AUDIT REPORT
ON
THE ACCOUNTS OF
PUBLIC SECTOR ORGANIZATIONS
(TELECOMMUNICATION SECTOR)
AUDIT YEAR 2025-26

AUDITOR-GENERAL OF PAKISTAN

SERVING THE NATION BY PROMOTING ACCOUNTABILITY, TRANSPARENCY AND GOOD GOVERNANCE IN THE MANAGEMENT AND USE OF PUBLIC RESOURCES

FOR THE CITIZENS OF PAKISTAN

PREFACE

Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan, 1973, read with Sections 8 and 12 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001, require the Auditor-General of Pakistan to conduct audit of accounts of receipts and expenditure from the Consolidated Fund and Public Accounts of the Federation and of each Province; and the accounts of any authority or body established by the Federation or a Province.

The report is based on audit of the accounts of Public Sector Organizations (Telecommunication Sector) for the FY 2024-25. Directorate General of Audit, Postal and Telecommunication Services (P&TS), Lahore conducted audit during Audit Year 2025-26 on a test check basis with a view to report significant findings to the relevant stakeholders. The main body of the Audit Report includes only the systemic issues and significant audit findings. Relatively less significant issues are listed in Annex-I of the Audit Report. The audit observations listed in Annex-I shall be pursued with the Principal Accounting Officers at the DAC level and in all cases, where the Principal Accounting Officers do not initiate appropriate actions, the audit observations will be brought to the notice of the Public Accounts Committee (PAC) through the next year's Audit Report.

The audit findings indicate the need for adherence to the regularity framework, besides instituting and strengthening internal controls to avoid recurrence of similar violations and irregularities. The Audit Report has been finalized in the light of discussions in the DAC meetings and written responses of the organizations.

There are certain audit paras, which were also reported in the previous Audit Report(s) and MfDAC Report(s). The recurrence of such irregularities is a matter of concern and needs to be addressed.

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

Islamabad
Dated:

(**Maqbool Ahmad Gondal)**
Auditor-General of Pakistan

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ABBREVIATIONS & ACRONYMS

AJK	Azad Jammu & Kashmir
ATIR	Appellate Tribunal Inland Revenue
BTS	Base Transceiver Station
CAPEX	Capital Expenditure
CDWP	Central Development Working Party
CEO	Chief Executive Officer
CGA	Controller General of Accounts
CMA	Controller Military Accounts
DAC	Departmental Accounts Committee
DCIR	Deputy Commissioner Inland Revenue
DSL	Digital Subscriber Line
FAB	Frequency Allocation Board
FCF	Federal Consolidated Fund
FTTH	Fiber To The Home
GB	Gilgit Baltistan
GoP	Government of Pakistan
ICT	Islamabad Capital Territory
LD	Liquidated Damages
LDI	Long Distance International
MoITT	Ministry of Information Technology and Telecommunication
MoD	Ministry of Defence
MoU	Memorandum of Understanding
NGMS	Next Generation Mobile Services
NSPD	National Standard Procurement Document
NGBSD	Next Generation Broadband Sustainable Development
NIDA	National Income Daily Account
OPEX	Operating Expense
OEM	Original Equipment Manufacturer
OFC	Optical Fibre Cable
PAO	Principal Accounting Officer

PFMA	Public Finance Management Act
PMB	Project Management Board
PEC	Pakistan Engineering Council
PPRA	Public Procurement Regulatory Authority
PTA	Pakistan Telecommunication Authority
PTRA	Pakistan Telecommunication (Re-Organization) Act
QoS	Quality of Service
R&D	Research and Development
SCO	Special Communications Organization
SECP	Security & Exchange Commission of Pakistan
SLA	Service Level Agreement
SOPs	Standard Operating Procedures
SRV	Sindh Revenue Board
VUP	Virtual University of Pakistan
USF	Universal Service Fund

EXECUTIVE SUMMARY

This Audit Report presents findings from the audit of Public Sector Organizations in the Telecommunication Sector for FY 2024-25, covering Special Communications Organization (SCO), Universal Service Fund & Company (USF Co) and Frequency Allocation Board (FAB). These entities, except SCO, were established under the Pakistan Telecommunication (Re-organization) Act, 1996 (amended 2006) and operate under the Ministry of Information Technology and Telecommunication (MoITT) and Cabinet Division. SCO was established through an executive order of the Prime Minister of Pakistan on May 10, 1976.

The Directorate General of Audit, Postal and Telecommunication Services (P&TS), Lahore, audited these entities on a test-check basis, focusing on systemic issues and significant findings. The audit scope included Rs 8,310.50 million in expenditure (35% of total auditable expenditure of Rs 23,470.678 million) and Rs 222.295 million in receipts (2% of total auditable receipts of Rs 19,439.18 million) across three entities under two Principal Accounting Officers (PAOs). A thematic audit on "Analysis of Court Cases in Telecom Sector (Internal & External Litigation)" was also conducted, revealing prolonged litigation leading to Rs 3,715 million in unrecovered dues and weak legal follow-up.

Key risks identified include non-compliance with procurement rules (e.g., irregular award of contracts Rs 7,464.723 million in USF), HR irregularities (e.g., minimum wage rates, irregular appointment, and outstanding receivables.) Systemic weaknesses encompass inadequate internal controls, such as non-vetting of service regulations and weak receivables management resulting in financial losses and delayed project execution.

Scope of Audit

This office conducted audit of three (3) audit entities working under the administrative control of the Ministry of Information Technology and Telecommunication and Cabinet Division. The audit of Frequency Allocation Board (FAB) was conducted as an independent Principal Accounting Officer (PAO) after its designation as PAO w.e.f. July 22, 2025. These formations incurred an expenditure of Rs 23,470.678 million and collected receipts of Rs 15,739.227 million during FY 2024-25.

Audit coverage relating to budgeted expenditure for the current Audit Year comprised Rs 8,310.50 million for FY 2024-25. In terms of percentage, the audit coverage for budgeted expenditure was 35% of auditable expenditure. Audit coverage relating to budgeted receipts for the current audit year comprised Rs 222.295 million for FY 2024-25. In terms of percentage, the audit coverage for budgeted receipts was 2% of auditable receipts.

In addition to Compliance and Thematic Audit of the above-mentioned entities, Directorate General Audit (P&TS) also conducted compliance audit of Pakistan Telecommunication Authority (PTA), National Radio Telecommunication Corporation (NRTC), Telephone Industries of Pakistan (TIP) and National Telecommunication Corporation (NTC) for the FY 2024-25 and Ignite National Technology Fund Company. Standalone reports of these entities will be published separately.

Recoveries at the instance of audit

As a result of audit, recovery of Rs 120.683 million was pointed out in this report. Recovery effected from January to December, 2025 was Rs 184.402 million which included recoveries effected in respect of amounts pointed out in current and previous years.

Audit Methodology

The Permanent Files of Telecommunication Sector entities were updated following the receipt of relevant information from the entities, facilitating effective resource planning and management before the audit execution.

The field audit activities encompassed a comprehensive range of tasks, including record reviews, field visits, physical inspections and engagements with management.

The audit was carried out by adopting quantitative data collection method. The field audit activities encompassed a comprehensive range of tasks, including record reviews, field visits, physical inspections, and engagements with management. This Directorate General has implemented the Audit Management Information System (AMIS) and permanent/planning files of audit entities, Audit Inspection Reports, Proposed Draft Paras and Audit Reports were uploaded on AMIS successfully.

Audit Impact

Audit findings have driven measurable improvements in governance and financial management within the telecommunication sector.

1. **Financial Impact:** Prompted recovery of Rs 184.402 million in dues during the period from January to December 2025. Besides this, recoveries of Rs 120.683 million were pointed out during the audit of FY 2024-25 of these entities. (e.g., USF contributions of Rs 116.099 million in Para 3.4.3).

2. **Operational Impact:** Entities agreed to strengthen project planning and execution, addressing delays in USF projects (Para 3.4.2, Rs 1,006.983 million de-scoping) and irregular procurements in SCO (Para 1.4.2, Rs 109.442 million overpayment).

3. **Compliance Impact:**(i) FAB transferred receipts to PTA following audit recommendations (Para 4.5.1, Rs 106.196 million), to ensure alignment with PFM Act, 2019. (ii) Thematic audit exposed litigation delays, leading to commitments for better legal follow-up and reduced pendency in high-value cases (e.g. Para 5.8.3.1 Rs 3,715 million unrecovered in Thematic Audit).

4. **Reputational Impact:** Emphasized upon non-implementation of minimum wages (e.g. SCO Para 1.5.6), mitigating risks of inequity and enhancing public trust. Overall, audit has mitigated reputational risk of the entities by encouraging them to follow the instructions of the Federal Government which are issued by keeping in view the principle of equity as required in the Constitution of Islamic Republic of Pakistan.

These impacts directly stem from audit observations, quantifying exposure and promoting accountability.

Comments on Internal Controls

Internal controls in audited entities are formally established but exhibit significant deficiencies in design, implementation, and effectiveness, leading to irregularities totaling Rs 20,489.938 million. Key issues are categorized below:

i. **Design Deficiency:** Controls lack comprehensive frameworks, e.g., USF, subsidy contract designs fail to enforce timely roll-outs (Para 3.4.2), exposing Rs 1,006.983 million to relocation risks.

ii. **Operational Deficiency:** Implementation gaps are evident, e.g. non-adherence to PPRA in procurements (USF Para 3.4.1, Rs 7,464.723 million; SCO Para 1.4.4, Rs 28.505 million). SCO's refusal of records (Para 1.5.1) indicates poor access controls, breaching the constitutional mandate specified in Article 170 of the Constitution.

iii. **Systemic Weaknesses:** Sector-wide issues include weak receivable management (e.g. USF Para 3.4.3, Rs 116.099 million) and litigation follow-up (Thematic Audit), stemming from inadequate coordination between legal and finance wings. Existing controls (e.g., internal audit in SCO) are ineffective, as no manual exists, leading to recurrence of irregularities pointed out in prior audit reports.

Overall, controls are partially effective for routine operations but fail in high-risk areas like procurement and litigation, increasing financial and compliance risks. Entities should redesign controls with risk assessments and monitor effectiveness via KPIs.

Key Audit Findings of the Report

The Audit Report comprises Sixteen (16) Audit Findings highlighting serious irregularities as under:

1. In eleven (11)[1] cases, outstanding receivables and other irregularities amounting to Rs 18,306.378 million were noticed (e.g., non-recovery of Rs 116.099 million (USF Para 2.4.3); Unjustified expenditure on OFC lots due to ill planning – Rs 845.166 million in USF Para 2.4.4 and Irregular payment of commission to franchisees – Rs 489.266 million in SCO Para 1.5.2).

2. In four (4)[2] cases, procurement related irregularities being violation of PPRA Rules amounting to Rs 241.872 million were noticed. (e.g., procurement at higher rates (SCO Para 1.4.2) and irregular procurement from associated entity (SCO Para 1.4.4 etc.)

3. In One (1)[3] case, HR-related irregularity was observed (e.g., Irregular appointment (FAB Para 3.4.1).

[1] (1.5.1 to 1.5.5, 2.4.1 to 2.4.5 and 3.5.1)
[2] (1.4.1 to 1.4.4)
[3] (3.4.1)

Recommendations

The telecommunication entities should:

1. Enforce PPRA Rules in procurements via mandatory pre-qualification and price reasonableness mechanisms

2. Strengthen receivable and litigation management through centralized tracking systems and quarterly reviews

3. Enhance project and financial controls with feasibility studies and board approvals for changes

4. Strengthen the implementation of internal controls relating to HR matters.

ORGANIZATIONAL ANALYSIS

Pakistan's telecommunication sector plays a pivotal role in fostering digital connectivity and economic progress, underpinned by deregulation efforts since the promulgation of the Pakistan Telecommunication (Re-organization) Act,1996 (amended in 2006) to facilitate universal service and ICT Research & Development initiatives. In FY 2024-25, the sector reached over 200 million total subscribers and 150 million broadband subscribers, achieving a broadband penetration rate of approximately 62.5 percent, up from 192 million total subscribers and 130 million broadband subscribers in FY 2023-24 (PTA Annual Report 2024-25). Sector revenues exceeded Rs 1 trillion, a notable increase from Rs 955 billion in FY 2023-24, with investments rising to US$ 838 million from US$ 748 million the previous year (PTA Annual Report 2024-25).

