AUDITOR-GENERAL OF PAKISTAN

February 2026

AUDIT REPORT ON KHYBER PAKHTUNKHWA ECONOMIC ZONES DEVELOPMENT & MANAGEMENT COMPANY (KPEZDMC)

Irfan Gul
Assistant Audit Officer (IT)
20 October 2025 03:18:52 PM

Report No: DGCA&E (North) 25-001

Financial Year 2024-25
Audit Year 2025-26

Irum Gull
Assistant Audit Officer (IT)
20 October 2026 03:08:52 PM

PREFACE

Articles 169 & 170 of the Constitution of the Islamic Republic of Pakistan, 1973 read with Sections 8 & 12 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001, require the Auditor-General of Pakistan to conduct audit of receipts and expenditures of the Federation and the Provinces or the accounts of any authority or body established by or under the control of the federal or a provincial government.

This report is based on audit of Khyber Pakhtunkhwa Economic Zones Development & Management Company (KPEZDMC) for the financial year 2024-25. The Directorate General (Commercial Audit & Evaluation, North), Islamabad conducted audit during Audit Year 2025-26 on a test check basis with a view to make an independent assessment of the entity and provide reliable information to the stakeholder for sound decision making. The report also aims at improving the internal controls of the entity, thereby allowing the management to take corrective measures and improve operational efficiency.

The Audit Report includes key facts about the entity, audit snapshot, findings on systemic issues, conclusion and recommendations for executive action. Audit findings indicate a number of matters related to stated roles & responsibilities of the entity, Financial Management, Human Resource management, Procurement, Operational Processes, Achievements of targets/KPIs and digitization.

The report was shared with the entity as well as the Principal Accounting Officer (PAO) on February 10, 2026, however, DAC meeting was not convened until the finalization of this report.

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

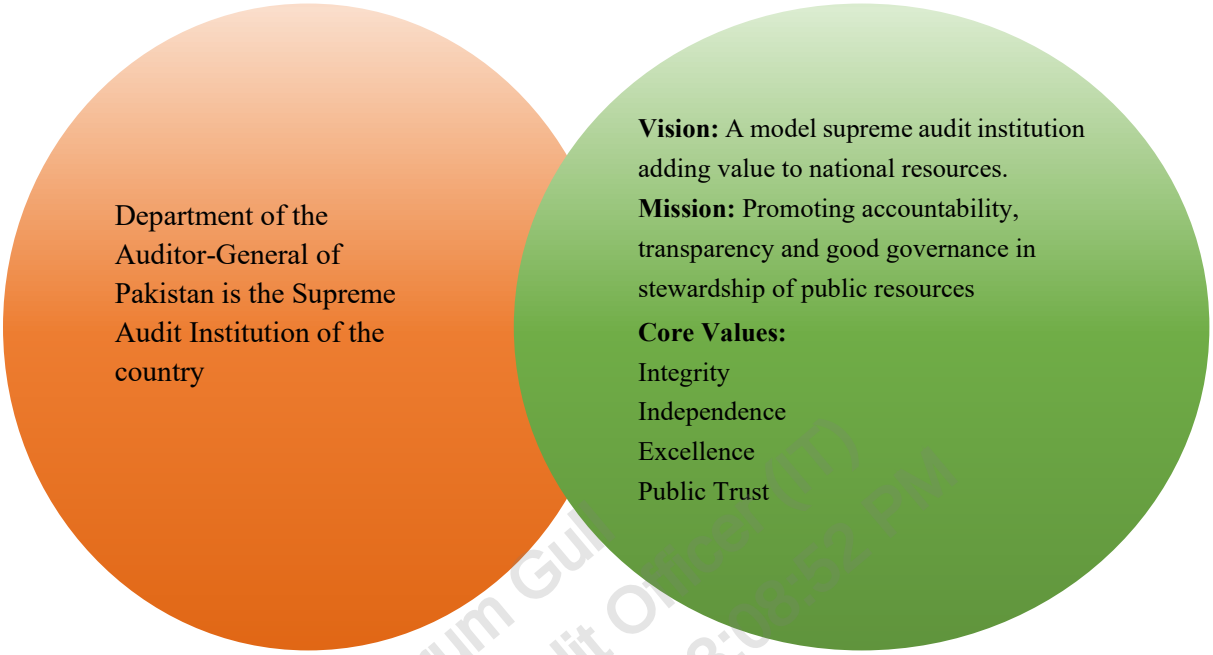
Irfan Gul
Assistant Audit Officer (IT)
20 October 2026 03:08:52 PM

Islamabad
Dated: February, 2026

(Maqbool Ahmad Gondal)
Auditor-General of Pakistan

Irum Gull
Assistant Audit Officer (IT)
20 October 2026 03:08:52 PM

Department of the Auditor-General of Pakistan



Irum Gul
Assistant Audit Officer (IT)
20 October 2026 03:08:52 PM

The Auditor-General's organization is the prime institution in the country for ensuring public accountability and fiscal transparency in governmental operations. The organization is expected to bring about improvements in financial discipline and the internal control environment in the executive departments to minimize the possibility of waste and fraud.

The Auditor-General of Pakistan is appointed under the Constitution of the Islamic Republic of Pakistan. His reports are laid before the legislature and are discussed in the Public Accounts Committees of the respective legislative assemblies. His mandate enables him to strengthen the legislative oversight by providing an independent and objective assessment of the process of governance at the federal, provincial, and local level.

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Assistant Audit Officer (IT)
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AUDIT SNAPSHOT

Why did we conduct this audit?

KPEZDMC is a government-owned entity functioning under the administrative control of Secretary Industries, Commerce and Technical Education of Government of Khyber Pakhtunkhwa.

The entity was selected because of its importance and objectives to create a conducive environment for industrial growth by developing and managing economic zones, providing infrastructure, and facilitating businesses in the province of Khyber Pakhtunkhwa.

It utilizes public funds, grants, and government assets in the performance of its functions. In accordance with Article 169 of the Constitution of Pakistan, the Auditor General of Pakistan is mandated to audit the accounts of provincial governments and bodies established or controlled by them.

What did we find?

i. The company failed to recover Decretal Lease money from Industrial Allottees worth Rs. 2,084.945 million.
ii. The company suffered a loss of Rs.629.889 million due to non-renewal of commercial lease agreements.
iii. The company failed to acquire land from landowners (Bunir, Mohmand & Jalozai EZs) despite payment of Rs. 1077.491 million.
iv. The company suffered a loss of Rs. 174.158 million by irregularly allotting commercial plots as industrial plots.
v. There are outstanding dues against Al-Hadeed Engineering Services worth Rs. 497.844 million in Hattar EZ
vi. There was no Board during 2024-25, which hampered the Company ability to fulfill the statutory requirements on the one hand, while on the other hand, the strategic direction, control and oversight functions for the company stood compromised. Efforts made by the Administrative Department for constitution of Board were not shared with Audit.
vii. The company is entangled in a plethora of court cases for land enhancement with serious consequences for its being a going concern because the estimated contingent liabilities are estimated to be Rs. 14 billion.
viii. The company is overstaffed due to retention of former employees of KPDA, while at the same time almost all vital positions like CEO, CFO, Company Secretary & Chief Operating Officer are vacant.

Key Assessments

i. The Earnings Quality graph (Net Profit and Cashflow from operations) has been chosen as a tool to give an idea of the Company

What did we Recommend?

i. The company must ensure and expedite the recovery of decretal lease money from allottees as per lease agreements.

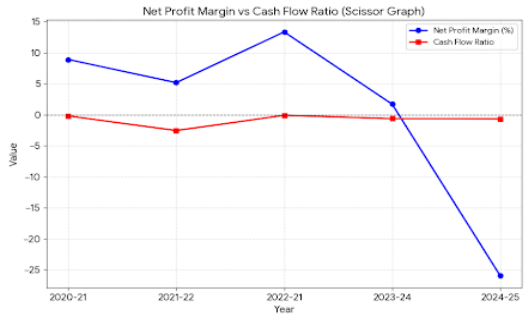
Arslan Gull
Assistant Audit Officer (IT)
20 October 2026 03:08:52 PM

status in a glance. It shows that there is constant cash outflow with progressive decrease in net income with a loss in 2024-25. It highlights grave concern about the operations and performance of the Company.

Year	2024-25	2023-24	2022-23	2021-22	2020-21
Net profit margin	(25.93%)	1.69%	13.32%	5.15%	8.88%
Cash Flow Ratio	(0.68%)	(0.65%)	(0.11%)	(2.57%)	(0.21%)

Source: Financial Statements 2021-22 to 2024-25

Figure-1



Source: Financial Statements 2021-22 to 2024-25

The negative net profit margin in 2024-25 is a critical concern, as it shows the company is not generating profit from its operations and is instead experiencing significant losses with negative operational cashflow, year on year basis.

ii. The company has failed to recover its dues and receivables from the allottees as per terms of lease agreements. The enforcement mechanism is weak and failed to achieve targets.

iii. The issues in land acquisition and subsequent litigations is a major hurdle for the company as a going concern.

iv. Net Profit Loss Rs 151.459 million *(FY 2024-25)*

v. Financial Sustainability — Critical

ii. The responsibility for delayed formulation of lease renewal policy must be fixed and the amount recovered from the allottees from the date of expiry of lease agreements.

iii. The land acquisition process must be expedited with assistance from Provincial Government.

iv. The company must strictly adhere to the bye laws and cancel the plot of defaulting allottees.

v. The Board must have a chairman from the private sector with sound experience of the industrial and financial sector to run the company in commercially viable and efficient manner (as provided in their Article of Association).

vi. The company must urgently hire the key management personnel, and the Government must resolve the issue of legacy employees of KPDA.

Irfan Gull
Assistant Audit Officer (IT)
20 October 2026 03:08:52 PM

HIGHLIGHTS

ENTITY SUMMARY SHEET — KPEZDMC (FY 2024–25)

Description	Details *(Figures in Rs million)*
Legal Framework of Entity	Khyber Pakhtunkhwa Economic Zones Development and Management Company is registered as a Public Company limited by guarantee under Section 42 of the Companies Ordinance, 1984 (Now the Companies Act 2017). The company is wholly owned and controlled by the Government of Khyber Pakhtunkhwa (KP). Khyber Pakhtunkhwa Economic Zones Development & Management Company (KPEZDMC) operates under a defined statutory, regulatory, and governance framework. The key components of its legal framework are: 1. Companies Act, 2017 (Under Section 42) 2. Memorandum & Articles of Association (MoA & AoA) 3. Public-Sector Company (Corporate Governance) Rules, 2013 4. Government of Khyber Pakhtunkhwa (GoKP) Rules & Notifications 5. KPEZDMC Policies, SOPs & Regulations Applicable Federal & Provincial Laws (Depending on Activity)
Key Responsibilities / Mandate & Objectives	The Company is responsible for the establishment, development, and upgradation of new and existing Economic Zones (EZs) and industrial estates in Khyber Pakhtunkhwa to promote orderly, planned, and accelerated industrialization. Its operations are primarily financed through grants from the Provincial Government, proceeds from the sale and allotment of industrial plots, revenues from power generation and supply, and other miscellaneous income sources. The core objective of the Company is to create a conducive environment for industrial growth, employment generation, and sustainable economic development in the province. **Key Responsibilities / Mandate** 1. Planning, development, and upgradation of Economic Zones and industrial estates. 2. Management, operation, and maintenance of Economic Zones and associated infrastructure. 3. Allotment, leasing, and administration of industrial plots in a transparent and efficient manner. 4. Promotion of investment and facilitation of industrial growth within the Economic Zones. 5. Encouragement and facilitation of Public–Private Partnerships (PPPs) for infrastructure and industrial development. 6. Ensuring compliance with applicable laws, regulations, policies, and governance frameworks. 7. Generation of revenue to achieve financial sustainability and reduce reliance on government grants. 8. Contribution to social uplift, employment generation, and overall economic development of the province.

