Auditor-General of Pakistan

AUDIT REPORT ON
NATIONAL ENGINEERING SERVICES PAKISTAN (PVT.) LIMITED, (NESPAK)

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20 October 2026 03:01:25 PM

Report No: DG CA&E 25-002

Audit Year 2025-26

(Financial Year 2024-25)

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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 expenditure 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 ***National Engineering Services Pakistan Pvt. Limited (NESPAK)*** for the financial year *2024-25*. The *Directorate General Commercial Audit and Evaluation* 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 making sound decision making. The report also aims at improving the internal controls of the entity, thereby allowing the management to take corrective action and improve operational efficiency.

The Audit Report includes key facts about the entity, audit snapshot, findings on systemic issues, conclusion and recommendation for executive action. Audit findings indicate a number of matters related to stated roles and responsibilities of the entity, financial management, human resource management, procurement, operational processes, achievements of targets/KPI and digitization.

The report was shared with the entity as well as the Principal Accounting Officer (PAO) on January 21, 2026 but DAC meeting was not convened till 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).

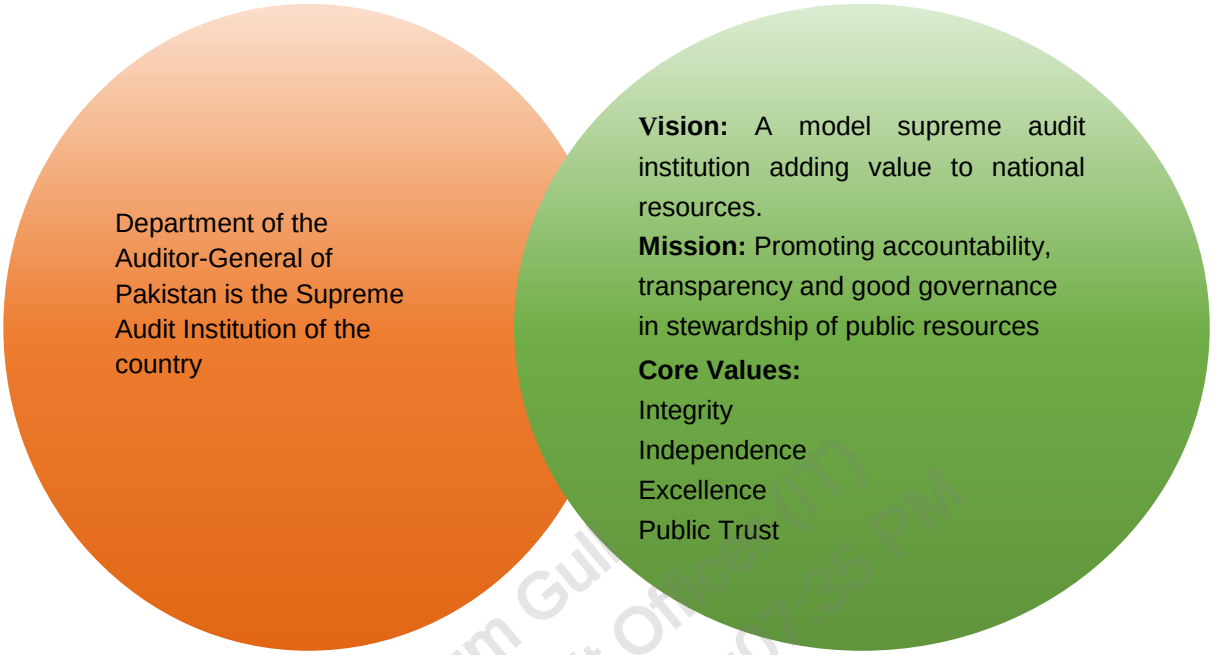
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Islamabad
Dated: *February, 2026*

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



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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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AUDIT SNAPSHOT

Why did we conduct this audit?