Within the audited scope, entities including, Special Communications Organization (SCO), Universal Service Fund (USF) Company, and Frequency Allocation Board (FAB) contribute to innovation funding, rural connectivity, regional service provision, and spectrum management. Total federal expenditure for these entities in FY 2024–25 stood at Rs 23,470.678 million, a 13 percent decline from Rs 27,044.741 million in FY 2023–24, while receipts rose by 27 percent to Rs 19,439.18 million from Rs 15,276.791 million.

In FY 2024-25, SCO's expenditure reached Rs 9,579.678 million, a 7.7 percent increase from Rs 8,894.491 million in FY 2023-24, with receipts growing to Rs 8,393.610 million, up 44 percent from Rs 5,828.080 million, driven by expanded operations in Gilgit-Baltistan and Azad Jammu and Kashmir. This growth was supported by MoITT directives for regional monopolies to adopt competitive pricing, enhancing efficiency despite terrain-related technology constraints in AJK/GB, while improved fiscal recoveries from user fees indicate better governance in revenue collection.

USF recorded expenditure of Rs 11,655.60 million in FY 2024-25, 30 percent lower than Rs 16,635.183 million in FY 2023-24 but receipts rose to Rs 11,045.570 million, up 17 percent from Rs 9,448.711 million, due to stronger levy inflows.

FAB, as a spectrum management and regulatory support organization, incurred expenditure of Rs 2,235.40 million in FY 2024-25, 47 percent higher than Rs 1,515.067 million in FY 2023-24, with no receipts, due to elevated costs for spectrum allocation and 5G preparation activities.

The following table summarizes financial trends for the audited entities in FY 2024-25, with percentage changes relative to FY 2023-24 (Rs in million):

(Rs in Million)

Name of entity	FY 2023-24		FY 2024-25		Percentage increase/ decrease	
	Expenditure	Revenue/ Receipt	Expenditure	Revenue/ Receipt	Exp	Receipt
SCO	8,894.491	5,828.080	9,579.678	8,393.610	8	44
USF	16,635.183	9,448.711	11,655.60	11,045.570	(30)	17
FAB	1,515.067	0	2,235.40	0	47	0
Total	**27,044.741**	**15,276.791**	**23,470.678**	**19,439.18**	**(13)**	**27**

Source: Budget & Expenditure Statements

Trends in FY 2024-25 are shaped by fiscal constraints and operational factors. SCO's performance improvement results from higher service demand in remote areas, bolstered by MoITT directives for competitive pricing. USF's expenditure decline reflects project delays due to supply chain issues, partially offset by receipt growth from efficient levies, in line with MoITT policies to bridge the digital divide. FAB's increased expenditure is linked to regulatory demands for spectrum optimization, with full budgetary dependence.

Overall expenditure reductions reflect fiscal priorities, while receipt improvements for USF and SCO demonstrate operational efficiencies in

connectivity expansion. These entities support mitigation of the digital divide through rural connectivity efforts, contributing to national tele-density of 81 percent and broadband penetration of 62.5 percent, while FAB enables spectrum efficiency, all aligned with SDG 9 objectives. Budgetary reliance for FAB and funding volatility for Ignite underscore the need for targeted resource utilization to sustain sector progress.

MINISTRY OF INFORMATION TECHNOLOGY & TELECOMMUNICATION

CHAPTER-1

SPECIAL COMMUNICATIONS ORGANIZATION (SCO)

Chapter-1

Special Communications Organization (SCO)

(MoITT)

1.1 Introduction

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

DG SCO exercises administrative and financial powers given in the Financial Budgeting, Accounting and Audit (FBA&A) Procedures as approved by the Project Management Board. CMA (FWO) is responsible for pre-audit and reconciliation of the expenditure of SCO with AGPR.

B) Comments on Budget and Accounts

SCO prepares statement of receipts and expenditure only which is audited by this office and accordingly comments are offered.

Table-I Audit Profile of SCO

(Rs in Million)

S. No.	Description	Total Nos	Audited	Expenditure audited FY 2024-25	Revenue / Receipts Audited FY 2024-25
1	Formations	11	06	601.575	1,078.776
2	• Assignment Accounts • SDAs	-	-	-	-
3	Authorities / Autonomous Bodies etc under the PAO	11	06	601.575	1,078.776
4	Foreign Aided Projects (FAP)	-	-	-	-

1.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 9,009.082 million were raised in this report during the current audit of SCO. A summary of the audit observations classified by nature is as under:

Table-II Overview of Audit Observations

(Rs in Million)

S. No.	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and Misappropriation	-
3	Irregularities (C)	**241.872**

A	HR related irregularities	-
B	Management of Accounts with Commercial	-
C	Procurement related irregularities	241.872
4	Value for money and service delivery issues	-
5	Others	8,767.21
	Total:	**9,009.082**

1.3 Status of Compliance with PAC Directives

SCO				Compliance		
Sr No	**Audit Year**	**Total Paras**	**Total Directives**	**Received**	**Not Received**	**%age**
1	1992-93	22	22	18	4	82
2	1997-98	4	4	4	0	100
3	1999-00	7	7	7	0	100
4	2000-01	5	5	5	0	100
5	2001-02	5	5	5	0	100
6	2005-06	9	9	9	0	100
7	2008-09	6	6	6	0	100
8	2009-10	11	10	10	0	100
9	2010-11	16	16	14	2	88
10	2011-12	19	19	16	3	84
11	2012-13	28	28	16	12	57
12	2013-14	22	22	18	4	82
13	2014-15	10	10	7	3	70
14	2015-16	10	10	6	4	60
15	2016-17	6	6	3	3	50
16	2017-18	8	8	8	0	100
17	2018-19	13	8	8	0	100
18	2019-20	23	23	16	7	70
19	2022-23	17	12	6	6	50
20	2023-24	PAC meeting was held but directives were not received.				

The above table reflects that the management has shown adequate interest in complying with the PAC directives over the years.

AUDIT FINDINGS

1.4 Procurement related irregularities

1.4.1 Irregular hiring of franchisee services and award of contracts without open competition

According to Rule 20 of the Public Procurement Rules, 2004, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works. Further, Rule 4 ibid requires 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.

SCO under MoITT Islamabad engaged the services of thirteen (13) franchisees for the sale of SCO products and services within the jurisdiction of districts of AJK and GB during the financial year 2024-25. The franchise agreements were executed on 22nd April, 2025 for a period of two years, offering a commission rate of 8% on scratch cards and S-Load.

Audit observed that SCO management awarded the franchisees contracts without inviting open competitive bidding as required under PPRs.

Audit contends that the award of contracts without open competitive bidding violated the PPRs and resulted in non-transparent procurement.

The matter was reported to the management during October, 2025. It was replied that franchisee services for district Astore were published in the newspaper Daily Times dated 13th January, 2023 as per codal formalities. After selection of a suitable franchisee, the contract was annually renewed on mutual consent and satisfactory performance of franchisees (Customer Support, Achievement of targets).

The reply was not tenable as the advertisement in a local newspaper for selection of franchisee in district Astore did not cover the selection of 13 franchises for all the districts of AJK and GB. The contracts with all the franchisees were executed without open competitive bidding. Further, the said advertisement was not an invitation for open competitive bidding.

DAC in its meeting held on 15th December, 2025, directed the management to provide the complete record of competitive bidding along with franchisee contracts to audit for verification. However, no record was produced to Audit for verification till the finalization of this report.

Audit recommends compliance of the DAC directives besides fixing of responsibility for non-compliance of procurement rules.

(DP No.52)

1.4.2 Irregular expenditure on procurement of machinery at higher rates – Rs 109.442 million

According to Regulation 7(1)(a) of the Financial Management and Powers of Principal Accounting Officers Regulations, 2021, the Principal Accounting Officer shall be responsible to adhere to and enforce the principles of financial propriety, including the compliance of laws, rules, regulations, maintaining high standard of prudence, vigilance, due diligence and ensuring value for money while incurring expenditure and collecting government receipts.

The ordnance as well as Development branch of SCO Headquarter under MoITT, Islamabad procured 25 KVA diesel generators at a cost of Rs 3,178,000 and Rs 7,087,127 per unit during the FY 2024-25.

After cost comparison, audit observed that SCO management procured the same capacity diesel generators at higher rates as detailed below:

(Amount in Rs)

Branch Name	Supplier Name	Qty	Specs	Contract Date	Unit Rate
Ordnance Branch (Operational requirement)	Rehman Sons	02	25 KVA (Perkins UK)	March 2025	3,178,000
Development Branch (Cellular services project)	Communicator Globe	28	25 KVA (Perkins UK)	May 2025	7,087,127
Price differential per unit					3,909,127
Uneconomical Procurement (Rs 3,909,127x28)					**109,455,556**

The procurement of 28 generators by the Development Branch of SCO was not economical & efficient resulting in higher cost with a price differential of Rs 109,441,556 despite the fact that it was a bulk purchase as compared to the purchase of the Ordnance Branch.

The matter was reported to the management and PAO during November, 2025. It was replied that 28 Gen-Set of 25 KVA were procured for the project as per PPRA rules. The contract was awarded to the most advantageous bidder. Technical and financial evaluation was carried out as per submitted bids.

The reply was not tenable as the claim that procurement was made after award of contract to the "most advantageous bidder" did not justify the variation in unit rates for identical equipment procured within the same organization. Price reasonability/comparison analysis was the responsibility of SCO management.

DAC in its meeting held on 15th December, 2025, directed the management to provide the complete record for verification. However, no record was produced to Audit for verification till the finalization of this report.

Audit recommends compliance of the DAC directives besides that the matter be inquired and responsibility be fixed for uneconomical procurement resulting in loss to the State.

(DP No.60)

1.4.3 Irregular procurement of machinery & equipment during ban period– Rs 103.925 million

According to the Finance Division's letter No. 7/ (1) Exp-IV/2024 dated September 4, 2024, there shall be a complete ban on procurement of machinery / equipment with the exception of those required for hospitals / laboratories / agriculture / mining and schools. Further, as per Para 2(iv) of Finance Division's letter dated August 9,2024, an Austerity Committee with the approval of the Prime Minister is constituted to approve proposals for relaxation of the Austerity Measures, where absolutely necessary.

SCO under MoITT Islamabad incurred an expenditure of Rs 103,924,802 on procurement of items of machinery & equipment during FY 2024-25 as detailed below:

(Amount in Rs)

Sl No.	Item No.	Name of formation	Amount
1	2	SCO HQs Rawalpindi (Generators, Solar Panels, Solar Charge Controllers, Core-i7 10th Generation Computers, MBVS Devices, Firewalls and Automatic Voltage Regulator)	88,779,323
2	2 & 3	61-CSB Muzaffarabad (Laptops, computers and Photocopier)	10,773,487
3	2 & 3	64-CSB Mirpur (Laptops, ACs, Printers, Photocopier)	4,371,992
		Total	**103,924,802**

Audit observed that the procurement of machinery & equipment was made despite ban imposed by the Finance Division. The case for relaxation of austerity measures was also not submitted to the Austerity Committee of the Finance Division.

Audit contends that the procurement of machinery and equipment during the ban period indicates weak financial controls and non-compliance of instruction of Finance Division.

The matter was reported to the management and PAO during November, 2025. It was replied that it procured the equipment to replace faulty equipment declared as "Beyond Economical Repair". Without the replacement of equipment, the whole project, which cost much more than the value of procured equipment would have gone dysfunctional; resulting in loss to the state and discontinuation of mobile services to customers in AJ&K and GB.