Assistant Auditor (IT)
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Description	**Details** *(Figures in Rs million)*
Total Assets • Current Assets • Non-Current Assets (Draft Financial Statements FY-2024-25)	**Rs. 17,476.562 million as of June 30, 2025** • Rs. 12,222.307 million • Rs. 5,254.254 million
Total Liabilities • Current • Non-current (Draft Financial Statements FY-2024-25)	**Rs. 11,878.700 million as of June 30, 2025** • Rs 1,092.155 million • Rs 10,786.545 million
• Other Income • Income (Draft Financial Statements FY-2024-25)	• Rs 35.304 million • Rs 1,010.353 million
Government Grants (2024-25) (ADP)	Rs. 127.000 million
Expenditure	Rs 1197.117 million
Receipts	Rs 1,045.657 million
Cash Balances	Rs 384.157 million
Total Investments	Rs 1,800.000 million
Funding Sources (Govt/Donor agency)	Own sources (lease of plots, maintenance charges, Annual ground rent, Firefighting charges, Bore whole charges etc.) Annual Development Program Funds from Govt of KP
Total Allocations ((ADP Fund)	Rs. 127.000 million
Accounting policy	International Financial Reporting Standard (IFRS), Financial Manual of the Company
Status of financial statements	Financial statements for the year 2024-25 had not been finalized, however, a draft version was provided to the audit team.
Composite (risk) Rating (derived from audit findings to provide an at-a-glance summary of entity integrity and performance)	Taking Strategic, Operational, Financial and Commercial risks together, the risk rating is “High”. That warrants immediate corrective action.
Compliance Status of audit recommendations	DAC meeting yet to be held

Irfan Ghani
Assistant Auditor General (IT)
20 October 2026 03:08:12 PM

CONTENTS

		Page No.
	Abbreviations and Acronyms	1
1	Overview of the Entity	2
2	Board's Performance & Evaluation	5
3	Financial Management	7
4	Contract Management and Enforcement	17
5	Procurement /Acquisition and Civil Work	22
6	Human Resource Management	26
7	Operational Processes, Targets and KIPs	28
8	ICT & Digitization	28
9	Conclusion	29
10	Recommendations	30
11	Appendices	31
	Annexes	33

FIGURES

Figure 01: Earning Quality Analysis	iv
Figure 02: Budget Variance	9
Figure 03: Analysis of Receivables Collection	10
Figure 04: Net Profit Margin	11
Figure 05: Return on Capital Employed	12
Figure 06: Asset Turnover	12
Figure 07: COS to Sale	13
Figure 08: Debtor Turnover	13
Figure 09: Creditor Turnover	14
Figure 10: Current Ratio	15
Figure 11: Interest Income	16

Ikram Gull
Assistant Audit Officer (IT)
20 October 2026 03:08:52 PM

Irum Gull
Assistant Audit Officer (IT)
20 October 2026 03:08:52 PM

ABBREVIATIONS AND ACRONYMS

AoAs	Article of Associations
AGP	Auditor General of Pakistan
BOD	Board of Directors
CPEC	China Pakistan Economic Corridor
(CSR)	Corporate Social Responsibility
IFRS	International Financial Reporting Standards
KPDA	Khyber Pakhtunkhwa Development Authority
(KPEZDMC)	Khyber Pakhtunkhwa Economic Zones Development and Management Company
KP	Khyber Pakhtunkhwa
MRS	Market Rate of Schedule
NEPRA	National Electric Power Regulatory Authority
PASDEC	Pakistan Stone Development Company
PESCO	Peshawar Electric Supply Company
PEZ	Peshawar Economic Zone
PHSADC	Pakistan Hunting and Sporting Arms Development Company
PDWP	Provincial Development Working Party
SDA	Sarhad Development Authority
SECP	Security Exchange Commission of Pakistan
SEZ	Special Economic Zone

Assistant Audit Officer (IT)
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Irum Gull
Assistant Audit Officer (IT)
20 October 2026 03:08:52 PM

1. OVERVIEW OF THE ENTITY

1.1. Introduction

The Sarhad Development Authority (SDA) was established in 1972 by the Government of Khyber Pakhtunkhwa, with its head office in Peshawar, to oversee planned development and construction in the province. It was responsible for planning and implementing industrial and commercial projects and advising the government on their feasibility. In 2016, the KPDA (formerly SDA) was dissolved under a provincial Act and merged into the Khyber Pakhtunkhwa Economic Zones Development and Management Company (KPEZDMC).

1.2. Establishment & Legal Status

The company KPEZDMC was established in March 2015 and is registered as a Section 42 non-profit entity under the Companies Act, 2017 (formerly the Companies Ordinance, 1984) with the Securities and Exchange Commission of Pakistan (SECP). It is wholly owned by the Government of Khyber Pakhtunkhwa.

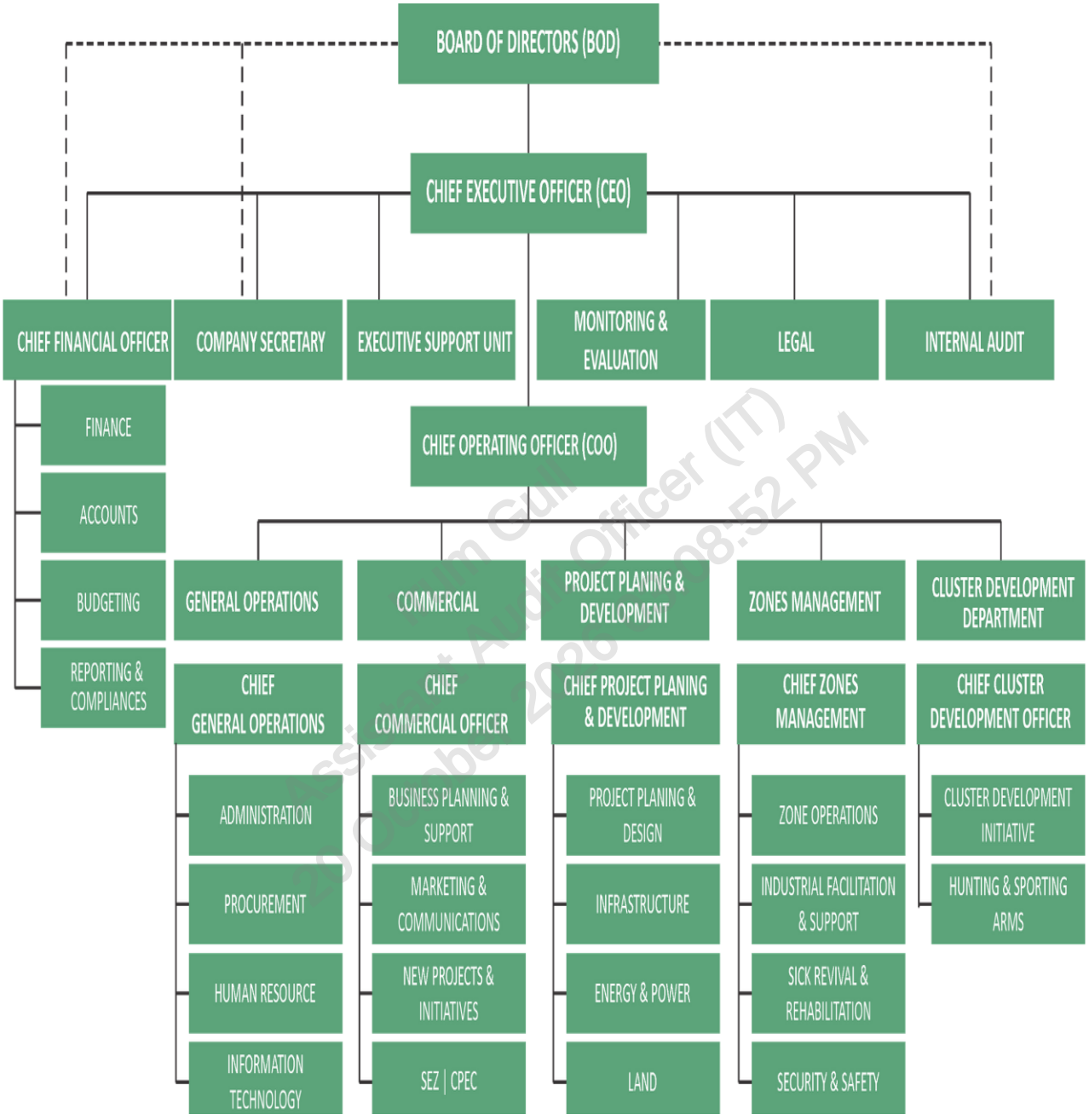
1.3. Governance & Leadership

The company is governed by a 12-member Board of Directors, consisting of 75% private-sector professionals and 25% ex-officio government representatives. The Board provides strategic direction, oversight, and ensures transparency and good governance. The company is run by a Chief Executive Officer. As per Article of Association the company comprises the following.

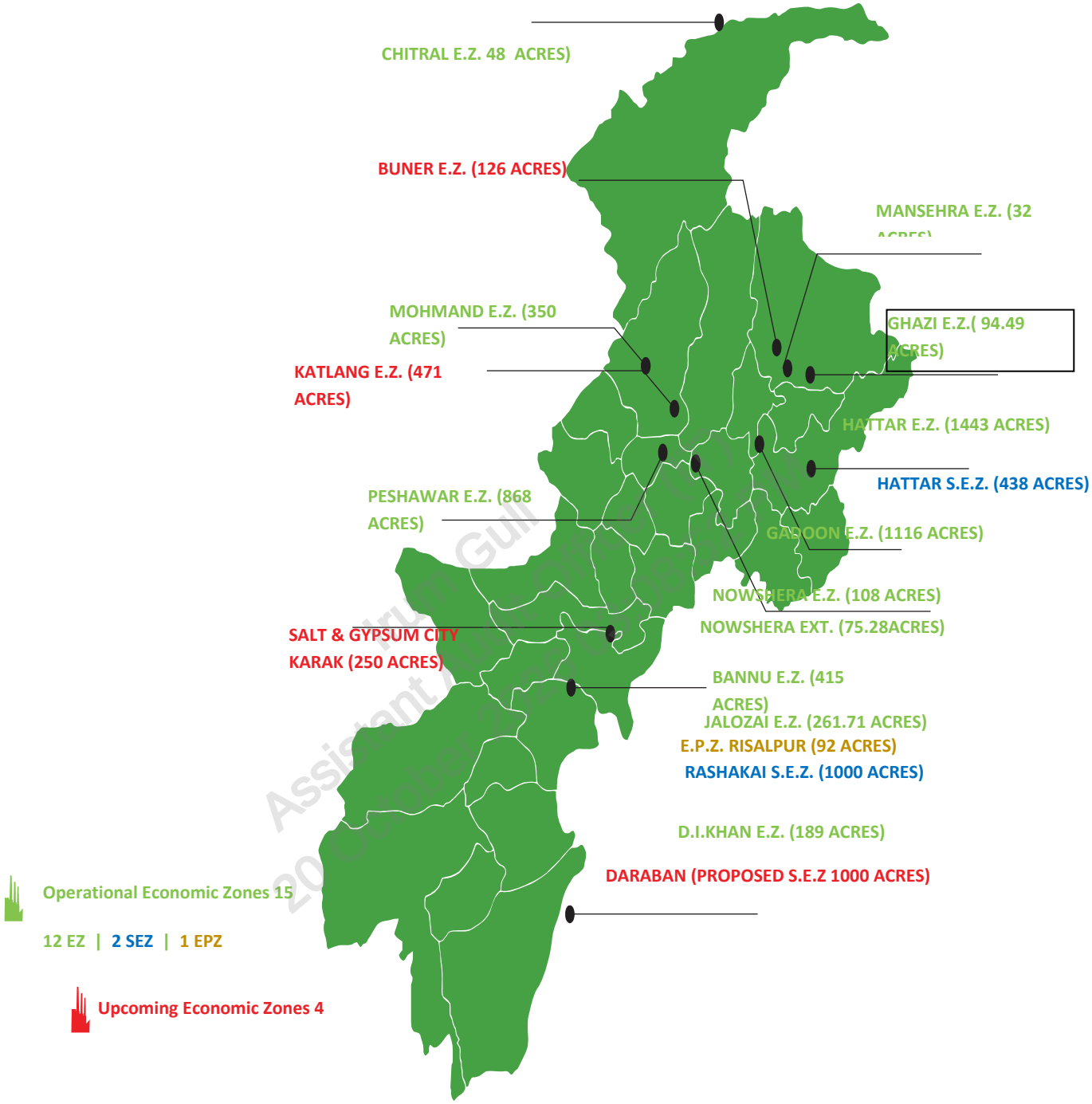
i. General Body
ii. Board of Directors
iii. Chairman
iv. Chief executive Officer
v. Secretary
vi. Board of management per Specific Economic Zone(s) and the Industrial Estates, exercising each power as may be specifically prescribed by the BoD.

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20 October 2026 03:08:52 PM

1.4 KPEZDMC'S organogram



1.5 BRIEF DETAILS OF INDUSTRIAL ESTATES AND ECONOMIC (SPECIAL) ZONES



The industrial and commercial plots in older zones /industrial estates such as Peshawar, Hattar, Gadoon, Nowshera, Nowshera Extension, and D.I. Khan have been fully allotted. Whereas, some plots in newly established economic zones Ghazi Mohmand, Jalozai, Bannu, and Chitral are still available.

Additionally, four economic zones are in the pipeline i.e. Bunir EZ, Katlang, Salt & Gypsum City Karak, and Daraban Special Economic Zone.

2. BOARD'S PERFORMANCE EVALUATION

The Board plays a vital role in providing direction, control and oversight of the company. The Corporate Governance Rules 2013 provide detailed guidelines about the role and responsibilities of the Board, its Chairman and Committees. The audit team evaluated the performance of the Board in the light of the above-mentioned rules by devising a questionnaire and collecting the necessary data. The major issues that came to the fore are briefly described below:

2.1 The company was without any Board from June 2024 to July 2025

The 4th Board of the company completed its tenure in May 2024. As sound corporate governance practices, there must always be a succession plan to replace the Board of Directors. However, in case of the company, it took the Government of KP more than a year to constitute a new Board. All the functions and responsibilities of the Board, as described in the Article of Association (AoA) and Corporate Governance Rules 2013, remain suspended. Therefore, any Commentary about the Board's performance in the 2024-25 is superfluous. It reflects on one hand on the attitude of Government that how serious they are about governance and management of a vital public sector company; entrusted with industrial development, economic growth and job creation in the province. On the other hand, it also raises serious questions about the role of SECP as a regulator. In the absence of Board, all the statutory obligations as given in the AOA remain unfulfilled, without attracting any sanction and reprimand. This regulatory ease and laxity lies at the core of poor corporate governance in the public sector enterprises.

