rs 10.410 million). Otherwise, there was a significant decline of 80% in profit on bank account/investments to Rs 0.579 million (2009: Rs 2.953 million). However, there was no significant change in value of investments/bank accounts. This may be due to accounting policy of modified cash basis. However, the detailed reasons need to be stated.

19.2.2.2 Income from "Training Courses Fee" reduced from Rs 1.238 million in 2008-09 to Rs 1.165 million in 2009-10 registering a decrease of 5.89%. Likewise, income from research studies also decreased by 29% to Rs 5.055 million in 2009-10 (2009: Rs 7.131 million). The management should focus on these activities, as these are the key objectives of the Institute.

19.2.2.3 Administrative expenses increased by 15% to Rs 165.233 million (2009: Rs 143.304 million), which was in excess of increase in income (11%). The Institute suffered deficit of Rs 5.267 million in 2009-10 (2009: Rs 0.935 million). Although the Institute is not a profit-oriented organization, the management should focus on the expenses to keep them within the level of income so as continue on sustainable basis.

19.2.2.4 Miscellaneous expenses increased from Rs 0.521 million in 2008-09 to Rs 2.722 million in 2009-10. Details may be provided. Printing and publication expenses increased from Rs 0.211 million in 2008-09 to Rs 2.174 million in

2009-10. The reason for huge increase in expenditure under this head needs to be explained.

19.2.2.5 Amount shown under the head accrual and other liabilities as on June 30, 2010 included an amount of Rs 0.334 million on account of "Reconstruction of PIDE Project". The schedule of expenditure made against this grant was not provided to audit to assess the effective utilization of grant.

19.2.3 COMPLIANCE OF PAC DIRECTIVES

Detail of paras in which PAC Directives were not complied with:

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1988-89	03	02	01	67
2.	1989-90	02	02	--	100
3.	1991-92	02	02	--	100
4.	1992-93	01	01	--	100
5.	1994-95	03	03	--	100
6.	1996-97	05	05	--	100
7.	1997-98	04	04	--	100
8.	1999-00	03	03	--	100
9.	2000-01	02	02	--	100
10.	2005-06	08	08	--	100
11.	2008-09	06	03	03	50

The compliance of the PAC directives was satisfactory.

Chapter-20
Ministry of Ports and Shipping

20.1 Lighthouses and Lightships Department

20.1.1 Introduction

Lighthouse and lightships Department maintains Navigational Aids on the coast of Pakistan through its light towers. These towers and its allied apparatus were built in 1914 under the Control of Central Government of India. Following navigational aids exist along coast of Pakistan.

i. Cape Monze Lighthouse is about 39 Miles from Karachi and was established in 1914 and remodeled in 1982.

ii. Four Lighthouses are situated on the coast of Balochistan at Pasni, Gwadar, Jiwani and Ormara which have been installed in 1969 powered by gas; later converted into solar power in 1987.

iii. One lighthouse established in Astold Island in early 1985 which was converted into solar power in 1987.

20.1.2 Comments on Audited Accounts

Revenue of the Department is generated from levying and collection of charges, i.e. light dues from every ships arriving and departing from ports of Pakistan. Such dues are paid to Customs Collectorate and ultimately credited into government account. The expenditure of the department is met from the budget allocated by government. The head of the office is designated as Superintendent who supervises ship engineers and surveyors, mechanics, lighthouse keeping terms and Ministerial Staff. Director General (Ports & Shipping) is the Head of Department.

(Rs. in million)

	2009-10	% Inc / (Dec)	2008-09	% Inc / (Dec)	2007-08	% Inc / (Dec)	2006-07
Income	102.471	10.98	92.327	18.04	78.219	12.0	69.807
Expenditure	7.905	17.86	6.707	3.23	6.497	15.6	5.618
Surplus Transferred to GFR	94.566	10.45	85.620	19.38	71.722	11.7	64.189

(Source-Annual Audited Accounts)

The working results of the organization were satisfactory during the year under review.

20.1.3 COMPLIANCE OF PAC DIRECTIVES

Brief comments on the status of compliance with PAC Directives

The management of Lighthouse and lightships Department has reported compliance of 17 Audit Paras out of total 17 Paras discussed by PAC in respect of Audit Reports 1990-91 to 2008-09. The percentage of compliance was 100%.

20.2 Pakistan National Shipping Corporation

20.2.1 Introduction

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.

Currently, the PNSC 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 eight subsidiaries that currently do not own any vessel / tanker.

During the year the company purchased two Tankers (M.T Karachi and M.T. Lahore) and disposed off three Vessels (M.V. Khairpur, M.V. Makran, and M.V Chitral).

20.2.2 Comments on Audited Accounts

20.2.2.1 The working results of the Corporation for the year 2009-10 as compared with those of the previous years are given below:

	Unit	2009-10	% Var-iance	2008-09	% Var-iance	2007-08	% Var-iance	2006-07
No. of Cargo Ships	No	10	(9.09)	11	(21.43)	14	0.00	14
Voyages Completed (including Charter vessels)	No	538	(15.54)	637	(4.78)	669	(0.30)	671
Average Voyage per vessel- own	No	54	(6.90)	58	20.83	48	14.29	42
Cargo carried by Own and Chartered Vessels	Million Ton	7.922	(8.76)	8.683	(8.13)	9.451	5.48	8.960
Operating Revenue								
Income from Shipping Business								
Freight (Net)	Rs. in million	*	*	*	*	5,915.30	(9.80)	6,554.59
Chartering Revenue	"	*	*	*	*	4,761.14	97.00	2,416.96

- Owned Vessel	"	6,021.46	(27.58)	8,314.63	*	*	*	*
- Chartered Vessel	"	1,746.68	(43.32)	3,081.50	*	*	*	*
Total income from Shipping Business	"	**7,768.14**	**(31.84)**	**11,396.13**	**6.74**	**10,676.44**	**19.00**	**8,971.55**
Rental Income	"	81.842	4.62	78.227	1.48	77.083	(34.40)	117.573
Other Operating Income	"	888.895	7.69	825.417	1.28	814.973	(13.60)	943.526
Total Revenue	"	**8,738.88**	**(28.95)**	**12,299.77**	**6.32**	**11,568.50**	**15.31**	**10,032.65**
Operating Expenses								
Fleet Expenses- Direct and Indirect	"	(6,334.76)	(24.69)	(8,411.78)	15.60	(7,277.06)	4.80	(6,495.70)
Admin and General Expenses	"	(680.464)	30.91	(519.807)	16.80	(445.027)	(4.90)	(468.0300)
Other Expenses including Finance Cost	"	(274.118)	(26.56)	(373.267)	3.90	(359.252)	62.70	(220.862)
Total Expenses	"	**(7,289.34)**	**(21.66)**	**(9,304.85)**	**15.14**	**(8,081.34)**	**12.48**	**(7,184.59)**
Operating Profit/ (Loss)	"	**1,449.54**	**(51.60)**	**2,994.92**	**(14.12)**	**3,487.16**	**22.44**	**2,848.06**
Share of net loss in Associate	"	-		-		-		-
Profit/ Loss before Taxation	"	**1,449.54**	**(51.60)**	**2,994.92**	**(14.12)**	**3,487.16**	**22.44**	**2,848.06**
Profit/ Loss after Taxation	"	**967.824**	**(58.15)**	**2,312.84**	**(5.56)**	**2,448.88**	**4.79**	**2,336.87**

(Source: Annual Audited Accounts); * Not available due to reclassification.

During the period cargo handling was further reduced by 8.8% (against reduction of 8.1% in last year) as a result of reduction in voyages by 15.5% (against reduction of 4.8% in last year) and reduction in number of vessels from 11 to 10 (eight fully owned subsidiaries of the corporation did not own any vessel). Resultantly income from shipping business was declined during the year by Rs 3,627.99 million (i.e 31.8%) so as decline in Net profit by 58.2%, in comparison of last year. Significant reduction in operating activity needed remedial measures.

20.2.2.2 Decrease in total direct and indirect expenses is mainly due to decline in operating activity as highlighted above. Despite significant decline in operating activities management need to explain increase of Rs 153.370 million (i.e 7.6% of last year) in Diesel, fuel and lubricants, increase of 17.4% in agent and general expenses, increase in number of other executives by 52 (i.e., 80% of last year) resulting increase in cost of Rs 175.336 million (i.e 146.5% of last year).

20.2.2.3 During the period under review, PNSC got Group Vessels revalued again, by Optima Ship Brokers. The latest revaluation resulted in surplus of Rs 912.629 million that have been incorporated in accounts, against deficit of Rs 5,921.311 million in 2009.

20.2.2.4 During the year the group has changed estimated useful life of its dry cargo vessel from allocation of cost over useful life of 25 years or the validity of next class renewal (whichever is later), to the new estimate the management expects the vessel remain operational till 30 years. Had the estimate not been revised the profit for the year would have been declined by Rs 285.265 million.

20.2.2.5 The Group during the year under review changed its changed its Accounting Policy in respect of requirement of:

(a) IAS-1 (revised) "Presentation of financial statements" that prohibits the presentation of items of income and expense (that is non-owner changes in equity) in the statement of changes in equity. The adoption of this standard has an impact only on presentation of financial statement of current and comparative period;

(b) Amendment in IAS 23 Borrowing Cost –i.e., capitalization of borrowing cost directly attributable to the acquisition of qualifying asset, effective for accounting periods beginning from January 01, 2009. This change in accounting policy did not have any impact on current financial statement as PNSC Group did not have any borrowing related to qualifying assets.

20.2.3 COMPLIANCE OF PAC DIRECTIVES

Brief comments on the status of compliance with PAC Directives

The management of PNSC has reported compliance of 124 Audit Paras out of total 132 Paras discussed by PAC in respect of Audit Reports 1986-87 to 2008-09. The percentage of compliance was 94%.

20.2.4 Audit Paras

20.2.4.1 Irregular contract appointment of Project Manager involving payment of Rs 2.993 million

In Pakistan National Shipping Corporation (PNSC), an advertisement for appointment on the post of Project Manager was published in press on December 12, 2007. According to the advertisement, the prescribed maximum age limit was up to 45 years and the required qualification was Bachelor Degree of Engineering in Electronics.

A retired naval officer was appointed as Project Manager on contract basis for a period of three years on March 03, 2008 at a pay package of Rs. 100,000 per month plus usual fringe benefits. At the time of the appointment, the age of the officer was more than 60 years and he possessed a bachelor degree of Engineering in Electrical. The appointment of the officer was in violation of the prescribed age limit and qualification of the post.

Audit was of the view that the appointment was irregular in the light of the advertised terms and conditions. The officer had drawn Rs. 2.930 million on account of monthly salary from March 03, 2008 to August 31, 2010 which was irregular.

The matter was reported to the management in October 2010 and discussed in the DAC meeting held on December 04, 2010. The management informed that the incumbent possessed requisite degree in electronic also and only his age was more than the advertised limit. They added that upon finding no suitable candidate, the BoD relaxed the condition of age. DAC directed the management to get this status verified from Audit.

In compliance with DAC directives, the management supplied record to Audit for verification. It was found that the age was relaxed by the Chairman and not by the BoD as stated by the management in the DAC meeting. Further, the management, instead of providing a copy of requisite degree in electronics in

respect of incumbent, informed that the officer has done long course in electronics.

Audit would, therefore, suggest fixing of responsibility on the person(s) at fault and taking remedial measures.

20.2.4.2 Irregular appointments resulting in irregular payment of Rs 1.560 million

Establishment Division, Government of Pakistan through an OM dated December 04,007 issued directives that re-employment beyond the age of superannuation on contract is restricted to few cases where the expertise of the civil servant is still required by the Government, and such re-employment requires approval of the Prime Minister. All Ministries/Divisions were directed that no case of re-employment beyond the age of superannuation be initiated as matter of routine and without following the laid down procedure. These directives are also applicable to the attached Departments / Subordinates Offices / Autonomous Bodies / Semi Autonomous Bodies / Corporations etc.

In Pakistan National Shipping Corporation (PNSC), the management re-employed two officers on contract basis beyond the age of superannuation which resulted in irregular payment of Rs1.560 million as detailed below:

a. A General Manager retired on May 17, 2010 on attaining the age of superannuation. The officer was re-employed in PNSC as General Manager (Commercial) on contract basis on May 18, 2010 for one year at the salary of Rs. 112,939 per month plus other perks and privilege permissible to the post. The re-employment was made without obtaining the prior approval from the Prime Minister as per laid down procedure. An amount of Rs. 0.390 million had been paid to the officer on account of monthly salary up to August 31, 2010.
b. A Manager retired on January 06, 2010 on attaining the age of superannuation. The officer was re-employed in PNSC as Manager (Tanker) on contract basis on January 07, 2010 for two years at the salary of Rs. 150,000 per month plus other perks and privilege permissible to the

post. The re-employment was made without obtaining the prior approval from the Prime Minister as per laid down procedure. An amount of Rs 1.170 million had been paid to the officers on account of monthly salary up to August 31, 2010.

The matter was reported to the management on November 01, 2010 and discussed in DAC meeting held on December 04, 2010. The management stated that the Board of Directors is empowered to appoint officers in terms of PNSC Ordinance, which being a law overrides circular of Establishment Division. Audit pointed out that as per provision of the PNSC Ordinance, the Federal Government's instruction are to be complied with. The management informed a similar case where Establishment Division had advised that the PNSC's BoD should appoint officer, who was over 60 year at the time of appointment. The management also pointed out that according to a Supreme Court decision, PNSC employees do not fall under the category of civil servants. DAC directed the management to get the status verified from Audit.

In compliance with DAC directives, the management produced record to Audit for verification. It was found that quoted case of appointment with reference to Establishment Division's advice was not identical with the cases of appointment under observation. Moreover, Para-13(2) of PNSC Ordinance provides that that the Federal Government may, as and when it consider necessary, issue directives to the corporation on matters of policy, and if a question arises whether any matter is a policy or not, the decision of the Federal Government shall be final. Therefore, the management was required to comply with the policy guidelines issued by Federal Government for contract appointment.

Audit would, therefore, suggest fixing of responsibility on the person(s) at fault and taking remedial measures.

20.2.4.3 Loss due to improper planning for the acquisition of vessels – Rs 108.808 million

Pakistan National Shipping Corporation (PNSC) entered in to an agreement with a bank ABN Amro Bank N.V, on behalf of Quetta Shipping (Pvt.) Limited, Karachi Shipping (Pvt.) Limited and Lahore Shipping (Pvt.) Limited (subsidiary companies of PNSC) on May 29, 2007 to acquire credit facility of US $ 135 million for purchase of three vessels. According to the Agreement, the loan was to be drawn in three installments. Last date for the draw-down of the credit facility was prescribed as November 29, 2007. According to Clause-27 of the Agreement, PNSC was liable to pay the Facility and Commitment Fee, etc., to the Bank on the credit facility.

PNSC could not avail the credit facility within the stipulated period of six months due to non-acquisition of the vessels. On the request of the management, the Bank extended the validity twice i.e. first up to February 27, 2008 and subsequently for further three months up to May 29, 2008 on the same terms and conditions. However, the management again failed to acquire vessels during the extended period and once again requested the Bank to further extend the validity for two months. This time the Bank offered credit amount of US$ 64.971 million; whereas the mark up rate was enhanced by 100%. The Bank's offer was considered on higher side. Therefore, the Finance Division of PNSC closed the chapter in June 2008. The management decided to arrange US dollar 64.971 million for the acquisition of only one vessel through inter-bank market by providing necessary rupee cover with the permission of SBP.

The purpose of the credit facility agreement could not be served; however, PNSC paid to the bank a sum of Rs 108.818 million on account of Bank Charges, Arrangement and Commitment Fee on the committed facility of US $ 135 million during the period from May 2007 to May 2008. Audit was of the view that due to improper planning by the management, PNSC suffered a loss of Rs 108.818 million.

The matter was reported to the management in October 2010. Audit suggested fixing of responsibility on the person(s) at fault.

The matter was discussed in DAC meeting held on December 04, 2010. The management informed that the planned procurement could not materialize for one or the other reason, however, loan commitment remained valid, and therefore, loan commitment fee had to be paid. Audit pointed out that the facility remained valid for one year but without any meaningful negotiation and the amount paid to the bank was actually wasted. The management clarified that it was part of the arrangement to have the commitment of loan first and then to enter into the deal. Audit pointed out that the arrangement with the bank was only for six months and despite having no deal, two times extension of 3 months each were obtained from the bank. The management clarified that search of the vessel was on and finally the bank increased its cost. Therefore, it was decided to go for self-financing. DAC concluded that Audit may review the case and directed the management to produce detailed record regarding efforts made to purchase the vessel.

In compliance with DAC directives, the management supplied record to Audit for verification. It was found that in order to procure three ships, the management negotiated with the owners of 10 ships during the period October 2006 to April 2008. The negotiation for 6 ships did not materialize due to vast differences between the prevailing market values and PNSC's offer. The PNSC could not make any offer against the other 3 ships because their inspection was rendered impossible due to refusal of visa to PNSC team.

The contract for credit facility with the bank was originally for 6 months which was subsequently extended. However, the above position indicated that the efforts made by the management for procurement of the ships were not adequate enough resulting in wasteful expenditure of Rs 108.808 million

20.2.4.4 Loss of revenue due to delay in completion of rehabilitation work of PNSC Building - Rs 194.400 million

Rule-12 of GFR provides that a controlling officer must see that the funds allocated to spending units are spent in public interest and upon the objects for which money was provided.

Pakistan National Shipping Corporation (PNSC) building caught fire on two occasions, i.e., on February 19, 2007 and on August 19, 2007. Due to these incidents floors 4 to 17 were completely destroyed. Subsequently, PNSC awarded 19 different major contracts valuing Rs 773.377 million for rehabilitation/refurbishment work of the building during the period August 2007 to May 2010. One of the contracts had a contractual completion period of 14 months. Nine contracts valuing Rs 287.995 million were completed; whereas, 10 contracts valuing Rs 485.382 million were not completed till close of audit in October 2010 out of which six contracts were less than 60% completed after three years of the fire incidents despite lapse of contractual completion period.

The main reason of the delay was the incorrect assessment of the quantum and nature of work involved in the rehabilitation of the building. The contracts were awarded in an unplanned manner at different time intervals, e.g., two contracts valuing Rs 41.546 million for installation of fire suppression system were awarded in 2010, i.e., three years after the incident, due to which other ongoing works were also delayed.

Audit was of the view that if all the work had been identified simultaneously under one centralized scheme on turn key basis and the contracts had been awarded in a planned manner; the work of rehabilitation of the building would have been completed in 14 months (the longest contractual completion period of a contract).

The organization was deprived of rental income due to non-completion of the building. Nine floors of the building are to be allocated for rent. Total covered area available for rent is 112,500 sq. ft. (source: PNSC website). Had the building been rehabilitated / refurbished even within two years after the incident, PNSC

would have earned rental income of Rs 194.400 million during 2009-10 @ Rs.144 per sq. ft. per month. Besides the recurring loss of the rental income, PNSC on the other hand would also suffer cost over run due to price escalation over the period.

The matter was taken up with the management in October 2010. Audit suggested fixing of responsibility on the person(s) at fault and taking remedial measures.