The audit was initiated to assess NESPAK's financial sustainability, compliance with relevant laws and regulations, the effectiveness of internal controls and the extent to which its operations align with its mandated role in providing engineering consultancy services in Pakistan and abroad. Persistent losses, weaknesses in governance oversight and human resource governance, idle capacity, delayed recoveries and significant audit observations over multiple years highlight the need for a comprehensive evaluation.

What did we find?

- **Financial statements have not been audited since FY 2021-22 involving Rs. 48,794.00 million revenue** and **Rs. 43,769.00 million expenditure** reflecting on Board and management's performance.
- HR services without open competitive bidding, contrary to PPRA Rules, involving transactions aggregating **Rs. 10,550.591 million** during FY 2021-25.
- NESPAK Qatar has been incurring losses since 2013, with accumulated losses reaching **Rs. 1,553.263 million** by June 2025.
- Verification of IPCs without actual work done **valuing Rs. 1,400.00 million.**
- Receivables from various clients and related parties stood at **Rs. 13,785.121 million** as of June 2025.
- NESPAK incurred **Rs. 459.503 million** in costs due to **334,155 idle man-hours** across multiple divisions.

Key Assessments

FINANCIAL SUSTAINABILITY — Moderately Stable

FY2025 Net Profit: Rs 1,730.478 million

Revenue Base: Rs 14,019.167 million

Net Profit Margin: Positive but volatile during FY 2021-25.

⚠ RISK SIGNAL — Receivable Dependence

Persistent high trade receivables indicate slow billing and collections, creating liquidity and working-capital pressure.

⚠ OPERATIONAL RISK — Efficiency & Margins,

Uneven HR utilization and project-level inefficiencies reduce profit margins.

What did we Recommend?

- Fix responsibility and take action against management review performance of Board who failed to provide audited financial statements since FY 2021-22.
- Immediate compliance with PPRA rules may be ensured and discontinue the direct engagement of associated entities, including TurkPak International (Pvt.) Ltd. and NESPAK Foundation without competition.
- Undertake a comprehensive viability assessment of all foreign subsidiaries to determine their future strategic direction, including continuation, restructuring, or exit and fix responsibility for past actions.
- Take action against Project Director/ Resident Engineer and other supervisory officers for wrong vetting of IPCs and internal control mechanisms may be instituted to prevent recurrence.
- Formulate an effective receivable management and recovery policy and implement to strengthen liquidity and working capital management.
- Human resource deployment may be rationalized to ensure optimal utilization.

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HIGHLIGHTS

ENTITY SUMMARY SHEET — NESPAK (FY 2024-25)

Disclaimer: The financial information presented herein has not been independently verified, as NESPAK's financial statements have not been audited by an independent Chartered Accountant firm since FY 2021-22. Accordingly, the figures cited in this Audit Report are drawn from the draft financial statements provided by management and are subject to adjustment upon completion of statutory audit.

Description	**Details** *(Figures in Rs million)*
Legal Framework of Entity	Public Sector Company under the Companies Act, 2017; administrative control of Cabinet Division
Key Responsibilities / Mandate & Objectives	The objective of creation of NESPAK was to create a pool of talented engineers, attain self-reliance in engineering consultancy and replace foreign consultants.
Accounting Policy	IFRS-compliant; Financial statements prepared under Companies Act, 2017
Total Assets (Current / Non-Current)	**Total Assets:** 23,100 **Current Assets:** 21,284 **-Non-Current Assets:** 1,817
Total Liabilities (Current / Non-Current)	**Total Liabilities:** 23,100 **Current Liabilities:** 7,874 **Non-Current Liabilities:** 15,226
Revenue	14,019.167
Expenditure	Cost of Sales: 12,096 Other Operating Expenses: 340 Finance Cost: 17
Cash Balances	1,780
Total Investments	Long Term Investments: 319 Short Term Investments: 3,544
Funding Sources	Revenue generated by provision of consultancy services
Total Allocations	Nil
Total Budget for Procurement	4,509.257
Total Expenditure on procurement	5,765.338
Was procurement made through e-PADS (Yes or No)	Yes
Status of Financial Statements	Audited and approved upto FY 2020-21 only.
Composite Risk Rating	Medium Risk
Compliance Status of Audit Recommendations	Partial Compliance/ Weak Implementation Past recommendations largely unimplemented