Irum Gull
Assistant Audit Officer(IT)
20 October 2026 03:08:52 PM

2.2 The Secretary Industry as Chairman of the Board

If the Board is the steering wheel of the company, then the Chairman can be rightly assumed to be the driving man behind the company, with all his expertise and knowledge of the craft. The Chair plays a vital role in providing strategic direction and guidance to the company. Article 4(ii) of the AoAs clearly state that the Chairman of the Board will be from the private sector. However, quite contrary to the above article, the Secretary Industry of Govt of KP, has been persistently holding the chair, except the first Chairman, who was from the private sector. It not only goes against the Article of Association, but the frequent transfer and posting of Secretary jeopardizes the very concept of continuity and certainty. In the last 05 years, there has been 06 Secretaries of the Industry Department. The company has been literally reduced to any other department of the Government of Khyber Pakhtunkhwa with all red tape, inefficiency and wastages.

2.3 Performance Management Framework/ Disclosure requirements of the Board

The Corporate Governance Rules 2013 require the Government to sign a performance contract with Directors at the time of their appointment along with annual / half yearly / periodical performance evaluation of the Board, its Committees, Directors and CEO. The Audit noticed that no such performance management framework is at place, even for the newly appointed Board. The note to the financial statements provides details of CEO remuneration but does not provide any details of the Fees and facilities provided to the chairman and Directors. The fee per meeting has been raised from Rs.80,000 to 100,000 by the recent Board in 2025-26, however, the notes does not provide any disclosure even about the previous fee payment. The chairman is also provided with a car, but it is not disclosed anywhere in the notes. As majority of Board members are industrialists/ entrepreneurs, still no register is maintained to disclose the conflict of interest and other related party transactions. The scrutiny of the Directors report reveals that it has not carried out proper risk assessment and devised any control framework for its management.

Irum Gull
Assistant Audit Officer (IT)
20 October 2026 03:08:52 PM

3. FINANCIAL MANAGEMENT

3.1 Introduction

This section provides an evaluation of the financial performance and significant non-financial aspects of the Khyber Pakhtunkhwa Economic Zones Development and Management Company (KPEZDMC), based on an examination of its financial statements for the fiscal years 2023-24 (audited) and 2024-25 (unaudited till the date of assignment).

3.2 Strategic Context

The KP Government Industrial Policy 2020, is embellished with all the good things that can turn the province into an investment hub for local and foreign investors. It provides for easy access to credit, development of skills, coordination and cooperation between stakeholders, changes in attitude of officials and so on. However, the Implementation and Oversight Committee framework reveal that it will be headed by Minister/Special Assistant to CM on Industries, Commerce and Technical Education. At present, this slot is vacant, amply showing the importance of industrialization on the Government's Priority list. A whole annual schedule of the Committee reviews meetings has been given in the policy document to steer forward industrialization in the province, but in the absence of the chair the whole idea of the committee loses its value.

Irum Gull
Assistant Audit Officer (IT)
20 October 2026 03:08:53 PM

3.3 Revenue Model and Sustainability

As the company acts as both a developer and a regulator, its financial health is inextricably linked to government policy and land management.

3.3.1 Land enhancement

The company relies on Section 4 of land Acquisition Act for acquiring land. However, as the DC rates are lower and the landowners are not satisfied with the compensation paid, they knocked on the doors of higher courts for rightful compensation. Resultantly, the company remained entangled in legal proceedings on one hand and on the other hand the court decisions enhanced the rates many folds. As can be ascertain from a recent Board meeting, the contingent liabilities, arising from adverse court decisions, amount to Rs. 14 billion, almost the total size of the company. In accordance with court decisions and subsequent enforcement actions, the Company has paid Rs. 1,150 million to landowners under Awards 88 & 89, 105, and PASDAC during the last three years. As a result, the company is facing a serious liquidity crunch. The details are given below:

(Rs. in million)

Sr. #	Year	Award 88 & 89	Award 105	PASDAC
01	2021-22	95.00	99.174	-
02	2022-23	155.00	103.00	-
03	2023-24	70.00	74.00	138.522
04	2024-25	38.00	152.25	225.761
	Total	358.00	428.424	364.283
Total Payment till 30.06.2025				**1,150.707**

Though, as per lease terms, the company is supposed to receive this additional cost from the lessees, but in practice it is a hard ask to get it from them. Due to these court verdicts and payments, the company is facing a serious liquidity crunch. However, the situation is further exacerbated, as consequent to these court decisions, several of the company bank accounts with a balance of Rs 1.707 billion, have been freeze by the courts, as a corollary, the company, cannot reinvest its money (TDRs) profitably and only roll over the investments. The details of some bank accounts, frozen by court orders is as follows;

Bank Name	Account No.	Balance (Rs)	Account Freezing Date
The Bank of Khyber (BOK)	TDR	1,000,000,000	20.03.2023
-do-	TDR	500,000,000	20.03.2023
Muslim Commercial Bank (MCB)	811488351005302	96,539,363	17.01.2024
The Bank of Khyber (BOK)	2000957375/11146	54,550,746	20.03.2023
-do-	2009087594	26,842,302	20.03.2023
-do-	2009087594	26,019,642	21.07.2023
Muslim Commercial Bank (MCB)	811488351005302	1,050,666	

As the company failed to pay the litigants on time, now the court has moved beyond the freezing of accounts and the court has ordered the attachment of its three vehicles vide orders dated 03.11.2025.

S. No.	Vehicle type	Vehicle No.
1	Honda City	BD-4384
2	Cultus	BD-5966
3	Honda City	BD-6153

These developments show that the revenue model and core selling proposition of the company is inherently flawed and based on clumsy premise.

Irum Gul (AAO)
Assistant Audit Officer (IT)
20 October 2026 05:08:12 PM

3.4 Budget Preparation and Approval

The audit reviewed the budgeting process for the fiscal year 2024-25 and 2025-26. It was noticed that the budget for the Financial Year 2024-25 was approved by the Board on August 12, 2025, well after the close of the Financial Year.

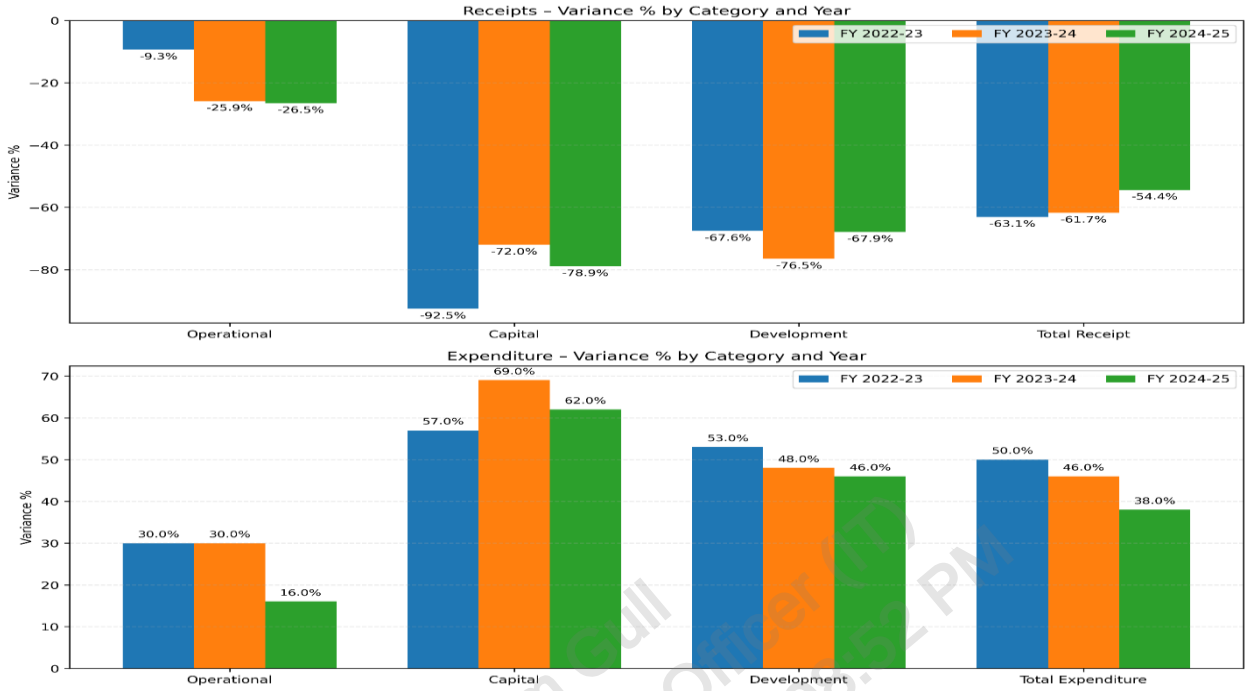
The variance analysis of 2022-23, 2023-24 and 2024-25 is annexed-F.

As per corporate governance rules, the Board is responsible for carrying out reviews, scrutinizing monthly execution reports and variance analysis for effective monitoring and control, but as there was no Board, therefore, requesting reviews, monthly execution reports, monitoring and control and variance analysis by Board was unrealistic for the audit team.

The variance analysis for the last three years shows that the budget setting, execution, reporting and monitoring is considered by the Board and Management as a mere formality, based on unrealistic assumptions of receipts and expenditures. The importance of this vital tool of fiduciary control has not been realized by both the Board and its Finance Committee. The variance in operation, capital and development

receipts / expenditures is depicted in the bar chart below;

Figure-2 (Source: Three Years Budget provided by mazement)



The variance in receipts has gradually improved from 63.1% in 2022-23, 61.7% in 2023-24 and 54.5% in 2024-25. However, above 50% variance clearly reflects the unrealistic assumptions for budgeting receipts. Similarly, the variance in expenditure has gradually improved from 50% in 2022-23, 46% in 2023-24 and 38% in 2024-25. Despite this improvement, the variance still stands higher and reflects negatively on the financial forecasting of the company's finance team.

Assistant Audit Officer (IT)
20 October 2025 03:06:52 PM

3.5 Financial Controls and Financial Reporting Framework

The company has developed a Finance Manual with standardized chart of Accounts and elaborate instructions for maintaining Ledger and Sub-Ledgers.

The audit reviewed compliance with the Financial Reporting Framework (Sections 8.2 to 8.4 of Finance Manual), including monthly closings, and the preparation of quarterly, half-yearly, and annual statements in line with the timelines set in the manual or SECP regulations.

The audit found that the financial statements of 2023-24 have not yet been approved by the members in the AGM despite the lapse of 18 months of closing of Financial Year. As per guidelines and timelines, the Financial Statements for 2024-25 must have been audited, approved and submitted to the SECP by the time of Audit (October 2025). However, the statements have not yet been finalized, and the company is still in the process of Auditors' selection. At the cost of repetition, the audit is of the opinion that there is a poor compliance with financial controls and financial reporting

framework. Hence, accountability and transparency stand compromised.

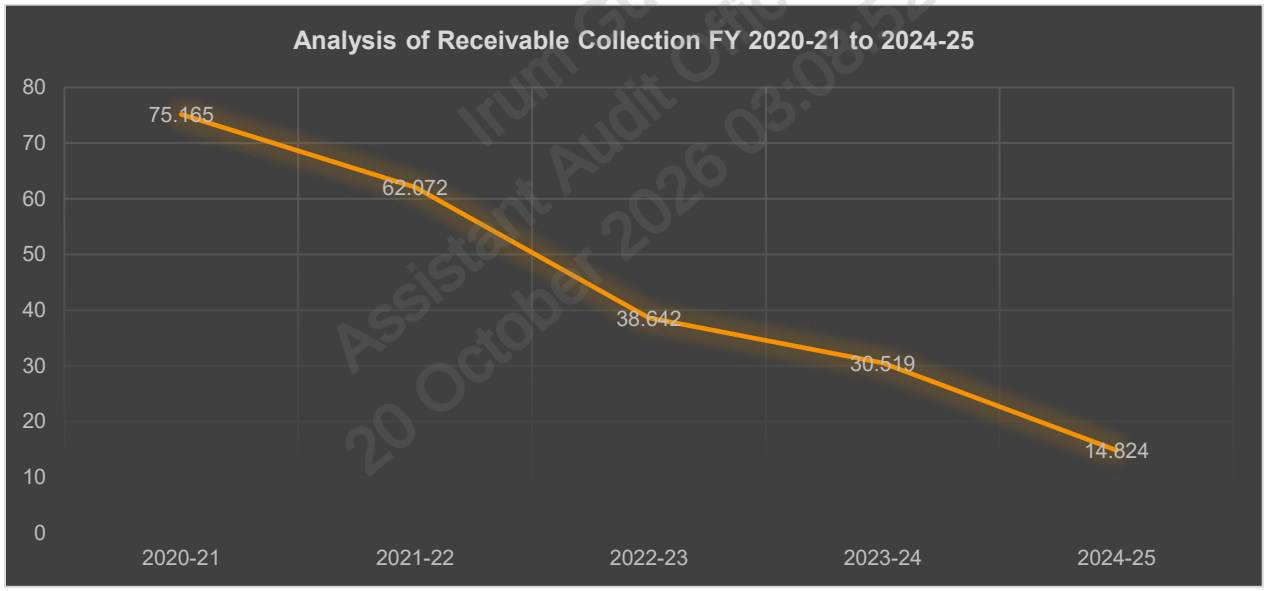
3.6 Analysis of Receivables Collection

As per section 2.4 of the financial manual the company must maintain party-wise sub-ledgers for receivables at both the head office and estate offices for every receivable. The scrutiny of last five years' financial statements revealed that the Company recorded more than Rs. 2 billion receivables as current assets (supposed to be collected in 12 months) consistently for last four years with dwindling collection year on year basis, as given in the table below:

Year	Trade and Other Receivables (Rs)	Collected Amount (Rs)	Percentage (%)
2024-25	2,828,711,378	419,339,369	14.824
2023-24	2,418,271,858	738,026,057	30.519
2022-23	2,183,518,141	843,760,091	38.642
2021-22	2,605,597,322	1,617,352,639	62.072
2020-21	1,508,408,038	1,133,791,184	75.165

Source: financial Statements 2021-25

Figure-3



Irum Gul
Assistant Audit Officer (IT)
20 October 2026 03:06:52 PM

Source; Financial Statements FY 2021 to 2025 and collection amount provided by the management

3.7 Internal Audit Function

The Company has a well-established Internal Audit section that reports to the Audit & Risk Management Committee of the Board. Its annual audit plan is approved by the Board, and audits are conducted accordingly.