The matter was discussed in DAC meeting held on December 04, 2010. The management added that originally the work was planned as on turn-key basis comprising of three segments, i.e., civil, electrical and mechanical. However, in order to have more competition, all the works were tendered as separate items involving a considerable number of contractors. However due to start of different works at a time, the delays occurred due to overlapping jobs. Audit pointed out that the work should have been awarded to a single contractor on turn-key basis. The management clarified that the then management with the objective of fair competition and economical rates for each job, decided to advertise each work separately. The DAC directed the management to calculate the opportunity loss due to delay in completion of the work and submit for audit review and also directed to submit remedial measures to reduce the loss further.

However, no such data in compliance with DAC directives was received from the management till finalization of this report.

Audit would suggest immediate implementation of DAC directives.

20.2.4.5 Loss due to obtaining of inadequate bank guarantee from a shipping agent – Rs 14.924 million

In Pakistan National Shipping Corporation (PNSC), an agency agreement was executed with a firm, Gulf Coast Overseas Inc. Houston, USA (formerly East Coast Overseas Corporation) on December 12, 1984. According to Clause-27 of the Agreement, the Agent was required to collect entire freight as per manifest and deposit all Freights within 48 hours of collection into the PNSC account.

According to Clause-2 of the agreement, the agent was liable to submit a bank guarantee of US$ 350,000 at the very outset. However, the Agent submitted the bank guarantee only after his request for reduction of the bank guarantee amount down to US$ 50,000 was acceded to by the Board of Directors in 1991.

The freight and other charges collected by the agent from the shippers on behalf of PNSC were not deposited in the PNSC account regularly and US$ 215,948 became outstanding against the Agent till January 2001. On default by the Agent, the management encashed the bank guarantee on May 29, 2001 by stating that the Agent had failed to deposit the freight into PNSC's bank account within 48 hours of its collection and cancelled the Agency Agreement. Since the receivable amount was not fully recovered, PNSC filed arbitration proceedings in the High Court of Sindh at Karachi on May 23, 2003 to recover the outstanding amount but it stopped pursuing the proceeding after January 2008 on the legal advice of its counsel. The amount of US$ 184,849 (Rs 14.924 million) was finally written off by adjusting US$ 31,099 on account of amount payable to the Agent by PNSC.

Audit was of the view that if the management had not reduced the bank Guarantee from US$ 350,000 to US$ 50,000 from the Agent the loss could have been avoided.

The matter was reported to the management in October 2010. The management in its reply dated December 01, 2010 stated that the bank guarantee was reduced in 1991 keeping in view the reduced business with the Agent. The total amount written off included a presumed freight amounting to US$ 154, 460 which was a pressure tactic to pressurize the agent who had served a notice of termination on PNSC to settle all outstanding matters. The management' contention of reduced business is negated with the fact that the average prepaid earning in 1991 (six month) was US $ 711,607 (the Manager (USA)'s letter dated May 12, 1991). Therefore, reducing the bank guarantee to such a low limit was not justified.

The matter was discussed in DAC meeting held on December 04, 2010. The management stated that out of the total outstanding amount of US$ 215,948

in January 1991 the amount of US$ 154,460 pertained to the a single transaction in which US Government directed to discharge the cargo being contraband at a US Port. In compliance of the directives of the US authorities, PNSC discharged the goods on completion of voyage and booked the freight in the hope of recovery through legal proceedings. Audit pointed out that the recoverable amount had been written off in the books of accounts as a loss. DAC asked the Audit to review the case in the light of management's explanation in the DAC meeting and verify if the written off amount was actually not due.

In compliance with DAC directives, the management supplied record to Audit for verification. It was found that the amount kept on appearing as outstanding against the agent since the year 2007-08 in the books of accounts and provision was made in the same year. Since the amount of Rs 14.924 million was finally written off against the receivable from the agent during the year 2009-10 with the approval of the BoD and certified by the External Auditors, the management's contention that it was not due does not hold good and the organization actually suffered the loss due to non-recovery of Rs 14.924 million.

Audit, therefore, would suggest fixing of responsibility on the person(s) at fault and taking remedial measures to avoid recurrence.

20.2.4.6 Loss due to non-reduction in contract cost upon reduction in the BoQ - Rs 3.334 million

Rule-32 of Public Procurement Rules, 2004 lays down that no procuring agency shall introduce any condition, which discriminates between bidders or that is considered to be met with difficulty.

In Pakistan National Shipping Corporation (PNSC), bids for a plumbing work at PNSC building were invited through press tender on January 04, 2009. Two firms, i.e., M/s. Seasons Masters Engineering (Pvt.) Ltd. and Ziauddin Ahmed & Co. (Pvt.) Ltd. (ZCL) were declared successful in technical evaluation which quoted Rs 14.446 million and Rs 17.780 million respectively.

The management issued work award letter on April 13, 2009 to the lowest bidder, M/s. Seasons Masters Engineering (Pvt.) Ltd at the cost of Rs 14.446

million as per item-wise rates quoted in the BoQ and directed to execute the agreement. Subsequently, the management reduced the scope of work. The consultant of the project was directed on May 06, 2009 to prepare revised BoQ of the reduced work, which was revised accordingly with the total cost of Rs 11.711 million on May 18, 2009. However, M/s. Season Masters refused to undertake the work.

Later on the management issued work award letter to the highest bidder, ZCL at the quoted cost of Rs 17.780 million on June 05, 2009 as per their item-wise rates given in the BoQ without any terms and conditions and without any reduction in the quantum of work. The agreement was signed with ZCL for the work at the cost of Rs 17.780 million on July 06, 2009 and the BoQ submitted by ZCL at the time of bidding was made part of the agreement.

Audit was of the view that acts of the management to change the scope of the work significantly for the lowest bidder after tendering process award of the subsequent work to the highest bidder without any reduction in the cost were discriminatory. Thus, the award of the contract to ZCL was irregular. Due to ill planned work, PNSC had to suffer a loss of Rs 3.334 million, being the difference of the rates of the lowest and the highest offer.

The matter was reported to the management in October 2010 and discussed in DAC meeting held on December 04, 2010. The management informed that this plumbing work was taken up on 4 occasions for tendering. They added that a change in the work order was carried out to reduce the cost. However, the lowest bidder did not agree to work on reduced quantum of work, therefore, the work was awarded to the 2nd lowest bidder. Audit pointed out that 2nd lowest bidder had already quoted extra cost by Rs 3.334 million; hence this was case of discrimination between the two bidders. The management clarified that the extra cost was absorbed due to price escalation. The management added that condition of first lowest bidder about submission of insurance guarantee in lieu of Bank Guarantee was accepted. The change in the work was made upon considering the aspect that bathrooms work should be left for tenants. They added that considerable reduction in cost had been achieved due to this change. Audit pointed out that as per rules the subsequent change in the tender was not allowed and the work should have been re-tendered. DAC directed the management to get

it verified from Audit that the work was awarded to the 2nd lowest bidder on the revised BoQ.

In compliance with DAC directives, the management produced record for verification to Audit. It was found that the work was awarded to M/s. ZCL at the cost of Rs 17.780 million, i.e., at their quoted rates. Hence the contention of the management about reduction in cost through revised BoQ was not proved upon verification.

Audit would, therefore, suggest fixing of responsibility on the person(s) at fault.

20.3 Port Qasim Authority

20.3.1 Introduction

Port Qasim Authority was established in 1973 under the Port Qasim Authority Act, 1973 (the PQA Act). The principal activities of the Authority are to provide services of ship movement, storage, berthage, wharfage and towage, etc., besides developing and managing an industrial and commercial estate within its occupied area. The location of operations and principal office of the Authority is situated at Port Muhammad Bin Qasim, Karachi.

20.3.2 Comments on Audited Accounts

The management failed to provide annual audited accounts of the Authority for the years 2004-05 to 2009-10 by November 15, 2010. Early submission of copies of qualified accounts is stressed upon the management.

20.3.3 COMPLIANCE OF PAC DIRECTIVES

Brief comments on the status of compliance with PAC Directives

The management of PQA has reported compliance of 75 Audit Paras out of total 93 Paras discussed by PAC in respect of Audit Reports 1986-87 to 2008-09. The percentage of compliance was 80%.

20.3.4 Audit Paras

20.3.4.1 Non-deduction of advance tax causing loss to Public Exchequer - Rs 0.245 million

According to Section No.153 of the Income Tax Ordinance, 2001, every prescribed person making a payment in full or part including by way of advance to a resident person or permanent establishment in Pakistan of a non-resident person shall, at the time of making the payment, deduct tax from the gross amount payable. Furthermore, according to Section No.161, where a person fails

to collect tax as required under Section 153, the defaulting person shall be personally liable to pay the amount of tax.

Contrary to above, Port Qasim Authority (PQA) during the year 2009-2010 purchased furniture and fixture, electric and other items for Rs 7.025 million from the registered firms. However, at the time of making financial transactions, the provision of deduction of advance income tax was ignored which was a violation of the compliance with law resulting in loss of Rs 0.245 million to public exchequer (Rs 7.025 million x 3.5%).

Audit was of the view that non-compliance with statutory provisions while incurring expenditure from public money was indicative of loose internal controls prevailing in the organization.

The matter was reported to the management through an observation memo dated October 25, 2010. Audit suggested fixing of responsibility on the person(s) at fault for recovery and taking remedial measures to strengthen internal controls to avoid recurrence.

The matter was discussed in the DAC meeting held on December 04, 2010. The management informed that the amount included about fifty percent of the amount against Festival Advance and remaining advances were paid for petty purchases which ranged between Rs.40,000 to Rs.90,000 and procurements were made by a committee on "as and when basis". Audit pointed that Income Tax was not deducted on these purchases. The management informed that the retailers were not income tax registered. DAC directed the management to provide breakup to Audit to substantiate the claim that the Income Tax deduction was not required.

In compliance with DAC directives, the management produced the record to audit for verification. It was found that out of total amount of Rs 50.297 million reported under initial audit observation, the management during the year 2009-10 purchased furniture and fixture, electronic and others items worth Rs 7.025 million from the registered firms but advance tax @3.5% amounting to Rs

0.245 million was not deducted from them. Hence, remedial action as suggested by Audit needs to be taken by the management.

20.3.4.2 Non-recovery of peripheral development charges (PDC) and land rent from an allottee - Rs 174.858 million

As per clause (iii) of allotment letter issued by Port Qasim Authority (PQA) to a firm, M/s. Metal Investment Holding Company, Dubai, 25% of the Peripheral Development Charges (PDC) was to be deposited by the allottee along with the application and the remaining 75% was to be deposited within 120 days of allotment letter. Further, clause (x) provided that annual land rent would be Rs.27,563 per acre per annum.

PQA allotted 200 acres of land to a firm, M/s. Metal Investment Holding Company, Dubai in North Western Industrial Zone for establishment of a coal power plant on June 21, 2007 against PDC amounting to Rs 500 million @ Rs 2.5 million per acre. As per terms of allotment, first installment of 25% PDC was deposited by the allottee along with the application. The allottee further deposited the 2nd installment of 25% PDC on January 24, 2008 and 3rd installment of 25% on March 18, 2008, but failed to deposit the last installment of 25% PDC within the time schedule. The management first issued a final notice to clear the outstanding dues within 15 days and then cancelled the plot on May 22, 2009. However, subsequently the cancellation letter was withdrawn by the management after holding inquiry about the unauthorized issuance of cancellation letter by concerned officials for their personal gains. The allottee was asked through a letter dated August 25, 2009 to clear the outstanding; however, dues remained unpaid.

The irregularity was pointed out to the management through an observation memo dated June 26, 2010. It was replied on July 19, 2010 that the allottee had remitted 75% of total PDC within the stipulated time; whereas, for remaining 25% PDC, the allottee had submitted that due to global financial crisis, they were not in a position to remit the remaining 25% PDC immediately. The management further added that late payment penalty would be imposed on the allottee.

The management's reply was not tenable as the recovery of PDC with land rent amounting to Rs 174.858 million had not been made not only within the stipulated time as per allotment letter, but 3 years had elapsed without recovery. Audit suggested taking effective steps for recovery of the due amount.

The matter was discussed in the DAC meeting held on December 04, 2010. The management stated that extension in payment period has been granted to the allottee and cancellation of allotment would be made in case of default in payment. DAC settled the Para subject to verification.

In compliance with DAC directives, the management produced the record to Audit for verification. No progress in recovery of the heavy dues from the allottee was found despite issuance of a final notice in November 2010 by the management; whereas, similar final notice was issued by the management in May 2009. Therefore, Audit would stress upon the concrete recovery action by the management as per terms of allotment.

20.3.4.3 Non-recovery of Annual Ground Rent from an allottee of land - Rs 30.265 million

Port Qasim Authority (PQA) allotted 1250 acres of land @ Rupees one million per acre to M/s. Pakistan Textile City Ltd. (the allottee) in two phases through a Board Resolution No.48/204 dated September 08, 2004. Accordingly it was decided that no. relaxation in annual land rent be granted to the allottee. It was decided to charge Rs 7.373 per sq. meter (Rs. 9,918 per acre per annum) for the leased area which would be increased by 5% annual compounded amount every year.

The possession of 700 acres land of Phase-1 and 550 acres of Phase-II was handed over to the allottee on January 19, 2005 and January 27, 2007 respectively. It was again provided in clause (v) of final allotment letter that no relaxation in annual land rent would be allowed. However, the management failed to recover the amount of annual ground rent (AGR) for the allotted land amounting to Rs 30.266 million (inclusive of mark up of Rs 2.796 million) for

the period of January 01, 2008 till June 30, 2010. The allottee vide their letter dated November 16, 2009 requested to defer AGR till the commencement of sale of land by them.

Audit was of the view that due amount of AGR from the allottee was recoverable according to allotment schedule as the land was already allotted on concessional price.

The matter was pointed out to the management through an OM on July 08, 2010 and Audit Inspection Report on August 18, 2010. The matter needs investigation with a view to fix responsibility on the person(s) at fault.

The matter was discussed in the DAC meeting held on December 04, 2010. The management informed that the payment of rent has been disputed by M/o Textile on the ground that the rent would be paid by Pakistan Textile City only after allotment of plots to the allottees. The management added that the development work has now been initiated by Pakistan Textile City. DAC directed the management to pursue the recovery. However, progress of recovery was awaited from the management till finalization of this report.

Chapter-21
Ministry of Social Welfare and Special Education

21.1 Pakistan Bait-ul-Mal

21.1.1 Introduction

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 the needy people of Pakistan, met out of grants from Government / Semi-Government Organizations and voluntary donations etc.

Corporate Information

Pakistan Bait-ul-Mal (PBM) is governed by Bait-ul-Mal Board constituted by the Federal Government consisting of:

- Secretary, Government of Pakistan, Ministry of Social Welfare and Special Education who shall be its ex-officio Chairperson and five non-official members appointed by the Federal Government.
- Managing Director, PBM.
- A representative of the Federal Ministry of Religious Affairs, Zakat and Ushr;
- A representative of Federal Ministry of Minorities Affairs; and
- A representative of the Federal Ministry of Finance.

21.1.2 Comments on Audited Accounts

21.1.2.1 The working results of the formation for the year 2009-10 as compared to the previous years are tabulated below:-

(Rs. in million)

	2009-10	% Inc/ (Dec)	2008-09	% Inc/ (Dec)	2007-08
Income					
Grants from the Federal Government	3,070.248	145	1,255.230	(84)	7,818.172
Profit on banks, GPOs and investments	256.248	133	110.021	25	87.759
PHRD Grant	-	-	12.255	(70)	40.354
Donations	1.006	65	0.610	-	-
World Food Program – Service Charges	1.464	(31)	2.122	24	1.708
Miscellaneous income	8.626	10	7.863	19	6.624
Total income	**3,337.592**	**140**	**1,388.101**	**(83)**	**7,954.617**
Expenditure					
Food Support Program (FSP)	3.057	(74)	11.906	(6)	12.702
Child Support Program (CSP)	53.372	45	36.771	101	18.235
PHRD expenditure	-	-	3.952	39	2.835
Individual Financial Assistance	2,018.624	185	708.268	(20)	887.524
Project expenses	476.859	41	339.189	(8)	366.927
Bugti tribes	-	-	11.764	-	-
Internally Displaced Persons (IDPs)	144.914	(71)	498.306	-	-
Jinnah Burn Centre	-	-	110.000	-	-
Institutional Rehabilitation (NGO)	56.499	(2)	57.928	47	39.362
Administrative expenses	408.076	25	326.071	55	210.035
Total expenditure	**3,161.401**	**50**	**2,104.156**	**37**	**1,537.721**
Surplus / (deficit) for the year	176.191	-	(716.055)	-	6,416.896
Prior year adjustments	51.275	-	(2,764.333)	41	(1,962,791)
Net surplus / (deficit)	**227.466**	**-**	**(3,480.388)**	**-**	**4,056.057**

Source: Annual Audited Accounts

Income of PBM increased by 140% from Rs 1,388.101 million in 2008-09 to Rs 3,337.592 million in 2009-10. The increase was due to 144% increase in

Government grants from Rs 1,255.230 million in 2008-09 to Rs 3,070.248 million in 2009-10. Interest income also increased by 133% i.e. from Rs 110.021 million in 2008-09 to Rs 256.248 million in 2009-10. On the other hand, expenditure increased to Rs 3,161.401 million in 2009-10 (2008-09: Rs 2,104.156 million) which shows 50% increase over previous year. The increase in expenditure was mainly due to increase in expenditure under the heads of Child Support Program, IFA and Project Expenses. Increase in income resulted in conversion of deficit of Rs 716.055 million in 2008-09 into surplus of Rs 176.191 million in 2009-10. Food Support Program (FSP) scheme has since been discontinued by the Federal Government since 2007-08, however, during the years 2008-09 and 2009-10 an expenditure of Rs 11.906 million and Rs 3.057 million respectively was booked. The expenditure under the head of FSP after discontinuation of the scheme needs justification.

21.1.2.2 Expenditure under the head IFA medical assistance increased from Rs 473.020 million in 2008-09 to Rs 1,307.160 million in 2009-10. The increase needs justification.

21.1.2.3 Salaries and benefits increased from Rs 263.986 million in 2008-09 to Rs 325.256 million in 2009-10 i.e. an increase of 35.5% as compared to last year salary expense. Reasons along with number of employees in each year may be provided.

21.1.2.4 Expenditure under the head printing and stationery increased by 90% over previous year i.e. from Rs 3.461 million in 2008-09 to Rs 6.565 million in 2009-10. Abnormal increase under the head needs justification.

21.1.2.5 Advances, deposits and other receivables increased to Rs 130.694 million as on June 30, 2010 (2008-09: Rs.95.287 million) registering an increase of 37% over previous year. The amount included Rs 32,380 and Rs 156,000 receivable from an Ex-Board member and certain ex-employees. The amount is outstanding since long and chances of its recovery are remote. Position needs clarification with regard to recovery. Moreover, advances to employees increased by 81% to Rs 76.531 million as on June 30, 2010 (2009:

Rs 42.162 million). The reasons for such increase in advances to employees may be explained.

21.1.2.6 Capital work in progress stood at Rs 18.785 million as on June 30, 2010. The amount was advanced to Pakistan Housing Authority, Islamabad for purchase of residential flats. A period of more than 08 years had since been lapsed but the amount is yet to be recovered / adjusted. An early recovery / adjustment of the said amount was stressed upon the management.

21.1.2.7 There was as addition of Rs 12.769 million in motor vehicles. Details as well as reasons for these purchases may be provided.

21.1.2.8 Rs 4,335.368 million as on June 30, 2010 (2008-09: Rs 4.273.067 million) were kept in saving accounts which may have been invested in TDRs to earn more interest income. Details of bank accounts along with interest rate for each account may be provided.