The reply was not tenable as the machinery and equipment were procured during the ban period and no evidence of replacement of old ones was provided.

DAC in its meeting held on 15th December, 2025, directed that being a sensitive organization, the SCO management should prepare a case for the Austerity Committee for future exemption from austerity measures of the Finance Division. No further progress was reported till finalization of this report.

Audit recommends that the matter be inquired into for violation of instructions of the Finance Division and responsibility be fixed besides prompt compliance of the DAC directives.

(DP No.53)

1.4.4 Irregular procurement of machinery & equipment from associated entity– Rs 28.505 million

As per Annual Return submitted under Section 130(1) of the Companies Act, 2017 and Regulation 4 of the Companies (General Provisions and Forms) Regulations, 2018, M/s Celmore Technologies Pvt. Ltd was the subsidiary of SCO holding 95 shares out of total 100 registered shares and 5 shares in the names of Nominee Directors. According to the Sr. No. (ii) of PPRA SRO 370(I)/2022 dated February 25, 2022, the procuring agencies shall use the National Standard Bidding Documents (NSBD) for procurement of goods. The Clause 3.7 (a & b) of the Eligibility Criteria of the Standard Bidding Document, a Bidder shall not have a conflict of interest. All Bidders found to have a conflict of interest shall be disqualified. A bidder may be considered to have a conflict of interest with

one or more parties in the Bidding process, if (a) they are associated (b) or have controlling shareholders in common. Furthermore, according to the Finance Division's letter No. 7/ (1) Exp-IV/2024 dated September 4, 2024, there shall be a complete ban on procurement of machinery / equipment with the exception of those required for hospitals / laboratories / agriculture / mining and schools.

SCO Headquarters under MoITT Islamabad procured machinery & equipment and incurred an expenditure of Rs 28,505,280 during FY 2024-25. The detail is as under:

(Amount in Rs)

Sr. No.	Name of Supplier	Description	Qty	Amount (Rs)
1	M/s Celmore Technologies	Production Servers	06	26,780,250
2		Power cable 35mm	270 Meter	1,725,030
			Total	**28,505,280**

Audit observed that:

i. SCO did not revise its bidding document as required under rules.

ii. M/s Celmore was the subsidiary of the SCO. As per rule, there was a direct conflict of interest between M/s Celmore and SCO being the associated entities. Therefore, M/s Celmore was required to be disqualified to participate in the bidding process due to the existence of conflict of interest with SCO.

iii. The procurement of machinery & equipment was made despite the ban by the Finance Division and the case for relaxation of austerity measures was not submitted to the Finance Division.

iv. There was no evidence regarding approval of the competent authority to establish M/s Celmore as a subsidiary.

Audit contends that the procurement of machinery and equipment from the associated entity during the ban period constitutes mis-procurement.

The matter was reported to the management and PAO during November, 2025. It was replied that the equipment was procured to replace faulty equipment which was declared "Beyond Economical Repair". Without the replacement of equipment, the whole project, which cost much more than the value of procured equipment would have gone dysfunctional; resulting in loss to the state and discontinuation of mobile services to customers in AJ&K and GB.

The reply was not tenable as the machinery and equipment were procured through subsidiary of SCO during the ban period.

DAC in its meeting held on 15th December, 2025, pended the para till clarification from PPRA. No further progress was reported till finalization of this report.

Audit recommends that the matter be inquired into for violation of procurement rules and responsibility be fixed besides prompt compliance of the DAC directives.

(DP No.66)

1.5 Others

1.5.1 Refusal to provide auditable record pertaining to releases from Ministry of Defence –Rs. 6,882.806 million

According to Article 170 (2) of the Constitution of the Islamic Republic of Pakistan, 1973, the audit of the accounts of the Federal and of the Provincial Governments and the accounts of any authority or body established by or under the control of the Federal or a Provincial Government shall be conducted by the Auditor-General, who shall determine the extent and nature of such audit.

The Honourable Supreme Court of Pakistan in its judgment dated July 16, 2013 in Constitution Petition No. 105 of 2012 had declared and directed that the Auditor-General, in order for him to fulfill his duties under Articles-169 to 170 of the Constitution, is not only authorized but also obliged to seek access to any and all records actually maintained by all Federal and Provincial Governments, as well as all entities established by or under the control of the Federal and Provincial Government, regardless of the designation of such records as secret or otherwise.

Section-14 (2) of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 states that the officer in charge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition and Section-14 (3) of said Ordinance, stipulates that any person or authority obstructing the auditorial functions of the Auditor-General regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Discipline Rules, applicable to such person.

The Ministry of Law and Justice, vide its office memorandum No.F.No.467/2024-Law-1 dated September 4, 2024 while examining the stance taken by the refusing entity, clarified that in terms of Article 169 of the Constitution of the Islamic Republic of Pakistan, 1973, the Auditor-General of Pakistan was mandated to perform Audit of the accounts of any Authority or Body established by the Federation and or a Province. The Auditor-General has all kind of powers to inspect and enquire into the accounts, office, books and papers of any office under the control of the Federation and Province.

The Ministry of Defence, Rawalpindi had released Rs. 6,882.806 million (as tabulated below) during financial years 2021-22 to 2024-25 to Special Communications Organization.

(Rs in Million)

Sr. No	Financial Year	Voucher No.	Amount	Total
1.	2021-22	3266	606.350	971.42

			365.070	
2.	2023-24	3163	1,891.310	3,284.060
		3164	1,392.750	
3.	2024-25	3603	141.025	2,627.326
		3604	2,486.301	
			Total	**6,882.806**

During the audit of SCO HQs, the record pertaining to all the releases from the government, paid vouchers, cash books, bank statements, contract record and monthly expenditure was required for scrutiny under audit but the SCO management refused to share the auditable record.

The matter was reported to the management and PAO during November, 2025. It was replied that funds were released by GoP for sensitive/secret projects of tri-services through the Ministry of Defence (MoD) and audit of said budget was already conducted by the respective audit office. Simultaneous handling of MoD budget affairs by P&TS Audit may be reconsidered as it does not fall under purview of MoITT and P&TS Audit.

The reply is not tenable as the expenditure was incurred by SCO therefore post audit was the mandate of DG Audit P&TS. SCO's stance of audit by CMA was not relevant as CMA carries out the pre-audit of payment which did not cover the requirement of post audit. Further, the Honourable Supreme Court of Pakistan in its landmark judgement in Constitution Petition No.105 of 2012 dated 16th July, 2013 decided that the Auditor-General of Pakistan is not only authorized but also obliged to access all records actually maintained by federal and provincial governments, as well as by entities established by or under their control irrespective of their classification as "secret" or otherwise.

In DAC in its meeting held on 15th December, 2025, the SCO management took the stance that they are not refusing to provide the record, which was appreciated by the DAC. However, the audit authorities gave a dissenting note that funds were placed with the SCO as per audit

records, hence they need to be presented for audit. The DAC directed the SCO management to seek clarification from the concerned quarter regarding placement of funds and audit thereof to resolve the issue. No further progress was reported till finalization of this report.

Audit recommends that the matter be inquired at a higher level to fix responsibility for refusing to share the auditable record besides prompt compliance of the DAC directives.

(DP No.56)

1.5.2 Irregular payment of commission to franchisees – Rs 489.266 million

According to Section 40C (1)(2) of the Public Finance Management Act, 2019, the revenue collection offices shall deposit the collected amount in the Federal Consolidated Fund (FCF) promptly without delay in the prescribed manner under the head of account specified by the Finance Division. The revenue collection offices shall not retain or appropriate the collected amounts to meet departmental expenditures except through the budgetary mechanism. Rule 12 of the Rules of Business requires that no Division shall, without previous consultation with the Finance Division, authorise the issue of any orders, other than orders in pursuance of any general or special delegation made by the Finance Division, which will affect directly or indirectly the finances of the Federation.Further, according to Section 5(e) of the CGA Ordinance, 2001 the Functions of CGA shall be to render advice on accounting procedure for new scheme, programmes or activities undertaken by the Government concerned.

SCO under MoITT Islamabad sold scratch cards and SIM cards to thirteen (13) franchisees of SCO in AJK & GB, earned a revenue of Rs 5,720,226,833 and paid commission to franchisees during the financial year 2024-25 as detailed below:

(Amount in Rs)

Sl No.	Source of revenue	Amount of revenue	Rate of commission	Total amount of commission
1	Sale of Calling Cards	5,592,907,333	8%	447,432,587

2	Sale of SIM cards	127,319,500	32.85% Rs 115/sim	41,833,550
	Total	**5,720,226,833**	-	**489,266,137**

Audit observed that:

i. SCO paid commission on the sale of calling cards to the franchisees from the revenue earned through S-load.

ii. The commission on the sale of SIMs was paid to the franchisees after upfront deduction of commission from the sale proceeds of sims leaving the residual amount for credit of government revenue.

iii. No policy, accounting procedure and SOP for recognition, measurement and accounting of revenue through S-Load and Calling cards and transactions with Franchisees was approved from the Finance Division, CGA and Project Management Board respectively.

Audit contends that payment of commission to franchisees through S-load or any other means, the implementation of S-load mechanism without approved accounting procedure and detailed SOP from a competent forum has increased the risk of material errors & misstatements.

The matter was reported to the management during October, 2025. It was replied that payment of commission through S-load instead of S-card was adopted to prevent loss to the State on account of card printing charges. Further, the approval of commission from 5% to 10% on scratch cards was obtained in 61st Project Management Board (PMB) meeting. Commission on the sale of SIMs was approved in 78th meeting of PMB.

The reply was not tenable as in the light of Rule-12 of the Rules of Business all the matters relating to the finances of the Federation are to be decided by the Finance Division. Therefore, the stated rationale of saving printing costs and approval of policy for payment of commission through S-Card and S-Load were required to be obtained from the Finance Division.

DAC accepted the management's viewpoint and settled the para. However, the audit rebutted this stance, insisting that a detailed policy, accounting procedure, and SOPs for revenue recognition through S-Load, S-Card, and payment of commission to the franchisee are necessary from the Finance Division.

Audit recommends that the policy of making payment of commission through S-Load/Cards be got approved from the Finance Division, a detailed accounting procedure duly vetted/concurred from CGA be got approved and well documented SOPs for revenues from S-Cards and S-Loads be got approved from PMB and record be got verified from audit.

(DP No.55)

1.5.3 Irregular utilization of revenue – Rs 778.18 million

According to Section 40C (1)(2) of the Public Finance Management Act, 2019, the revenue collection offices shall deposit the collected amount in the Federal Consolidated Fund (FCF) promptly without delay in the prescribed manner under the head of account specified by the Finance Division. The revenue collection offices shall not retain or appropriate the collected amounts to meet departmental expenditures except through the budgetary mechanism.

SCO under MoITT Islamabad collected an amount of Rs 8,393.61 million as gross revenue during the financial year 2024-25.

Audit observed that SCO management appropriated an amount of Rs 778.18 million from the revenue collected to make payment of different departmental expenditure as detailed below:

Sl No.	Description	Amount (Rs in million)
1	Interconnect/Media/Colocation services	311.50
2	IPTX (Bandwidth charges)	359.58
3	Satellite	70.38
4	PTA/NADRA	17.32

5	Bill delivery	1.54
6	Domain Name Service	17.86
	Total	**778.18**

Audit contends that the above payments from the revenue without the budgetary mechanism were against the provisions of the PFM Act, 2019.

The matter was reported to the management and PAO during November, 2025. It was replied that SCO made payment in the following heads (a) Bandwidth Payment (b) Inter-operator services Payments (c) Annual Regulatory & USF Payments to PTA. Payments were not departmental payments as these were essential Inter-operator, regulatory and service acquisition payments. These charges were already billed to customers in advance as per their utilization and payment was made to the service provider from the charges collected from customers through retail billing.

The reply was not acceptable. Payment of expenditure from revenue collection is violation of provisions of the PFM Act which requires policy approval from the Finance Division.