However, there is an obvious flaw in its functioning: in addition to carrying out internal audits, the section is also responsible for the pre-audit of bills and claims before payments are made.

This creates a conflict of interest and should be segregated to ensure effective accountability and stronger internal controls.

3.8 Ratios Analysis

Though as a not-for-profit company with heavy dependence on Grants and Bailouts from Government, the Ratio Analysis will not depict the full extent of its performance and position, but still, it will give an idea about its profitability. Efficiency, liquidity and stability.

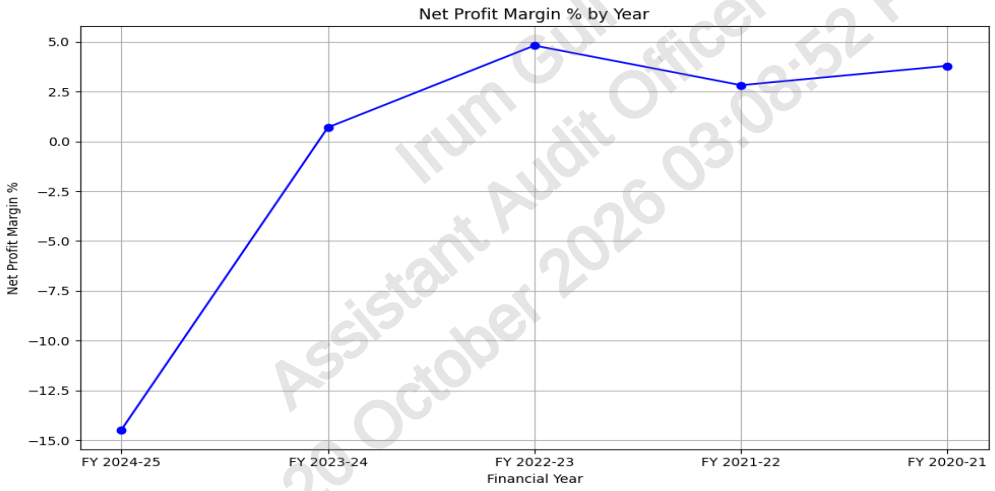
3.8.1 Profitability Analysis

Table-01: Profitability Ratios

Ratio	2024-25	2023-24	2022-23	2021-22	2020-21
Net profit margin %	(14.48)	0.70	4.81	2.82	3.79
Return on capital employed %	(0.65)	0.49	0.89	0.66	0.84
Asset turnover ratio(times)	0.0616	0.0778	0.0698	0.0709	0.0710

Source; Financial Statements FY 2021 to 2025

Figure-4



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20 October 2026 03:08:52 PM

Figure-5

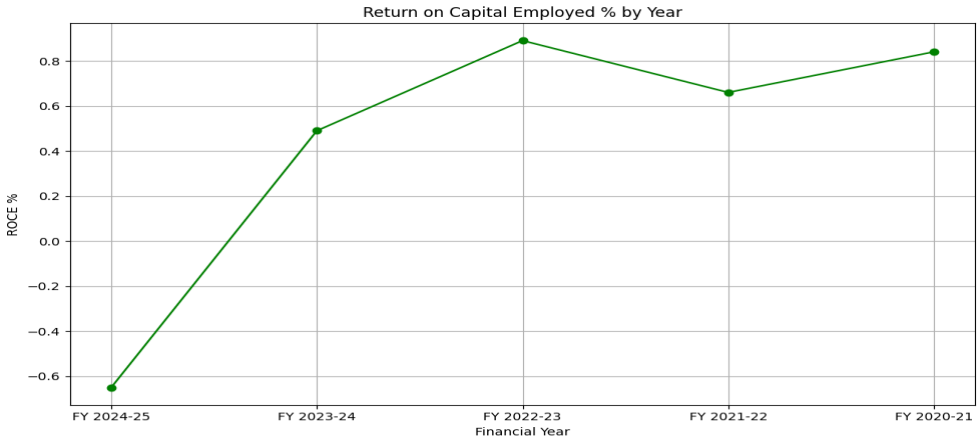
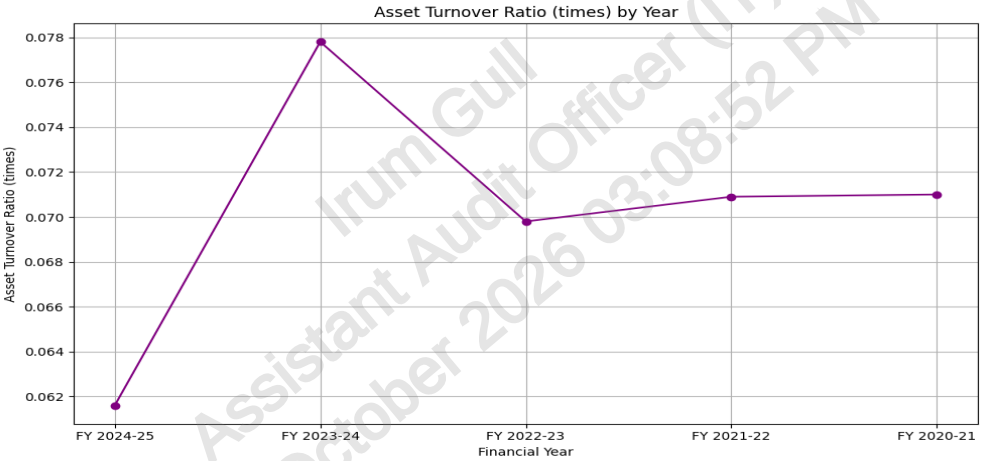


Figure-6



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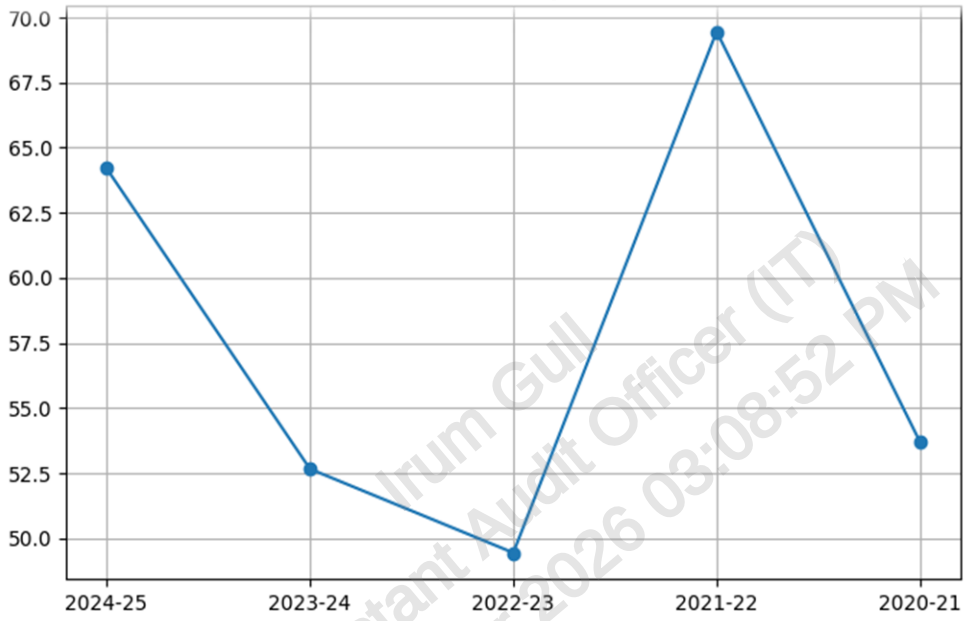
The analysis of profitability ratios from 2020-21 to 2024-25 shows that the Net profit Margin of the company is volatile. The company recorded the highest Net Profit Margin of 4.81% in 2022-23. However, in subsequent years the Margin plummeted to .70% in 2023-24 and the company went into loss in 2024-25 with Net Profit Margin of (14.48). As the company lost the court cases for enhancement of land rates, the payment of decretal in 2024-25 eroded its profit margin significantly. The return on capital employed is consistently low when compared with the cost of capital employed. The company is unable to exploit its asset base properly for generation of revenue. The dependence is by and large on interest income to meet the operational costs of the company. Similarly, the asset turnover ratio for the last 5 years is consistently low. It also shows that the company is not using its assets properly to generate revenue.

Table-02: Efficiency Ratios

Year	2024-25	2023-24	2022-23	2021-22	2020-21
Cost of sale ratio	64.20	52.66	49.44	69.46	53.70
Debtor Turnover	1,512.01	1,529.85	1,882.86	1,502.10	74.59
Creditor Turnover	345.79	333.77	446.24	453.67	1,158.35

Source; Financial Statements FY 2021 to 2025

Figure 7 Cost of Sale Ratio



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20 October 2026 03:08:52 PM

Figure -8: Debtor Turnover

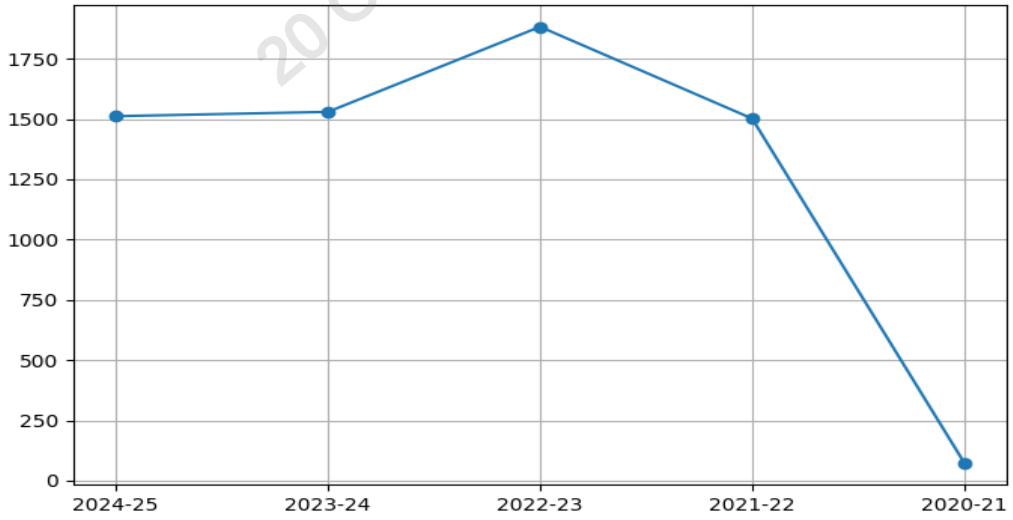
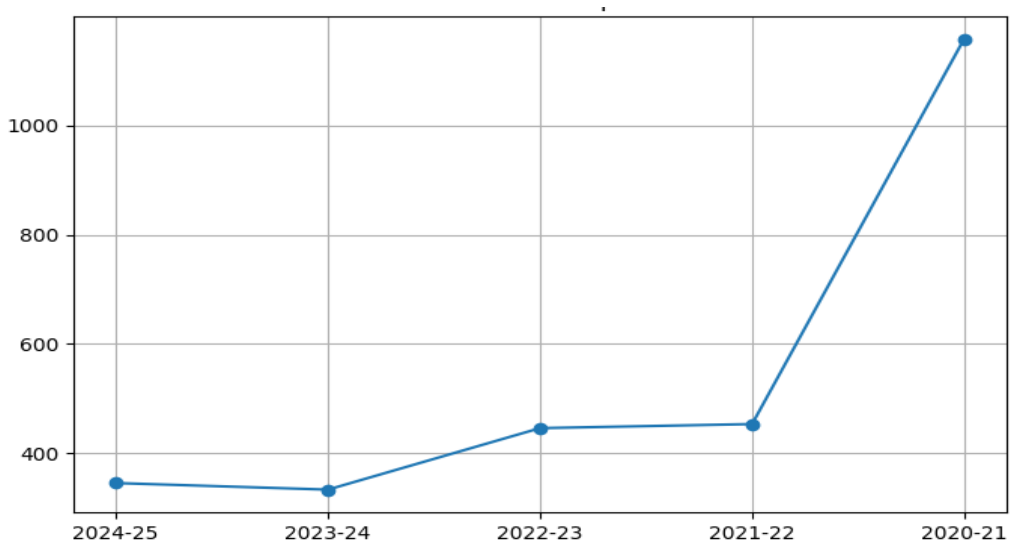


Figure -9: Creditor Turnover



The COS to Sale ratio from 2020-21 to 2024-25 has been volatile. It was 53% in 2020-21 and then jumped to 69.46% in 2021-22. It decreased to 49.44% in 2022-23, but then rose again and finally in 2024-25, it is 64.20%. The cost of operations is quite high with the ratio as 64.20%. Without drastic cost control, the company will be unable to remain profitable. Similarly, the receivable days have increased from 74.59 days in 2020-21 to 1512.01 in 2024-25. The highest figure of receivable days clearly shows that the company has badly failed to recover its dues and outstanding amounts from the clients/allottees. It is making payments on behalf of the allottees to the landowners for land enhancement and is unable to recover the amount from them on time. The payable days has reduced from 1158 days in 2020-21 to 346 days in 2024-25. It is paying its creditors speedily, but still the number of payable days is quite high.