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ABBREVIATIONS AND ACRONYMS

ACSR	Aluminum Conductor Steel Re-enforce
AGP	Auditor General of Pakistan
BoD	Board of Directors
BOQ	Bill of Quantities
CMU	Central Monitoring Unit
HR	Human Resource
ICT	Information Communication Technology
IEC	Integrated Environment Consultant
IFRS	International Financial Reporting Standards
NESPAK	National Engineering Services Pakistan (Pvt.) Limited
NTDC	National Transmission and Dispatch Company
PAT	Profit after tax
PPRA	Public Procurement Regulatory Authority
SOE	State Owned Enterprise
TPI	TurkPak International
UAE	United Arab Emirates
WAPDA	Water and Power Development Authority

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1. OVERVIEW OF THE ENTITY

National Engineering Services of Pakistan (Pvt) Limited (NESPAK) was incorporated in 1973 under the Companies Act, 1913 (now Companies Act, 2017). The Company is wholly controlled and owned by the Government of Pakistan (GoP). The company is operating under the administrative control of Cabinet Division and its business affairs run through its Board of Directors.

The principal activity of the Company is providing engineering consultancy services through its divisional / regional offices situated at Lahore, Islamabad, Karachi, Peshawar and Quetta. Internationally, company has its presence in Saudi Arabia, Oman and Qatar through subsidiary companies. NESPAK undertakes complex, high-value assignments for federal and provincial governments, public entities and private sector at local and international level.

NESPAK was established to create a pool of professional engineers in order to minimize reliance on foreign consultants and to strengthen indigenous technical capacity. The profitability and sustainability of the company largely depend on the efficient utilization and optimal deployment of its human resource expertise. NESPAK undertakes consultancy assignments for both public and private sector clients, covering a wide range of engineering and related services. The company executes contracts either on an hourly rate or a lump-sum fee basis, depending on the nature and scope of the assignment.

Effective planning, allocation of skilled personnel, and timely execution of projects are, therefore, critical to achieving operational efficiency and financial viability.

NESPAK prepares its financial statements in accordance with the Companies Act, 2017 and applicable International Financial Reporting Standards (IFRS), however, these financial statements have not been prepared since FY 2021-22. Oversight and accountability are ensured through an effective governance framework led by the Board of Directors, which provides strategic direction and supervises management performance. An independent internal audit mechanism operates to assess internal controls, risk management practices, and compliance with policies. In addition, external audit is conducted by the Auditor-General of Pakistan.

As a public-sector company, NESPAK is required to emphasize on sound financial management and sustainability by expanding private-sector business, reducing reliance on government projects, strengthening governance controls, ensuring transparent procurement, and efficiently utilizing and developing its technical workforce to enhance productivity and long-term viability.

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2. AUDIT FINDINGS

SUMMARY

This audit presents an integrated assessment of NESPAK financial performance, governance framework, financial management, human resource management, procurement practices and operational processes. The results for the financial years 2021-25 reveal significant weaknesses that undermine NESPAK's financial sustainability, transparency and operational integrity.

NESPAK demonstrated strong revenue growth over the five-year period under review, with total revenue increasing from Rs 7,002.937 million against expenditure of Rs. 7,736.249 million in FY 2020-21 to Rs 14,019.167 million against expenditure of Rs. 13,009. 256 million in FY 2024-25. However, financial analysis indicates a sharp increase in sub-consultancy expenses from Rs. 910.1 million in FY 2020-21 to Rs. 3,496.6 million in FY 2024-25. Inefficient utilization of human resources as reflected by unstable idle hours adversely impacted profitability. Persistent accumulation of receivables from Rs. 11,139.00 million (FY 2020-21) to Rs. 13,785.00 million (FY 2024-25) indicates weaknesses in revenue collection and liquidity management. The company's limited ability to convert recognized revenue into cash poses a critical risk to cash-flow sustainability, which remains a key area of concern requiring immediate management attention.