DAC in its meeting held on 15th December, 2025, directed the management to submit the case through MoITT to the Finance Division for clarification regarding utilization of funds from revenue. No further progress was reported till finalization of this report.

Audit recommends compliance of the DAC directives.

(DP No.57)

1.5.4 Defective deployment of FTTH and NGMS Core Network without Regulatory and Technical Compliance –Rs 615.053 million

According to Rules 15 and 16 of the Public Procurement Rules (PPRA), 2004, a procuring agency, prior to the floating of tenders,

invitation to proposals or offers in procurement proceedings, may engage in pre-qualification of bidders in case of services, civil works, turnkey projects and in case of procurement of expensive and technically complex equipment to ensure that only technically and financially capable firms having adequate managerial capability are invited to submit bids.

According to the Pakistan Telecommunication (Re-Organization) Act, 1996, and PTA Type Approval Technical Standards Regulations, 2021, no terminal radio or network equipment may be deployed in Pakistan without valid type approval or certificate of conformity issued by the Pakistan Telecommunication Authority (PTA). Furthermore, international contracting frameworks i.e. FIDIC (Red and Yellow Books) and International Standards developed by the International Telecommunication Union (ITU) recommendations impose contractual and technical compliance standards required to be followed while executing contracts.

SCO under MoITT Islamabad executed two development projects during the FY 2023-24 & 2024-25 for Rs 1,495,000,000 as detailed below:

Sr#	**Project Title**	**Contractors Name**	**Amount**
1.	NGMS Core Upgradation	M/s Communicator's Globe	715,000,000
2.	Expansion of FTTH Services in AJK and GB		780,000,000
Total			**1,495,000,000**

Audit noticed the following irregularities:

1. Both the technical infrastructure projects were executed without technical and financial approval of the Project Management Board and fulfilling the requirements of FIDIC Clause 1.13 (Compliance with Laws).

2. The feasibility study, demand analysis, or cost–benefit justification was not prepared contravening PPRA Rule 9 (Need Assessment)

and FIDIC Clause 4.1 requiring works to be fit and properly justified.

3. Proprietary hardware and software earlier supplied / installed/ commissioned / laid by M/s ZTE were shown as modified / upgraded by another vendor without authorization or de-commissioning in breach of FIDIC Clause 1.10 (Employer's Use of Contractor's Documents), exposing the organization to legal and technical risks.

4. The complaint lodged by M/s Telco World was neither recorded in the grievance redressal log nor addressed as per PPRA Rule 48, indicating bias and non-compliance with statutory procedure.

5. Import documentation such as Bill of Lading, Commercial Invoice, Goods Declaration, and HS Code Equipment Lists were absent, rendering payments unsubstantiated under Section 18, 25 & 79 of the Customs Act, 1969.

6. Despite prevailing international security advisories restricting Huawei and ZTE equipment in 5G/core networks, SCO proceeded without clearance from the National Telecommunication & Information Security Board (NTISB) or PTA. This violates PTA Type Approval Regulations, 2021 and ITU-T Recommendation X.805 which emphasizes network access control and risk mitigation against unverified vendors.

7. SCO failed to verify vendor certifications, international interoperability compliance (ITU-T G.703/G.707/G.709), and PTA-approved equipment status, contravening PPRA Rule 16 (Pre-Qualification) and the PTA Type Approval Technical Standards Regulations, 2021, leading to risk of substandard or insecure infrastructure.

The above deviations demonstrate systemic non-compliance with PPRA Rules, PTA regulatory framework, and international contractual obligations (FIDIC & ITU-T). Execution of projects without approval of a competent forum, technical verification, and disclosure mechanisms renders expenditure of Rs 615,053,000 defective, unauthorized, and non-transparent.

The matter was reported to the management during October, 2025. It was replied that due to non-availability of PMB members, Board's meeting was not held. NGMS Core Upgradation comprises misc. equipment (routers, switches, firewall etc). These components are commercially available. Same have been upgraded with the latest technology, hence there was no breach of said clause. As per record M/s Telco World has not participated in any bidding process of development projects of SCO. SCO is a licensed 2G/3G/4G operator of PTA and operating in AJK and GB Region. Said equipment is only 5G supported for future. 5G has not been rolled out yet. Huawei equipment has been deployed in projects and equipment installed in SCO network were as per ITU and PTA standards which is also certified by PTA.

The reply was not acceptable as the technical and financial sanction of both the projects were not obtained from PMB. The claim that all PPRA rules were followed is contradicted by the absence of pre-qualification documentation, feasibility studies and publicly available evaluation reports at the time of audit.

DAC settled the para subject to verification of feasibility study, Import documents, type approval from PTA and approval of PMB from audit. No record was shared for verification till the finalization of the audit report.

Audit recommends that the case be inquired by an appropriate technical and financial committee to fix responsibility for violations of PPRs, breaches of FIDIC provisions, non-compliance of PTA regulations and ITU-T Recommendations (G-series, X.805).

(DP No 58)

1.5.5 Payment of salaries against minimum wage rate – Rs 1.907 million

As per the announcement of the Government of Pakistan, the minimum wage rate is Rs 37,000 per month for FY 2024-25. Furthermore, under the Minimum Wages Ordinance, 1961, no employer is allowed to pay wages lower than the government-notified rate.

Audit observed that thirteen (13) project contract employees were working in SCO HQs Rawalpindi and paid wages ranging between Rs 9,000 to 30,000 contrary to the government-notified minimum wages of Rs 37,000 per month. This reflects a short payment of Rs 1,907,088 to the employees during the financial year 2024-25, thereby depriving employees of their lawful entitlement.

The violation occurred due to weak internal controls and lack of management oversight regarding compliance with statutory labour laws.

The matter was reported to the management and PAO during November, 2025. It was replied that project-based salary was fixed during the duration of the project within the approved cost of respective PC-I duly approved by the competent forum. As per policy of the Finance Division vide letter dated 27th August, 2024, minimum wage/ gross salary of Rs 37,000 per month is admissible to all civil employees of the Federal Government as well as civil paid from defence estimates including contingent paid staff and contract employees against civil posts in basic pay scales on standard terms and conditions of contract employment. However, the project employees were not mentioned in the Finance Division's policy.

The reply was not tenable as the salaries of project staff should at least be equal to the minimum wage rates as per the Federal Government instructions.

DAC in its meeting held on 15th December, 2025 directed the management to implement the minimum wage rates and that the demand

for budget from the Finance Division be made through MoITT. No further progress was reported till finalization of this report.

Audit recommends compliance of the DAC directives.

(DP No.64)

MINISTRY OF INFORMATION TECHNOLOGY & TELECOMMUNICATION

CHAPTER-2

UNIVERSAL SERVICE FUND (USF)

Chapter 2

Universal Service Fund (USF)

(MoITT)

2.1 Introduction

A) The Federal Government established the Universal Service Fund (USF) under Section 33A of Pakistan Telecommunication (Re-organization) (Amendment) Act, 2006 to provide telecom services in the unserved and underserved areas across Pakistan. The main functions of the Fund are to:

- Bring the focus of telecom operators towards the rural population and increase the level of telecom penetration significantly in the rural areas through effective and fair utilization of the Fund.
- Improve the broadband penetration in the country.
- Enhance e-services in rural as well as urban areas of the country.

The Federal Government in pursuance of Section 57 (2) of the Pakistan Telecommunication (Re-organization) (Amendment) Act, 2006 approved the Universal Service Fund Rules, 2006. In terms of Rule 10 ibid, MoITT established a non-profit company limited by guarantee for implementation of USF projects. The company is managed by a Board of Directors chaired by the Secretary, MoITT as its Chairperson to run its affairs. The Federal Government is responsible for timely utilization and release of sums in accordance with the criteria as may be prescribed.

The funding sources of the USF Company include the grants made by the Federal Government and the Provincial Governments; prescribed contribution by licensees; loans obtained from the Federal Government; and grants and endowments received from other agencies. These funds are utilized in Next Generation Mobile Broadband Programme and Optical Fiber Cable Programmes besides other ICT projects of universal service as approved by the Federal Government.

B) Comments on Budget and Accounts

2.1.1 As per Note 18.1.1.2 & 18.1.5 of the Financial Statements for FY 2024-25, which disclosed significant legal and tax contingencies, including litigation with PTCL regarding late delivery charges, descoping, and related receivables/payables, as well as pending tax matters concerning the treatment of government grants. Management has not recognized any provision against these matters on the basis of expected favourable outcomes. While the disclosures are adequate, the absence of provisioning exposes the Fund to potential financial risk in case of adverse judgments, warranting close monitoring and periodic reassessment of management's assumptions.

2.1.2 As per Note 12.1 to the Financial Statements for FY 2024-25, other receivables amounting to Rs. 1,691.110 million mainly related to liquidated damages and descoping recoverable from PTCL. A substantial portion of these receivables has been outstanding for a prolonged period and is subject to litigation, though secured against performance bank guarantees. No impairment allowance has been recognized by management. Non-realization or delayed settlement of these receivables may adversely affect the Fund's liquidity position and could result in future financial adjustments if recoverability assumptions do not materialize as expected.

Table-I Audit Profile of USF Co

(Rs in Million)

S. No.	Description	Total Nos	Audited	Expenditure audited FY 2024-25	Revenue / Receipts audited FY 2024-25
1	Formations	01	01	11,641.764	116.099
2	• Assignment Accounts • SDAs	01	01	11,641.764 -	116.099 -
3	Authorities / Autonomous Bodies etc. under the PAO	01	01	11,641.764	116.099
4	Foreign Aided Projects (FAP)	-	-	-	-

2.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 9,432.971 million were raised in this report during the current audit of the USF Company& Fund. This amount also includes recoveries of Rs 116.099 million as pointed out by audit. Summary of the audit observations classified by nature is as under:

Table-II Overview of Audit Observations

(Rs in Million)

S. No.	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities	-
A	HR/Employees related irregularities	-
B	Management of Accounts with Commercial Banks	-
C	Procurement related irregularities	-
4	Value for money and service delivery issues	-
5	Others	9,432.971
	Total:	**9,432.971**

2.3 Status of Compliance with PAC Directives

USF & CO				Compliance		
Sr No	**Audit Year**	**Total Paras**	**Total Directives**	**Received**	**Not Received**	**%age**
1	2011-12	40	40	25	15	63
2	2012-13	61	61	5	56	8
3	PAR 2013-14	41	41	2	39	5
4	2014-15	18	18	12	6	67
5	2015-16	11	11	3	8	27
6	2016-17	9	9	7	2	78
7	PAR 2016-17	24	24	19	5	79
8	2017-18	11	11	9	2	82

9	2018-19	9	7	7	0	100
10	2019-20	10	10	7	3	70
11	2022-23	8	8	5	3	63
12	2023-24	PAC meeting was held but directives were not received.				

The above table reflects that the management needs to improve the compliance of the PAC directives for resolution of the outstanding paras.

AUDIT FINDINGS

2.4 Others

2.4.1 Unjustified finalization of Lots due to invalid bidding process – Rs 7,464.723 million

Pursuant to Rule 20 of the Public Procurement Rules, 2004 (as amended up to 2024), which states that "save as otherwise provided hereinafter, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works," procuring agencies are mandated to adopt open competitive bidding as the principal method of procurement for goods, services, and works. Furthermore, Rule 4 of the aforesaid Rules requires that "procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical." Rule 3 further affirms the applicability of these Rules to all procurements undertaken by federal procuring agencies, whether within or outside Pakistan, thereby establishing an overarching regulatory framework that subordinates any conflicting subordinate legislation or entity-specific policies.

The Universal Service Fund (USF) Company under MoIT&T, Islamabad, invited bids for twelve (12) lots under the Next Generation Broadband for Sustainable Development (NG-BSD) and four (4) lots under the Optical Fiber Cable (OFC) network and services projects during the Financial Year 2024-25. This was purportedly in pursuance of Rule 24(1) and (2) of the Universal Service Fund Rules, 2006 (as amended), which stipulate that approved projects shall be advertised for reverse auction, with eligibility restricted solely to USF contributors holding a valid license for the relevant region and telecommunication service.