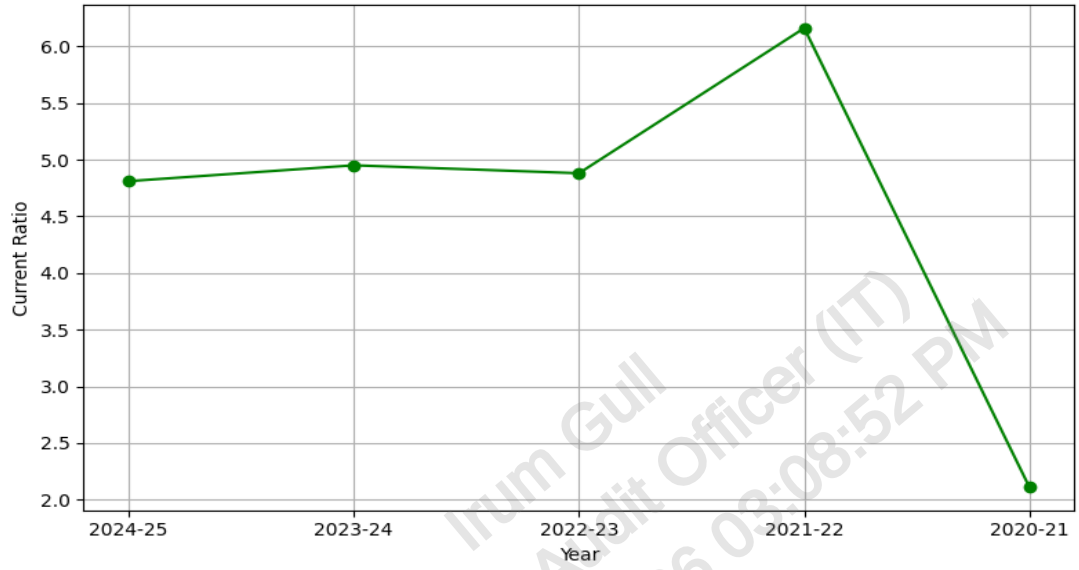
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20 October 2026 03:08:52 PM

Table-03: Liquidity Ratios

Year	2024-25	2023-24	2022-23	2021-22	2020-21
Current Ratio	4.81	4.95	4.88	6.16	2.11

Source; Financial Statements FY 2021 to 2025

Figure 10: Current Ratio



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20 October 2026 03:08:52 PM

The current ratios of the company are alarmingly higher. A vast amount of the company assets is stuck as receivables. It shows that the company is unable to collect its receivables efficiently.

3.8.2 Revenue Composition

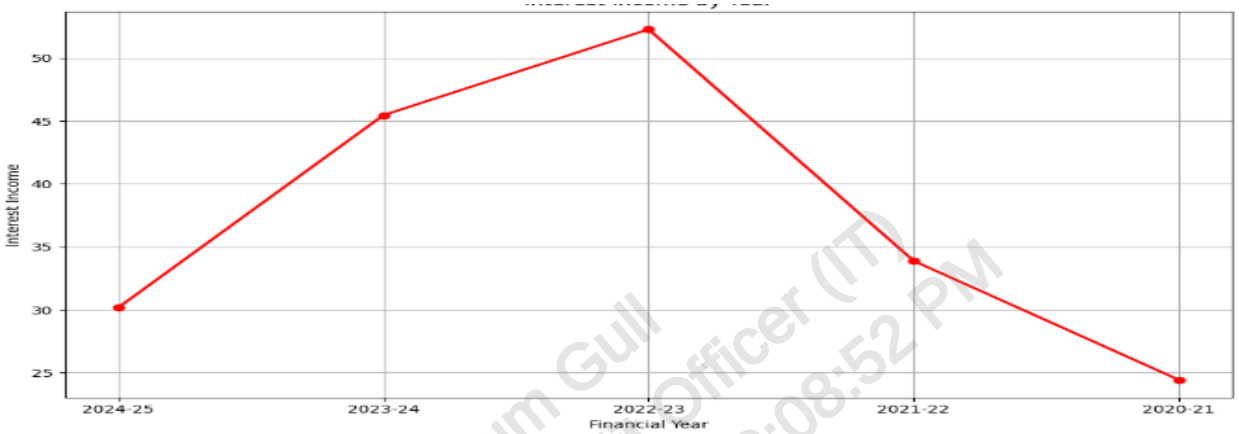
The table below shows the Interest Income as a percentage of total annual revenue. It is quite evident that the company relies heavily on Interest Income as a source of income. This heavy reliance also reflects negatively on the company operational efficiency. However, as the Base Rate declined in 2024-25, the company revenue from interest also witnessed a sharp dip and reported a Loss of Rs. 151 million for 2024-25.

(Rs. in million)

Year	Total Revenue	Interest Income	Percentage (%)
2024-25	1,045.658	315.467	30.17
2023-24	1,283.395	583.462	45.46
2022-23	1,089.645	569.652	52.28
2021-22	1,024.424	347.109	33.88
2020-21	926.526	226.321	24.43

Source; Financial Statements FY 2021 to 2025

Figure 11 Interest Income Percentage



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20 October 2026 03:08:52 PM

4. CONTRACT MANAGEMENT AND ENFORCEMENT:

4.1 The non-formulation/non-implementation of lease renewal policy

Audit noted that lease agreements of several commercial plots (having 30 years lease period) in the Peshawar Economic Zone expired in 2017. In the absence of any lease renewal policy the lessees continued with their businesses without any payments for lease renewals. **(Annex-A).**

After a lapse of 07 years, in 2024 the company formulated a lease renewal policy. However, it has still not been implemented. Audit is of the view that due to non-formulation and subsequent non-implementation of lease renewal policy in a timely manner, the Company suffered financial loss amounting to Rs. 629.889 million. Calculations are based on the prevalent rates for leases of commercial plots.

4.2 Non-Recovery of Decretal Lease Money from Industrial Allottees

As per the lease agreement with industrial allottees, the lessees are required to pay all applicable taxes, assessments, and any revised land compensation during the lease period. The lessees are also liable for any additional land compensation subsequently enhanced by court orders and imposed by KPEZDMC.

Audit noted that land acquired under Section-4 of the Land Acquisition Act for industrial development was later subject to court-directed enhanced compensation under Award Nos. 88, 89, 105, and PASDEC. While industrial allottees were responsible for the increased payments, the Company recovered only Rs. 208.938 million, leaving an outstanding amount Rs. 2,084.945 million (already paid by the company).

Additionally, Rs. 175.046 million was paid to land owner for Award No. 89, although he was not a party to the case in PHC. A delayed Supreme Court appeal was rejected due to time bar, resulting in an additional liability of Rs. 483.350 million.

Details are as under;

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20 October 2025 03:18:57 PM

(Rs. in million)

	Amount Payable (Rs in million)	Amount paid (Rs)	Amount Received	Outstanding Amount	Received Amount (%)
Award 88-89	483.349	405.393	63.792	419.557	13%
Award 105	1,081.968	479.424	145.146	936.822	13%
Nowshera (PASDEC)	Not shared	728.566	Nil	728.566	Nil
	Total	**1,613.383**	**208.938**	**2,084.945**	

4.3 Loss due to Non-Recovery of Outstanding Dues from M/s Al-Hadeed Engineering Since 2006

As per Para-3 of the allotment letter dated 02.10.2006 for allotment of land at Hattar, interest at the rate of 14.72% per annum (subject to revision by the Authority) was chargeable on all rents, charges, etc., remaining unpaid after the due date. Further, Para-5 of the allotment letter required that construction on the allotted plot be commenced within six months from the date of allotment.

Audit noted that Plot Nos. 185, 186, 187 & 190, measuring a total area of 10.04 acres, were allotted to M/s Al-Hadeed Engineering at Hattar, District Haripur, on 12.07.2006. However, the allottee neither initiated construction on the plots nor fulfilled its financial obligations. As a result, outstanding dues amounting to Rs. 497.844 million on account of extension charges, annual ground rent, etc., remained unpaid.

Audit further noted that although surcharge was chargeable under the allotment terms, no effective surcharge notice was issued or enforced by KPEZDMC against the defaulter. Instead, KPEZDMC itself paid an amount of Rs. 232.588 million on account of decretal dues of the said plots up to June 2025, without effecting any recovery whatsoever from the allottee, resulting in direct financial loss to the Authority.

4.4 Irregular Allotment of Commercial Plot Under an Industrial Lease for 99 years

Audit noted that in Peshawar Economic Zone (PEZ), two plots measuring 3.648 Kanal + 1.970 Kanal = 5.618 Kanals were allotted to Mr. Haji Shamshad Khan Afridi for commercial activities i.e. the establishment of a petrol pump and an auto workshop.

As per commercial policy, commercial plots were required to be leased for a maximum period of 30 years, extendable on renewal. However, in this case, the plots were irregularly allotted on a 99-year industrial lease, which was not permissible for commercial use.

At the prevailing commercial rate of Rs. 15,500,000 per Kanal, the potential recoverable value was 5.618 Kanal × Rs. 15,500,000 = Rs. 87.079 million. This benefit could have been realized at least twice over future renewals Rs 87.079 million *02=174.158 million, but was lost due to management's unauthorized extension of a 99-year lease.

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20 October 2025 03:00:52 PM

4.5 Mis-use of Industrial Plots for Commercial Use

According to Rule (e)(4) of the Fee Structure of Economic Zones, an allotted industrial plot is liable to cancellation in case of violation of Estate/Zone by-laws, particularly where an industrial plot is used for non-industrial or commercial purposes.

Audit noted that several industrial plots in Peshawar Economic Zone, originally allotted for industrial and manufacturing purposes, were being used for commercial activities such as shops, markets, workshops, and other businesses in violation of the terms and conditions of the lease agreements. The misuse of industrial plots was noted in some following cases:

Economic Zone	Plot No.	Size (Acres)	Allotted Party	Nature of Illegal Use
Peshawar Economic Zone	13, 14	3	Anti-Narcotics	Shops/markets
	97-L	1	M/S Solid wood furniture	Shops / markets
	2 on B-13 road	2.13	M/S brothers	Shops/market
	1-El at B- l road	3	M/S Pak match	Kanta

Audit further noted that despite long-standing misuse of the industrial plots, no action was taken by management to cancel the allotments or recover applicable commercial charges and dues as per rules and agreements.

4.6 Non-rehabilitation of sick/closed units and non-recovery of outstanding dues

Audit noted that 209 commercial and industrial units across various zones under KPEZDMC in the province have remained closed since 1997. Management neither rehabilitated these non-operational units nor cancelled their allotments. An outstanding amount of Rs. 81.66 million against these units also remained unrecovered due to inaction (Annex-B).

4.7 Non- acquisition of land despite payment to Landowners

As per Section 11-B of the Land Acquisition Act, 1894, the entire process of land acquisition is required to be completed within a period of six months from the date of notification under Section- 4. In case the acquisition process is not completed within the stipulated period, the reasons for the delay are required to be explained by the Collector in his award. If such explanation is not found satisfactory, the Collector may be held personally responsible for the delay, which may result in initiation of disciplinary proceedings against him.