21.1.2.9 Current Ratio in 2009-10 was 205.669 (2008-09: 518.195). The current ratio seems to be very high and signifies that the formation does not have a strategy to disburse the available funds to the poor and needy people, which are the main function of the Pakistan Bait-ul-Mal. Justification for non-disbursement, may be provided to audit.

21.1.3 COMPLIANCE OF PAC DIRECTIVES

Detail of Paras in which PAC Directives were not complied with:

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1994-95	04	04	--	100
2.	1995-96	04	04	--	100
3.	1996-97	01	01	--	100
4.	1997-98	08	07	01	86
5.	1998-99	01	01	--	100
6.	1999-00	01	01	--	100
7.	2000-01	08	06	02	75
8.	2001-02	03	01	02	67
9.	2005-06	08	08	--	100
10.	2008-09	04	02	02	50

The compliance of the PAC directives was unsatisfactory. The PAO is advised to ensure 100% compliance of the PAC directives at the earliest.

21.1.4 Audit Paras

21.1.4.1 *Mis-utilization of grant of individual financial assistance for rehabilitation - Rs 3.679 million*

The management of PBM has framed a policy for the smooth running of its scheme 'Individual Financial Assistance' (general, medical, education and rehabilitation). The mission of said policy was to provide social protection to the poor marginalized segments of the society. It was further clarified in the policy that in order to economically empower poor people, financial assistance will be given for rehabilitation. As per policy PBM staff at district level will assess the proposal/potential of beneficiary and judge suitability and viability of his vocation and then recommend his cases. Thereafter, project would be frequently visited by the concerned district incharge to monitor its success. Selection of beneficiaries and activity monitoring involves steps like inviting prospective beneficiaries, selection of beneficiaries, assessment of proposal and activity monitoring.

PBM (Provincial Office) Lahore granted financial assistance for rehabilitation to the beneficiaries during the period from 2006 to 2008. During the scrutiny of follow up reports, submitted by the district in-charges of respective districts it was observed that in 182 cases either the beneficiaries were not traceable or they did not utilize the grant for the purpose for which it was granted. As the grant could not be utilized for the purposes for which the same was granted, the mis-utilization was termed a loss of Rs 3.679 million to the formation.

The matter was pointed out to the management on April 2, 2010 and the Ministry on December 4, 2010. The management in its replies dated July 30, 2010 and December 13, 2010 stated that some beneficiaries have started their work late and some have re-located, as they are poor and do not have their own accommodation, therefore, they reside in rented houses and tend to relocate as per

their domestic conditions/problems. The reply was not acceptable, as the position showed that the amount of grant was paid without assessing the genuineness of the beneficiaries and the funds were not utilized for the purposes for which the same were granted.

DAC in its meeting held on January 7, 2011 directed the management that all the relevant record with regard to procedure adopted for re-verification of cases, original follow up reports *etc.* may be provided to audit for verification. No record was provided till the finalization of this report.

21.1.4.2 Loss due to procurement of fans at higher rates - Rs 3.945 million

As per Rule-9 of the PP Rules, the procuring agency shall announce in an appropriate manner all proposed procurements (work) for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements (works) so planned. As per Rule-12 procurement over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency.

Pakistan Bait-ul-Mal constituted a committee for procurement of pedestal fans for IDPs (Internal Dislocated Persons). The committee obtained faxed quotations of M/s GFC Fans and M/s Wahid Industries Ltd. (the manufacturer of Pak. Fans); while a quotation from an intermediary, namely M/s S.N. Enterprises was also received on May 21, 2009. M/s GFC quoted Rs 2,450 for 22" fan, M/s Wahid Ind. quoted Rs 2,350 for 22" and Rs 2,450 for 24" fan, and M/s S.N. Enterprises quoted for Pak. Fans @ Rs 2,290 for both the sizes, The management issued a supply order on same day i.e. on May 21, 2009 to M/s S.N. Enterprises for supply of 5,000 pedestal Pak Fans @ Rs 2,290 at a total cost of Rs 11,436,260. The supplier supplied fans of different inferior brands of ordinary qualities i.e. Punjab fans, NGS fans, Rahat fans etc.

The rates of fans of these brands were not more than Rs 1,500 as confirmed from the market (the rate of M/s Punjab fans ranged between Rs 1,450 to Rs 1,650).

The management was required to procure the fans from the brand manufactures instead of passing out the order to a middleman. Due to procurement of fans of ordinary brands from a middleman at higher rates the formation sustained a loss of Rs 3,945,260 (Rate of Pak fan Rs 2,290 – Rate of Punjab fan Rs 1,500 = Rs 790 x 4,994 fans).

The matter was reported to the management on April 2, 2010 and the Ministry on December 4, 2010. The management in its reply dated December 13, 2010 stated that the supplier was given only three days to complete the delivery of fans. M/s SN Enterprises completed the supply order in short time through different stockists. The reply was not acceptable as the firm in its offer quoted rates for the supply of Pak Fans, and the management also issued supply order specifically mentioning brand names 'Pak Fans'. Thus, the supplier was bound to supply the Pak Fans but the firm supplied fans of different cheap brands of inferior quality.

DAC in its meeting held on January 7, 2011 was not satisfied with the management reply and directed to inquire the matter through Joint Secretary Ministry of Social Welfare and Special Education within fifteen days. No progress was reported till finalization of this report.

21.1.4.3 Procurement of fax machines on single tender basis - Rs 1.419 million

Rule-42 of Public Procurement Rules, 2004 clarifies the alternate method of procurements. As per sub-section-C of the said rules a procuring agency shall only engage in direct contracting if the following conditions exist,

i. The procurement concerns the acquisition of spare parts or supplementary services from original manufacturer or supplier;
ii. Only one manufacturer or supplier exists for the required procurement.

Rules – 10 further provides that specification shall allow the widest possible competition and shall not favor any single contractor or supplier nor put others at a disadvantage. Specifications shall be generic and shall not include references to brand names, model number, catalogue numbers or similar

classification. However, if the procuring agency is convinced that the use of or a reference to brand name or a catalogue number is essential to complete an otherwise incomplete specification, such use or reference shall be qualified with the words "or equivalent".

Bait-ul-Mal (HO), Islamabad made procurement of 60 KX model fax machines for District Offices on single source basis from M/s Mansha Brothers, Islamabad on the plea that the firm was sole distributor of the said product in Pakistan. M/s Panasonic Corporation, Japan vide its letters dated December 26, 2007, October 23, 2008 and February 12, 2009 declared M/s Mansha Brothers as their authorized distributor of UF Model Fax Machines only. The firm was not the sole proprietor/distributor of KX Model fax machines. This resulted in mis-procurement of 60 fax machines @ Rs 23,642 amounting to Rs 1,418,518 on single source basis from an unauthorized dealer on May 21, 2009

The matter was reported to the management on April 2, 2010 and the Ministry on December 4, 2010. The management in its reply dated July 30, 2010 stated that fax machines were purchased on single quotation basis in terms of Rule – 42 (C) (ii) of PPRs. The management replied on December 13, 2010 that fax machines were purchased through M/s Mansha Brothers who was the sole authorized distributor of Panasonic in Pakistan. The reply was not convincing because M/s Mansha Brothers was not the sole distributor of fax machines in Pakistan and by mentioning specific model number, the management had violated Rule – 10 of PP Rules.

DAC in its meeting held on January 7, 2011, observed that fax machines of specific model and brand were procured in violation of the rules and directed to investigate the matter at Ministry level and submit report within 15 days. No progress was reported till finalization of this report.

21.1.4.4 Non-deposit of GST by the supplier into treasury - Rs 1.577 million

As per section – 3 (a) of Sales Tax Act, 1990, there shall be charged, levied and paid a tax known as sales tax at the rate of sixteen (16) percent of the value of taxable supplies made by a registered person in the course of any taxable activity carried on by him. Moreover, as per certificate of registration issued to

M/s S.N. Enterprises, the firm was required to charge sales tax on all taxable supplies made during the course of taxable activity, file a return in the designated bank relating to a month on or before the 15 of the following month.

Pakistan Bait-ul-Mal placed a supply order on M/s S.N. Enterprises on May 21, 2009 for the supply of 5,000 pedestal fans at a total cost of Rs 11,436,260 (@ Rs 2,290 per fan including GST). Management paid Rs 1,577,415 on account of GST. It was observed from the return of the supplier that the supplier had not deposited the said amount in Government treasury. Thus, due to non-deposit of GST amount into Government treasury by the supplier, received from PBM, government sustained a loss of Rs 1.577 million

The irregularity was reported to the management on April 2, 2010 and the Ministry on December 4, 2010. The management in its replies dated July 30, 2010 and December 13, 2010 stated that as per Sales Tax Rule, PBM had to deduct 1/5th portion of the sales tax. PBM ensured its responsibility by deducting the amount and depositing the same in Government Treasury. The reply was not acceptable as during audit no record was provided which showed that the management deposited 1/5th of the sales tax. Further, the management was required to get verify the return of the supplier to ensure deposit of sales tax amount into Treasury.

DAC in its meeting held on January 7, 2011 directed the management to refer the case to FBR for recovery of GST amount from the relevant party. No progress was reported till finalization of this report.

21.1.4.5 Un-authorized overstay of an officer beyond the age of superannuation – Rs 0.649 million

As per PBM Service Regulations as well as Pakistan Service Code, an employee shall retire from service on completion of the 60th year of his age. Further, as per Establishment Secretary's DO letter dated January 28, 1989 re-employment beyond the age of superannuation in all cases required the approval of the Prime Minister.

Mr. Allah Bakhsh Malik joined Pakistan Bait-ul-Mal (PBM) as Director (Administration) w.e.f. January 18, 2009 on deputation in pursuance to the Establishment Division Notification dated January 17, 2009. The date of superannuation of the officer was March 2, 2009. Being Director Admn, the officer kept his personal record in his own custody and continued to serve the organization after the date of superannuation i.e. March 2, 2009. The officer was relieved of his service on August 26, 2009. Thus, the officer un-authorizedly over stayed in the organization from March 2, 2009 to August 25, 2009. The un-authorized overstay in the organization resulted in irregular payment of Rs 649,065 on account of pay and allowances (Rs 556,065 for the period from March 03, 2009 to August 26, 2009) and other fringe benefits (fuel of vehicle Rs 93,000).

The irregularity was reported to the management on April 2, 2010 and the Ministry on December 4, 2010. The management in its replies dated July 30, 2010 and December 13, 2010 admitted the facts and stated that the officer was civil servant and it was not mentioned in terms and conditions of his deputation that the officer was going to retire on March 2, 2009 on attaining the age of superannuation. It was also stated that the officer submitted an application to retain him for three years, therefore, he was retained by the competent authority but due to non-receipt of response from the Prime Minister's Secretariat, he was relieved on August 26, 2009. The reply was not acceptable as per Government policy and service rules of PBM; the age of superannuation is 60 years. PBM was aware of the date of availing retirement as it initiated a summary for extension, allowed to work beyond his superannuation, and made irregular payment.

DAC in its meeting held on January 7, 2011, directed the management to serve a notice to the officer for recovery through Establishment Division. No progress was reported till finalization of this report.

21.1.4.6 *Loss due to release of bid money to a defaulting firm – Rs 0.690 million*

As per general terms and conditions of supply order issued to M/s Faisal Traders for supply of Uniforms and Hosiery for NCRCL students, if contractor fails to deliver the items within the specified period or as per specification/sample, then PBM Authority shall take action on any of the following:-

a. To recover from him liquidated damages levied at the rate of 2% per day (maximum 10%) of cost of undelivered items.
b. To purchase from anywhere without notice to him at his risk and cost, the items not delivered, without canceling the contracts in respect of the consignment.
c. To cancel the contract at his risk and cost along with forfeiture of earnest money/call deposit.

PBM Islamabad issued a supply order for the supply of uniforms for the students of National Centre for Rehabilitation of Child Labour (NCRCL) to M/s Faisal Traders, Lahore on March 31, 2009 being lowest firm at his quoted price of Rs 17,343,501 (Rs 653.50 per boy uniform and Rs 670.50 per girl uniform). The party deposited Rs 690,000 with PBM as call deposit/bid money. The delivery of store was to be completed within 30 days from the issuance of supply order.

The firm failed to supply the uniforms within target time i.e. up to April 30, 2009. On May 07, 2009, the firm submitted 151 samples; however, the inspection committee rejected the same being inferior in quality. The management cancelled the contract and released the bid money of Rs 690,000 to the defaulting contractor. As the supplier had failed to provide the uniform within specified time as per specification, the management was required to invoke the penalty clause, as specified in the general terms and conditions of contract by forfeiting call deposit/bid money of the firm and initiating risk and cost action against the firm. However, the management released the call deposit amount to the defaulting contractor. The release of call deposit to a defaulting firm resulted in loss of Rs 690,000 to the PBM.

The matter was reported to the management on April 2, 2010 and the Ministry on December 04, 2010. The management in its replies dated July 30, 2010 and December 13, 2010 stated that the inspection committee rejected the sample of uniform due to inferior quality and proposed that supply order may be withdrawn and the proposal was approved by the MD. Management further stated that this was the supplier's own money, which was released to the firm. The reply was not acceptable as it was clearly mentioned in the terms and conditions of supply order that in case of failure in supply of store, the contract shall be cancelled with forfeiture of earnest money/call deposit.

DAC in its meeting held on January 7, 2011 directed the management to provide all the relevant record with regard to change of policy, Board's approval and no purchase of uniform afterward etc. to audit for verification. No record was provided till the finalization of this report.

Chapter - 22
Ministry of Science and Technology

22.1 Pakistan Science Foundation

22.1.1 Introduction

Pakistan Science Foundation (PSF) was established on February 2, 1973 under PSF Act 1973. It is working under the Ministry of Science and Technology. The organization has no share capital rather it receives development and non- development grants from the Government of Pakistan.

The main objectives of the Foundation are to promote and finance scientific activities having a bearing on socio-economic needs of the country.

The Foundation is functioning as a financing agency for:

i. Establishment of comprehensive scientific and technological information and dissemination centre;
ii. Promotion of basic and fundamental research in the universities and other institutions on scientific problems relevant to the economic development of the country;
iii. Utilization of results of scientific and technological research including pilot plant studies to prove the technical and economic feasibility of processes found to be promising on a laboratory scale;
iv. Grant of awards, prizes and fellowships to individuals engaged in developing processes, products and inventions of consequence to the economy of the country.

The management furnished copy of the audited accounts of the Foundation for the year 2008-09 but auditors' report was undated. The management, however, failed to provide audited accounts for the year 2009-10 by December 31, 2010.

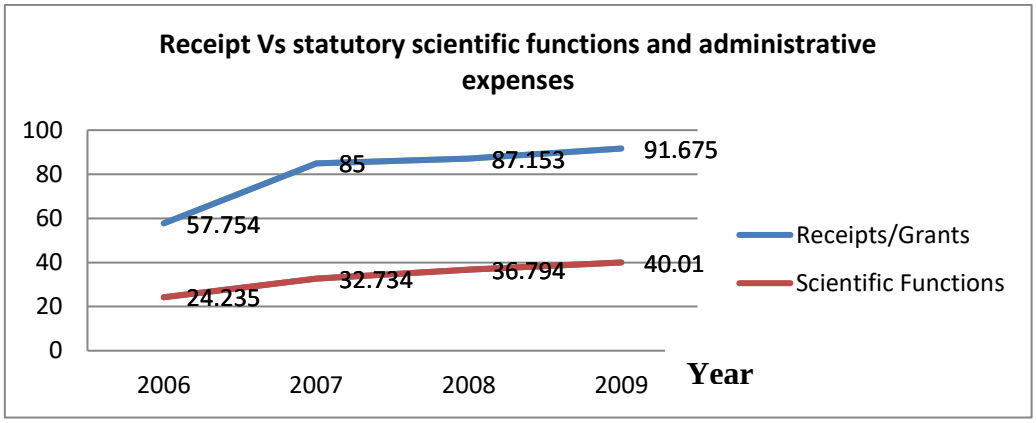
22.1.2 Comments on Audited Accounts

22.1.2.1 The working results of the Foundation for the year 2008-09 as compared with those of preceding years are as under:-

(Rs in million)

	2008-09	% Inc/ (Dec)	2007-08	% Inc/ (Dec)	2006-07
Income					
Grant from Federal Government	91.675	5	87.153	3	85.000
Other income	-	-	-	-	0.024
Total income	91.675	5	87.153	3	85.024
Expenditure					
Scientific functions	40.009	9	36.794	12	32.734
Administrative expenses	52.049	2	51.028	6	48.000
Total expenses	92.058	5	87.822	9	80.734
Prior year adjustment	0.013	-	(0.049)	-	-
Total expenditure	92.045	5	87.871	9	80.734
Excess/(deficit)	(0.370)	(48)	(0.718)	-	4.290

Source: Annual Audited Accounts



The grant from Federal Government increased by 5 % to Rs 91.675 million in the year 2008-09 as compared to previous year 2007-08 (Rs 87.153 million).

The expenditure incurred on Statutory Scientific Functions was 43.64 %, 42.22% and 38.51% of the total grant received from the Federal Government in 2008-09, 2007-08 and 2006-07 whereas administrative expenses were 56.78 %, 58.55% and 56.47% of the grant received in 2008-09, 2007-08 and 2006-07 respectively. The management was required to control the administrative

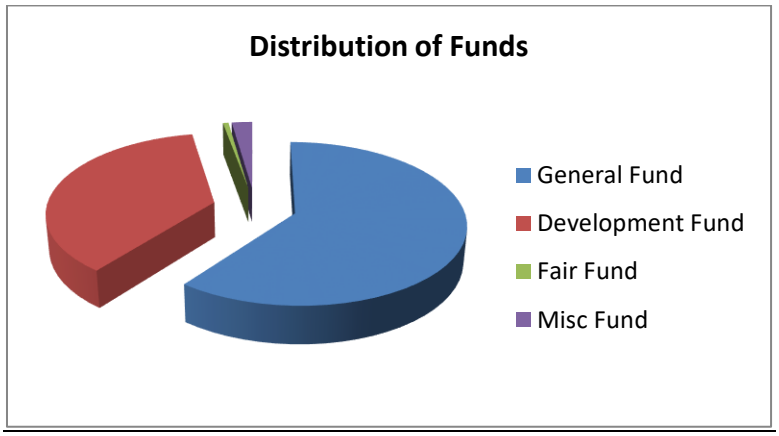
expenses and expend more funds on its statutory functions instead of administrative expenditure. Increase in non-development expenditure needs to be justified.

22.1.2.2 Expenditure incurred on science fairs was NIL as compared to the previous year figure of Rs 1.278 million. The reasons for not organizing science fair during the year under review may be stated.

22.1.2.3 The financial position of the Foundation as on June 30, 2009 is given here under:-

(Rs in million)

	2008-09	**% Inc/ (Dec)**	**2007-08**	**% Inc/ (Dec)**	**2006-07**
Funds	40.436	(8)	43.775	2	42.578
Research support grant-Contra	98.261	11	88.399	3	85.515
Security deposits payable	0.027	(10)	0.030	(91)	0.351
Total	**138.725**	**5**	**132.204**	**3**	**128.445**
Property, plant and equipment	36.611	(8)	39.754	7	37.050
Long term deposits	1.917	19	1.617	-	1.617
Research projects in progress- Contra	98.261	11	88.399	3	85.515
Advances	0.425	(36)	0.664	(53)	1.411
Cash and bank balances	1.510	(15)	1.770	(38)	2.851
Total	**138.725**	**5**	**132.204**	**3**	**128.445**



22.1.2.4 An amount of Rs 98.261 million as on June 30, 2009 (2008: Rs 88.399 million) appeared as research projects in progress. A complete detail of projects in hand, their expected date of completion and expenditure incurred on these projects up to June 30, 2009 need to be stated. The nature and basis of Rs 300,000 paid to CMH, Rawalpindi as long-term deposit may be clarified.