Delays in receivable recoveries adversely impacted liquidity, financial stability and the reliability of cash-flow planning. Moreover, the absence of a structured internal performance management framework limits the organization's ability to monitor efficiency, assess accountability, and take timely corrective decisions. In addition, key project-level decisions should be formalized and monitored, including a time-bound plan to convert overseas office operations from losses to profitability, implementation of a strong design review and approval framework for major projects and streamlining the IPC/measurement verification process through proper documentation and independent checks to prevent malpractices and avoidable financial losses.

Governance and oversight mechanisms need to be enhanced to ensure timely finalization of financial statements, preparation of the business plan, and regular Board meetings in accordance with the SOE Act, 2023.

Procurement processes showed compliance weaknesses as procedures were not fully aligned with PPRA requirements, with deficiencies observed in bid evaluation practices, non-standardized evaluation criteria, and inconsistent documentation. These gaps undermine transparency and auditability, restrict fair competition, and heighten the risk of inefficient and potentially biased procurement outcomes.

Overall, NESPAK continues to demonstrate strong revenue-generating capacity. However, despite significant revenue growth, rising sub-consultancy costs, inefficient utilization of human resources and increasing receivables have negatively affected profitability and cash flows. Weak recovery mechanisms and the absence of a structured performance management framework further weakened accountability. Governance lapses and procurement deficiencies compromise transparency and regulatory compliance, warranting urgent corrective action.

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3. STATED MANDATE, ROLES & RESPONSIBILITIES

NESPAK was established to develop local engineering expertise, reduce dependence on foreign consultants and provide engineering consultancy services both domestically and internationally. Key observations highlight non-fulfilment of statutory requirement like failure to finalize financial statements within the prescribed timelines under the Companies Act requirement. Non-compliance with statutory and governance requirements adversely affecting financial transparency and institutional oversight. Furthermore, the company failed to prepare business plans as mandated under the SOE Act, 2023, reflecting weaknesses in strategic planning and performance management.

3.1 Non-finalization of financial statements in violation of statutory requirements

Section 223 and 233 of the Companies Act, 2017 require every company to prepare annual financial statements, have them audited, and file them with Registrar, Securities and Exchange Commission of Pakistan (SECP) along with other statutory returns. Audit observed that NESPAK failed to finalize, approve, and submit its annual financial statements for the FY 2021-22, 2022-23, 2023-24, and 2024-25 within statutory timelines. Continuous delays in finalization of financial statements increased the risk of errors, misstatements and undetected financial irregularities as incomplete or unaudited financial information doesn't present a true and fair view and limits effective oversight. The absence of audited financial statements not only hampered the effective decision making but also created a perception of weak internal and financial controls. This prolonged delay also reflected willful violation of provisions of SOE Act, 2023 and Companies Act, 2017.

Non-finalization of financial statements significantly impeded financial transparency by preventing stakeholders from obtaining a clear, accurate, and timely view of the company's financial position and performance. Furthermore, the Securities and Exchange Commission of Pakistan has also issued two demand notices to NESPAK for not complying with statutory reporting requirements of finalizing the financial statements of the company. It is also a question mark on the performance of the respective Board of Directors who did not prioritize meeting the key legal and statutory requirement.

NESPAK must establish a formal and well-defined statutory reporting framework that clearly outlines roles, responsibilities, timelines, and approval hierarchies to ensure timely preparation, review, audit and submission of financial statements in accordance with applicable laws and regulatory requirements.

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3.2 Non-preparation and adoption of mandatory business plan

Section 8(1) of State-Owned Enterprises (Governance & Operations) Act, 2023 requires every SOE to prepare, review, and adopt a three-year rolling Business Plan four months before the start of each financial year, and submit it for approval to the line Ministry and Central Monitoring Unit (CMU) before the commencement of the new fiscal year. Audit noted that NESPAK did not prepare, review, or adopt the mandatory Business Plan for the FY

2024–25 as required under the SOE Act. Audit observed that no draft plan was developed within the prescribed timelines, no submission was made to the line Ministry or the CMU, and the Board did not consider or approve any business planning document before the start of the new fiscal year.