Upon scrutiny of the relevant records, audit observed that the bidding process was confined exclusively to USF contributors, in alignment with the aforementioned USF Rule 24 and Clause 3 of the tender notices. Following evaluation, five (5) NG-BSD lots and two (2) OFC lots, amounting in aggregate to Rs 7,464,722,905, were approved by the Board for award of subsidy contracts. This restriction on participation is deemed unjustified and in contravention of the PPRA Rules, 2004, as it undermines the mandate for open competitive bidding under Rule 20 and the principles of fairness and transparency under Rule 4. The details are as under:

Sl. No.	Contract Description	Awarded to	Amount of Contract (Rs)
1	NG-BSD/Lot-68-Badin/2025	PMCL	668,472,173
2	NG-BSD /Small Lot-P-14/2025	PMCL	95,667,643
3	NG-BSD /Small Lot-P-15/2025	PMCL	39,536,954
4	NG-BSD/Lot-69-Chiniot/2025	PMCL	357,292,726
5	NG-BSD/Lot-55-Abbortabad/2025	PMCL	671,780,932
Sub Total PMCL			**1,832,750,428**
6	OFC-UC-SD-Lot-30	Dancom	3,273,073,394
7	OFC-UC-SD-Lot-31	Dancom	2,358,899,083
Sub Total Dancom			**5,631,972,477**
Grand Total			**7,464,722,905**

Audit contends that the USF Rule 24(2), by arbitrarily limiting eligibility to USF contributors without recourse to a formal pre-qualification process as envisaged under Rule 15 of the PPRA Rules, 2004, which permits pre-qualification "prior to the floating of tenders, invitation to proposals or offers in procurement proceedings, may engage in pre-qualification of bidders in case of services, civil works, turnkey projects and in case of procurement of expensive and technically complex equipment to ensure that only technically and financially capable firms having adequate managerial capability are invited to submit bids" through an advertised, criteria-based procedure carried out in a non-discriminatory manner, contravenes the imperative for open competitive bidding.

Such restriction precludes broader participation from qualified bidders, potentially compromising value for money and economic efficiency as required by Rule 4. The USF Rules, 2006, being subordinate legislation, cannot override the superior provisions of the PPRA Rules, 2004, and any such conflicting stipulation is ultra vires to the extent of inconsistency.

Audit reported the matter to the management and PAO in November, 2025. It was replied that the procurement process of USF Projects is regulated by the USF Rules, 2006, a special set of rules duly approved by the Federal Government. Under the settled principle of *lex specialis derogat legi generali*, special law prevails over general law. Accordingly, USF-specific procurement provisions govern the reverse auction process for USF projects. The reverse auction method adopted under Rule 24 of the USF Rules ensures competitive price among eligible contributors/ licensee. The bidding process is conducted transparently and widely advertised in leading national newspapers and on the PPRA website. Detailed tender documents, including eligibility criteria and evaluation methodology, were made available to all potential bidders. The process was supervised by the USF Board comprising representatives from Parent Ministry i.e MoITT, Industry Regulator, i.e PTA, industry representatives, and independent experts. The lots are awarded strictly on the basis of the lowest evaluated responsive bids, thereby ensuring fairness, transparency, and value for money, fully in consonance with PPRA Rules, 2004. Further, it is pertinent to note that Rule 3 of the PPRA Rules, 2004, on scope and applicability, expressly provides the exception *"save as otherwise provided,"* thereby permitting the adoption of special procurement processes where specifically prescribed.

The management's reply is untenable as the USF Rules, 2006, being subordinate legislation, cannot override the PPRA Rules, 2004, which mandate open competitive bidding under Rule 20 and apply universally to federal agencies like USF without external exemptions. Further under Rule 15, the PPRs have an overriding effect over to other

Rules. Hence, restricting bids to USF contributors without proper pre-qualification under PPRA Rule 15 undermines fairness, transparency, value for money, and economic efficiency as required by Rule 4, rendering the process invalid and necessitating referral to PPRA for clarification.

DAC in its meeting held on 16th December, 2025, settled the para in the light of USF Rules. However, on insistence of Audit, a clarification would be taken from the Law Division besides submission of a copy to PPRA. No further progress was reported till finalization of this report.

Audit recommends that the matter may be referred to PPRA by specifying the audit observation for obtaining clarification under intimation to audit.

(DP No.01)

2.4.2 Un-justified de-scoping and relocation of Lots – Rs 1,006.983 million

According to Rule 02(xvi) of USF Rules 2006, amended in 2023, "lot mean a geographical area identified for the grant of funding from the Fund as designed and approved by USF Board which shall not be smaller than a village". Moreover, Rule 02 (xvi)(a) stipulates that "division concerned" "means the division to which business of Universal Service Fund Rules stands allocated." Moreover, as per rule 26 (2) of USF Rules 2006,any extension of the roll-out period shall require fresh approval of the Board.

USF Company under MoIT&T, Islamabad planned Next Generation Broadband for sustainable development (NG-BSD) projects for the provision of voice and broadband services to the un-served / underserved population of Punjab and Baluchistan provinces. Sialkot, Mianwali and Nankana Sahib Lots involving Narowal, Gujrat, Sialkot, Mianwali, Khushab, Nankana Sahib, Kasur and Sheikuhpura districts in Punjab province were awarded to M/s PMCL. Similarly, Musa Khel and Sibbi lots involving Musa Khel, Barkhan, Sherani and Sibbi districts were

awarded to M/s PTML in Baluchistan province. The projects were planned against the subsidy of Rs 7,251,611,096 as detailed below:

(Amount in Rs)

Sl. No.	Name of Lot	Districts involved	No. of Board Meeting and date in which lot approved	Subsidy Amount (Rs)
1.	Mianwali	Mianwali, Khushab	80th meeting held on 10.12.2021	1,599,130,467
2.	Sialkot	Sialkot, Narowal, Gujrat	82nd meeting held on 09.06.2022	624,802,198
3.	Nankana Sahib	Nankana Sahib, Kasur, Sheikuhpura	-do-	468,897,727
4.	Musa Khel	Musa Khel, Barkhan, Sherani	83rd meeting held on 22.09.2022	3,042,575,731
5.	Sibbi	Sibbi,	-do-	1,516,204,973
		Total		**7,251,611,096**

Audit examined the relevant record and observed that:

(i) The scope of work of three (3) Lots awarded to M/s PMCL (Jazz) planned for eight (8) districts of Punjab province was changed while execution. Total 127 new BTS sites were planned for eight districts out of which 101 BTS were erected within the lot whereas 26 BTS were shifted to eighteen (18) new districts out of planned lots.

(ii) The scope of work of two (2) Lots awarded to M/s PTML (Ufone) planned for four (4) districts of Baluchistan province was also changed while execution. Total 64 new BTS sites were planned out of which 57 BTS were erected within the lots whereas 07 BTS were shifted to seven (7) new districts out of planned lots.

(iii) It is pertinent to mention that all above lots were awarded to both service providers which were expanded to additional districts situated far away from the planned districts as well as out of telecom regions even out of province. Resultantly, the projects were delayed due to ill planning and the lots were de-scoped/shifted from planned districts to new districts without approval of the Board.

Hence, the expenditure of Rs 1,006,982,648 incurred on thirty-three (33) BTS sites in additional districts was held unjustified. The detail is as under:

(Amount in Rs)

Sl. No.	Item No.	Name of Lot	Districts involved	Amount (Rs)
1.	06	Sialkot	Sialkot, Narowal, Gujrat	229,872,313
2.	07	Mianwali	Mianwali, Khushab	162,538,160
3.	08	Nankana Sahib	Nankana Sahib, Kasur, Sheikuhpura	100,666,909
4.	10	Musa Khel	Musa Khel, Barkhan, Sherani	130,746,000
5.	11	Sibbi	Sibbi,	383,159,266
			TOTAL	**1,006,982,648**

Audit contends that due to weak project & financial management, the projects were de-scoped and re-located.

The matter was reported to the management and PAO in November, 2025. It was replied that CEO USF has the authority to execute Board approved SSA and its provisions that include making changes to the contract including de-scoping as per USF rule 22 (l).Further, USF Board in its 98th meeting held on 19th June 2025, stated that in case of non-deployable infrastructure under the scope of any awarded contract, priority should be given to re-location of the infrastructure to an area qualifying to be USF area. De-scoping of awarded infrastructure should be the last resort as any deployment to an area from where sites get de-scoped may require higher cost of deployment of site at any later stage. Guidelines may be established in RFA/SSA to effectively manage and address such cases.

The reply was not tenable as rule 22 (l) does not empower CEO to re-locate the projects from one district to another district even out of division / province. Further, the 98th meeting of BoD was held in June, 2025 after de-scoping / re-location of lots.

DAC in its meeting held on 16th December, 2025, directed the management to examine the guidelines and proceed for approval of

relocation/descoping of the lots from the Board. No further progress was reported till finalization of this report.

Audit recommends compliance of the DAC directives.

(DP No.19)

2.4.3 Non-recovery of USF contributions from telecom operators – Rs 116.099 million

According to Rule 4(2) of USF Rules 2006 (amended in 2023), every licensee having a license containing provision regarding USF contribution issued, renewed or validated, shall contribute @ of 1.5%, from date of grant of such license, of its annual gross revenues from the most recently completed financial year of the licensed services minus inter-operator and related Authority and Frequency Allocation mandated payments. Further, as per clause 4.2.1 of Long Distance International (LDI) License issued under section 21 of the Pakistan Telecommunication (Re-organization) Act, 1996, the Licensee shall pay all annual fees to the Authority and make contributions to the Funds within 120 days of the end of the Financial Year to which such fees relate.

The MoIT&T, Islamabad maintained the Universal Service Fund based on contributions received from telecom operators against demand notes issued by the PTA. Accordingly, USF Company carried out operational and business activities and received Opex and Capex budgets.

Audit observed that USF Fund Management failed to recover an amount of Rs 116,099,314 on account of USF contributions against the demand notes issued by PTA to telecom operators during FY 2024-25. The detail is as under:

(Amount in Rs)

Sr. No.	Operator	Billing (Rs)	Receipts (Rs)	Outstanding (Rs)
1	Bliss Communication	543,652	0	543,652
2	PTCL	1,374,364,192	1,259,038,769	115,325,423
3	Vision Telecom	3,614,975	3,406,672	208,303

4	Web Concepts	248,184	226,248	21,936
			TOTAL	**116,099,314**

Audit contends that non-recovery of the USF contributions from the telecom operators not only reflects weakness of USF Fund Management but it also affects the health of the USF Company.

Audit reported the matter to the management and PAO in November, 2025. It was replied that an amount of Rs 255,308 has been recovered and the record has been shared with the audit. The remaining amount is subjudice with PTCL in court of law.

The Fund Management admits the audit contention; however, the outstanding dues have not so far been realized.

DAC in its meeting held on 16th December, 2025, directed the management to pursue the court case, recover the remaining amount and get it verified from audit. However, no record was produced to Audit for verification.

Audit recommends compliance of the DAC directives.

(DP No.11)

2.4.4 Unjustified expenditure incurred on final milestones of OFC lots due to ill planning – Rs 845.166 million

According to Regulation 14 (a) of the Financial Management and Powers of Principal Accounting Officers (PAOs) Regulations, 2021, the financial powers so delegated to the PAOs and other officers shall be subject to the conditions that under Section 23 of the Act, 'no authority shall incur or commit any expenditure or enter into any liability involving expenditure from the Federal Consolidated Fund and Public Account of the Federation until the same has been sanctioned by a competent authority duly empowered. Further, as per clause 5.01 of Service Subsidy Agreement (SSA), USF shall pay the USF Service Provider (SA) the USF subsidy in accordance with the subsidy installment payments identified in Schedule-

D. Further, USF service provider will be responsible for paying any fees, taxes or charges otherwise applicable to the USF service provider till the term of the contract, in accordance with the Act and other laws of Pakistan and regulation made there under.