Ratio Analysis

a. **Personnel Cost Ratio:** Shows how much is expended on salaries and wages to employees.

As compared to the previous year percentage, salaries and benefits to employees increased despite suffering from a deficit in the current year as well. Steps should be taken to control the salaries and benefits given to the employees as this covers a significant portion of expenses.

b. **Days cash in hand (DCIH)**

Shows the number of days cash stays in hand, greater number of days provide cushion for unexpected expenses and investments. Acceptable number of days should be greater than 10.

Total grant for expenses		Rs 91.675 million
Less: depreciation		Rs (4.743) million
		Rs 86.932/ 365 days
Daily expenses		Rs 0.238 million
DCIH		Cash and Cash equivalents
		Daily expenses
	=	Rs 1.510 million
		Rs 0.238 million
	=	6.3 days

Calculation of DCIH shows that the number of days was below 10. The entity might face problem if there is an unexpected expenses incurred or while paying to creditors. PSF should take steps to improve this.

22.1.3 COMPLIANCE OF PAC DIRECTIVES

Detail of Paras in which PAC Directives were not complied with:

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1990-91	01	01	--	100
2.	1991-92	03	03	--	100
3.	1992-93	02	02	--	100
4.	1993-94	03	03	--	100
5.	1994-95	06	06	--	100
6.	1995-96	02	02	--	100
7.	1996-97	03	03	--	100
8.	1997-98	05	05	--	100
9.	1999-00	02	02	--	100
10.	2000-01	09	09	--	100
11.	2005-06	05	05	--	100
12.	2008-09	11	09	02	82

The compliance of the PAC directives was satisfactory.

22.1.4 Audit Paras

22.1.4.1 Loss due to premature withdrawal of investment - Rs 33.551 million

As per investment, policy circulated by the Finance Division vide OM No.F.4(1)/2002-BR-II dated July 2, 2003 the Public Sector Enterprises and autonomous bodies should determine their working balances with the approval of Administrative Ministry in consultation with Finance Division. They should deposit their working balances required for their operations with any public or private bank in a transparent manner.

PSF, Islamabad invested an amount of Rs 500.00 million with NBP, Main Branch, Islamabad @ 10.40% p.a. for a period of 10 years w.e.f. March 08, 2008 without determining its working balances. On July 06, 2009, the amount was

withdrawn and the bank recovered penalty of Rs 33,551,315 (Profit earned Rs 56,157.586 – amount received Rs 22,586,271) on account premature withdrawal of investment. This resulted in a loss of Rs 33.551 million.

The loss was reported to the management on October 04, 2010 and the Ministry on December 6, 2010. The management in its reply dated December 23, 2010 stated that due to change in rate of interest, the funds were prematurely withdrawn from the bank and were reinvested at better rates. The reply was not acceptable, as the management did not determine working balance; made investment on long term basis and sustained loss due to its premature withdrawal.

DAC in its meeting held on January 3, 2011, showed its concern over investment policy and directed the management to review its investment policy with a view to get best possible return on investment and produce record to audit for verification. No progress was reported till finalization of this report.

22.1.4.2 Wasteful expenditure due to non-completion of projects – Rs 1.984 million

In terms of clause-10 of the agreement, the party will refund the expenditure incurred on the project in case it fails to complete the same within the stipulated time. Further, as per specific condition stipulated in the PSF brochure titled, "Grants for Scientific Research" the request for an extension in expiry date of the project for less than six months must be received by the Foundation three months prior to the expiry date of the project.

i. Pakistan Science Foundation entered into an agreement with the Director, Center of Excellence in Marine Biology University (CEMBU), Karachi on June 12, 2007 for completion of the project, "Hatchery Culture of Commercially Important Oysters" at total cost of Rs 993,480. The project was required to be completed within two years i.e. up to August 31, 2009. The project was started on September 01, 2007 but could not be completed within the scheduled period. After expiry of completion period, the management extended the project for three months up to November 2009 but the project could not be completed within the extended period.

This resulted in wasteful expenditure of Rs 832,278, due to non-completion of project.

ii. A Project, "Role of Testosterone and Cytokines Interaction during Fertility Regulation" was awarded to Department of Biological and Biomedical Sciences of Agha Khan University in March 2007. The project was to be completed in 2½ years at a total cost of Rs 990,762 with starting date of January 01, 2007. After incurring expenditure of Rs 482,000, the management wound up the project due to resignation of the Principal Investigator (PI), which resulted in wasteful expenditure.

iii. A project, "Establishment of Sustainable Model Agriculture Farm in Basol Area, Balochistan using wind energy and drip Irrigation system" was awarded to Director General, Pakistan Museum of Natural History, Islamabad at a total cost of Rs 2,620,650 with a completion period of three years from June 1, 2004. After incurring expenditure of Rs 669,627, the project was closed. This resulted in wasteful expenditure of Rs 669,627.

The matter was reported to the management on October 04, 2010 and the Ministry on December 6, 2010. The management in its reply dated December 23, 2010 stated that project of Hatchery Culture had not been abandoned but was being delayed due to law and order situation in Karachi. The Project regarding Role of Testosterone was closed and last technical report submitted by the P1 is under process of evaluation. The project at Sr. No. iii above was closed earlier due to high floods in July 2007 which damaged the site of the project. The reply was not convincing as the expenditure of Rs 1.984 million had gone waste and approval for closure of the projects was not obtained from the competent authority.

DAC in its meeting held on January 3, 2011, showed its concern over delay in completion of projects. The Committee directed the management to complete the project titled 'Hatcherry Culture' and take action for the completion of other two projects or refund the released amount. No action was taken till finalization of this report.

22.1.4.3 Loss due to investment of funds at lower rate – Rs 21.622 million

In accordance with Finance Division letter dated July 2, 2003, public sector enterprises and autonomous bodies should deposit their working balances required for their operations with any public or private bank in a transparent manner based on competitive bids from at least three independent banks. Further, Pakistan Science Foundation (PSF) established a fund; the main objective of fund was to utilize the profit earned from the investment on research projects relating to enhancement of agriculture production in Pakistan.

PSF, Islamabad received grants of Rs 249.455 million for Natural Science Linkage Programme (NSLP) from Ministry of Science and Technology/ Government of Pakistan on December 24, 2005. For investment of working balances, the management obtained profit rates from 11 banks. As per comparative statement, Bank Alfalah quoted the highest rate of profit i.e. 10.25% per annum on investment for short-term basis where as National Bank of Pakistan quoted the lowest rate of 7.60% per annum.

Contrary to the instructions, the PSF kept an amount of Rs 249.455 million in PLS Account with National Bank of Pakistan @ Rs 7.60 per annum instead of investing the same with Bank Alfalah, @ Rs 10.25 per annum. This resulted in loss of Rs 21.622 million from April 13, 2006 to March 07, 2008.

The loss was pointed out to the management on October 04, 2010, and the Ministry on December 6, 2010. The management in its reply dated December 23, 2010 stated that the funds were invested with NBP for security. The reply was not acceptable as the management collected the interest rates from 11 banks but did not invest its surplus funds on higher rates.

DAC in its meeting held on January 3, 2011 directed the management to provide all the record regarding its investment policy to the audit for verification within one week. No progress was reported till finalization of this report.

22.1.4.4 Wasteful expenditure due to hiring of office building without requirement – Rs 0.600 million

As per Finance Division's OM No.F.15(13)R-14/82 dated September 5, 1982 the funds provided, acquired or generated by the autonomous/semi-autonomous bodies and corporations are public funds, which cannot be utilized at the sole discretion of the management. The funds should be utilized with due care and caution strictly in accordance with the prescribed rules or specific orders of the Government.

Pakistan Science Foundation hired a vacant portion from Pakistan Academy of Sciences for a period of three years on monthly rent of Rs 50,000 w.e.f. August 1, 2007 vide lease agreement dated October 29, 2007. The Foundation paid an amount of Rs 600,000 as one year advance rent vide cheque dated November 26, 2007 without obtaining physical possession. The Foundation had sufficient vacant space in its own multi-storey building for running the activities of Natural Science Linkage Programme (NSLP). Non-utilization of hired building resulted in wasteful expenditure of Rs 600,000.

The loss was reported to the management on October 04, 2010 and the Ministry on December 6, 2010. The management in its reply dated December 23, 2010 stated that on signing the agreement, the possession of building was legally passed on to PSF but posts for NSLP were delayed due to delay of BOG meeting. In the meantime, space in PSF building was created for NSLP to avoid additional expenditure. The reply was not convincing because the building was hired without any requirement and rent was paid without its utilization.

DAC in its meeting held on January 3, 2011, showed its concern over hiring of building without any requirement. The Committee directed the Member Finance of PSF to inquire the matter within two weeks. No action was taken for wasteful expenditure till finalization of this report.

Chapter-23
Ministry of Textile Industry

23.1 National Textile University

23.1.1 Introduction

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 administrative control of Pakistan Institute of Textile Technology, Faisalabad with effect from July 01, 1976. It was renamed as "National College of Textile Engineering in 1983. 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, 2002 dated November 15, 2002. It was being controlled by Board of Governors consisting of 17 members, 07 from APTMA, Vice Chancellor LUMS and UET, Secretary, Ministry of Textile, Textile Commissioner, a representative from Government of Punjab, Khyber Pakhtunkhwa (KPK)and Higher Education Commission.

The main purpose of the University is the promotion and dissemination of knowledge and technology in textile, determination of courses of study in textile education and to provide for instruction, training, research, demonstration and service in the said areas of learning.

The details of passing out students during 2006 to 2009 are as under:-

Intake Year	No. of Disciplines	Total Intake during the Year	Pass out Year	Pass out Students	% of pass out to Intake
2002	04	180	2006	142	79
2003	04	228	2007	206	92
2004	04	172	2008	159	82
2005	04	173	2009	141	78
2006	04	172	2010		

The pass out ratio of the University was 92% in 2007 which decreased to 78% which shows that University management failed to maintain to impart

quality education to students due to hiring the below standard faculty. The decrease in pass out ratio may be justified with full facts and figures.

The students - teachers ratios of the University are as under:-

Year	No. of Students	No. of Teachers	Ratio
2005	675	42	16:1
2006	682	45	15:1
2007	716	47	16:1
2008	744	41	18:1
2009	744	36	21:1
2010	1224	64	18:1

The student, teacher's ratio was 16:1 in 2005, which could not be maintained in the coming years, which needs justification.

As per HEC targets, the minimum qualification for University teachers must be Ph. D. so that maximum research work is performed in the universities. There were only five Ph.D. qualified members in the teaching faculty during 2007, which increased to nine during 2010. The details of efforts being made to enhance the number of Ph.D. scholars may be communicated to audit. The university has also send six faculty members abroad for higher study the latest status of their study may be communicated.

The University was producing qualified engineers in Yarn Manufacturing, Fabric Manufacturing, Textile Chemistry, Garment Manufacturing and Polymer Engineering for higher management position in the textile sector. There was no course for the middle, lower middle manager and supervisor's positions as well as for PhD scholars in the textile industries. The management may consider the initiation of two years diploma courses after F.Sc. for students who cannot get admission in the four years B.Sc. degree and Post Graduate Diplomas or PhD courses for students who want to involve in research and development of the relevant field.

Comparative figures of income and expenditure account, cash flow statement and related notes were not comparable because the financial statements of the last year were prepared for the period of six months due to change in accounting year. Moreover, the comparative figures of income and expenditure

account and related notes have been re-arranged in accordance with the head of account of budget Proforma of HEC.

23.1.2 Comments on Audited Accounts:-

23.1.2.1 The working results of the University for the year 2009-10 as compared to the first six months of 2009 and calendar year of 2008 and 2007 are as under:-

(Rs. in million)

Description	2009-10	Proportionate % Inc / (Dec)	Jan-09 to June-09	Proportionate % Inc / (Dec)	2008	% Inc / (Dec)	2007
Grant from Higher Education Commission (HEC) for recurring	50.000	-	-	-	-	-	-
Grant from HEC for Tenure Tack Faculty	0.731	-	-	-	-	-	-
Textile cess for recurring	3.774	(73)	6.987	57	8.875	118	4.086
Grant from APTMA	-	-	-	-	4.500	(75)	18.000
Total Grants	**54.505**	290	**6.987**	4	**13.375**	(39)	**22.086**
Fee income	86.978	116	20.091	6	37.731	28	29.564
Contribution from Endowment Trust – net	8.859	-	-	-	3.493	(40)	5.795
Income from sample testing and consultancy	0.456	12	0.203	(23)	0.525	(36)	0.818
Income from short courses	-	-	0.005	(97)	0.294	(78)	1.331
Other income	8.968	205	1.469	(37)	4.684	(39)	7.683
Total income from Own Sources	**105.261**	142	**21.768**	(7)	**46.728**	3	**45.191**
Grants amortized during the year	1.161	-	-	-	-	-	-
Net Income / Sources	**160.927**	180	**28.755**	(4)	**60.102**	**(11)**	**67.277**
Expenditure							
Salaries, wages and other benefits	62.044	31	23.607	(14)	55.132	19	46.158
Employees retirement benefits	5.918	(20)	3.683	-	-	-	-
Repair and maintenance	6.575	215	1.043	(61)	5.410	37	3.940
Communication	1.293	65	0.391	(13)	0.897	(2)	0.913
Utilities	13.243	56	4.257	-	-	-	-
Motor vehicle insurance and registration	0.178	107	0.043	-	-	-	-
Travelling and transportation	1.811	87	0.484	-	-	-	-
Printing and stationery	1.654	74	0.476	74	0.547	(26)	0.735
Remuneration to part-time / visiting teachers	4.076	2	2.001	-	-	-	-
Merit scholarships and gold medals	2.383	200	0.397	-	-	-	-
Bonus	2.514	-	-	-	-	-	-
Other / Misc. expenses	11.083	116	2.571	(61)	13.181	5	12.586
Expenses before depreciation	**112.772**	45	**38.953**	4	**75.167**	17	**64.332**
Surplus / (Deficit) before depreciation	**48.155**	-	**(10.198)**	35	**(15.065)**	-	**2.946**
Depreciation	14.192	16	6.129	(9)	13.453	-	13.439
Surplus / (deficit) after depreciation	**33.963**	-	**(16.327)**	**17**	**(27.969)**	**167**	**(10.493)**
Previous year deficit B/F	(79.557)	37	(63.230)	259	(35.261)	42	(24.768)
Accumulated deficit C/F to balance sheet	**(45.594)**	**(71)**	**(79.557)**	**152**	**(63.230)**	**79**	**(35.261)**

Source: Annual Audited Accounts

The reason for increase in income from own sources was start of new discipline i.e. BBA-(Hons), BBA-Textile and Management, BS Computer Science, Bachelor of Fashion and Design, Master Business Administration and M.Sc Textile Engineering. The expenditure of the University increased to Rs 126.964 million in 2009-10 from Rs 45.082 million in first six months of 2009 and Rs 88.072 million in 2008, thus there was an increase in expenditure by 45% during 2010 as compared to proportionate average of first six months of 2009.

23.2.2 The expenditure under the head repair maintenance increased to Rs 6.575 million during 2009-10 as compared to Rs 1.043 million in first six months of previous year, thus there was a proportionate increase by 215% as compared to first six months of last year. Similarly, there was more than 50% increase under the heads Communication and Utilities during 2009-10. The expenditure under the heads Motor vehicle insurance and registration, travelling and transportation and printing and stationery increased proportionately by 107%, 87% and 75% respectively during 2009-10 as compared to first six months of 2009. The increase in expenses under above heads may be justified. This needs to be explained.

23.1.2.3 Availability of latest journals play an important role in improvement of latest knowledge of the students and faculty it was subscribing to 33 national/international textile journals during 2008. It was observed that University has paid an amount of Rs 553,627 because of subscription to 28 journals during six months of 2009, which decreased to Rs 24,700 only. The continuous decrease in subscription to national / international textile journals needs justification.

23.1.2.4 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 expedited to save the property of the University.

23.1.2.5 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, Rs 54.063 million on June 30, 2009 and decreased to Rs 15.042 million on June 30, 2010. Early completion of capital work in progress is stressed upon the management.

23.1.2.6 The current ratios of the University from 2005 to 2010 were as under:-

(Rs in millions)

Year	Current assets	Current liabilities	Current Ratio
2005	70.222	8.814	7.97
2006	87.699	8.744	10.03
2007	102.827	11.153	9.22
2008	73.727	13.559	5.44
2009	60.653	7.750	7.83
2010	42.104	14.195	2.97

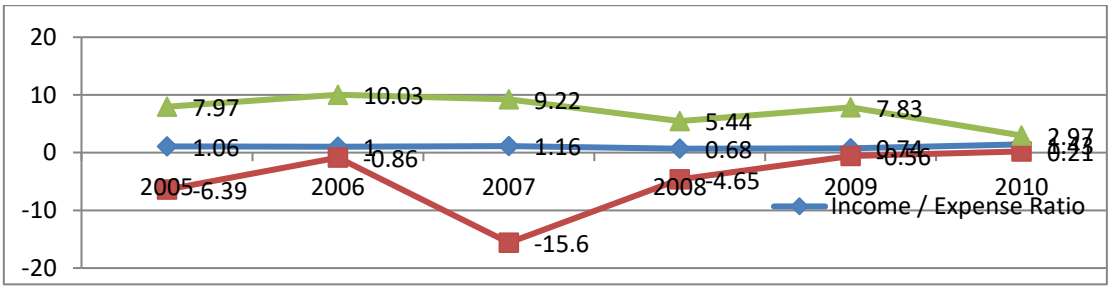


Figure 1 Profit Ratio

Current ratio, income / expense ratio and net income ratio was 7.97 which increased to 10.03, 9.22, 7.83 and 2.97 from 2006, 2007, 2008, 2009 and 2010 respectively. The current ratio was 1.06 in 2005, which was 1, 1.16, 0.68, 0.74 and 1.43 during the same period. The net income ratio was -6.39 in 2005 which improved to -0.86 2006, again decreased to -15.6, in 2007 and again improved to -4.65, -0.56 and 0.21in 2008, 2009 and 2010 respectively. The management is advised to remain within resources with the best Cash and Human Resource Management.

23.1.3 COMPLIANCE OF PAC DIRECTIVES

Detail of Paras in which PAC Directives were not complied with:

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	2008-09	08	04	04	50

The compliance of the PAC directives was highly unsatisfactory.

Chapter-24
Ministry of Tourism

24.1 Pakistan Tourism Development Corporation Limited

24.1.1 Introduction:

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 connected herewith in Pakistan and elsewhere.

24.1.2 Comments on Audited Accounts

The management failed to provide approved audited accounts of the Company for the year 2007-08 to 2009-10 by January 15, 2011.

24.1.3 COMPLIANCE OF PAC DIRECTIVES

Detail of Paras in which PAC Directives were not complied with:

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1	1988-89	07	07	--	100
2	1989-90	17	13	04	76.47
3	1990-91	03	03	--	100
4	1991-92	12	03	09	25
5	1992-93	06	04	02	66.66
6	1993-94	10	10	--	100
7	1994-95	05	01	04	20
8	1995-96	01	01	--	100
9	1996-97	11	11	--	100
10	1997-98	10	04	06	40
11	1999-00	04	04	--	100
12	2000-01	04	04	--	100
13	2001-02	01	01	--	100
14	2005-06	02	02	--	100
15	2008-09	06	02	04	33

The compliance of the PAC directives was highly unsatisfactory. The PAO is advised to ensure 100% compliance of the PAC directives at the earliest.