This lapse indicates that NESPAK operated without an approved strategic framework to guide revenue targets, financial projections, risk assessments, HR capacity plans, or project pipeline management, weakening strategic oversight and statutory compliance failure to prepare and adopt the mandatory Business Plan undermined NESPAK's strategic direction, reduced transparency in decision-making, and weakened performance accountability of management and the Board.

NESPAK should institute a formalized business planning cycle, ensuring timely preparation, Board approval, and submission of the mandatory three-year Business Plan in full compliance with Section 8 of the SOE Act.

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4. FINANCIAL PERFORMANCE ANALYSIS (FY 2020-21 to 2024-25)

NESPAK's financial performance over the five-year period reflects strong revenue growth, a recovery in profitability, and improvements in certain operational indicators. However, the analysis also highlights drastic increase in sub-consultancy expense during the period 2021-25. Instability in idle hours indicates inefficient utilization of human resources affecting the overall profitability of the company. Pilling up of receivables indicates a steady building up of outstanding dues which showed inefficient collection policy. NESPAK's ability to convert earned revenue into usable cash remains a critical risk area. Cash flow sustainability is therefore one of the most important financial concerns.

4.1 Revenue Growth and Profitability Trends

NESPAK's total revenue increased steadily from **Rs 7,002.937 million** in FY 2020-21 to **Rs 14,019.167 million** in FY 2024-25, representing more than 100% cumulative growth. FY 2021-22 and FY 2022-23 demonstrated strong year-on-year expansion driven by increased project acquisitions and overseas activity. Profit after tax (PAT), however, did not meet the management expectation in FY 2020-21 (-10%), FY 2021-22 (7%) and in FY 2023-24 (8%) due to increase in consultancy cost and operating expenses. This fluctuation indicates that the company has been unable to consistently achieve its predefined profit benchmark, reflecting weaknesses in cost management, pricing discipline, or operational efficiency. The persistent use of a fixed 10% standard profit rate, despite fluctuating actual performance, raises concerns regarding the appropriateness and realism of the benchmark. Management may need to reassess the basis of the standard profit rate and strengthen budgeting, variance analysis, and cost control mechanisms to ensure sustainable and stable profitability in future periods.

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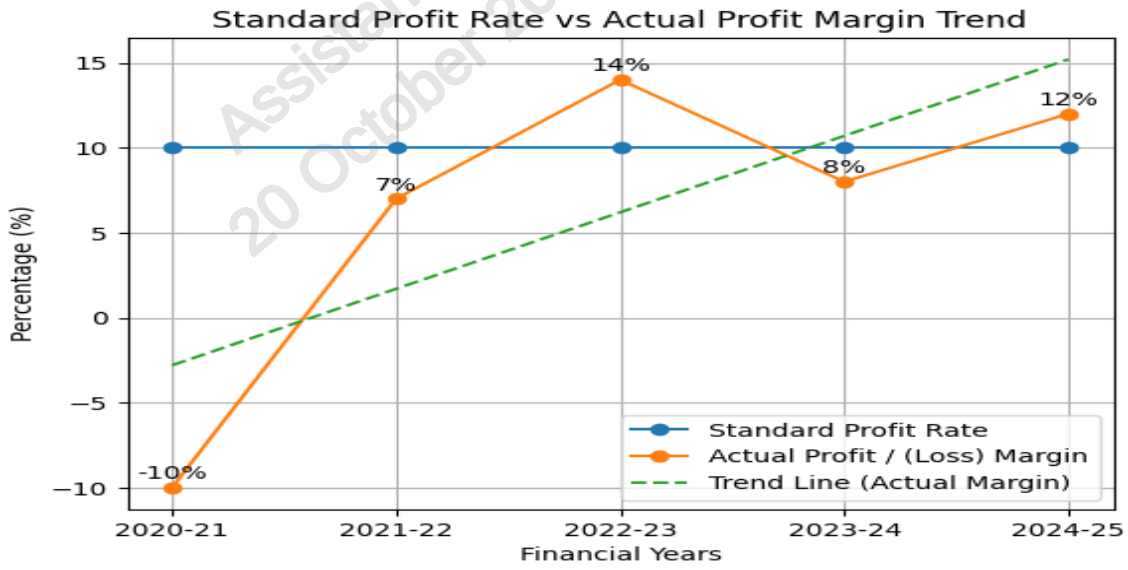