USF Fund Company under MoIT&T, Islamabad planned two (2) OFC-UC-SD lots for laying of Optical Fiber Cable (OFC) to connect the un-served / underserved towns and union councils of Sindh province. The lots were also targeted for connectivity of existing Base Transceiver Station (BTS) sites of telecom operators through OFC. Accordingly, the works were awarded to M/s PTCL for execution of lots.

Audit examined the relevant record relating to final (fifth) milestones of both lots and observed that M/s PTCL fiberized 246 BTS sites and submitted claims of Rs 845,165,916 on completion of lots. It was noticed that telecom operators did not show their interest for utilization of OFC connectivity through these fiberized BTS sites which caused wastage of funds due to ill planning The detail is as under:

(Amount in Rs)

Sr. No.	**Project Name**	**Date of award of work**	**Final (fifth) Milestone offer date**	**No. of BTS connected**	**Amount of Final Milestone**
1	OFC-UC-SD-Lot10	22.12.2021	27.05.2025	66	195,133,291
2	OFC-UC-SD-Lot12	24.12.2021	23.06.2025	180	650,032,625
	TOTAL			**246**	**845,165,916**

Audit contends that due to ill planning and contract management the funds were wasted.

Audit reported the matter to the management in September, 2025. It was replied that USF Management informed that Tower Connectivity Subsidy is based on provision of OFC connection only. The connectivity is provided in accordance with standard Service Level Agreement (SLA) as accepted by both the USF OFC SP and Cellular SP. Subsidy payments were made after the verification of connections through Technical Audit.

The fiberization of BTSs was in line with govt's fiberization initiatives, which will increase fiber utilization.

The reply was not tenable as no telecom operator showed interest to avail the facility of OFC connectivity through nodes which show that USF management approved the project without proper planning.

DAC directed the USF management to share the SLAs among the CMOs and PTCL with the audit. No SLA was shared with audit till finalization of this report.

Audit recommends that the matter be investigated at a higher level to fix responsibility against those held responsible for ill planning and wastage of funds.

(DP No.13)

2.4.5 Non-auditing of Accounts of USF Fund by Chartered Accountant

According to Section 33E (1-a&b) of the Pakistan Telecommunication (Re-Organization) Act (PTRA), 1996 (amended 2006) the accounts of USF and R&D Funds shall be maintained in such form and manner as the Federal Government may determine and audited by a Chartered Accountant as defined in the Chartered Accountants Ordinance 1961 and the Auditor General of Pakistan. Furthermore, as per section 33 E (2) of the Act, the Federal Government shall, after the end of every financial year, submit to the National Assembly the audited annual statement of accounts of both the Funds together with the report of the Auditor-General of Pakistan.

USF Fund management under MoIT&T, Islamabad was obligated to prepare and submit the annual audited accounts statement of USF Fund to the Federal Government.

Audit observed that USF Fund management did not get the accounts of the Fund for FY 2024-25 audited by Chartered Accountant.

Audit contends that due to non-adherence to the PTRA, accounts were not got audited by Chartered Accountant.

Audit reported the matter to the management in September, 2025. It was replied that the audit of the accounts of the Fund will be conducted accordingly.

The Fund Management admitted the audit contention; however, no further progress has been shared with audit.

DAC directed the Fund Management to conduct the pending audit from a CA firm and get it verified from audit.

Audit recommends that the matter may be inquired at a higher forum to fix responsibility against those held responsible for not getting the USF Fund accounts audited by a Chartered Accountant firm.

(DP No14)

GOVERNMENT OF PAKISTAN
CABINET DIVISION

CHAPTER-3

FREQUENCY ALLOCATION BOARD (FAB)

Chapter 3

Frequency Allocation Board (FAB)

(Cabinet Division)

3.1 Introduction

A) Frequency Allocation Board (FAB), established on 1st January 1996 under the Pakistan Telecommunication (Reorganization) Act, 1996 is under the administrative control of the Cabinet Division. The main source of revenue of FAB is the Spectrum Administrative Fee which is collected by PTA from telecom operators against which FAB prepares its annual budget and submits to the Authority for approval and release of funds. Section 42 of the Pakistan Telecommunication (Reorganization) Act, 1996 requires its accounts to be audited by the Auditor-General of Pakistan. FAB is managed by a Board appointed by the Government of Pakistan and follows the applicable recommendations of the International Telecommunication Union (ITU). Its main functions are to:

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

B) Comments on Budget and Accounts

FAB management did not share the audited financial statements for FY 2024-25 till finalization of the Audit Report, hence, no comments could be offered.

Table-I Audit Profile of FAB

(Rs in Million)

S. No.	Description	Total Nos.	Audited	Expenditure audited FY 2024-25	Revenue / Receipts audited FY 2024-25
1	Formations	01	01	1,450.698	221.952
2	• Assignment Accounts • SDAs	-	-	-	-
3	Authorities / Autonomous Bodies etc under the PAO	01	01	1,450.698	221.952
4	Foreign Aided Projects (FAP)	-	-	-	-

3.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 107.886million were raised in this report during the audit of Frequency Allocation Board. Summary of the Audit observations classified by nature is as under:

Table-II Overview of Audit Observations

(Rs in Million)

S. No.	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and Misappropriation	-
3	Irregularities	**1.690**
A	HR/Employees related irregularities	1.690

B	Management of Accounts with Commercial	-
C	Procurement related irregularities	-
4	Value for money and service delivery issues	-
5	Others	106.196
Total		**107.886**

3.3 Status of Compliance with PAC Directives

FAB				Compliance		
Sr No	**Audit Year**	**Total Paras**	**Total Directives**	**Received**	**Not Received**	**%age**
1	1997-98	2	2	2	0	100
2	1998-99	5	5	5	0	100
3	1999-00	4	4	4	0	100
4	2000-01	3	3	3	0	100
5	2002-03	8	8	8	0	100
6	2003-04	5	5	5	0	100
7	2004-05	5	5	5	0	100
8	2005-06	10	9	9	0	100
9	2006-07	5	5	5	0	100
10	2007-08	3	3	2	1	67
11	2008-09	7	7	7	0	100
12	2009-10	7	7	7	0	100
13	2010-11	8	8	7	1	88
14	2013-14	11	11	10	1	91
15	2014-15	6	6	6	0	100
16	2015-16	4	3	3	0	100
17	2016-17	5	4	4	0	100
18	2017-18	9	8	6	2	75
19	2018-19	4	4	2	2	50
20	2019-20	12	8	8	0	100
21	2022-23	4	4	4	0	100
22	2023-24	4	1	0	1	0

The above table reflects that the management has shown adequate interest in complying with the PAC directives over the years.

AUDIT FINDINGS

3.4 HR/Employees related irregularities

3.4.1 Irregular appointment of Deputy Director Technical – Rs 1.690 million

According to Para 22 (3) of the FAB Employees Service Regulations, in case of appointment on contract the same procedure shall be followed as is required for initial appointment to a post. Further, as per schedule-I of ibid rules, the maximum age limit for the post of Deputy Director (Tech) is 40 years along-with valid registration with the Pakistan Engineering Council (PEC).

Frequency Allocation Board (FAB) under the Cabinet Division, Islamabad made an appointment of a retired military officer as Deputy Director (Tech) EG-3 on contract basis on 30th September, 2024.

Audit observed that:

(i) An overage/ex-serviceman was appointed as Deputy Director (Tech). The appointment was made without following the prescribed procedure for initial appointments, such as public advertisement and competitive selection etc. This violates Article 25 of the Constitution of Pakistan which guarantees equality of citizens before the law and equal protection of law, as it undermines transparency and merit-based recruitment in public service.

(ii) Valid registration of Pakistan Engineering Council (PEC) as required in FAB's service regulations was not on record and the same was also not shared with audit till the finalization of audit report.

(iii) The Supreme Court of Pakistan, in its landmark judgment in Muhammad Akram and others vs. Registrar, Islamabad High Court and others (2016 SCMR 1082), held that appointments in public sector institutions without proper advertisement and due process are irregular and void ab initio, as they infringe upon the constitutional

right to equal opportunity. Hence, the appointment and payment of pay & allowances amounting to Rs. 1,690,430 made during the period from November 2024 to June 2025 are held irregular.

Audit contends that due to non-adherence to HR & Financial rules, statutory requirements, and constitutional mandates, the irregular appointment was made, which caused irregular payment.

Audit reported the matter to the management and PAO during November, 2025. It was replied that appointment of Deputy Director (Technical) (being a Retired Armed Forces Officer) was made strictly within the framework of FAB Employees Service Regulations (FESR) 2014 and specific provisions of law, rules and regulations of Federal Government. However, PEC certificate will be provided upon receipt.

The reply is not tenable. The re-employment was not made in accordance with FAB Employees Service Regulations 2014. The PEC certificate which is mandatory requirement was not available at the time of appointment. Further, only one application of the incumbent was obtained and get re-employed instead healthy competition by obtaining more than one CVs. Further, the decision of the Honourable Supreme Court of Pakistan has an overriding effect on FAB ESR 2014, hence, it is mandatory to go for advertisement in the instant case.

The matter was discussed in the DAC meeting held on 4th December, 2025. The DAC directed FAB to get the record re-verified from Audit within 15 days. However, no record was produced to Audit for verification till the finalization of this report.

Audit recommends implementation of the DAC directives.

(DP No.6)

3.5 Others

3.5.1 Illegal retention of receipts and non-transfer to Federal Consolidated Fund (FCF) - Rs 106.196 million

According to Rule-4 (4) of Frequency Allocation Board (FAB) (Release of Funds) Rules, 2011, the Board shall, by thirtieth (30th) day of June in each financial year, surrender its utilized budget to the Authority. Further, section 40 (B) (1) & (2) of the Public Finance Management Act, 2019, states that non-tax revenue shall be levied and charged in accordance with the relevant laws and other applicable instruments. Notwithstanding anything to the contrary contained in any other law for the time being in force, public entities, as defined under Section 36, shall pay non-tax revenue representing; mark-up on loans, dividend, surplus profit, any other amount. Section 40(c) *ibid* further states that non-tax revenue representing foreign grants and payments, receipts from the provision of services, rents, recovery of overpayments, and sale of property, etc., shall accrue on completion of the prescribed process.

The Frequency Allocation Board (FAB), under the administrative control of the Cabinet Division, receives budgetary grants from the Pakistan Telecommunication Authority (PTA) annually to meet its operational (OPEX) and capital (CAPEX) expenditures. Unutilized funds are required to be surrendered to the Authority on 30th June each financial year.

Audit observed that:

(i) The FAB has been maintaining a National Income Daily Account (NIDA) No. 3164207075 at the National Bank of Pakistan (NBP), Islamabad, titled *"Collection Account"*, since 14th February 2020. As of 30thJune, 2025, the account reflected a balance of Rs 221.952 million. Audit is of the view that the FAB is not a revenue collection office, hence opening and maintaining of collection account without approval of the competent forum is unauthorized.

(ii) The external audit of FAB for the year ended 30th June 2023, conducted by *M/s Crowe Hussain Chaudhary & Co.*, disclosed the existence of multiple bank accounts in Note-12 of the Financial Statements. However, no audit opinion or observation was offered regarding the FAB Receipt/Collection Account, despite the fact that FAB is not authorized to maintain revenue collection accounts.

(ii) The collection representing receipts amounting to Rs 221.952 million including receipt of Rs106,195,538, collected during FY 2024–25. The receipt includes recoveries of house building, car, and motorcycle advances; rent recovery for staff quarters; water charges; recovery of pay and allowances; liquidated damages (LD) charges; auction proceeds of unserviceable items; and interest earned on these amounts. The subject receipts were not transferred to the Authority or Federal Consolidated Fund (FCF) on 30th June of each financial year.