24.2 PTDC Motels North (Private) Limited

24.2.1 Introduction:

PTDC Motel North (Pvt) Limited was incorporated in Pakistan 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.

24.2.2 Comments on Audited Accounts

The management failed to provide approved audited accounts of the Company for the year 2009-10 by January 15, 2011.

24.2.3 COMPLIANCE OF PAC DIRECTIVES

Detail of Paras in which PAC Directives were not complied with:

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1	1988-89	06	06	--	100
2	1989-90	05	05	--	100
3	1990-91	01	01	--	100
4	1991-92	05	03	02	60
5	1992-93	04	04	--	100
6	1993-94	01	01	--	100
6	1995-96	04	04	--	100
7	1996-97	01	01	--	100
8	1999-00	01	01	--	100
9	2000-01	03	03	--	100
10	2001-02	01	01	--	100
11	2005-06	02	02	--	100
12	2008-09	04	02	02	50

The compliance of the PAC directives was satisfactory.

24.3 Pakistan Tours (Pvt) Limited

24.3.1 Introduction

Pakistan Tours (Pvt) Limited was incorporated as a private limited Company under the Companies Act 1913 (now Companies Ordinance, 1984) on December 26, 1970. The Company is wholly owned subsidiary of Pakistan Tourism Development Corporation Limited whose entire share capital is owned and held by the Government of Pakistan through Ministry of Tourism. Since incorporation, there is no change in the pattern of shareholding of the Company.

The main objective of the Company is to promote tourism activities in the country. The Company is primarily engaged in the business of tour operations and transport services throughout Pakistan, especially in the northern areas. The Company also operates three routes to India, which are currently the main source of revenue of the Company. Due to deterioration in law and order situation in the country, the business of the Company (especially tourism) is adversely affected.

24.3.1.1 The management failed to provide audited accounts of the Company for the year 2009-10 by January 15, 2011.

24.3.2 Comments on Audited Accounts

24.3.2.1 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**
Revenue from operations	32.855	(10.75)	36.814	(11.21)	41.459
Cost of services	19.357	(3.82)	20.125	(20.52)	25.320
Gross income	13.498	(19.12)	16.689	3.40	16.139
Admn and general expses	17.565	4.16	16.863	11.11	15.177
Financial charges	0.080	(67.87)	0.249	(9.69)	0.227
Operating (loss)/ profit	(4.147)	880.38	(0.423)	(157.69)	0.735
Other income	0.007	(99.58)	1.619	-	0.003
Net profit/(loss) for the year	(4.140)	-	1.195	61.92	0.738

Provision for taxation	-	-	0.418	(62.02)	0.258
Profit/(loss) after taxation	(4.140)	-	0.777	61.87	0.480
Prior year adjustments	-	-	(0.014)	-	-
Accumulated (loss) B/F	(9.535)	(7.41)	(10.298)	(4.45)	(10.778)
Accumulated (loss) C/F	(13.675)	43.42	(9.535)	(7.41)	(10.298)

Source: Annual Audited Accounts

The revenue from operations decreased by 10.75% from Rs 36.813 million in 2007-08 to Rs 32.855 million in 2008-09 due to low revenue generated from transport services by Rs 1.041 million and tour operations by Rs 3.342 million. The revenue decreased by 10.75%, whereas cost of services decreased only by 3.82% from Rs 20.125 million in 2007-08 to Rs 19.357 million in 2008-09. Resultantly, gross profit margin decreased from 45% to 41%. Necessary steps may be taken to increase revenue especially from transport services and tour operations. The management should also control the operational cost.

24.3.2.2 Salaries, allowances, and others benefits to the employees increased by 27.29% to Rs 13.585 million during 2008-09 as compared with the previous year (Rs.10.672 million). Increase in salaries and allowances by 27.29% despite decrease in revenue by 10.75% may be justified. The Company suffered a loss of Rs 4.140 million in 2008-09. If this situation prevails over the next few years, the Company's future business prospects will be at stake and due to continuous increase in the administrative expenses the Company may not continue as a going concern. Therefore, the Company must explore some other business opportunities to continue as a self sustainable unit.

24.3.2.3 Financial Highlights

(Rs in millions)

	2008-09	**% Inc/ (Dec)**	**2007-08**	**% Inc/ (Dec)**	**2006-07**
Property, Plant and	0.704	(85.90)	4.994	(45.23)	9.110
Long term investment	0.170	-	0.170	(20.19)	0.213
Current assets	13.344	(5.70)	14.151	10.62	12.792
Total	14.218	(26.39)	19.315	(12.66)	22.115
Share capital	0.500	-	0.500	-	0.500
Accumulated losses	(13.675)	43.43	(9.535)	(7.41)	(10.298)
Noncurrent liabilities	2.167	1.74	2.130	(2.61)	2.187
Current liabilities	25.226	(3.79)	26.221	(11.79)	29.726
Total	**14.218**	**(26.39)**	**19.315**	**(12.66)**	**22.115**

Bank balances of Rs 8.405 million were kept in different current accounts as on June 30, 2009 (Rs 6.197 million as on June 30, 2008). Non- investment of surplus/excess funds in profit bearing accounts needs to be explained.

There were sufficient balances in bank accounts as on June 30, 2009. Reasons for non-clearing of bank overdraft of Rs 101,591 as appearing in the balance sheet may be justified.

24.3.2.4 Current ratio of the Company for the year 2008-09 was 1:0.53 as against 1:0.54 in previous year, which indicated the unsatisfactory liquidity position of the Company. Debtors turnover ratio for the year was 14.85 times (2007-08:9.32 times) which improved as compared to the previous year. However, efforts are required to make early recovery of trade debts of Rs 2.217 million.

24.3.3 COMPLIANCE OF PAC DIRECTIVES

Detail of Paras in which PAC Directives were not complied with:

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1	1989-90	06	06		100
2	1990-91	01	01	--	100
3	1993-94	01	01	--	100
4	1994-95	04	02	02	50
5	1995-96	01	01	--	100
6	1996-97	03	03	--	100
7	1999-00	04	04	--	100
8	2000-01	01	01	--	100
9	2001-02	01	01	--	100
10	2008-09	07	04	03	57

The compliance of the PAC directives was satisfactory.

Chapter-25
Ministry of Water and Power

25.1 National Engineering Services Pakistan (Pvt) Limited

25.1.1 Introduction

The Company was incorporated in 1973 under the Companies Act 1913 (now Companies Ordinance 1984). It is wholly owned by the Government of Pakistan and is engaged in engineering consultancy services through its Divisions/Offices at Lahore, Islamabad, Karachi, Peshawar and Quetta in Pakistan and Musqat, Oman, Riyadh and Kabul abroad.

25.1.1.1 The management failed to provide audited accounts of the Company for the year 2009-10 by December 31, 2010.

25.1.2 Comments on Audited Accounts

25.1.2.1 The working results of the Company for the year 2008-09 as compared with those of the previous years are tabulated below:

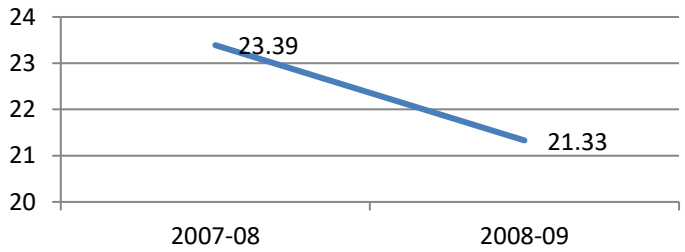
(Rs in million)

	2008-09	% Inc / (Dec)	2007-08	% Inc / (Dec)	2006-07	% Inc / (Dec)	2005-06
Consultancy services in Pakistan	3,527.373	33	2,660.342	22	2,176.456	41	1,540.041
Consultancy services outside Pakistan	804.317	31	615.370	69	363.188	45	251.325
Other income	214.776	86	115.543	276	30.690	179	10.996
Total income	4,546.466	34	3,391.255	32	2,570.334	43	1,802.362
Administrative, general and financial charges	3,411.250	36	2,513.337	20	2,095.928	30	1,617.226
Profit before taxation	1,135.216	29	877.918	85	474.406	156	185.136
Taxation	252.139	4	241.347	600	34.473	100	17.234
Profit after taxation	883.077	39	636.571	45	439.933	160	168.902

Source: Annual Audited Accounts

Operating profit ratio decreased from 23.39 % in 2007-08 to 21.33% in 2008-09, which indicated that the Company had not been able to control its

administrative costs, and even with increase in consultancy services fee income from Rs 3.276 billion in 2007-08 to Rs 4.332 billion in 2008-09, the operating profit ratio decreased.

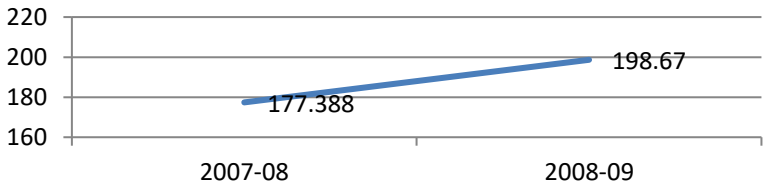


25.1.2.2 Sub consultancy fees increased from Rs 327.284 million in 2007-08 to Rs 540.500 million in 2008-09. The management should use its spare capacity in performance of contracts rather than awarding sub-consultancy work to other companies thereby causing a loss to government exchequer.

25.1.2.3 Contract fee receivable (considered good) increased to Rs 2,357.787 million as on June 30, 2009 from Rs 1,591.979 million as on June 30, 2008, showing an increase by 48%. Likewise, contract fee receivable considered doubtful also increased to Rs 453.780 million as on June 30, 2009 from Rs 374.425 million as on June 30, 2008, showing an increase by 21%. Steps may be taken to control the increasing trend in contract fee receivable considered good and contract fee receivable considered doubtful.

Debtor's turnover ratio (in days) is consistently increasing as shown in the graph.

25.1.2.4 Debtor **turnover ratio:**



Steps should be taken for early recovery of debts in order to improve working capital position of the Company.

25.1.2.5 Cash and bank balances as on June 30, 2009 included Rs 504.134 million kept in current accounts (Rs. 418.135 million as on June 30, 2008) which may have been invested in PLS saving accounts or TDRs to earn handsome interest. The working balances policy of the Company needs to be reviewed by the management in the light of Ministry of Finance letter dated July 3, 2003 to increase the other income.

25.1.2.6 The Company entered into an agreement in 2004 with the Government of Punjab for supervision of construction of Lahore Ring Road, the billing of which was based on percentage of cost incurred on the project. However, the Company changed the method of billing from January 2008 to the number of man-months spent on the project. The revised billing was disputed by the Government of Punjab up to June 30, 2008 and the approval of the revised basis of billing is still subject to the approval of Government of Punjab. In order to establish its claim, the Company raised bills amounting to Rs 119.550 million on a man-month basis for the year ended June 30, 2008 (Rs.122.956 million). However, such billing has not been recognized as revenue by the Company in the current or the preceding years due to pending resolution of the dispute with the Government. Neither the management is certain about economic benefits to the Company nor can it estimate such amounts reliably at this stage. Progress towards approval of the revised basis of billing may be stated.

25.1.2.7 Administrative expenses included an amount of bad debts of Rs 47.858 million written off in 2008-09 as compared to Rs 19.422 million written off in 2007-08. Sometimes clients awarded additional works for which no contracts were signed due to which payment against these additional works was not paid by the clients, which increased the bad debts. The management should control the increasing trend in bad debts written off and should make efforts to recover debts before those are turned into bad debts.

25.1.2.8 The division wise analysis of debtors shows that in certain divisions the pace of recovery was at the lowest as indicated in the table below.

Name of Office	Receivables	Provision	% of Debtors
A&P Karachi	166,357	61,102	37
A&P Lahore	78,432	33,614	43
P&M	202,724	46,622	23
WR	178,380	39,192	22
CM	63,993	34,075	53
Peshawar Office	19,217	12,403	65
GT&GE	197,022	42,856	22
SE	48,583	16,960	35
Riyadh RO	30,326	6,140	20
Muscat RO	10	10	100
Abu Dhabi	1,817	1,817	100

The poor recovery position needs to be explained in respect of these divisions along with the details of efforts made by the concerned in this regard.

25.1.3 COMPLIANCE OF PAC DIRECTIVES

Detail of Paras in which PAC Directives were not complied with:

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1988-89	07	06	01	86
2.	1989-90	06	06	--	100
3.	1990-91	04	04	--	100
4.	1991-92	05	03	02	60
5.	1992-93	02	02	--	100
6.	1993-94	04	04	--	100
7.	1994-95	03	03	--	100
8.	1995-96	06	04	02	67
9.	1996-97	04	03	01	75
10.	1999-00	03	02	01	67
11.	2000-01	08	08	--	100
12.	2005-06	08	06	02	75
13.	2008-09	10	02	08	20

The compliance of the PAC directives was unsatisfactory. The PAO is advised to ensure 100% compliance of the PAC directives at the earliest.

25.1.4 Audit Paras

25.1.4.1 Unjustified hiring of professionals on exorbitant rates - Rs 109.690 million

As per Paras 2 to 7 of Guidelines for Appointments of Consultants issued by the Establishment Division vide MS Wing's UO No. 11-3/2001-MSW-III dated January 25, 2002, in case the expertise needed, is not available in house or if available then justification for not under taking the assignment internally may be spelled out and demand so ascertained shall be widely advertised and the consultant shall not be appointed to perform routine functions of the organization.

Contrary to the above, NESPAK Central Office hired the services of engineers from NESPAK Foundation during 2008-09 and made payment of Rs 109.690 million. The payment was calculated by adding overheads @ 64.38% in the remuneration of the consultants and charging of 10% fee on the total in accordance with the article 4 of the agreement executed on January 21, 2008 between the parties.

NESPAK engaged its retired employees though NESPAK Foundation on the pretext of urgent need of their expertise on exorbitant rates. This resulted in unjustified expenditure of Rs 109,689,586 in a non-transparent manners.

The matter was reported to the management on August 9, 2010 and the Ministry on December 24, 2010. The management in its reply dated December 31, 2010 stated that NESPAK is a private limited Company and its affairs are controlled by its BOD and no financial assistance is received from the Government. It was also replied that criteria/guidelines contained in establishment Division U.O dated January 25, 2002 regarding appointment of consultants is not applicable on NESPAK. A few experienced staff was appointed through NESPAK Foundation as and when their expertise is essential for specific period and entire cost along with overheads and fee is reimbursable from clients.

The reply was not convincing as guidelines issued for appointment of consultants vide Establishment Division U.O dated January 25, 2002 were applicable in all Ministries/Divisions and organizations under the administrative control of Government as such NESPAK was required to hire the consultancy after widely advertisement.

DAC in its meeting held on February 07, 2011 agreed with the audit point of view and observed that no preferential treatment be given to the Foundtion. No progress reported till finalization of this report.

25.1.4.2 i. Excess payment on account of pay and allowances - Rs 1.651 million
ii. Unjustified expenditure on pay and allowance - Rs 2.243 million

As per Government of Pakistan, Ministry of Information and Broadcasting notification No. 303/19 dated April 30, 2010, Mr. Nasir Jamal (BPS-19) was transferred from Ministry of Information and Broadcasting to NESPAK on deputation basis for a period of three years, was entitled to draw deputation allowance @ 20% of his basic pay subject to maximum of Rs 6,000 per month.

As per para- 12 of the Establishment Division letter No. 1/13/87-R-I dated December 03, 1990, regarding terms and conditions of deputation the officer on deputation will continue to be under the control of the lending government in matters of pay, leave, pension, GP Fund etc. and these terms shall not be varied by the borrowing organization, without consulting the lending government. Further, para-15 of the said letter provides that if by reason of transfer to foreign service, the government servant looses any privilege or concession of pecuniary value which he would have enjoyed in government service or is constrained to incur extra expenditure due to circumstances in which those duties are performed, he may be allowed a compensatory allowance or other suitable concession with the prior concurrence of the competent authority.

I. The management of NESPAK informed the Ministry of Water and Power on April 30, 2009 that they did not need the services of non-technical personnel on deputation basis and they were unable to utilize the services of proposed GM Media on deputation basis. NESPAK was advised by the Ministry of Water and

Power on May 4, 2009 to create a Media Cell setup at Islamabad along with ancillary staff and other facilities as may be required by the GM Media. The officer was allowed pay and certain allowances at higher rates over and above the admissible in his parent department. This resulted in an excess payment of Rs 1,413,288 to the officer during the period from May 09 to June 2010. In addition, compensatory allowance @ Rs 17,000 per month was allowed to four officials attached with the said officer posted in Media Cell by NESPAK management without approval of Finance Division which resulted in excess payment of Rs 238,000 to the four officials from May, 2009 to June, 2010. The detail of excess payment to GM/officials of Media Cell of Rs 1,651,200 is enclosed in annexure-8.

Following observations are made in the light of annexure-8.

i. The officer was entitled to receive deputation allowance @ Rs 6,000 in the light of Notification of the Ministry of Information & Broadcasting whereas, he was allowed a number of allowances was violation of the Notification dated April 30, 2009.
ii. He was entitled either to draw House Rent Allowance @ Rs 9,840 per month being 45% of initial pay of BPS 19 or, allotment of an official accommodation prescribed for his scale. But the payment of Rs 19,956 per month instead of Rs 9,840 per month on this account was excess payment.
iii. The officer was Director in BPS-19, in the Ministry of Water and Power Islamabad and not General Manager NESPAK whereas he was paid GM allowance @ Rs 2,662 per month admissible to GMs of NESPAK.
iv. He was allowed Rs 500 per month as entertainment allowance as per LPC while he had drawn Rs 2,495 per month in NESPAK which was not admissible.
v. Utility allowance was not admissible to the officer whereas he has drawn Rs 3,492 per month.
vi. The office was not entitled to mobile phone facility in his parent department but he drew Rs 1,000 per month as mobile facility charges.

II. Media Cell was created in Islamabad on the orders of Ministry of Water and Power, Islamabad dated May 04, 2009 without approval of the Finance

Division. Hence total expense on pay and allowances of Rs 2,243,866 was held unjustified.

The matter was reported to the management and the Ministry on December 24, 2010. The management in its reply dated January 20, 2011 stated that NESPAK Board in its meeting held on November 5, 2009 approved creation of a Media Cell in Islamabad and his appointment and deputation along with ancillary staff and salary package. The reply was not acceptable as Media Cell in Ministry of Water and Power was created without approval of Fiance Divaion. The officer and officials posted in the Media Cell were got paid for NESPAK exhorbitantly in violation of the deputation policy.

DAC in its meeting held on February 07, 2011 directed the management to place the matter before Board through circulation for its re-consideration. Progress in this regard was awaited till finalization of this report.

25.1.4.3 Irregular payment of Rs 3.478 million involving excess payment due to wrong fixation of pay – Rs 0.442 million

According to Service Rules of NESPAK break in service due to resignation cannot be condoned.According to Para 37 (a) and (b) of Chapter IV, General Conditions of Service, (Service Rules of NESPAK), all appointments shall be made on the recommendations of the appropriate selection committee and for appointments in Grade 12 prior approval of the Board will be required.