Audit noted that an amount of Rs. 1,077.491million was paid on account of purchase of land at Buner, Jalozai and Mohmand for development of economic zones intended for leasing of industrial and commercial plots. Audit further noted that physical possession of land measuring 17.6 acres at Jalozai and 126.50 acres at Buner was not handed over to KPEZDMC. Moreover, ownership of land at Mohmand was not transferred in the name of KPEZDMC, despite payments being made 03 years ago. Thus, due to non-transfer of ownership and non-handing over of possession, the subject land could not be developed and leased out, resulting in non-realization of expected revenue and consequent financial loss to the Company. Detail is as under;

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03 October 2025 03:08:52 PM

(Rs in million)

Location of Land	Area in Acre	Date of Payment via Cheque	Total Cost of Land	Remarks
Bunir	126.5	09.06.2022 22.09.2022 18.12.2022	837.581	No possession
Mohmand	11.71	06.09.2023	28.710	No Ownership
Jalozai	17.6 (Rs 12.00 million per Acre)	17.08.2023	211.20	No Possession
Total			**1,077.491**	

4.8 Irregular Occupation of Allotted Plots and Failure to Recover Dues

Audit noted that plots Nos. (17, 19 and 21-22) in Peshawar Economic Zone (PEZ), which had been allotted to three parties, were taken over and continuously occupied by other private parties immediately after allotment. The illegal occupation has persisted for approximately 42 years. Despite the prolonged occupation, KPEZDMC neither recovered possession nor collected any charges i.e. maintenance charges, annual ground rent, lease renewal fees or other dues from the allottees or the occupants. Details are as under;

S. No.	Name of Party	Plot No.	Area of Plot in Kanals	Nature of Business	Date of allotment	Lease expired	Outstanding dues (Rs)
1	Haji Abdul Ghafoor	19	2	Commercial activities	4/22/1987	4/21/2017	1,100,650
2	Haji Shah Alam	20	2	Commercial activities	4/22/1987	4/21/2017	1,100,650
3	Haji Wazir Shah	21	2	Commercial activities	4/22/1987	4/21/2017	1,100,650
4	Haji Wazir Shah	22	2	Commercial activities	4/22/1987	4/21/2017	1,100,650
	Total	**04**	**08**	**-**	**-**	**-**	**4,402,600**

Irum Gill
Assistant Audit Officer (IT)
20 October 2026 03:08:52 PM

4.9 Unauthorized Subletting and Misuse of Allotted Land by CECOS University

According to the summary approved by the Honorable Chief Minister, Khyber Pakhtunkhwa on 17-11-2008 and notified 24.12.2008 by Industry Department, CECOS University was allowed to establish an Industrial Liaison Center at the Industrial Estate, Peshawar, subject to the explicit condition that the allotted premises would not be used for any purpose other than that for which approval was granted

Audit noted that a total area of 8.62 acres (Plot No 134,135,136,137A) was allotted to CECOS University on 17-07-2009 for establishment of an Industrial Liaison Center in Peshawar Economic Zone. However, CECOS University sublet some areas of the allotted land to the Bank of Khyber (BOK) and the KPIT Board on rental basis.

It was further noted that as per KPEZDMC letter dated 24.07.2018, a lot of land is remained vacant since allotment.

The unauthorized subletting of the allotted land clearly constitutes misuse of the plots for purposes other than those originally approved and reflects non-compliance with the conditions of allotment.

Audit is of the view that land should have been allotted strictly on the basis of the duly assessed actual requirement of the University, and the surplus land should have been leased out on a commercial or rental basis by KPEZDMC instead of CECOS. However, no such assessment was conducted at the time of allotment, resulting in allotment of excess land, which was subsequently sublet by the University for commercial purposes.

4.10 Non-Cancellation of Non-Operational Plots

As per KPEZDMC Rules and fee structure of Economic Zones Rule (e) (4) plot is liable to be cancelled upon breach of Estate/Zone byelaws, particularly usage of industrial plot for non-industrial/commercial purposes. Further, Extension/Non-utilization charges of plots will be as under;

a) 1st Year 05% of prevailing price for that year
b) 2nd Year 10% of prevailing price for that year
c) 3rd Year 25% of prevailing price for that year

Audit noted that industrial plots were allotted across Khyber Pakhtunkhwa Economic Zones to promote local and international industrial development. However, audit checked one zone on sample basis that that in D.I. Khan Economic Zone, 100 industrial plots have remained vacant and non-operational since allotment, with no industrial or commercial activity initiated. Management neither cancelled nor re-allotted these plots nor imposed any penalty @ 25% amounting to Rs. 111.22 million. **(Annex-C).**

4.11 Non-Renewal of Bus Stand Agreement in Peshawar Economic Zone (PEZ)

A tri-party agreement was carried out on 01.07.2004 between the Municipal Corporation Peshawar (MCP), Sarhad Development Authority (predecessor of KPEZDMC), and the lessee for a period of three years. Under the agreement, income from the bus stand was to be shared in the ratio of MCP 60%, SDA 20%, and the lessee 20%. The agreement further stipulated that a new agreement should be executed upon expiry of the previous one, subject to mutual consent of the parties.

Audit noted that the agreement expired on 30.06.2021 and has not been renewed till date. Consequently, no profit share has been received by the Company since 2021. The loss of profit amounts to 16 million for the last four years.

Assistant Audit Officer (IT)
20 October 2026 03:08:57 PM

5. PROCUREMENT/ACQUISITION AND CIVIL WORK:

There are pervasive weaknesses in planning, financial management, and governance within KPEZDMC. A head office building constructed at a cost of Rs. 679 million remains largely unutilized, while additional offices continue to be rented or constructed nearby, demonstrating inefficient use of public resources. Development projects suffered from prolonged delays, idle charges, and unexecuted packages due to poor fund management and lack of timely decision-making. The merger of PHSADC transferred unpaid liabilities exceeding Rs. 54 million to KPEZDMC in violation of SECP conditions, further deteriorating the Company's financial position. Moreover, adverse arbitration awards, irregular contract awards, and non-compliance with procurement rules across multiple economic zones highlight serious deficiencies in contract management and internal controls

5.1 Underutilization and poor space management of KPEZDMC Tower (Head Office building)

Audit noted that an office building, namely, KPEZDMC Tower was constructed through M/s Sarhad Engineering and Electric Company at a cost of Rs. 679.00 million during the period 23.05.2022 to 30.04.2025 and was handed over to KPEZDMC on 30-04-2025.

The building is 8 storeyed with a total covered area of 36,386 sqft. At present, it is occupied by 130 employees of the company. For this manpower, even two storey building would suffice. The rest of the building is vacant. However, in the same period (7.6.2023 to 6.6.2024) within a radius of 2km, another building was constructed for the office of Peshawar Economic Zone (having 26 employees) at a cost of Rs. 32.57 million. On top of it, the old PEZ office building is lying un-utilized for the last two years.

Furthermore, Pakistan Hunting & Sporting Arms Development Company (PHSADC), a subsidiary of KPEZDMC, with only11 employees, continues to operate in a rented building @ 165,000/ month, bore by the Parent company. Similarly, KPDA staff, comprising only 11 employees, remain accommodated in a separate building and have not been shifted to the KPEZDMC Tower, resulting in continued underutilization of the constructed facility.

Audit is of the view that due to the unsuitable location of the building**,** no private or public organizations are willing to shift therein, resulting in continued non-utilization of several floors. A company supposed to manage the industrial estates across the length and breadth of the province is unable to plan and manage its own head office space efficiently and profitably.

Assistant Audit Officer (IT)
20 October 2025 03:08:52 PM

5.2 Inordinate Delay in Execution of Development Works Resulting in Idle Charges

The PDWP, in its 7th meeting held on 18-10-2021, approved the PC-1 for Infrastructure Development (Completion of Balance Works), Mohmand Marble City, at cost of Rs. 1,495 million with a stipulated execution period of 24 months, directing completion of the scheme in accordance with the approved business plan within the specified time frame. Administrative approval of Rs1,349 million was granted by the Secretary Industry on 09-09-2021.The development work was divided into three packages with ADP grants of Rs. 334 million released by the Provincial Government. After a lapse of four years, Package I has been completed, Package II remains stalled due to pending liabilities resulting in idle charges of Rs. 10.00 million and Package III has yet to commence.

Audit is of the view that timely utilization of available own-source funds or arrangement from governments, could have prevented these losses, reflecting poor planning and weak financial management.

5.3 Non-Payment of Liabilities Post-Merger of PHSADC in Violation of SECP Approval Conditions

As per Section 6(c) of the SECP Guidelines for Mergers & Amalgamations, a declaration verified by an affidavit is required, affirming that the transferee company will be able to pay its debts as they fall due during the period of one year immediately following the effective date of amalgamation.

Audit noted that the Board of Directors, in its 49th meeting held on 20-01-2024, approved the merger/amalgamation of Pakistan Hunting & Sporting Arms Development Company (PHSADC) into KPEZDMC along with liabilities amounting to Rs. 54.209 million, under Section 284 of the Companies Act, 2017, based on an affidavit undertaking by the CEO to discharge the liabilities within one year. The merger was subsequently approved by SECP after completion of all codal formalities and became effective from 19-04-2024.Audit further noted that no liabilities were cleared by the management despite the lapse of more than two years.

Audit is of the view that the decision to merge a defunct entity carrying significant liabilities, despite the weak financial position of KPEZDMC, was imprudent and lacked due diligence. The merger has placed an additional financial burden on the Company, which was already incurring losses, thereby aggravating its financial position. (Detail is as under);

S. No.	Description	Amount (Rs in million)
1.	Employees (Salary & Wages)	30.898
2.	Staff Gratuity	10.529
3.	Legal & Professional Charges	3.296
4.	Office Rent (SIDB)	6.164
5.	W.H.Tax	2.048
6.	Trade Payables	0.680
7.	Utilities	0.591
Total		**54.206**

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Assistant Audit Officer
20 October 2026 03:02:12 PM

5.4 Adverse arbitration awards due to poor contract management, causing financial liability to the Company

According to rule 4 (3) of Public Sector Companies Corporate Governance Rules, 2013 "The chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters.

Audit noted that the management awarded works of various nature to contractors for development of economic zones in Khyber Pakhtunkhwa. Audit noted that nine (09) arbitration cases were decided against the Company, resulting in an amount of Rs. 245.945 million payable to the contractors. It was further observed that the Company did not succeed in any of the arbitration cases, as all decisions were awarded in favor of the contractors. Further noted that an amount of Rs 2.81 million was paid to arbitrators and legal councils. (Annex-D)

Audit is of the view that the adverse arbitration awards reflect serious deficiencies in development planning and contract management.

5.5 Poor planning, faulty Execution of Works, and Irregular Award of contracts at Chitral Economic Zone

In the Chitral Economic Zone the audit found that;

5.5.1 PESCO issued demand notices for two feeders, and Rs. 92.469 million was deposited for Feeder-2 in September 2022; however, the work was not commenced and no effective follow-up was made by KPEZDMC.

Subsequently, PESCO raised an additional demand of Rs. 25.991 million which, due to non-payment within time, was enhanced to Rs. 51.125 million in violation of NEPRA Consumer Service Manual (Ch. 2, Sec. 2.4.6), once a DISCO demand notice is fully paid, no additional charges can be raised for material cost escalation. As a result, the electrification cost increased to Rs. 143.595 million.

5.5.2 Consultancy services of Engineering Services Consultant (ESC) were engaged for supervision of Chitral Economic Zone at a cost of Rs 8.19 million against approved PC-I cost of Rs 463.026 million.

The project was de-scoped to Rs 253.652 million; however, consultancy charges were not revised and Rs 8.28 million was paid in full. On proportionate basis, admissible consultancy fee worked out to Rs 5.039 million, resulting in excess payment of Rs 3.241 million.

5.5.3 Infrastructure development work costing Rs 318.422 million for Chitral Economic Zone was awarded to M/s Jonson Construction Company on 10.09.2021, prior to approval of PC-I by PDWP on 18.10.2021 and administrative approval in November 2021.

5.5.4 The approved PC-I (Rs 463.026) comprised ADP funds of Rs. 204 million and own-source funds of Rs. 259.026 million, but a revised Technical Sanction of Rs. 380.755 million was approved on 12-01-2022 and the contract was awarded for Rs. 318.422 million.

Without PDWP approval, the scope was substantially reduced and completed to Rs. 281.835 million, fully utilizing ADP funds but only 33% of own-source funds, including reductions in tube wells and boundary wall, sewerage replaced with drainage, increased office building area, and addition of HT line works.

Assistant Audit Officer (IT)
20 October 2026 03:08:52 PM

5.6 Irregular Award of Civil Works for Jalozai Package-II to a Non-Prequalified Contractor

As per advertisement published in the daily newspapers *Daily Mashriq* and *The News*, as well as on the KPPRA and KPEZDMC web portals dated 11.07.2020, tenders were invited for prequalification of contractors for development of infrastructure at Jalozai, Chitral, Nowshehra, and Ghazi Economic Zones.

Audit noted that Infrastructure Development Works (Phase-II) at Jalozai Economic Zone, with an estimated cost of Rs. 233.363 million, were awarded to M/s HMS Construction Company at a bid rate 13.32% below the estimated cost, amounting to Rs. 202.279 million, through the single-stage, one-envelope bidding procedure. The tender was advertised on 07.08.2021, work order was issued on 14.09.2021, work commenced on 12.10.2021, and the stipulated completion period of one year ended on 12.10.2022.