Audit is of the view that the unauthorized retention of funds in the NIDA account constitutes a violation of the FAB (Release of Funds) Rules, 2011 and the Public Finance Management Act, 2019**,** and reflects weak financial discipline and poor internal controls within the FAB.

Audit reported the matter to the management and PAO during November, 2025. It was replied that all available balance in FAB Collection Account (No. 3164207075) has been transferred / surrendered to PTA amounting to Rs. 240,773,913.49 on 27th November, 2025 and PTA acknowledged the receipt of funds received from FAB. The record has been provided to audit on December 1, 2025 for verification.

The record has been verified to the extent of the amount transferred to PTA. However, as per the Public Finance Management Act 2019, amounts required to be transferred to FCF. Therefore, Audit is of the view that FAB should take up the matter with PTA and confirm whether the amounts have been transferred to FCF or otherwise.

The matter was discussed in the DAC meeting held on 4th December, 2025.The DAC directed FAB to take up the matter with PTA for confirmation as to whether the amount transferred by FAB has been transferred to FCF and get the record verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of the DAC directives.

Note: *The issue was also reported earlier in the Audit Report for Audit Year 2024–25 vide Para No. 2.4.2, having a financial impact of Rs 115.757 million. The recurrence of the same irregularity is a matter of serious concern.*

(DP No.2)

CHAPTER-4

Thematic Audit
on
Analysis of Court Cases in Telecom Sector

4. Introduction & Background

After the promulgation of the Pakistan Telecommunication (Re-organization) Act (PTRA), the 1996, Pakistan Telecommunication Authority (PTA), Frequency Allocation Board (FAB) and National Telecommunication Corporation (NTC) were established on 1st January, 1996 under this Act. After the amendment in the PTRA in 2006, the Government of Pakistan established Ignite National Technology & Universal Service Funds and companies. PTA Acts as a regulator to implement the telecom policies issued by the Government of Pakistan and grant & renew licenses for telecommunication services. The main function of FAB is to allocate and monitor the assigned frequency spectrum to the public sector providers of telecommunication services and systems, radio and television broadcasting operations, public and private wireless operators, and others.

NTC's main function is to provide telecommunication services to its designated customers which include the Federal and Provincial Governments, defence services and other government agencies and institutions as the Federal Government may determine. Ignite National Technology Fund &Company was established for the implementation of research and development projects in the information and communication technology sector whereas the USF Company has the mandate to implement the USF projects in un/underserved areas of Pakistan.

4.1 Analysis of Court Cases in Telecom Sector

The thematic audit examines court cases in the telecom sector with a focus on assessing the quality, effectiveness, and follow-up of litigation management by regulatory entities. The review indicates that, although legal proceedings are formally pursued, the manner in which cases are handled reflects weaknesses in strategic planning, coordination, and outcome-oriented legal action. By analyzing litigation relating to licensing, recovery of government dues, non-compliance with service subsidy agreements, and other regulatory challenges, the audit evaluates whether legal mechanisms are being used effectively to enforce regulatory decisions

and safeguard public interest. The assessment highlights that prolonged pendency of cases, repeated procedural escalations, and delayed enforcement point toward suboptimal legal follow-up and limited institutional capacity to secure timely and favorable outcomes. The thematic audit therefore focuses on reviewing the effectiveness of legal handling in the following key areas:

- Licensing disputes
- Consumer rights and data protection
- Anti-competitive practices and competition law violations
- Regulatory non-compliance (e.g., breaches of telecom-specific regulations)
- Financial implications arising from litigation (penalties, settlements, fines)

4.2 Establishing the Audit Theme

4.2.1 Reasons of Selection

The Audit results contained in previous Audit Reports, Studies and Performance Audit indicate heavy outstanding receivables due to litigations filed in various courts by the telecom operators / companies and others. To ascertain the reasons for outstanding receivables and litigations, there is a need to examine the court cases and non-recovery of the dues in detail.

Another critical reason for choosing this topic for thematic audit is the significant impact of non-renewal of Long Distance International (LDI) Licenses, non-receipt of license renewal fee and Policy Directives of the Federal Government on telecommunication system & services. Further, the Cabinet Division also suggested scrutiny of court cases and longstanding litigations in PTA.

4.2.2 Purpose / objectives

The major objectives and terms of reference of the thematic audit are to:

i. Identify the total number of pending court cases along with the amount involved.

ii. Evaluate safeguards for recovery of government dues and effectiveness of legal mechanism.

iii. Review the establishment, efficiency, and actions of legal teams in handling litigations.

iv. Examine whether telecom entities acted against defaulters as per Laws, Rules, Regulations, and SOPs.

v. Assess court case follow-ups, engagement of legal counsels, and cost-benefit analysis of litigation expenses vs. recoveries.

4.2.3 Scope

Directorate General of Audit P&TS, Lahore conducted a thematic audit on "Analysis of Court Cases in Telecom Sector" from July to November 2025.The focus of the audit was to ascertain whether heavy outstanding receivables due to litigations filed in various courts by the telecom operators / companies are being perused vigorously and also to ascertain the reasons for outstanding receivables and litigation in following telecommunication organizations under the jurisdiction of this Directorate. The following formations have been covered for the subject thematic audit:

i. Pakistan Telecommunication Authority (PTA)
ii. Frequency Allocation Board (FAB)
iii. National Telecommunication Corporation (NTC)
iv. Universal Service Fund Company (USFCO)
v. Ignite National Technology Fund(IGNITE)

4.3 Legal framework governing the Audit Theme

Telecommunication sector entities including PTA, FAB, NTC, Ignite, and USF operate under the Pakistan Telecommunication (Re-organization) Act, 1996 (amended 2006), along with subsidiary rules, service regulations, and administrative instruments. While the legal framework provides the statutory basis for regulation, licensing, spectrum management, and universal service obligations.

The Act and associated rules provide broad regulatory powers but lack clear and streamlined enforcement mechanisms, particularly regarding recovery of government dues, execution of penalties, and post-license termination recoveries. This has led to reliance on prolonged judicial processes rather than administrative enforceability. Further, overlapping administrative controls (Cabinet Division for PTA/FAB and MoITT for USF, Ignite, and NTC) create coordination gaps, leading to delayed responses to court directions and fragmented legal strategies.

The license conditions, USF agreements, and R&D Fund arrangements often lack strong dispute resolution clauses, interim recovery safeguards, and unambiguous definitions of financial obligations, which weakens the legal standing of entities during disputes. Additionally, reliance on Board decisions and internal policies, which do not carry the same legal enforceability as statutory instruments, further exposes entities to challenge in courts. Overall, while the legal framework establishes institutional authority, it exhibits ambiguities, enforcement limitations, and coordination deficiencies that have weakened its effectiveness in preventing disputes and securing timely legal outcomes. Strengthening enforceability clauses, harmonizing administrative oversight, and modernizing dispute resolution and recovery provisions are necessary to reduce litigation risk and enhance regulatory effectiveness. The following are the applicable laws:

- Pakistan Telecommunication (Re-organization) Act, 1996 (Amended 2006)
- USF Rules, 2006.
- R&D Fund Rules, 2006.
- PTA Employee Service Regulations (ESR), 2008.
- FAB Employees Service Regulations.
- PPRs 2004.
- Minutes of Board of Directors (BoD) meetings

4.4 Stakeholders and governmental organizations identified as directly / indirectly involved

In addition to the formations being scrutinized here, the following stakeholders are involved in relation to the subject thematic audit.

- Cabinet Division
- Ministry of Information Technology and Telecommunication
- General Public

4.5 Role of important organizations

The administrative Ministries of telecom entities are major stakeholders having significant roles, being provider of policy directives and their monitoring and implementation. Moreover, all these entities run therein on public money therefore their assets are public assets and the administrative Divisions are responsible for the safeguard of these assets. Further, the telecom entities also have an important role in payment of their contribution and licensing fee. It is their obligation to take prompt actions for effectively managing and disposing of their litigation cases. Controlling ministries i.e., Cabinet Division and MoITT also need to oversee the ongoing litigations and direct the telecom entities to vigorously pursue cases for early and favourable disposal.

4.6 Organization's Financials

PTA is responsible for preparing and approving its annual budget and submitting it to the Federal Government for information. The budget statement depicts the estimated receipts and expenditures. Any surplus of receipts over the actual expenditure in a year is required to be remitted to the Federal Consolidated Fund (FCF). The budget of the FAB is approved by the PTA each year and funds are released accordingly. However, NTC prepares its annual budget and submits it to the Federal Government for approval. USF and Ignite prepare their budget every year and get it

approved from their Board of Directors. The telecom entities also prepare financial statements which are audited by the Chartered Accountants.

4.7 Field Audit Activity

4.7.1 Methodology

The audit was planned and conducted in accordance with the Government Auditing Standards based on guidelines of the International Organization of Supreme Audit Institutions (INTOSAI). The planning process mainly involved gaining a thorough understanding of the various factors that influence the efficient and effective pursuance of court cases and using issue analysis to determine the scope of the audit.

The assessment was based on various audit techniques that include review of internal and external documents of entities, interviews with senior management and staff, key stakeholders, observations and analysis of information provided by entities. Additionally, data was collected from primary and secondary sources including publicly available information, internet searches, access to published articles / reports, previous Audit Reports, Telecommunication study of Pakistan Credit Rating Agency (PACRA) and Annual Report.

4.8 Audit Analysis

4.8.1 Review of Internal Controls

Review of internal controls revealed that, although formal control structures exist within the telecom entities, the controls relating to litigation management, recovery of dues, and regulatory compliance are not sufficiently robust. In particular, mechanisms for early identification of legal risks, timely follow-up of court cases, coordination between legal, finance, and operational wings, and monitoring of recoverability of disputed amounts were found to be weak. The absence of an integrated litigation tracking system and documented standard operating procedures for escalation and resolution of long-pending cases has reduced the

effectiveness of internal controls. Consequently, prolonged litigations, delayed recoveries, and uncertainty in financial reporting indicate that internal controls are operating more in a reactive manner rather than providing preventive and corrective assurance over safeguarding of public funds and enforcement of regulatory decisions.

4.8.2 Critical Review

Although statutory frameworks, regulatory powers, and legal structures are formally in place within telecom entities, however, audit findings of the thematic audit indicate that practical effectiveness remains limited / weak. Prolonged pendency of court cases, delayed recovery of substantial government dues, and repeated redirection of disputes across multiple judicial and quasi-judicial forums point to weaknesses of implementation of internal controls, legal strategy, and institutional coordination.

Audit review indicates that legal teams have primarily adopted a reactive approach, focusing on procedural defense rather than strategic enforcement and risk mitigation. The absence of integrated litigation tracking systems, structured follow-up of court directions, performance evaluation of legal counsels, and early legal risk assessment has reduced the effectiveness of institutional response. Weak coordination between legal, regulatory, and financial functions has compounded these issues, resulting in delayed enforcement, financial uncertainty, and increased litigation costs.

Collectively, these factors demonstrate that challenges in litigation outcomes are not solely attributable to judicial delays but also reflect institutional shortcomings in legal drafting, regulatory design, contract management, and strategic oversight. Strengthening internal controls, adopting strategic litigation management, and ensuring timely enforcement are therefore critical to improving governance, safeguarding public resources, and enhancing regulatory credibility.

4.8.3 Significant Audit Findings

4.8.3.1 Prolonged litigation resulting in non-recovery of Government dues – Rs 3,715 million

Under the Pakistan Telecommunication (Re-organization) Act, 1996 and license terms, spectrum fees and regulatory dues are payable within prescribed timelines and are recoverable as government dues. The general conditions 4.1.1 and 4.1.2 of the license, state that the licensee shall pay all fee / regulatory dues within 120 days of the close of the financial year of the respective licensee.