Supreme Court of Pakistan in its judgment dated January 19, 1993 in Human Rights case No. 104 of 1992 held that recruitment both adhoc and regular, without publicity and proper advertising is a violation of fundamental rights. As such, no post could be filled in without proper advertisement even on adhoc or contract basis.

Contrary to above, NESPAK appointed following three ex-officers of NESPAK in Grade-12 in regular cadre of the Company. Following observations were made in this regard.

i) Mr. Abdul Qadeer served NESPAK for 19 years and in 2007. When he was serving NESPAK in the capacity of Chief Engineer Grade 12 at Islamabad he left the Company and remained fully employed on the Foreign Office projects at Islamabad. As per remarks of VP Coordination dated June 23, 2009 when he applied for re-appointment in NESPAK they have 12 Chief Engineers out of which one is already without any assignment and assignments of three more are in the final stage. Therefore, they do not foresee any requirement of this level in near future. However in case new projects, his services may be effectively employed as Project Manager, Earthquake Reconstruction Division. The services of the officer were hired despite all above reservations and his salary was fixed by allowing all the increments and allowances which he would have received had he not resigned, in spite of the fact that after his resignation he did not fall under the category of regular employees of NESPAK.

ii) Mr. Farhat Adil served NESPAK from January 1981 to August 2006 in various positions. In 2006 when he was General Manager in Grade 12, requested the management of NESPAK to transfer his services to M/s PRIMACO a subsidy of Employees Old Age Benefit Institution (EOBI) but management turned down his request. The officer resigned from the service of NESPAK w.e.f August 01 2006. On May 18, 2009, he requested the NESPAK management to appoint him after considering the intervening period as deputation. Pay of Mr. Farhat Adil was fixed by allowing all the increments and allowances, which he would have received had he not resigned, in spite of the fact that after resignation he did not fall under the category of regular employees of NESPAK. As per legal opinion of the legal advisor of company, there was no provision in the rules catering for a long period of three years and rule 23 of the NESPAK Leave Rules, 1973 bar an employee to take any service or accept any employment without obtaining the prior sanction of the company.

iii) Mr. Amir Bin Younas sought permission for the service outside NESPAK, which was declined by the management, and he tendered his resignation from the service of NESPAK w.e.f August 1, 2006 in Grade 11. The services of the officer were rehired after considering the period he remained out of the service of NESPAK for promotion in Grade 12. The experience he gained while serving outside NESPAK was also unprecedeltly counted for promotion.

As per remarks of Managing Director, he must get the increments to bring him to almost at par with his batch mates in NESPAK. All this showed undue favor to the officer.

The re-employment of the officers concerned was in violation of NESPAK Rules and violation of instructions of the Government of the Pakistan. This resulted in irregular payment of Rs 3,478,368 to these officers for the period from July 2009 to June 2010 on account of pay and allowances and excess payment of Rs 442,140 due to wrong fixation of pay.

The matter was reported to the management and the Ministry on December 24, 2010. The management in its reply dated January 11, 2011 stated that ex-employees were appointed after approval of Board on recommendations of the appropriate committee. Regarding fixing of pay and allowing increments for the period during which they did not serve the NESPAK the management replied that these engineers has already been served the NESPAK but resigned due to personal reasons and upon rehiring their pay was fixed keeping in view their qualification, past experience in NESPAK as well as experience they gained outside NESPAK. The reply was not tenable because if services of officers were essential the posts had to be advertised in press and granting of increments for the period when they were not on the strength of NESPAK was undue favour of the ex-officers.

DAC in its meeting held on February 07, 2011, directed the management to produce record for verification by audit regarding hiring of engineers on the basis of exigencies The progress in this regard was awaited till finalization of this report.

25.1.4.4 Non-transparent award of work – Rs 1.974 million

As per rule 39 (iv) of the Public Procurement Rules 2004, repeat orders should not exceed 15% of the original procurement.

Contrary to the above, NESPAK signed an agreement on July 31, 2008 with M/s Design and Promotion Advertising (D&PA) for preparation of album of

high quality photographs of 42 completed sites for a total remuneration not exceeding Rs 556,000. A documentary film of 7-10 minutes of the sites was to be prepared. NESPAK awarded repeat order to M/s D&PA for Rs 1,501,150 on the basis that the party was the lowest bidder in the previous work. The job was awarded to M/s D&PA through amendment No. 1 dated March 3, 2009 of the agreement dated July 31, 2008 for Rs 1,501,150.The job was awarded in excess of 15% of the original procurement in violation of rule 39(iv) of PP Rules. This resulted in the award of work for Rs 2,057,150 (556,000 + 1,501,150) in non-transparent manner. The work was awarded without advertisement on PPRA website.

The matter was reported to the management on August 9, 2010 and the Ministry on November 30, 2010. The management in its reply dated December 28, 2010 stated that issue was initiated before the implementation of PP Rules in NESPAK i.e. May 25, 2008 and procedure applicable in NESPAK was followed. The reply was not convincing because PP Rules were come into force at once as per Finance Division notification dated June 9, 2004.

DAC in its meeting held on February 07, 2011 directed the management to hold enquiry for non transparent award of work within one month and result thereof be reported. No progress was reported till finalization of this report.

25.1.4.5 Non-recovery from a foreign client - Rs 13.554 million

As per item 21 (c) of Delegation of Financial Power of NESPAK, reporting of losses as a result of theft, fraud and negligence of an employee is to be prepared and sent to VP Finance immediately after a loss / theft comes to notice before writing off the loss by the MD / Board of Management.

National Engineering Services Pakistan (Pvt) Limited, Karachi Office, debited an amount of US$ 15,536 (equivalent to Rs 1,259,970) to UBL Unizer FC Account Lahore. The amount was released from the account in connection with encashment of bank guarantee # NESPAK LG/3025 on June 16, 2009 by the Ministry of Oils and Minerals, Yemen as a result of termination of the contract in the RAAS ISSA Oil Terminal Project, Sana Yemen. In addition, NESPAK raised invoices of Rs 35.499 million and Rs.31.723 million and received Rs.10.150 million and Rs.40.410 million during the years 2006-07 and 2007-08

respectively, leaving thereby a balance of Rs.16.662 million An amount of Rs.3.108 million was reduced in the year 2008-09 as no service was rendered to the client during that period. The bank guarantee was en-cashed, but the management of NASPAK did not take any step to recover its dues of Rs 13.554 million NESPAK sustanined expected loss of Rs 13.554 million as chances of recovery from the client are remote.

The matter was reported to the management and the Ministry on December 04, 2010. The management in its reply dated January 24, 2011 intimated that as per Yaman Government rules department was authorized to assign additional work upto maximum of 20% over and above the value of task for which NESPAK launched a counter claim. In certain cases settlement could not be reached. Efforts were being made to recover the calim. The reply was not tenable as encashment of bank gurantee by the clients was violation of agreement.

DAC in its meeting held on February 07, 2011 directed the management to get the record verified from audit in support of its contention. No record was provided by the management in support of its contention till finaliation of this report.

25.1.4.6 Loss due to non-recovery of value of stolen vehicle – Rs 0.807 million

As per Finance Division's OM F.15(13)R-14/82 dated September 5, 1982 the funds provided, acquired or generated by the autonomous/semi-autonomous bodies and corporations are public funds, which cannot be utilized at the sole discretion of the management. The funds should be utilized with due care and caution strictly in accordance with the prescribed rules or specific orders of the Government.

NESPAK purchased a vehicle No. LZW-2304 on July 23, 2005 at a cost of Rs 0.789 million and incurred Rs 0.018 million on its registration. The vehicle was put in operation without its insurance and same was snatched on gunpoint in Model Town, Lahore on September 14, 2005 from the driver who was not an employee of NESPAK. FIR of robbery was lodged with police. The management charge sheeted the concerned engineer on November 28, 2005 who was responsible to get insurance coverage of the vehicle and committed a financial loss by allowing the use of vehicle before getting it insured. The management on

January 2, 2006 directed the responsible officer to deposit Rs 0.807 million being full cost of the vehicle. Contrary to these orders, the management on February 13, 2009 asked the officer to deposit only Rs 90,893 i.e. 25% of depreciated value of Rs 363,572 of the vehicle after charging depreciation of Rs 425,429 since its purchase to January 2009 but subsequent same was not recovered. The officer had retired from service on October 17, 2008. This resulted in loss of Rs 0.807 million due to non-recovery from the officer found responsible.

The loss was reported to the management on August 9, 2010 and the Ministry on November 25, 2010. The management in its reply dated November 9, 2010 stated that vehicle was not purchased by NESPAK but same was purchased by the Mega Project consultants out of funds of the clients as such vehicle was property of the Irrigation Department through Mega Project, Government of Punjab. The police are making efforts to find the vehicle. The reply was not convincing because the management in its letter dated November 28, 2005 issued charge sheet to Mr. M. Yousaf and accepted that vehicle No. LZW-2304 was owned by NESPAK.

DAC in its meeting held on February 07, 2011 directed the management to pursue the FIR for recovery of loss. No progress was reported till the finalization of this report.

25.1.4.7 Non-transparent expenditure on hiring services of photocopier – Rs 10.915 million

As per rule-12 (2) of the Public Procurement Rules-2004, the procuring agency, in case if procurement exceeds rupees two million shall advertise its demand on Authority's/ NESPAK's websites as well as in print media or newspaper having wide circulation.

Contrary to the above, NESPAK Earthquake Reconstruction Division (ER), Islamabad collected quotations by hand from four parties for fixation of photo copier machine on rental basis on January 08, 2008. Rates of M/s Paradise Photocopy Centre, Islamabad were declared lowest by the Purchase Committee on January 16, 2008 and work was awarded. Payment of Rs 10.915 million was made to the party during the years 2008-10.

Management awarded work for fixation of photocopier without calling

tenders through Authority's / NESAPAK websites and ignored the conditions of the Public Procurement Rules. Therefore expenditure of Rs 10.915 million incurred on the hiring of services of photocopier was held irregular.

The matter was brought to the notice of management on August 9, 2010 and the Ministry on September 08 2010. The management in its reply dated October 13, 2010 stated that quotations were invited in January 2008 i.e prior to implementation of Public Procurement Rules in NESPAK. NESPAK rules for the purchase of goods & services were followed and work was awarded to the lowest bidder. The reply was not acceptable as requirement for the purchase of computers was advertised by NESPAK management in April 2008 on PPRA website i.e prior to implementation of PPR in May 2008 hence requirement for hiring of photocopier services should had been advertised on Authority's website and on NESPAK website and in national dailies for wide circulation to obtain most competitive rates. The PP Rules – 2004 were come into force at once as per Finance Division notification dated June 9, 2004.

DAC in its meeting held on February 07, 2011 was not satisfied with the reply of the management and directed to furnish the revised reply with verifiable facts and figures. No further progress was communicated till finalization of this report.

25.1.4.8 Irregular award of vehicle hiring service to different car dealers – Rs !The Formula Not In Table ***million***

As per rule-12 (2) of the Public Procurement Rules-2004, the procuring agency, in case if procurement exceeds rupees two million, shall advertise its demand on Authority/ NESPAK's websites as well as in print media or newspaper having wide circulation. According to para 1.3 of Asian Development Bank (ADB), Procurement Guidelines, open competition is the basis for efficient public procurement.

Management of NESPAK Earthquake Reconstruction (ER) Division, Islamabad hired the services of the following rent a car dealers for the provision of vehicles along with drivers under jobs # 2778 (GOP), 2945 and 3023 (ADB) and 3087 (UNICEF) without advertising the requirement on Authority's website, NESPAK web site and in two news papers of wide circulation. An amount of Rs **!The Formula Not In Table** million was paid by the management as detailed below:

S #	Name	Amount (Rs.)
1	M/s Data Enterprises, Islamabad	13,588,013
2	M/s Sattar Khan Mangal	3,363,435
3	M/s Hamza Tours	2,077,177
4	M/s Ayub Khan	1,443,450
	Total Rs	**20,472,075**

Audit was of the view that management obtained above services in violation of the provisions of PPRs and Asian Development Bank Procurement Rules, which resulted into non-competitive rates and irregular payment to above dealers. Furthermore, no log book of the vehicles hired on rent was maintained by the management / dealers. Hence audit was unable to assess the volume of work performed by each vehicle and its average fuel consumption. Authorization and tour reports were not attached with the payment vouchers, hence, authenticity and genuineness of these claims were doubtful.

The matter was reported to the management on August 9, 2010 and the Ministry on September 8, 2010. The management in its reply dated October 13, 2010 stated that quotation obtained prior to implementation of PP Rules in NESPAK w.e.f May 25, 2008 in the light of BOD approval. The reply was not convincing because PP Rules were come into force at once as per Finance Divsion notification dated June 9, 2004.

During DAC meeting held on February 07, 2011 the management stated that vehicles were hired after inviting quotations, prior to implementation of PPRs in NESPAK i.e. May 25, 2008. DAC directed the management to provide the record to audit for verification. No progress was reported till finalization of this report.

*25.1.4.9 Irregular purchase of computer accessories and office equipments - **Rs** !The Formula Not In Table **million***

Rule 8 of Public Procurement Rules- 2004 spituplates that all procuring agencies shall determine its demand for each financial year for procurements realistically and announce the same on its own and PPRA’s websites without

splitting. As per Rule-12 (1), procurements over Rs 100,000 and up to Rs 2 million shall be advertized on Authority's web site.

Management of Water Resources (WR) Division of NESPAK purchased computers, plotters and map paper from M/s Viper Technologies, M/s Compsi and M/s I&E Internationals for Rs 516,031, Rs 1,534,100 and Rs.550,000 respectively without competitive bidding in violation of PPRs 2004. Despite the fact, that the demand of these items was existed during May 2008; and purchase orders were issued in piece meal in favor of the vendors. This resulted in irregular expenditure of Rs 2,600,131 due to purchase of computer accessories in piece meal.

The matter was reported to the managmentn and the Ministry on Septemer 03, 2010. The management in its reply dated January 25, 2011 stated that subject purchases were made prior to implementation of Public Procurement Rules in NESPAK. NESPAK rules for the purchase of goods & services were followed and work was awarded to the lowest bidders. The reply was not acceptable, as per purchase procedure of NESPAK, it was the duty of Central Pruchase Apparisal Committee and Central Purchase Committee to assess purchase requirements in the light of need, urgency budgetary provision, project control estimate and possibility of provision/sharing from other divisions but in these cases it was not done by the the central office.

The DAC in its meeting held on February 07, 2011 directed the management to hold in-house enquiry and submit to ministry/audit. No progress was communicated till finalization of this report.

25.1.4.10 Irregular expenditure on award of contract regarding survey works in non transparent manner - Rs. 2.008 million

As per rule-12 (2) of Public Procurement Rules-2004, procurements over two million rupees shall be advertized on Authority's web site and in two national dailies of wide circulation.

Management of Power and Mechanical Division of NESPAK entered into an agreement dated September 08, 2008 with M/S Turkpak International Limited without competitive bidding for detailed route survey of transmission lines in Gujranwala, Gujrat and Sialkot area (Job No. 3058). The total agreement price was estimated at Rs 2,790,000 i.e. survey of 155 km approximately @ Rs 18,000

per km. M/s Turkpak completed survey of 111.58 km for which payment of Rs 2,008,444 was made to the party up to June 2009.

Management awarded the work without advertisement of its demand on the website of PPRA and two national dailies. This resulted into award of work in non transparent manners and in violation of the PPRs 2004 and expenditure of Rs 2,008,444 was held irregular.

The matter was brought to the notice of the management on August 9, 2010 and the Ministry on September 08 2010. The management in its reply dated October 13, 2010 stated that in view of the urgency /exigency of work declared by M/s GEPCO required prompt and immediate action, the approval of MD was sought. Reply was not acceptable as offer was received in NESPAK on July 26, 2008 and agreement with M/s GEPCO was signed on August 26 2008, work was assigned to M/s Turkpak International through agreement dated September 08, 2008.

DAC in its meeting held on Ferbuary 07, 2011 directed the management to provide the record for verification by audit in support of its reply. No record was produced till finalization of this report.

25.2 National Power Construction Corporation (Pvt) Limited

25.2.1 Introduction

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.

25.2.2 Comments on Audited Accounts

25.2.2.1 The working results of the Corporation for the year 2009-10 as compared to the previous years are tabulated below :-

(Rs in million)

	2009-10	% Inc / (Dec)	2008-09	% Inc / (Dec)	2007-08
Contract and other income	4,928.128	159	1,902.418	80	1,058.827
Contract and other expenses					
Material consumed	3,425.991	170	1,268.387	81	701.311
Salaries, wages and other benefits	373.018	58	235.795	52	155.591
Subcontracts	475.152	862	49.378	202	16.350
Equipment hire charges	232.578	182	82.620	170	30.649
Depreciation	34.536	96	17.585	26	13.983
Other expenses	168.724	10	153.711	73	88.684
Financial charges	23.613	(13)	27.272	26	21.715
Total expenses	4,733.612	158	1,834.748	78	1,028.283
Pre-tax profit	194.516	187	67.670	122	30.544

Source: Annual Audited Accounts

The Company earned pretax net profit of Rs 194.516 million in 2009-10 as compared to Rs 67.670 million in 2008-09. However, the contract income increased by 159% during the year 2009-10 whereas the cost of material consumed against these contracts increased by 170%. The disproportionate increase in material cost in relation to contract income needs to be controlled.

25.2.2.2 The Company incurred bidding expenses of Rs 5.516 million during 2009-10 but it failed to secure even a single contract although it participated in

seven bids. Incurring of such bidding expenses without any success may be explained.

25.2.2.3 Contract bills receivable amounting to Rs 1,578 million as on June 30, 2010 included retention money of Rs 25.866 million pertaining to Makkah west and Medina east 380 KV overhead transmission line projects which is subject to issuance of final acceptance certificate by the client and Zakat Certificate by Saudi Government. Timely obtaining the required certificates from the respective authorities is suggested in order to get released the retention money.

25.2.2.4 Long term advances granted to employees stood at Rs 22.447 million as on June 30,2010 (Rs.37.853 million as on June 30, 2009), out of which an amount of Rs 3.416 million was classified as payable beyond one year. Granting of heavy advances to employees for their personal use without any interest does not come under the financial discipline and therefore needs to be justified.

25.2.3 COMPLIANCE OF PAC DIRECTIVES

Detail of Paras in which PAC Directives were not complied with:

Sr #	Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
1.	1992-93	08	08	--	100
2.	1994-95	05	05	--	100
3.	1995-96	03	03	--	100
4.	1996-97	01	01	--	100
5.	1999-00	02	02	--	100
6.	2000-01	01	01	--	100
7.	2005-06	03	03	--	100

The compliance to PAC directives was satisfactory.

25.2.4 Audit Paras

25.2.4.1 Unjustified expenditure on purchase of generator and its operational expenses - Rs 0.732 million

As per Finance Division's O.M. dated September 5, 1982, the funds provided, acquired or generated by the autonomous/semi-autonomous bodies and

corporations are public funds, which cannot be utilized at the sole discretion of the management. The funds should be utilized with due care and caution strictly in accordance with the prescribed rules or specific orders of the Government.

NPCC purchased a generator for the residence` of Secretary, Water and Power for Rs 501,793 from M/s San Engineering on May 12, 2009. The Corporation also paid Rs 230,390 through representative of NESPAK in Islamabad for purchase of diesel during 2009-10 for the generator installed at the residence of Secretary, Water and Power. This resulted in unjustified expenditure of Rs 732,183 for purchase of generator and its operational expenses.