Audit further noted that the technical prequalification process for civil works of the four zones, namely Jalozai, Ghazi, Nowshera, and Chitral, was carried out on 27.10.2020, wherein 12 contractors out of 68 were declared technically qualified. However, M/s HMS Construction Company, which was awarded the Jalozai Phase-II work, was not among the prequalified contractors.

Audit is of the view that award of the work through the single-stage, one-envelope bidding procedure, instead of awarding it among the already technically prequalified contractors, was irregular, in violation of established procurement practices, and reflects weak internal controls over procurement.

Irum Gull
Assistant Audit Officer (IT)
20 October 2026 03:08:52 PM

6. HUAMAN RESOURCE MANAGEMENT

6.1 Key Personnel Missing:

Management is responsible for implementing plans and achieving objectives. A cursory look at the table below will reveal that the company is not having senior managers with appropriate skills and expertise to run the company efficiently.

Sr. #	Positions	Status of Post	Vacant Posts w.e.f.	Remarks
1	Chief Executive Officer (CEO)	Vacant	31-Aug-24	Officiating charge of the post of CEO was assigned to the Chief Commercial Officer (CCO), Mr. Adil Salahuddin, w.e.f. 31.08.2024 to date.
2	Chief Operating Officer (COO)	Vacant	16-Jul-21	Vacant since creation of the post.
3	Chief Financial Officer (CFO)	Vacant	8-Jun-23	Additional charge of Head of Finance was assigned to Manager Finance, Mr. Tayyab Mehmood, w.e.f. June 21, 2024.
4	Chief General Operations	Vacant	16-Jul-21	Additional charge of Chief General Operations was assigned to Manager Procurement, Mr. Agha Khanan Khan Zahid, w.e.f. February 13, 2025.
5	Manager M&E	Vacant	16-Jul-21	Vacant since creation of the post.
6	Company Secretary	Vacant	24-Jun-24	Additional charge of Company Secretary was assigned to Manager Finance, Mr. Abdul Mussawar Dar, w.e.f. June 17, 2025.
7	Head of Industrial Facilitation & Support	Vacant	—	Additional charge was assigned to Manager Sick Revival & Rehabilitation, Mr. Muhammad Rafique.

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Assistant Audit Officer (IT)
20 October 2026 03:04:27 PM

The company with the current personnel position can neither be able to implement business plans nor can it achieve the objectives given by the Board.

6.2 Overstaffing

The company is struggling with "overstaffing." Compare personnel costs to total operating expenditure.

The lack of Key Personnel does not mean that the company is deficient in terms of staff. It is still carrying a heavy burden of the defunct staff of KPDA. The Government and Board has failed in finding any long-term solution for the redundant staff of the company. The staff of the former company is working in the Secretariat/ Directorate of Industries department, but their salaries and wages are paid from the Company Exchequer. The annual payroll expenditure of the former employees stands at Rs. 35 million per annum. This is a heavy drain on the company finances. It highlights the failure of the Board and Government to find a durable solution to a bleeding wound.

Contrary to the need to resolve the issue of redundant employees, the Government and Board has been further exacerbating its problems. The provincial government took over

the charge of Pakistan Hunting and Sporting Arms Development Company (PHSADC) from the Federal Government and merged it with the KPEZDMC through 49th BOD meeting in January 2024 with net liabilities of Rs. 54 million (30 million pertaining to wages and salaries). The company is dealt with by the Government as a dumping ground for placement and employment of redundant workers.

6.3 Irregular Payment of Salaries and Benefits to Employees Deployed in Industry Department

Audit noted that 32 employees of KPEZDMC were deployed in the Industries Department, Khyber Pakhtunkhwa, during the period 2017 to 2025. It was further noted that these employees continued to draw salaries, medical allowances, and other financial benefits from KPEZDMC, despite performing their official duties in another department.

This practice has resulted in an annual financial impact of Rs. 35.516 million per year to KPEZDMC, which is irregular, unauthorized, and in violation of financial propriety. (Annex-E)

6.4 Irregular induction of nine employees of KPDA to KPEZDMC

As per Section 5 of KP Taking-over of Industrial Estates & Economic Zone Act 2016, employees from defunct organizations are required to exercise their option for adjustment ·within a period of 60 days from the issuance of the relevant notification, and the option once exercised is considered final. Any adjustment outside this period without proper legal sanction is considered non-compliant with the Act.

Audit noted that nine employees from the Khyber Pakhtunkhwa Development Authority (KPDA) were adjusted into positions at the head office and zones, after a lapse of 8 years.

Asim Gull
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20 October 2026 03:06:52 PM

7. OPERATIONAL PROCESSES, TARGETS AND KPIs

As discussed in 2.3, there is no performance management framework for the Directors, Board Committees and top executives. As it is the responsibility of the Board to set the targets and review the performance of the management vis-vis the given targets, but in case of KPEZDMC, there is no culture of performance management. No specific objectives for zones/departments are set by the Board and accompanied by appropriate KPIs.

The Directors report for 2023-24 is too generalized while discussing risks and opportunities. It must have pinpointed the strategic, financial, Project, and commercial risks the company is facing and how those risks can be managed. However, instead of being specific and precise, it is a mere consolatory note predicting a rosy future ahead. There is no department of Monitoring & Evaluation in the company though outlined clearly in the company organogram.

8. ICT & DIGITIZATION

A centralized software system is essential for effective monitoring of plot sales, billing, collections, and receivables across all zones. In this regard, the 27th meeting of the Audit and Risk Management Committee (ARMC) directed the IT team to develop and deploy the Finance and Sales / Billing / Collections / Receivables modules by June 30, 2023.

However, audit observed that even after a lapse of two and half years, the ERP system remains non-functional in all zones. Instead, an Excel based manual system is being used, while QuickBooks has been outsourced on a monthly subscription basis. This reflects non-compliance with Board directives, weak IT governance, and exposes the organization to risks of data inconsistency, control weaknesses, and inefficient monitoring of receivables.

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20 October 2026 03:08:52 PM

9. CONCLUSION

KPEZDMC faced severe governance, financial, and operational challenges. The absence of a functioning Board left the company without strategic direction, oversight, or compliance with statutory requirements. Legal disputes over land enhancement, with contingent liabilities of Rs. 14 billion, threaten its sustainability as a going concern. Financial management is weak, marked by an unsustainable revenue model, over-reliance on interest income, poor recovery of Rs. 2.82 billion in receivables, and violations in lease agreements worth Rs. 629.889 million. Development projects suffered from poor planning, flawed execution, irregular contract awards, and underutilization of space. Human resource management is imbalanced, with critical leadership vacancies and overstaffing from retained KPDA employees, while no performance management or monitoring framework exists. Digitalization efforts remain minimal, further limiting operational efficiency. Overall, the company's weak governance, financial mismanagement, and inefficient operations call for urgent reforms to restore accountability, sustainability, and strategic focus.

Irum Gull
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20 October 2026 03:08:52 PM

10. RECOMENDATIONS

1. Initiate time bound recovery of Decretal Lease Money Rs. 2,084.945 million and receivables from defaulters with surcharges, fix accountability for weak enforcement, and present an age-wise classified receivables recovery roadmap to the Board.
2. Inquire the matter for the seven-year delay in lease renewals causing Rs. 629.889 million loss by fixing responsibility, recover charges with penalties retrospectively, and ensure no unit operates without a valid lease.
3. Revisit the Section-4 land acquisition mechanism to reduce Rs.14 billion contingent liabilities, seek Provincial Government support for dispute resolution, and implement a Board approved Contingent Liability Management Framework with transparent disclosure.
4. Appoint a private sector Chairman with industrial and financial expertise as per Articles of Association to provide strategic direction and commercial viability.
5. A formal performance contract must be executed with Directors and CEO, along with annual Board and committee performance evaluations.
6. Finalize pending financial statements promptly, reduce reliance on interest income by strengthening operational revenues, and ensure pre-approved budgets with realistic assumptions are monitored through quarterly variance analysis.
7. Cancel or formally regularize industrial plots used commercially with recovery of charges and penalties, investigate irregular 99-year leases causing Rs. 174.158 million loss, and stop unauthorized subletting with retrospective rent recovery.
8. Cancel or re-auction long-dormant plots, recover penalties, and enforce a Board-approved rehabilitation versus cancellation policy with clear timelines.
9. Address overstaffing from KPDA legacy employees, fill critical leadership positions (CEO, CFO, COO, Company Secretary) on merit.
10. Consolidate subsidiary offices and rented premises into the underutilized KPEZDMC Tower, lease surplus space commercially, and ensure future capital projects undergo needs assessment, cost-benefit analysis,
11. Strengthen procurement planning and contract management to prevent delays and idle charges, and clear PHSADC merger liabilities immediately while fixing responsibility for SECP non-compliance.

Irfan Gul
Assistant Audit Officer (IT)
20 October 2026 05:08:52 PM

11. APPENDICES

A). Audit Objectives

The primary objective of the audit was to assess whether KPEZDMC is operating in a financially sustainable, well-governed, efficient, and compliant manner. Specifically, the audit objectives were as follows:

1. To evaluate whether KPEZDMC's financial management practices particularly liquidity management, debt structure, revenue generation, and expenditure controls are adequate to support a sustainable and ongoing operational model.
2. To assess compliance with applicable laws, rules, and government policies, including PPRA Rules, financial regulations, internal governance frameworks, and directives issued by the Government of Pakistan.
3. To examine the effectiveness of internal control systems, accountability mechanisms, and oversight structures in preventing irregularities, misuse of public funds, and operational inefficiencies.
4. To review operational processes related to the establishment of economic zones, leasing of industrial and commercial plots, procurement activities, and recovery mechanisms, in order to determine whether KPEZDMC achieves value for money and effectively fulfils its strategic role in industrial development and economic growth of the province.
5. To assess the adequacy, reliability, and effectiveness of ICT systems and digital processes that support financial reporting, monitoring, control, and informed decision-making.

B). Audit Scope

The scope of the audit of Khyber Pakhtunkhwa Economic Zones Development & Management Company (KPEZDMC) encompassed an independent examination of the company's financial, operational, governance, and compliance frameworks for the audit period under review. The audit scope included the following areas:

1. Review of financial statements, accounting records, budgeting processes, liquidity position, debt management, revenue recognition, expenditure controls, and cash flow management.
2. Examination of compliance with applicable laws, rules, and government policies, including PPRA Rules, financial regulations, Companies Act requirements, internal policies, and directives issued by the Government of Pakistan.
3. Assessment of the design and effectiveness of internal control systems, risk management practices, accountability mechanisms, and oversight by the Board and management.
4. Review of key operational processes, including establishment and development of economic zones, leasing of industrial and commercial plots, procurement activities, contract management, and recovery of dues.

Assistant Audit Officer (IT)
20 October 2026 03:16:52 PM

5. Evaluation of the utilization of government grants and public funds to determine economy, efficiency, and effectiveness in achieving organizational objectives.
6. Verification of the existence, ownership, valuation, and disclosure of assets and liabilities, including receivables and payables.
7. Assessment of ICT systems and digital processes supporting financial reporting, monitoring, internal controls, and management decision-making.

C). Audit Methodology

The KPEZDMC audit was conducted under INTOSAI standards using a risk-based, evidence-driven approach to assess financial, operational, and governance practices. The key methodologies adopted during the audit included:

1. Examination financial statements, ledgers, bank reconciliations, PC-1s, procurement records, contracts, stock reports, policy documents, Board meeting minutes, and internal correspondence to verify accuracy, completeness, and compliance.
2. Analytical review of financial performance and operational efficiency, including trend analysis of financial ratios,
3. Verification of adherence to applicable laws, regulations, and governance frameworks, including KPPRA Rules, financial regulations, service rules, and internal policies.
4. Review of operations i.e. establishment of economic zones, leasing of industrial and commercial plots, and recovery of dues. It assessed asset management and receivable systems to ensure transparency, accountability, efficiency, and sustainable cash flow.