Audit observed that M/s World Call Telecom Limited has remained involved in multiple court cases against PTA since 2010 regarding initial spectrum fees, annual spectrum charges, and regulatory dues. Despite vacation of stay by the Islamabad High Court in 2013 and dismissal of World Call's compensation suit in 2016, outstanding dues amounting to Rs 3,715 million, including late payment additional fee of Rs 2,693 million, remain unrecovered as of 2024. The prolonged pendency of litigation indicates ineffective recovery strategy and weak legal case management by the Authority.

Audit is of the view that weak enforcement mechanisms and prolonged judicial proceedings, coupled with challenges to recovery actions (including NAB proceedings), delayed realization of government revenue. This results in a significant effect of blockage of public funds over an extended period; increased litigation risk and uncertainty; and adverse impact on revenue realization and fiscal discipline in the telecom sector.

4.8.3.2 Weak Follow-Up on Court Directions and Regulatory Decisions

Regulatory authorities are required to promptly comply with court directions and ensure timely adjudication of disputes to safeguard public interest.

Although, the Islamabad High Court in January 2015 directed PTA to respond to MoITT regarding instalment plans after consultation with operators, PTA reiterated lump-sum payment policy only in January 2016.

Furthermore, disputes related to enforcement orders of Rs 223.338 million issued in 2010 remain unresolved due to jurisdictional transfers and restoration appeals.

Audit observed that delays in inter-ministerial coordination, slow legal follow-up, and procedural lapses in appellate forums resulted in extended uncertainty in recovery of substantial regulatory dues; escalation of legal costs; and administrative burden

Audit is of the view that delayed and fragmented legal response undermines regulatory authority and weakens enforcement credibility in the telecom sector.

4.8.3.3 Pending recovery of government dues due to prolonged judicial process

Public funds embezzled or misappropriated are required to be recovered expeditiously under the National Accountability Ordinance, 1999 and Principles of public financial accountability and safeguarding of government revenues

Effective legal mechanisms should ensure timely recovery of government dues, even where appeals are pending, through available safeguards such as attachment of assets or conditional recovery.

An amount of Rs 80.75 million embezzled by an ex-employee of the Authority during FY 2006-07 remains largely unrecovered after more than 18 years, with only Rs 3.30 million recovered and Rs 77.45 million still outstanding.

Audit observed that despite referral of the case to NAB in 2008, filing of reference in 2010, conviction by the Accountability Court, and enhancement of fine to Rs 76.87 million by the Islamabad High Court in 2019, recovery of the fine has been deferred as the matter is pending before the Honourable Supreme Court of Pakistan. Consequently, the recoverable amount has neither been realized nor recognized in the financial statements.

Audit is of the view that PTA should take effective steps for recovery which may include attachment or identification of assets, securing guarantees or sureties, parallel civil recovery actions where permissible, and structured monitoring of recovery risk. Absence of documented interim recovery measures indicates that the Authority's recovery mechanism remained dependent solely on conclusion of judicial proceedings, thereby exposing public funds to prolonged recovery risk.

4.8.3.4 Ineffective handling of tax litigation resulting in forceful recovery of Government funds by FBR

As a result of five Federal Excise OIO Nos. 33/2012, 07/2015, 06 & 07/100, 49/89 & 50/89 passed by Deputy Commissioner Inland Revenue (DCIR), the tax authorities have forcefully recovered an amount of Rs 13,076.74 million including penalty and default surcharge for the period from January 2011 to June 2018. Two cases are pending with the honourable Supreme Court of Pakistan and three cases are pending disposal with Appellate tribunal Inland Revenue (ATIR). A brief summary of the cases is tabulated below:

Sr. No.	Order No.	Date of forceful withdrawal	Period	Amount (in million)	Remarks
1.	OIO 33/2012,	04.11.2013	January 2011 to June 2012	423.94	Including penalty and default surcharge of Rs 78.43 million.
2.	OIO 07/2015	09.04.2015	January, 2012 to December,2012	480.00	Including penalty & default surcharge of Rs 68 million for the year 2015.
3.	OIO 06&07/100	29.06.2016	January, 2011 to June, 2015	5,830.00	Including penalty and default surcharge of Rs 1,570 million.
4.	FE 49/89	27.11.2019	July, 2016 to June, 2018	6200.00	On providing franchise services relating to initial license/spectrum fee and annual license fee.

5	FE 50/89	-	July, 2016 to June, 2018	142.80	FED on numbering charges and late payment additional fee/penalties

Audit observed that substantial amounts were recovered by FBR through forceful withdrawal pursuant to various orders including penalties and default surcharges. The necessity of coercive recovery measures indicates weaknesses in timely dispute resolution, tax compliance management, and legal strategy, as the Authority failed to secure interim relief or settlement mechanisms prior to enforcement actions by tax authorities.

Despite ongoing litigation before ATIR and the Honourable Supreme Court of Pakistan, significant funds were recovered, exposing the Authority to liquidity pressures and avoidable financial costs in the form of penalties and surcharges. This reflects inadequate anticipation of tax risks and absence of an effective litigation and compliance framework to safeguard organizational financial interests during pendency of disputes.

4.8.3.5 Blockage of Public Funds due to under protest deposit to FBR and prolonged Tax Litigation

Audit observed that the Authority deposited Rs 2,230 million under protest to obtain automatic stay against a Federal Excise Duty (FED) demand of Rs 4,247 million, arising from Order-in-Original issued by the Deputy Commissioner Inland Revenue (DCIR). The requirement to make a substantial deposit to secure stay relief indicates weak pre-litigation assessment and inadequate tax risk management, as the Authority could not obtain legal protection without significant financial outflow.

Despite pursuing appellate remedies before the Commissioner Inland Revenue (Appeals) and subsequently the Appellate Tribunal Inland Revenue (ATIR), the matter has remained pending since 2018, resulting in prolonged blockage of public funds. The situation reflects a reactive litigation approach, where financial exposure materialized prior to

resolution of legal disputes, instead of adopting preventive legal and compliance measures to mitigate risks at the assessment stage.

Audit is of the view that absence of a structured litigation strategy, delayed resolution mechanisms, and insufficient coordination between legal and financial functions exposed the Authority to avoidable financial strain and uncertainty. The prolonged pendency of the appeal further indicates ineffective follow-up and weak monitoring of high-value tax litigation.

4.8.3.6 Ineffective Litigation Strategy and Weak Legal Follow-Up in High-Value Tax Dispute

Public sector entities are required to adopt efficient, cost-effective, and timely litigation strategies; ensure effective follow-up and resolution of disputes involving substantial public funds; act in accordance with the Income Tax Ordinance, 2001, applicable tax rules, and government SOPs; periodically assess litigation cost versus potential financial exposure or benefit and best practices require minimizing forum shopping and avoiding repetitive litigation without strategic outcome.

The review of the notes 18 to the Financial Statements of Universal Service Fund (USF) Company revealed that the company is involved in prolonged litigation with the tax authorities relating to disallowance of subsidy expenses and advisory expenses, resulting in a tax demand of Rs 23.233 billion for Tax Years 2015 to 2023. Despite adverse orders by DCIR (Audit) and subsequent confirmation by CIR (A) (except partial relief for TY 2015 and transfer of TY 2023 to ADRC), the litigation has remained unresolved due to repeated directions by ATIR and Islamabad High Court to approach Alternative Dispute Resolution Committee (ADRC). The matter has traversed multiple forums (DCIR, CIR(A), ATIR, High Court, Supreme Court, ADRC), yet no final adjudication on merits has been achieved for most tax years. Meanwhile, ADRC has already decided FY 2023 in favour of the Department, which is again under challenge by USF.

Audit understand that prolonged litigation on tax matter was due to:

- Absence of a clear, forum-specific litigation strategy, despite repeated judicial directions to resolve disputes through ADRC.
- Weak coordination between legal teams and tax advisors, resulting in prolonged procedural litigation rather than resolution on merits.
- Over-reliance on external legal remedies, even where alternate dispute resolution mechanisms were consistently advised by appellate forums.

Audit concluded that the handling of tax-related litigation by USF demonstrates inefficiencies in legal strategy, weak follow-up mechanisms, and absence of outcome-oriented litigation management, resulting in prolonged disputes involving substantial public funds. The approach adopted by legal teams has not ensured timely resolution, effective compliance with legal frameworks, or prudent management of litigation costs vis-à-vis potential financial exposure.

4.9 Recommendations

In view of the audit findings, it is recommended that telecom sector entities, particularly PTA and USF, strengthen their internal control and legal governance frameworks by formulating a comprehensive, outcome-oriented litigation management policy. A centralized litigation management system should be established to monitor case progress, timelines, financial exposure, and responsibilities, with periodic reporting to senior management. Legal teams should adopt a proactive and risk-based litigation strategy, prioritizing cases involving substantial government dues and regulatory impact, and ensuring timely compliance with court directions. Clear performance benchmarks and accountability mechanisms should be introduced for internal legal staff and external counsels. Additionally, entities should ensure effective recovery safeguards, including interim recovery measures permissible under law, and conduct regular cost-benefit analyses before escalating matters to higher judicial

forums. Coordination among legal, finance, and regulatory wings should be strengthened to support timely recovery, accurate financial reporting, and prudent utilization of public resources.

4.10 Conclusion

The thematic audit concludes that while statutory powers, legal frameworks, and institutional arrangements exist within telecom sector entities, their effectiveness in safeguarding government dues and ensuring timely enforcement of regulatory decisions remains limited. Prolonged litigations, weak follow-up on court directives, absence of strategic litigation management, and delayed recoveries have collectively resulted in significant financial uncertainty, blockage of public funds, and increased legal costs. The current approach reflects a reactive and procedural handling of disputes rather than a strategic, outcome-driven use of legal mechanisms.

To minimize recurrence of litigation and strengthen regulatory effectiveness, entities may adopt preventive and corrective measures including strengthening due diligence at the time of drafting licenses, agreements, and regulatory instruments, ensuring clarity of obligations, enforceability clauses, and dispute resolution mechanisms. A centralized litigation management system should be established for monitoring court cases, timelines, financial exposure, and compliance with judicial directions. Legal, regulatory, and finance wings should operate through an integrated coordination mechanism to enable early identification of legal risks and timely response to disputes.

Lastly, strengthening internal controls, enhancing legal oversight, and adopting structured litigation and recovery strategies are therefore essential to improve regulatory effectiveness, protect public revenue, and reinforce accountability within the telecom sector. To avoid litigation review.

4.11 References

- Review of Internal Documents and Records
- Audited Financial Statements of Pakistan Telecommunication Authority and Universal Service Fund Company
- Notes to the Financial Statements relating to contingent liabilities and court cases
- Litigation registers and legal case summaries maintained by legal wings
- Correspondence with Ministry of IT & Telecommunication, FBR, and NAB

ANNEXURES

Annexure-I

MfDAC PARAS

(Rs in Million)

S. No.	PDP No	Subject	Amount
3.	**SPECIAL COMMUNICATIONS ORGANIZATION (SCO)**		
1.	54-26	Mis-procurement of goods and services	2,727.714
2.	59-26	Non-preparation of financial statements showing the various account balances and Statement of Financial Position	0
3.	61-26	Irregular execution of project without approval of Project Management Board and feasibility study	1,940
4.	62-26	Default surcharge due to delayed deposit of revenues into FCF	40.631
5.	65-26	Irregular expenditure on repair & maintenance works	79.790
6.	104-26	Un-justified payment of foreign training	14.000
Total			**4,802.135**

(Rs in Million)

S. No	PDP No	Subject	Amount
2.	**UNIVERSAL SERVICE FUND (USF)**		
1.	18-26	Un-justified payment of health insurance premium	4.390
2.	20-26	Non recovery of health insurance premium	1.220
Total			**5.610**

(Rs in Million)

S. No.	PDP No	Subject	Amount
4.	**FREQUENCY ALLOCATION BOARD (FAB)**		
1.	12-26	Un-justified re-appropriation of funds for procurement of vehicles	9.000
2.	7-26	Irregular expenditure on purchase of medicines	2.902
Total			**11.902**