Figure 1 Revenue Vs PAT[1]

[1] Un-audited Financial Statements of NESPAK for the FY 2020-21 to 2024-25

4.2 Outsourcing of consultancy despite in-house idle hours

The company operates in a consultancy-based environment. Financial Analysis of the data indicates that third-party consultancy costs increased sharply from Rs. 910.1 million in FY 2020-21 to Rs. 3,496.6 million in FY 2024-25, reflecting an almost fourfold increase over five years. Conversely, while idle hours declined initially from 481,852 hours in FY 2020-21 to 241,882 hours in FY 2022-23, they rose again to 334,008 hours in FY 2024-25, indicating persistent underutilization of internal resources.

The simultaneous increase in sub-consultancy costs despite the presence of idle internal capacity highlights ineffective resource planning and deployment. Management should strengthen capacity planning, project allocation mechanisms, and approval controls for engaging third-party consultants to ensure optimal utilization of in-house resources before outsourcing, thereby improving operational efficiency and profitability.[2]

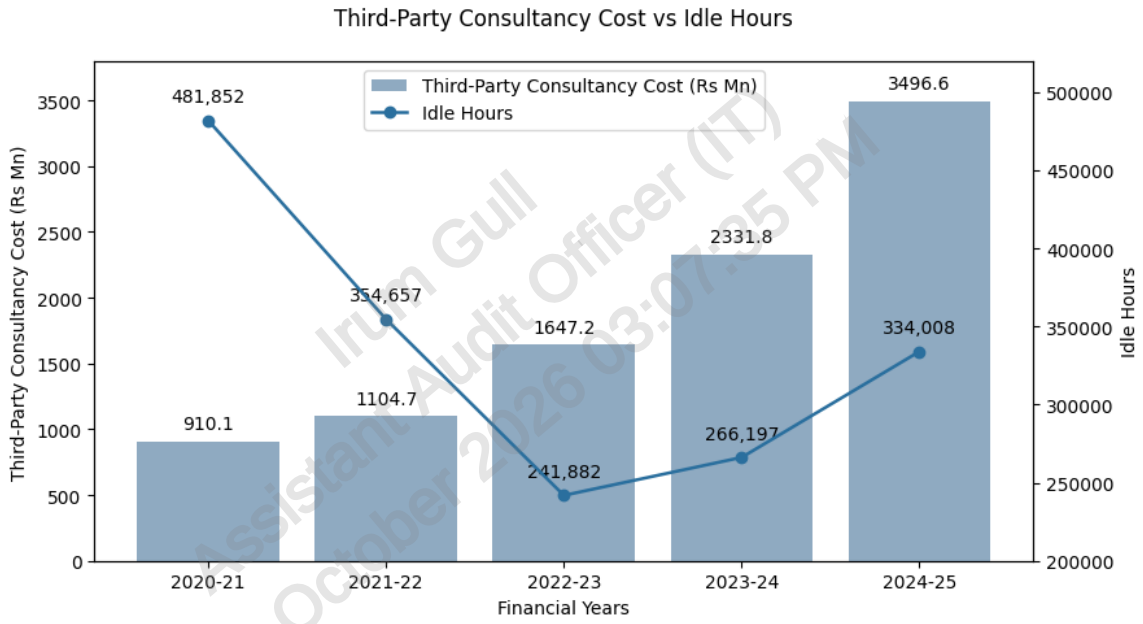


Figure 2 Third Party Consultancy Vs idle Hours

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[2] Un-audited Financial Statements of NESPAK for the FY 2020-21 to FY 2024-25