The matter was reported to the management on October 28, 2010 and the Ministry on November 30, 2010. The management in its reply dated December 24, 2010 stated that generator was purchased for use at camp office at the residence of the then Secretary / Chairman, NPCC to facilitate office work which was being hampered due to load shedding. The expenditure on purchase of generator was charged to the Saudi Project under the head direct and technical expenses to minimize tax liability in Saudi Arabia. The reply was not acceptable as the installation of generator at the residence of the Secretary, Water and Power and its operational expenses were not covered under the entitlement of the Secretary. Further, the capital assets were not returned to the Corporation.

DAC in its meeting held on February 07, 2011 directed the management to receive back the generator and get it verified from audit. No further progress was received till the finalization of this report.

25.2.4.2 Unjustified expenditure on operation of vehicle used by un-entitled officer – Rs 1.594 million

As per Finance Division's OM F.15(13)R-14/82 dated September 5, 1982 the funds provided, acquired or generated by the autonomous/semi-autonomous bodies and corporations are public funds, which cannot be utilized at the sole discretion of the management. The funds should be utilized with due care and caution strictly in accordance with the prescribed rules or specific orders of the Government.

NPCC provided a vehicle to Chairman, NPCC since the last many years and huge vehicle running expenses were borne by NPCC. During the years 2007-08 to 2009-10, the Corporation incurred expenditure of Rs 1,594,451 on account of POL, repair and pay of driver. This resulted in unjustified expenditure of Rs 1.594 million.

The matter was reported to the management on October 28, 2010 and the Ministry on November 30, 2010. The management in its reply dated December 24, 2010 stated that vehicle was not provided to the Secretary, Water and Power but it was at the disposal of Chairman, NPCC's office at Islamabad since 1980 to facilitate in carrying out the works relating to NPCC. The reply was not acceptable because the Chairman, NPCC being Secretary, Water and Power was entitled to receive vehicle from the Ministry and not from the Corporation.

The management in DAC meeting held on February 07, 2011 stated that the vehicle has been received back in the Corporation. The DAC directed the management to get the position verified. No documentary evidence was provided by the management till finalization of this report.

ANNEXURES

ANNEXURE - 1

MFDAC PARAS

Sr.No	Name of Organization	Audit Observation
CABINET DIVISION		
1.	**Printing Corporation of Pakistan**	Irregular payment of computer allowance - Rs 0.495 million
2.	-do-	Irregular reimbursement of medical charges to the ex-Managing Director - Rs 0.307 million
3.	-do-	Irregular retention of an employee and payment of pay and allowances – Rs 0.224 million.
MINISTRY OF COMMERCE		
4.	**Pakistan Tobacco Board**	Award of cess collection contract at Rs 68.00 million without healthy competition and loss – Rs 9.00 million
5.	-do-	Appointment of a consultant after retirement – Rs 0.170 million
6.	-do-	Less recovery of Tobacco cess – Rs 3.490 million
7.	-do-	Purchase of server in violation of Public Procurement Rules – Rs 0.329 million
8.	-do-	Abroad visit without clearance of the competent authority resulted into irregular expenditure of Rs 392,064
MINISTRY OF DEFENCE		
9.	**Institute of Space Technology**	Unauthorized expenditure on advertisement – Rs 392,146.015 million
10.	-do-	Award of construction work to M/s Izhar (Pvt) Ltd. – Rs 151.760 million
MINISTRY OF DEFENCE PRODUCTION		
11.	**Pakistan Ordnance Factories**	Irregular expenditure of Rs 3.252 million due to payment to a hos.pital for CT Scan and MRI on single quoted rates
12.	-do-	Failure in recovery - Rs 0.800 million
13.	-do-	Payment to the employees from the POFs budget – Rs 6.459 million
14.	-do-	Utilization of services of POFs officers in another organization and payment - Rs 1.352 million
15.	-do-	Non-initiation of risk purchase action against the defaulting firm – Rs .0.719 million
16.	-do-	Payment to POFs agent in Kenya on account of commission – Rs 7.813 million (US $ 125,000)

17.	**Pakistan Ordnance Factories**	Posting of army officers without sanctioned posts and payment – Rs 12.326 million
18.	**-do-**	Inadmissible payment on account of conveyance allowance – Rs 0.360 million.
19.	**POFs IT**	Loss due to non receipt of tuition fee from the students - Rs 540,000
20.	**-do-**	Loss due to short receipts of re-admission fee from the expelled students – Rs 235,000
21.	**POFs SAA FY.**	Non-reporting of contract amounting to Rs 109.927 million to accountability bureau
22.	**POFs Hospital**	Non-provision of record to audit pertaining to expenditure incurred out of CNE hospital fund
MINISTRY OF FOOD AND AGRICULTURE		
23.	**Pakistan Agricultural Storage and Services Corporation Limited**	Expected penalty on less husking of paddy – Rs 4775,122.613 million
24.	**-do-**	Loss due to ill planned procurement of stores – Rs 1.424 million
MINISTRY OF HOUSING AND WORKS		
25.	**Pakistan Housing Authority**	Expenditure due to ill-planned advertisement and printing of brochures of housing scheme – Rs 1.105 million
26.	**National Construction Limited**	Non-realization of Rs 1.408 million from KMC Karachi on account of construction of Fyzee Rehman art gallery and auditorium
27.	-do-	Non-recovery of LD charges from a defaulting firm – Rs 5.138 million.
28.	-do-	Irregular payment on account of pay and allowances due to appointment in violation of Company policy - Rs 2.665 million
29.	-do-	Non dudection of house rent allowance of an employee dispite having government accommodation to spouse – Rs 0.963 million.
30.	-do-	Inadmissible payment on account of conveyance allowance – Rs 0.250 million.
MINISTRY OF INDUSTRIES AND PRODUCTION		
31.	**Utility Stores Corporation**	Expenditure due to engagement of the advocates – Rs 2.500 million.
32.	**-do-**	Expenditure on provision of vehicles to controlling ministry – Rs 0.574 million
33.	**Heavy Electrical Complex**	Payment of legal fee without prior approval of Ministry Law and Justice - Rs 350,000
34.	**-do-**	Replacement of radiators supplied to LESCO - Rs 1.085 million

35.	**-do-**	Replacement of stores – Rs 0.571 million
36.	**-do-**	Defective agreement - Rs 1.100 million
37.	**-do-**	Loss due to deduction of liquidated damages charges by WAPDA – Rs 9.240 million
38.	**Heavy Electrical Complex (Pvt) Limited**	*i.* Irregular expenditure of millions of rupees on account of site/hardship allowance to the regular/ permanent employees. ii. Irregular payment of conveyance allowance to the officer – Rs *415,020*
39.	**-do-**	Non recovery of dues from WAPDA – Rs 0.633 million
40.	**Heavy Mechanical Complex**	Irregular payment on account of pay and allowances due to irregular appointment
41.	**Small and Medium Enterprises Development Authority**	Unjustified payment during termination period – Rs 444,511
42.	**-do-**	Expenditure due to non-operation of industrial information network project – Rs 39.62 million
43.	**-do-**	Irregular appointment of an assistant manager – Rs 2.549 million
44.	**-do-**	Irregular expenditure on the renewal of antivirus programme – Rs 788,095
45.	**-do-**	Expenditure on purchase of 17 vehicles in violation of PPRs – Rs 3.997 million
46.	**-do-**	Irregular payment to government employee – Rs 0.288 million.
47.	**National Fertilizer Corporation (I&FR)**	Irregular payment due to irregular appointment – Rs 1.077 million
48.	**National Fertilizer Marketing Limited**	Non-supplying of urea by PAFL against advance payment – Rs 13.497 million
49.	**Technology Up-gradation and Skill Development Company**	Unjustified payment of project allowance – Rs 1.493 million.
50.	**-do-**	Irregular payment of insurance premium of vehicles - Rs 0.396 million
51.	**-do-**	Excess payment of contributory provident fund – Rs 0.570 million.
52.	**State Engineering Corporation**	A. Irregular expenditure on hiring of office accomudation- Rs 2.580 million B. Irregular payment to the employees in cash instead to through cross cheques – Rs 0.985
MINISTRY OF INFORMATION TECHNOLOGY		
53.	**Pakistan Software Export Board**	Irregular payment due to appointment of an officer without fulfilling the criteria – Rs 1.493 million.
54.	-do-	Irregular payment due to retention of an officer in violation of contract employment and articles of association - Rs .2.798 million

55.	-do-	Un-authorized creation of a post without approval of the Board
56.	-do-	Un-justified payment as sponsorship made to M/s PASHA (Pakistan Software Houses Association) - Rs 850,000.
57.	-do-	Irregular expenditure on account of foreign visit - Rs 223,790
58.	-do-	Premature closure of the project – Rs 9.314 million
MINISTRY OF INFORMATION AND BROADCASTING		
59.	**Pakistan Television Corporation**	Avoidable loss due to delay in payment - Rs 15.390 million
60.	**-do-**	Irregular expenditure due to procurement of imported vehicles - Rs 8.900 million
61.	**Pakistan Television Corporation**	Frequent enhancement of pay package of two news casters/anchorpersons and induction in professional pay scales – Rs .5.540 million.
62.	**-do-**	Un-authorized expenditure without PC-1 provision - Rs 10.786 million.
63.	**-do-**	Non awarding of work at the risk and cost of the defaulting contractor - Rs 5.234 million.
MINISTRY OF OVERSEAS PAKISTANIS		
64.	**Overseas Pakistanis Foundation**	Irregular purchase of college stationery – Rs 0.943 million
MINISTRY OF PETROLEUM AND NATURAL RESOURCES		
65.	**Sui Northern Gas Pipelines Limited**	Non-recovery on account of LD charges Euro-8441.06 equal to Pak Rs 1.072 million
66.	-do-	Non-encashment of bank guarantee of Euro - 134,817.60 in lieu of non-payment of LD charges Euro - 133,809 and L.C extension charges - Rs 18.818 million
67.	-do-	Unauthentic procurement of spare parts without valid imported documents - Rs 3.868 million
68.	-do-	Non-recovery of liquidated damages – Rs 0.253 million
69.	-do-	Non-recovery of liquidated damages and excess freight charges – Rs 1.683 million
70.	-do-	Irregular procurement of office furniture as proprietary item – Rs 1.905 million
71.	-do-	Loss due to short receipt of calibration gas mixtures – Rs 0.634 million
72.	-do-	Non-imposition of liquidated damages – Rs 0.783 million
73.	-do-	Non-utilization of epoxy primer type-a within expiry date - Rs 0.575 million

74.	-do-	Irregular procurement of welding plants - Rs 4.595 million
75.	-do-	Non-recovery of LD charges and excess ocean freight- Rs 2.379 million.
76.	-do-	Blockage of funds due to non-utilization of steel flanges - US $ 284,370.10 (Rs 22.750 million)
77.	-do-	Payment due to restored officer retired under selective voluntary severance scheme –Rs 2,422,980
78.	-do-	Piece-meal purchase of gas turbine meters – Rs 1.211 million
79.	-do-	Irregular payment of overtime – Rs 90.458 million
80.	**Sui Northern Gas Pipelines Limited**	Non-recovery of outstanding dues from defaulting consumers and provision of new gas connections – Rs 20.678 million
81.	-do-	Non-completion / capitalization of work in progress since 1993-94 – Rs 2,341.511 million
82.	-do-	Unjustified booking without job number to work in progress - Rs 6.250 million
83.	-do-	Avoidable expense incurred on updates and product support – Rs 14.382 million
84.	-do-	Extra expenditure due to un-necessary delay in purchase of Suzuki jeeps - Rs 3,153,500
85.	-do-	Excessive expense on the same dia pipeline
86.	-do-	Non-return of 2% scrap of steel pipeline from the jobs completed under Government grants Rs 33.325 million.
87.	-do-	Loss due to undue favour of the tenant - Rs 2,246,400
88.	-do-	Purchase of construction equipment without obtaining approval from OGRA- Rs 268.279 million
89.	-do-	Avoidable expense on construction of 24" dia 64.06 k.m Phool Nagar – Dawood Hercules off – take (mp 59) line under project-09-Rs . 528.704 million
90.	-do-	Extra expenditure due to unjustified outsourcing / conversion of complaints management system to a call center - Rs 70.280 million
91.	-do-	Excess payment due to incorrect calculation of sales tax -Rs 1.159 million
92.	-do-	Unjustified capitalization of jobs amounting to Rs 4,827.971 million.
93.	-do-	Non-adjustment of advances of land acquisition due to delay in declaration of land acquisition award - Rs 17.092 millions
94.	-do-	Non-adjustment of old advances outstanding against land acquisition commissioners- Rs 28.249 million
95.	-do-	Continuation of appointments of contract employees after every six months since 2002-03 – Rs 15,485,693
96.	-do-	Non-adjustment of old advances outstanding against land acquisition commissioners-Rs 182.338 million

97.	-do-	Loss due to non recovery of excess freight charges – Rs 0.682 million
98.	-do-	Non-recovery of cost of detention, demurrage, theft etc., from the contractor – Rs 0.652 million
99.	-do-	Irregular appointment/enhancement of pay and allowances-Rs 3.140 million
100.	-do-	Irregular purchase of tyres with tubes – Rs 7.333 million
101.	-do-	Loss due to non-encashment of bank guarantee - Rs.5.268 million.
102.	-do-	Loss due to defective agreement with M/s. OGDCL – Rs.335.476 million.
103.	-do-	i) Non-forfeiture of performance warrantee bond of M/s Sidat Hyder Murshad Associates (Pvt) Ltd. (SHMA) - Rs 2,375,000 ii) Non-implementation of l.d. clause – Rs 4,037,500 on M/s IMB international.
104.	-do-	I) Non-imposition of liquidated damages on M/s LMKR- Rs.2.245 million ii) Defective implementation of agreement and non-adressal of Request for Proposal (RFP) in proposed Future Process Model (FPM).
105.	**Pakistan Mineral Development Corporation (Pvt) Limited**	Increase in rate during currency of contracts Rs 1.296 million
106.	-do-	Irregular expenditure on account of house rent allowance – Rs 0.261 million.
107.	-do-	Non-with holding of income tax from coal raising contractors – Rs 11.360 million
108.	-do-	Irregular payment on account of pension to the officers/staff of PMDC- Rs 3.492 million
109.	**Government Holdings (Pvt) Limited**	Irregular expenditure due to procurement of different items by splitting and regrouping - Rs 1.030 million
110.	**-do-**	Irregular appointment of officers/officials resulting in irregular expenditure – Rs 15.548 million
	PLANNING AND DEVELOPMENT DIVISION	
111.	**National Logistic Cell**	Excess payment to a default contractor-Rs 1.482 million.
112.	-do-	Non recovery of cost of defective work from the sub contractors Rs. 1.156 million.
113.	-do-	Loss of Rs.1.345 million due to non compliance of terms and conditions of agreement.

MINISTRY OF PORTS AND SHIPPING		
114.	**Port Qasim Authority**	Irregular payment of bonus to employees of administrative ministry - Rs 2.360 million.
MINISTRY OF SCIENCE AND TECHNOLOGY		
115.	**Pakistan Science Foundation**	Short receipt of grant – Rs 202.305 million
116.	-do-	Non- production of auditable record
MINISTRY OF SOCIAL WELFARE AND SPECIAL EDUCATION		
117.	**Pakistan Bait-ul-Mal**	Non-investment of GP/pension funds - Rs 39.468 million
118.	-do-	Irregular/mis-utilization of grant in aid amount - Rs 31.997 million
119.	-do-	Procurement of wheel chairs – Rs 4.720 million
120.	-do-	Irregular procurement of Rs 1.204 million on limited tender.
121.	-do-	Irregular and piecemeal award of construction work - Rs 5.262 million.
MINISTRY OF WATER AND POWER		
122.	**National Engineering Services Pakistan (Pvt) Limited**	Mis-utilization of public funds due to hiring of survey equipment from a private party - Rs 1.399 million.
123.	-do-	Irregular purchase of Auto CAD licenses - Rs 1.870 million
124.	-do-	Non-release/refund of retention money by different clients - Rs.3.226 million.
125.	-do-	Avoidable expenditure due to non completion of construction of NESPAK house- Rs.15.470 million.
126.	**National Power Construction Corporation Limited**	Non – availing of discount of Rs 19.507 million
127.	**-do-**	Irregular contribution towards CPF – Rs 1.452 million

ANNEXURE-2

RECOVERIES MADE AT THE INSTANCE OF AUDIT

During the year 2010-11, audit inspection of Public Sector Enterprises of Federal Government was conducted and results thereof pinpointing 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 128.147 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.	**National Insurance Company Ltd. (NICL)**	Un-adjusted advances of Rs 8.272 million was pointed out. The management so far recovered an amount of Rs 2.050 million.	2.050
MINISTRY OF DEFENCE			
2.	**Pakistan International Airlines Corporation (PIAC**)	An amount of Rs 90.511 million outstanding on account of replacement of defective material was pointed out. The management so far settled / adjusted an amount of Rs 71.178 million.	71.178
MINISTRY OF DEFENCE PRODUCTION			
3.	**POFs Dir Services**	Non-recovery of water charges Rs 1.114 million was pointed out. Rs 0.519 were recovered leaving a balance of Rs 0.595.	0.519
4.	**POFs Havelian**	Rs 0.276 million due to non-disposal of store was pointed out. Rs 0.244 million was recovered leaving a balance of Rs 0.032 million.	0.244
5.	**POFs Rent and Estate**	Non-recovery of rent from Sir Syed College Rs 0.430 million was pointed out. Total amount was recovered.	0.430

6.	**-do-**	Non-recovery of rental charges Rs 0.118 million was pointed out of which Rs 0.074 million recovered.	0.074
7.	**-do-**	Non-recovery of fixture and lighting at the time of vacation of accommodation Rs 0.046 million was pointed out. Total amount was recovered.	0.046
8.	**-do-**	Non-recovery of market rent of bungalow Rs 0.169 million was pointed out. Total amount was recovered.	0.169
9.	**-do-**	Non-recovery of rental /allied charges Rs 3.536 million was pointed out. Total amount was recovered.	3.536
10.	**POFs Explosive**	Non-realization of sale amount Rs 1.159 million was pointed out. Out of which Rs 0.044 million recovered leaving a balance of Rs 1.115 million.	0.044
11.	**CMA (POFs)**	Non-recovery of Rs 2.91 million on account of rent and allied charges was pointed out. Out of which Rs 0.284 million recovered leaving a balance of Rs 2.626 million.	0.284
12.	**-do-**	Overpayment of Rs 0.009 million was pointed out and Rs 0.007 million recovered.	0.007
13.	**-do-**	Mis-utilization of Motor Car advance amounting to Rs 208,875. Amount of Rs 0.072 million recovered.	0.072
14.	**POFs Pay and Allowances**	Unauthorized telecommunication allowance amounting to Rs 21600 was pointed out. Total amount was recovered.	0.022
15.	**POFs MG**	Non-forfeiture of performance bond Rs 115,500. Pointed out. Out of which Rs 0.100 million recovered leaving a balance of Rs 0.016 million.	0.100