Irfan Gul
Assistant Audit Officer (IT)
20 October 2026 05:08:52 PM

ANNEXES

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Assistant Audit Officer (IT)
20 October 2026 03:08:52 PM

Annex-A

Non-Renewal of Commercial Plot Leases

Rs 15.50 million per canal for commercial lease equal to One Acre of Industrial lease								
S. No.	**Name of Party**	**Plot No.**	**Area of Plot in Kanals**	**Nature of Business**	**Status**	**Date of allotment**	**Lease expiry date**	**Lease Money (Rs)**
1.	Haji Hunar Jan (Use as Madrassa)	2	1.200	Madrassa	Operational	4/22/1987	4/21/2017	18.6
2.	Syed Muhammad Amin Shah & others	3	1.140	Commercial activities	Operational	4/22/1987	4/21/2017	17.67
3.	Syed Muhammad Amin Shah & others	4	1.000	Commercial activities	Operational	4/22/1987	4/21/2017	15.5
4.	Syed Muhammad Amin Shah & others	5	1.010	Commercial activities	Operational	4/22/1987	4/21/2017	15.655
5.	Haji Hunar Jan	6	1.060	Commercial activities	Operational	4/22/1987	4/21/2017	16.43
6.	Haji Wazir Shah	7	1.000	Commercial activities	Under Litigation	4/22/1987	4/21/2017	15.5
7.	Mr. Janas Khan & others	8	1.000	Commercial activities	Operational	4/22/1987	4/21/2017	15.5
8.	Mr. Awal Hussain & others of Sarhad Plaza	9	1.000	Commercial activities	Operational	4/22/1987	4/21/2017	15.5
9.	Mr. Janas Khan & others of Friends Plaza	10	1.000	Commercial activities	Operational	4/22/1987	4/21/2017	15.5
10.	Haji Noor Habib	11	1.050	Commercial activities	Operational	4/22/1987	4/21/2017	16.275
11.	Talam Khan	12	1.550	Commercial activities	Operational	4/22/1987	4/21/2017	24.025
12.	Mr. Abdul Jalil	14	1.010	Commercial activities	Operational	4/22/1987	4/21/2017	15.655
13.	Mr. Muhammad Ashraf	15	1.000	Commercial activities	Operational	4/26/1987	4/25/2017	15.5
14.	Mr. Malik Jan	16	1.000	Commercial activities	Operational	4/22/1987	4/21/2017	15.5
15.	Mr. Hirat Khan	17	1.000	Commercial activities	Disputed	4/22/1987	4/21/2017	15.5
16.	Mr. Muhammad Ashraf	18	2.000	Commercial activities	Operational	4/22/1987	4/21/2017	31
17.	Haji Abdul Ghafoor	19	2.000	Commercial activities	Disputed	4/22/1987	4/21/2017	31
18.	Haji Shah Alam	20	2.000	Commercial activities	Under Litigation	4/22/1987	4/21/2017	31
19.	Haji Wazir Shah	21	2.000	Commercial activities	Under Litigation	4/22/1987	4/21/2017	31

Irum Gul
Assistant Audit Officer (IT)
20 October 2026 03:08:52 PM

20.	Haji Wazir Shah	22	2.000	Commercial activities	Under Litigation	4/22/1987	4/21/2017	31
21.		23	1.000	Banking	Operational	3/6/1984	3/5/2014	15.5
22.	Haji Shamshad khan Afridi	–	3.648	Petrol pump	Operational	4/21/1983	4/20/2082	56.544
23.	Haji Shamshad khan Afridi	–	1.970	Auto Repair Workshop	Operational	8/24/1983	8/23/2082	30.535
24.	Haji Yousaf (SIDB)	–	6.000	Commercial activities	Operational	3/6/1999	3/5/2032	93
25.	Mr. Amin Jan s/o Sarwar Jan	–	2.000	Commercial activities	Operational	6/18/1997	6/17/2027	31
	Total		**41.641**					**629.889**

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20 October 2026 03:08:52 PM

Annex-B

Non-rehabilitation of sick/closed units and non-recovery of outstanding dues

S. No.	Estate Name	Closed Units	Outstanding amount (Rs in million)
1	Gadoon Economic Zone	98	38.618
2	Peshawar Economic Zone	34	10.482
3	Hattar Economic Zone	47	29.74
4	Export Processing Zone	18	1.138
5	Nowshehra Economic Zone	9	1.089
6	Nowshehra Economic Zone (Extension)	1	0.216
7	DI Khan Economic Zone	1	0.383
8	Mohmand Economic Zone	1	-
	Total	**209**	**81.666**

Irum Gull
Assistant Audit Officer (IT)
20 October 2026 03:08:52 PM

(Annex-C)

Non-Cancellation of Non-Operational Plots Since long

S. No.	Plot No	Area (Acres)	Industry Name	Owner Name	Nature of Industry	Date of Allotment	Non-Utilization Charges
1	01–64	61.4375	National Logistic Center (NLC)	NLC	Logistics	26-May-06	76.79
2	82	1	Haji Sultan Dairy Products Unit	Haji Sultan	Dairy Products	29-Jan-14	1.250
3	98	1	SAM Pharmaceutical Industry	Syed Sardar Shah Gillani	Pharmaceutical Industry	7-Apr-15	1.250
4	79, 80–81, 86–88	6	Rahman Baba Energy (Pvt.) Ltd	Irfan Ullah Afridi	LPG Filling Plant	25-Nov-16	7.50
5	75, 76, 91–92	4	Chashma Cotton & Ginning Industry (Pvt.) Ltd	Muhammad Naveed Nizami	Cotton & Ginning	11-May-20	5.00
6	116	1	Azam Khan Pet Bottle Industry	Azam Khan	PET Bottling Industry	1-Nov-20	1.250
7	107	1.034	Sher Munir Ice Block Factory	Sher Munir	Ice Block Factory	18-Dec-20	1.29
8	131–132	2	SW Engineering	Miss Sumbal Waqas	Engineering Works	1-Feb-21	2.50
9	78	1	Shahoor Chemicals	Safdar Khan	Chemical Industry	1-Feb-21	1.250
10	77	1	Al Jazan Soaps & Detergents	Arif Ullah	Soaps & Detergents Factory	1-Feb-21	1.250
11	104	1	Khattak Flour Mill	Noor Ali Jaan	Flour Mill	25-Feb-21	1.250
12	6–7	0.902	MSA Polypropylene	Mehwish Saleem	Polypropylene Bags	1-Feb-21	1.12
13	90	1	Farsi Seeds Corporation	Tahir Masood	Seeds & Fertilizer	1-Dec-21	1.250
14	117	1	Global Snacks	Muhammad Bilal	Food & Beverages	22-Jan-22	1.250
15	118	1	Faleeha Hafeez	Faleeha Hafiz	Dehydration of Fruits & Vegetables	30-Jun-22	1.250
16	122-A	0.5	Hamza Engineering Works	Hamza Nawaz	Engineering Works	19-Jan-23	0.250

Assistant Audit Officer (IT)
20 October 2026 03:08:52 PM

17	126	1	Ittefaq Concrete & Plastic Pipe Industry	Rehmat Ullah Khan	Concrete & Plastic Pipes	16-Mar-23	0.500
18	130	1	Hasnain Food & Beverages	Muhammad Hasnain	Food, Oil, Ghee & Butter	31-Mar-23	0.500
19	83–84	2	Malak Flour & General Mill	Waseem Ullah Khan	Flour Mill	31-Mar-23	1.000
20	106	1	Chashma Chemical (Pvt.) Ltd	Ahmed Hassan / Nosher / Ghulam Muhammad	Pesticides	30-Jun-23	0.500
21	85	0.545	Malak Flour Mill	Waseem Ullah Khan	Flour Mill	30-Jun-23	0.270
22	124	1	Daud & Sons (JST. RT.)	Daud & Sons	Food & Beverages	5-Jul-23	0.500
23	19–20	0.5	Eco-Friendly Plastic & Pipe Complex	Tilawat Khan	Plastic Pipe Industry	5-Jul-23	0.250
24	123	1	Daud & Sons	Muhammad Amir	Food & Beverages	5-Sep-23	0.500
25	139–141	3	Mewa Rice Mills (Pvt.) Ltd	Waqar Ali / Ehsan Ullah (MK Group)	Rice Mill	5-Sep-23	1.50
Total							**111.22**

Assistant Audit Officer (IT)
20 October 2026 08:08:52 PM

Annex-D

Adverse arbitration awards due to poor contract management, causing financial liability to the Company

Sr #	Project/Zone Name	Arbitration Amount	Fee paid to Arbitrator (RS)	Fee paid to Counsel
01	HSEZ Zone A	26,584,840.95	425,000	160,000
02	HSEZ Zone B	3,734,334.30		160,000
03	HSEZ Zone C	10,676,624.17		380,000
04	HSEZ Water Supply	3,993,562.00	510,000	40,000
05	Hattar Package-I	35,159,825.00		80,000
06	Hattar Package-II	31,795,088.89		40,000
07	Peshawar Package-I	1,436,700.00	422,500	150,000
08	Peshawar Package-II	9,037,600.00		
09	Rashakai Special Economic Zone	123,526,734.00	365,000	80,000
	Total	**245,945,309.31**	**1,722,500**	**1,090,000**

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20 October 2026 03:08:52 PM

Annex-E

Irregular Payment of Salaries and Benefits to Employees Deployed in Industry Department

S. #	Name of Employee	Designation	BPS	Dates of orders	Amount drawn during 2024-25
1	Mr. Waseem Ishaq	Asstt. Dir Projects	17	31-07-2018	2,032,434
2	Miss. Abida Begum	Private Secretary	17	20.02.2020	2,245,518
3	Mr. Hameed Ullah	Supdt. (Accounts)	17	21.6.2019	2,251,930
4	Mr. Jamal Shah	Office Assistant	16	12.09.2017	1,714,864
5	Mr. Noor Habib	Accounts Assistant	16	21.6.2019	1,476,148
7	Mr. Asfandeyar Khan	Office Assistant	16	12.09.2017	1,376,608
8	Mr. Shoaib-ul-Islam	Senior Clerk	14	19.07.2019	1,200,396
9	Syed Asif Shah	Senior Clerk	14	04.04.2019	1,022,808
10	Muhammad Aqeel Khan	Senior Clerk	14	18.11.2019	1,086,624
11	Mr. Aftab Ahmad	Electrician	3	19-03-2021	653,354
12	Imran Hafeez	Computer Operator	16	29.07.2021	2,228,956
13	Mr. Sajjad Anwar	Driver	5	12.09.2017	572,736
14	Mr. Shahid Akhtar	Driver	4	12.09.2017	660,154
15	Mr. Zahoor Khan	Naib Qasid	3	30.10.2017	695,954
16	Mr. Iksar Ali	Naib Qasid cum Driver	2	12.09.2017	527,812
17	Tassawar Ahmed	Naib Qasid	2		516,712
18	Umer Ashiq	Naib Qasid	2		613,838
19	Abdur Rasheed	Security Guard	2	12.09.2017	541,644
20	Ayaz Hussain	Computer Operator	16	29.07.2021	2,129,428
21	Shahzad Hameed	C.T	6	04.01.2021	810,826
22	Qaiser Kamal	Assistant	16	29.07.2021	1,443,676
23	Fazl-e-Akbar	Assistant	16		1,389,400
24	Syed Amad ud Din	Junior Clerk	11	29.07.2021	975,548
25	Anwar Shahzad	Niab Qasid	3	29.07.2021	683,258
26	Shahab ud Din	Driver	4		645,682
27	Ali Jan	Junior Clerk	11	18.11.2022	967,016
28	Naseemullah	Junior Clerk	11	12.09.2017	925,520
29	Muhammad Bilal	Senior Clerk	14	30.05-2025	1,005,317
30	Asad Jan	Junior Clerk	11	30.05-2025	860,796
31	Hamid Zeb	Naib Qasid	2	30.05-2025	570,361
32	Qaiser Habib	Superintendent	17	02.07.2021	1,690,958
				Total	**35,516,276**

Assistant Audit Officer (IT)
20 October 2026 05:08:52 PM

Annex-F

Budget Variance for the years 2022-23, 2023-24, 2024-25

Receipts	FY-2022-23				FY 2023-24				FY 2024-25			
	Budget	Actual	Variance		Budget	Actual	Variance	Variance %	Budget	Actual	Variance	Variance %
			Amount	%								
Operational	1194.767	1083.326	(111.44)	(9.33)	1350.592	1001.157	(349.44)	(25.87)	1152.979	846.971	(306.01)	(26.54)
Capital	1457.977	108.779	(1349.20)	(92.54)	719.536	201.523	(518.01)	(71.99)	646.344	136.103	(510.24)	(78.94)
Development	4759.91	1543.329	(3216.58)	(67.58)	2779.641	653.689	(2125.95)	(76.48)	1203.313	386.412	(816.90)	(67.89)
Total Receipt	7412.654	2735.434	(4677.22)	(63.10)	4849.769	1856.369	(2993.40)	(61.72)	3002.636	1369.486	(1633.15)	(54.39)
Expenditure			0									
Operational	1097.517	771.148	326.369	30	1289.651	898.601	391.05	30	1035.71	869.737	165.973	16
Capital	538.476	232.425	306.051	57	618.438	194.161	424.277	69	593.818	226.556	367.262	62
Development	5727.74	2674.327	3053.413	53	2604.536	1350.98	1253.556	48	975.884	529.191	446.693	46
Total Expenditure	**7363.733**	**3677.9**	**3685.833**	**50**	**4512.625**	**2443.742**	**2068.883**	**46**	**2605.412**	**1625.484**	**979.928**	**38**
Surplus/ Deficit												
Operational	97.25	312.178	-	-	60.941	102.556	-	-	117.269	(22.77)	-	(2.69)
Capital	919.501	(123.65)	-	(113.67)	101.098	7.362	-	0	52.526	(90.45)	-	(66.46)
Development	(967.83)	(1131.00)	-	(73.28)	175.105	(697.29)	-	(106.67)	227.429	(142.78)	-	(36.95)
Total	**48.92**	**(942.47)**	**-**	**(34.45)**	**337.144**	**(587.37)**	**-**	**(31.64)**	**397.224**	**(256.00)**	**-**	**(18.69)**

Irum Gull
Assistant Audit Officer (IT)
20 October 2026 03:08:52 PM