16.	**-do-**	Non-deduction of income tax amounting to Rs 0.008 million and total amount recovered.	0.008
17.	**POFs Clothing**	Loss on non-deduction of LD charges Rs 61,603 was pointed out and total amount was recovered.	0.062
18.	**-do-**	Non deduction of income tax amounting to Rs 61,047 and total amount recovered.	0.061
19.	**-do-**	Non-imposition of liquidation charges of Rs 86,872 pointed out and total amount recovered.	0.087
20.	**-do-**	Over payment of SPL, allowance Rs 3,600 pointed out and total amount was recovered.	0.004
21.	**POFs B and G**	Non-initiation of risk purchase action Rs 623,600 was pointed out. out of which Rs 0.062 million recovered leaving a balance of Rs 0.562 million.	0.062
22.	**-do-**	Non imposition of liquidation damages Rs 909,972 pointed out and out of which Rs 0.533 million recovered leaving a balance of Rs 0.377 million.	0.533
23.	**POFs DCW**	Non-deposit of lab charges of material Rs 29,260 was pointed out and total amount recovered.	0.029
24.	**-do-**	Non-deposit of lab charges Rs 33,394 was pointed out and total amount recovered.	0.033
25.	**POFs POFIT**	Non-deduction of income tax Rs 276,239 was pointed out. Out of which Rs 0.141 million recovered leaving a balance of Rs 0.135 million.	0.141
26.	**POFs Filling**	Non-initiation of risk purchase action of chemical for Rs 1.178 million was pointed out. Out of which Rs 0.118 million recovered leaving a balance	0.118

		of Rs 1.06 million.	
27.	**POF Gudwal**	Expected loss of Rs 2.688 million due to non carrying out pre-inspection of store by PATLO.	2.688
28.	**POF Sanjwal**	Non-recovery of risk and cost charges Rs 0.950 million from defaulter supplier.	0.225
MINISTRY OF FINANCE			
29.	**Pakistan Security Printing Corporation (PSPC)**	An amount of Rs 2.264 million on account of unclaimed extra expenditure incurred on replacement of procurement was pointed out. The management recovered the entire amount from the supplier.	2.264
30.	**-do-**	An amount of Rs 0.204 million on account of irregular non-recovery of house rent from an officer was pointed out. The management so far recovered an amount of Rs 0.050 million being first installment.	0.050
31.	**Zarai Taraqiati Bank Limited**	Rs 0.760 million detected on account of various irregularities. Total amount was recovered.	0.760
32.	**-do-**	Irregular sanctioning of loan Rs 1.275 million beyond admissible limits was pointed out. Total amount was recovered.	1.275
33.	**SME Bank Limited**	Non-recovery of house building loan was detected Rs 3.530 million was pointed out. Out of which Rs 0.252 million recovered leaving a balance of Rs 3.278 million.	0.252
MINISTRY OF HOUSING AND WORKS			
34.	**National Construction Limited**	Loss due to les recovery of account of cost of steel provided to contractor Rs 218,118	0.218

MINISTRY OF INDUSTRIES AND PRODUCTION			
35.	**Heavy Electrical Complex**	Non-recovery/adjustment of advances Rs 1.683 million against a supplier/clearing agent. Out of which Rs 1.574 million recovered leaving a balance of Rs 0.109 million.	1.574
36.	**National Fertilizer Corporation**	Non-recovery of demurrage charges Rs 0.136 million was pointed out. Total amount was recovered	0.136
37.	**State Engineering Corporation**	Over payment of Rs 0.145 million on account of rental ceiling to the supplier was pointed out. Out of which Rs 121 million recovered leaving a balance of Rs 0.024 million.	0.121
38.	**Expert Advisory Cell**	Non-recovery of Rs 1.169 million from Privatization Commission, Federal Tax Ombudsman and World Trade Organization.	0.067
MINISTRY OF INFORMATION AND BROADCASTING			
39.	**Pakistan Television Corporation Limited**	Non-recovery of Rs 6.073 million from Government deptt. was detected. Rs 1.00 million was recovered leaving a balance of Rs 5.073 million.	1.000
MINISTRY OF INFORMATION TECHNOLOGY			
40.	**Pakistan Software Export Board**	Irregular grant of loan Rs 2.477 million was pointed out. Rs 1.451 million were recovered leaving a balance of Rs 1.026 million.	1.451
MINISTRY OF KASHMIR AFFAIRS AND GILGIT – BALTISTAN			
41.	**Northern Areas Transport Corporation Limited**	Non-recovery of hire charges Rs 1.718 million was pointed out. Total amount was recovered.	1.718

MINISTRY OF LABOUR and MANPOWER			
42.	**Overseas Employment Corporation**	Non-recovery of Rs 0.446 million on account of cash was detected. Total amount was recovered.	0.446
43.	**-do-**	Income of debtors Rs 8.464 million was pointed out. Out of which Rs 0.377 million recovered leaving a balance of Rs 8.087 million	0.377
44.	**-do-**	Non-recovery of Rs 1.278 million on account of advertisement cost from a foreign client was pointed out. Out of which Rs 0.021 million recovered leaving a balance of Rs 1.257 million.	0.021
45.	**-do-**	Non-recovery of Rs 4.698 million pertaining to Travel Division was pointed out. Out of which Rs 3.695 million recovered leaving a balance of Rs 1.003 million.	3.695
MINISTRY OF OVERSEAS PAKISTANIS			
46.	**Overseas Pakistanis Foundation**	Non-realization of outstanding dues Rs 3.840 million was pointed out. Out of which Rs 1.379 million was recovered leaving a balance of Rs 2.461 million.	1.379
47.	**-do-**	Rs 4.762 million were pointed out. Rs 2.612 million recovered leaving a balance of Rs 2.15 million.	2.612`
MINISTRY OF PETROLEUM AND NATURAL RESOURCES			
48.	**Sui Northern Gas Pipelines Limited**	Non-recovery on account of LD charges and excess ocean freight Rs 1.766 million was pointed out. The entire amount was recovered.	1.766
49.	**-do-**	Non-recovery on account of LD charges Euro-8441.06 equal to Pak Rs 1.072 million. When pointed out the whole amount was recovered.	1.072
50.	**-do-**	Non-encashment of Bank Guarantee	14.472

		of EURO-134,817.60 in lieu of non-payment of L.D charges Euro-133,809 and L.C extension charges-Rs18,818.	
51.	**-do-**	Less recovery of liquidated damages Rs 0.300 million. An amount of Rs. 0.115 million was recovered.	0.115
52.	**-do-**	Non-recovery of LD charges and excess ocean freight Rs 2.379 million. When pointed out the entire was recovered.	2.379
53.	**-do-**	Excess payment of sea freight charges Rs 157,002 was recovered.	0.157
54.	**Govt Holdings (Pvt) Limited**	Short receipt of revenue of Rs 3.989 million was detected, out of which Rs 0.994 million recovered leaving a balance of Rs 2.995 million.	0.994
55.	**Oil and Gas Development Company Limited**	Non- recovery of demurrage charges of Rs 2.827 million was pointed out of which Rs 0.953 million recovered leaving a balance of Rs 1.874 million.	0.953
56.	**-do-**	Non-recovery of advance salary Rs 406,452	0.406
57.	**-do-**	Non-recovery of Rs 1.429 million on account of demurrage.	1.429
58.	**-do-**	Non-recovery of Rs 265,684/-	0.266
59.	**Pakistan Mineral Development Corporation**	Non-recovery of risk purchase cost Rs 23.652 million from defaulting supplier was pointed out. Out of which Rs 0.300 million recovered leaving a balance of Rs 23.352 million.	0.300
MINISTRY OF PLANNING AND DEVELOPMENT			
60.	**Pakistan Institute of Development Economics**	Non-recovery of training cost of Rs 3.120 million was pointed out. Rs 1.100 recovered leaving a balance of Rs 2.02 million.	1.100

MINISTRY OF SCIENCE AND TECHNOLOGY			
61.	**Pakistan Science Foundation**	Loss of Rs 28,270 due to non-refunding of saving by a society.	0.028
MINISTRY OF SOCIAL WELFARE AND SPECIAL EDUCAITON			
62.	**Pakistan Bait-ul-Mal**	Loss due to procurement of fans at higher rates - Rs 3.945 million. An amount of Rs 0.468 million was recovered.	0 .468
		TOTAL	**128.147**

ANNEXURE-3

Non-Submission of Audited Accounts

Annual audited accounts of Public Sector Enterprises for the year 2009-10 were to be provided to the Directorates General of Commercial Audit and Evaluation, Lahore and Karachi by November 30, 2010. Despite repeated requests, the organizations listed below failed to provide their annual audited accounts for the year 2009-10 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	2009-10
	Ministry of Commerce	
2.	Pakistan Tobacco Board	2008-09 and 2009-10
3.	Expo Lahore (Pvt) Limited	2008-09 and 2009-10
	Ministry of Education	
4.	National Book Foundation	2009-10
	Finance Division	
5.	Agricultural Marketing and Storage Limited	2009-10
	Ministry of Housing and Works	
6.	National Construction Limited	2009-10
7.	Pakistan Housing Authority	2002-03 to 2009-10
	Ministry of Health	
8.	National Institute of Health	2009-10

	Ministry of Industries and Production	
9.	Export Processing Zones Authority	1998-99 to 2009-10
10.	Pakistan Steel Mills Corporation (Pvt.) Limited	2009-10
11.	Pakistan Steel Fabricating Company (Pvt.) Limited	2005-06 to 2009-10
12.	Utility Stores Corporation of Pakistan (Pvt) Limited	2009-10
13.	Small and Medium Enterprises Development Authority	2008-09 and 2009-10
14.	Pakistan Machine Tool Factory	2009-10
Ministry of Information and Broadcasting		
15.	Shalimar Recording and Broadcasting Company Limited	2003-04 to 2009-10
16.	Associated Press of Pakistan Corporation	2003-04 to 2009-10
17.	Pakistan Broadcasting Corporation	2009-10
Ministry of Interior		
18.	National Database and Registration Authority	2005-06 to 2009-10
Labour and Manpower Division		
19.	Employees' Old- Age Benefits Institution	2009-10
20.	Overseas Employment Corporation (Pvt) Limited	2008-09 and 2009-10
	Ministry of Livestock and Dairy Development	
21.	Korangi Fisheries Harbour Authority	2008-09 and 2009-10
22.	Livestock and Dairy Development Board	2009-10

	Overseas Pakistanis Division	
23.	Overseas Pakistanis Foundation	2008-09 and 2009-10
24	Kaghan Brick Works Limited	2007-08 to 2009-10
	Planning and Development Division	
25	National Logistic Cell	2008-09 – 2009-10
Ministry of Ports and Shipping		
26	Gwadar Port Authority	2002-03 to 2009-10
27	Gwadar Fish Harbour	1986-87 to 2009-10
28	Port Qasim Authority	2004-05 to 2009-10
	Ministry of Petroleum and Natural Resources	
29	Lakhra Coal Development Company Limited	2009-10
30	Government Holdings (Pvt) Limited	2009-10
	Ministry of Science and Technology	
31	Pakistan Science Foundation	2009-10
	Ministry of Tourism	
32	Pakistan Tourism Development Corporation Limited	2009-10
33	Pakistan Tours (Pvt) Limited	2009-10
34	PTDC Motels North (Pvt) Limited	2009-10
35	PTDC Associated Hotels (Pvt) Ltd.	2009-10
36	Malam Jubba Resort (Pvt) Ltd.	2009-10
	Ministry of Water and Power	
37	National Engineering Services Pakistan (Pvt) Limited.	2009-10

ANNEXURE - 4

Companies under liquidation / closed

The under – mentioned Corporation / 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.

Sr.	Name of Ministry / Division / Organization	Status / Remarks
	MINISTRY OF DEFENCE	
1.	Midway House (Pvt) Limited	Business closed since 2000, however, liquidation is still 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 is still in process.
5.	Republic Motors (Pvt) Limited	Operation closed since 1986, however, liquidation is still in process.
6.	Associated Cement Rohri Limited	Operation closed since 1998. The Company was placed under liquidation on June 28, 2005, which is still in process.
7.	Ghee Corporation of Pakistan (Pvt) Limited	Operation closed since June 1997
8.	Morafco Industries Limited	Operation closed since June 1997
	MINISTRY OF OVERSEAS PAKISTANIS	
9.	Kaghan Brick Works Limited	Operation closed since 1996
	MINISTRY OF TOURISM	
10.	PTDC Motels South (Pvt) Limited	Operational activities closed since 1990

ANNEXURE-5

Internal Control Weaknesses

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:-

Loaning

It was noticed that financial institutions pursued liberal policy of loan sanctioning without following evaluation criteria, which resulted in defaults. At times loans were sanctioned without verification of pledged securities from the revenue authorities and where possible physical verification may be conducted. Further, post finance monitoring was also lacking which minimized chances of recovery. It is suggested that entire process of loan sanctioning from feasibility to disbursement be well documented as per instructions laid down in the procedures.

Inventory

Purchases were made without ascertaining the requirements thus blocking the capital. In order to lower the costs of inventories, maximum retaining levels and reordering levels need to be defined and purchases be made through open competition to avail the lowest prices.

Receivables

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 are not being collected within the stipulated period, late collection surcharge is also not levied on delayed payment. This adversely affected the liquidity position.

Public Procurement Rules

It was noticed that public sector enterprises are not following the Public Procurement Rules 2004 in true letter and spirit and most of the procuring agencies while engaging in procurement violated the PPRs 2004.

Contract Appointment

Almost all the organizations while engaging the employees on contract basis did not follow the instructions of the government issued from time to time.

Investment

Some of the organizations have ample funds, which the management did not invest prudently. Due to lack of appropriate planning, the organizations sustained huge losses of interest. Thus, there is a need to reevaluate the funds investments policy and appropriate steps may be taken to invest these funds in a prudent manner.

Recommendations

Strengthening of internal controls is required in all organizations for their effective functioning with a view to safeguard against fraud, inefficiency and waste. By doing so, the organizations can better achieve their desired objectives in a befitting and economical manner

ANNEXURE-6

*(See Para.11.**1.4.1**)*

Details of projects in Export Processing Zones Authority as not commenced till June 30, 2010 despite approval in the year 2006-07

S. No.	Name of unit	Date of execution of license agreement	Line of production	Total area in (SQ.MTR)	Envisaged investment (US$ million|)	Construction penalty @ US$ 5 per sq. Meter per month for 2009-10 (amount in US$)
1	Messrs America Rags.	Jan 5, 2007	Recycling of used & second hand clothing	6000	1.050	360,000
2	Messrs America Glirees	Not given	Production of gliters spangles.	2000	1.238	120,000
3	Messrs Developed Technologes-II	Not given	Files converting unit	3087	1.466	185,220
4	Messrs Pak China Usama Harris Khan & Company	July 18, 2006	Small (mins) tractor & power tillers	2000	0.350	120,000
5	Messrs Shaheen Pharmaceutical	Sept. 1, 2006	Medicines/Injection	2000	0.550	120,000
6	Messrs Shaheen Chemical	Sept. 7, 2006	Chemical related to Pharmaceutical industry	2200	0.574	132,000
7	Messrs Famous & Winston	Sept 11, 2006	Manufacturing of limited & wavers gannets	1200	0.375	72,000
8	Messrs Perfect Packaging	Apr. 27, 2007	Corrugated Carton	1000	0.100	60,000
9	Messrs Al-Karim Textile	Sept. 22, 2006	Textile bed lines & comfirm	1200	1.300	72,000
10	Messrs Rija Fashions		Readymade Garments	2020	2.370	121,200
11	Messrs YAA Enterprises (Pvt.) Ltd	Feb 15, 2007	Grading/sorting/Processing of used	2000	0.780	120,000
12	Global Rags	Apr. 2, 2007	Grading/sorting/Processing of used	2000	5.900	120,000
13	Rags “R” Us (Pvt.) Ltd	March 2, 2007	Grading/sorting/Processing of used	2000	2.550	120,000
14	Messrs Euro Food Industries	July 8, 2008	Frozen/non-frozen food items	1000	1.190	60,000
15	A One Techniques	Sept. 22, 2006	Manufacturing of Automotive parts	2000	2.100	120,000
16	Messrs R & D Precision Exports	Apr. 9, 2007	Precision mechanical parts	2400	5,150	144,000
17	Messrs S & S Fashion	July 17, 2006	Production of knitted woven garments viz. shirt, T-shirts, outwear denim.	1000	0.310	60,000

18	Messrs Arif Apparels	July 17, 2006	Garment/Home textile Product	1000	0.240	60,000
19	Messrs Shaharyar Enterprises (Pvt.) Ltd	May 18, 2007	Knitted/Woven garments & homemade ups	2000	0.188	120,000
				TOTAL	**27.781**	**22,86,420**

Annexure-7
(See Para.18.2.4.7)

Details of excess sales more than the average sales of PSO

Dates	Name of Product	Monthly Sales of selective Depots	Bulk supply in last date	Supply before last date	Average	Excess Quantity	Prices increase (Rs Per Ltr)	Total Abnormal Sales (Rs. in million)
		Quantity in liters						
August 29, 2009	HSD	351,788,000	17,132,000	334,656,000	11,952,000	5,180,000	4.59	23.776
August 29, 2009	MOGAS	48,598,000	2,256,000	46,342,000	1,655,000	601,000	4.8	2.884
January 29 & 30, 2010	MOGAS	92,250,000	9,453,000	82,797,000	5,914,000	3,539,000	6.1	21.587
January 29 & 30, 2010	HSD	372,333,000	54,455,000	317,878,000	22,705,000	31,750,000	3.3	104.775
March 30 & 31, 2010	MOGAS	100,446,000	7,975,000	92,471,000	6,605,000	1,370,000	2.57	3.520
March 30 & 31, 2010	HSD	330,579,000	29,180,000	301,399,000	20,786,000	8,394,000	3.5	29.379
April 29 & 30, 2010	MOGAS	71,669,000	6,115,000	65,554,000	4,682,000	1,433,000	1.94	2.780
April 29 & 30, 2010	HSD	366,011,000	40,873,000	325,138,000	23,224,000	17,649,000	3.41	60.183
Total								**248.884**

ANNEXURE-8

Para No. *25.1.4.2 (*NESPAK)

Sr No	Description	Pay in PID Or admissible in Govt. Rs.	Pay fixed in NESPAK Rs.	Difference
A.	**Mr. Nasir Jamal, General Manager (MC)**			
1.	Basic Pay	33,260	33,260	-
2.	Deputation Allowance (Maximum)	-	6,000	6,000
3.	House Rent (to be paid to Govt.)	9,840	19,956	10,116
4.	Qualification pay	500	500	0
5.	Conveyance Allowance 2005	2,480	21,656	19,195
6.	Entertainment Allowance	500	2,495	1,995
7.	Utility	-	3,492	3,492
8.	Compensatory Allowance	-	47,000	47,000
9.	Spl. Additional allowance	1,550	1,550	-
10.	Special Relief Allowance 2005	2,782	2,782	-
11.	Adhoc Relief 2005	2,782	2,782	-
12.	Dearness Allowance 2006	3,408	3,408	-
13.	Staff maintenance allowance	-	1,186	1,186
14.	Residential Telephone	2,225	4,000	1,775
15.	Mobile Phone	-	10,000	10,000
16.	GM. Allowance	-	2,662	2,662
		2,225	**162729**	**103421**
	Total for the period from May 09 to June 2010 (14 months)	**830,578**	**2243866**	**1413288**
B*.	**Compensatory allowance of Four Officials.**			
17.	Mr. Muhammad Ramzan, Steno Typist		7000	7000
18.	Muhammad Asim, IT Clerk	-	5000	5000
19.	Asad-ur-Rehman, Assistant	-	3000	3000
20.	Mehtabadin, Naib Qasid	-	2000	2000
	Grand Total	**830,578**	**2,481,866**	**1,651,288**