4.3 Piling up of the receivables and loss of potential revenue

Total receivables increased from Rs. 11,139.00 million (FY 2020-21) to Rs. 13,785.00 million (FY 2024-25) — an overall rise of ~23.8% over the period. The increase accelerated in FY 2022-23 (~10.3%) and FY 2024-25 (~11.0%), indicating growing cash being locked in receivables. An amount of Rs. 5,983.623 million out of the total receivables Rs. 13,785.121 million has been overdue for over five years. The company could earn revenue through investment by improving its recovery of receivables. This indicates that strengthening collection measures and tighter credit controls can directly improve liquidity and profitability

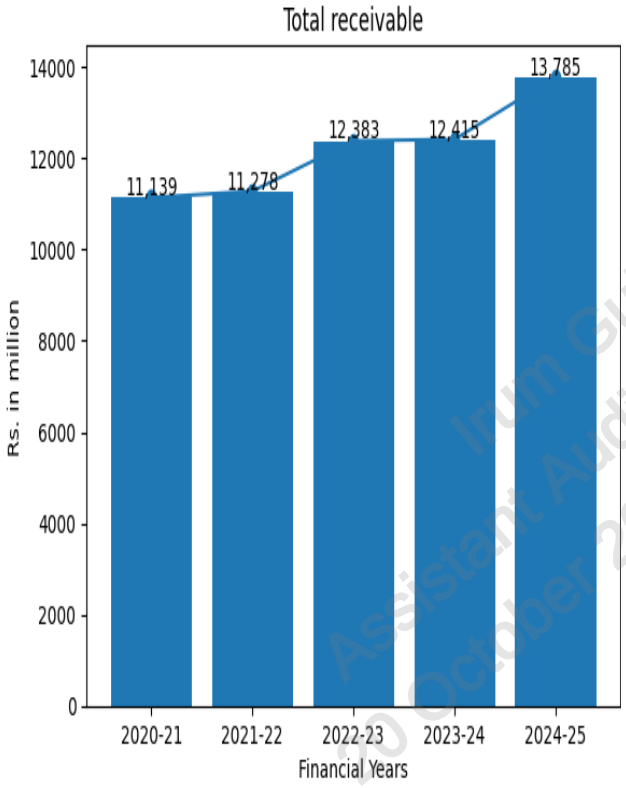


Figure 3 Piling up of the receivables

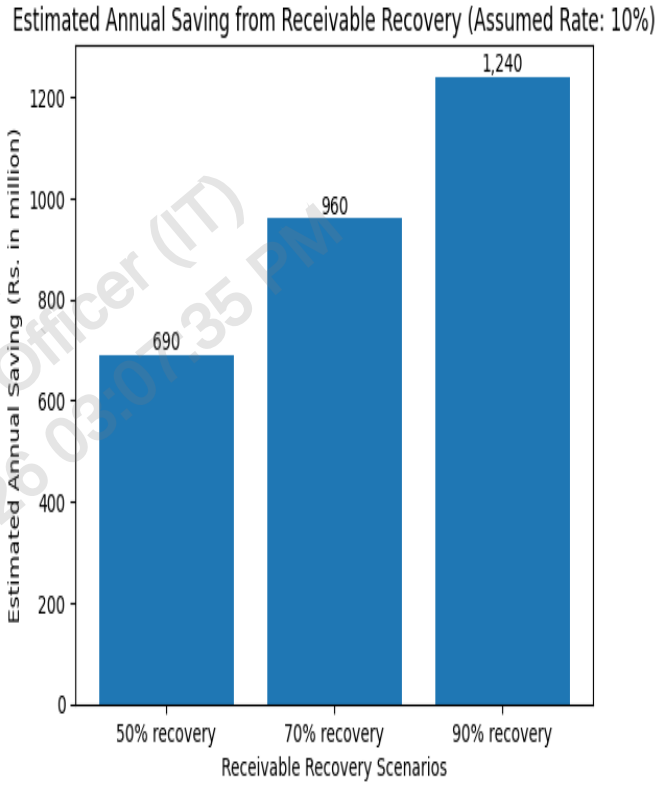
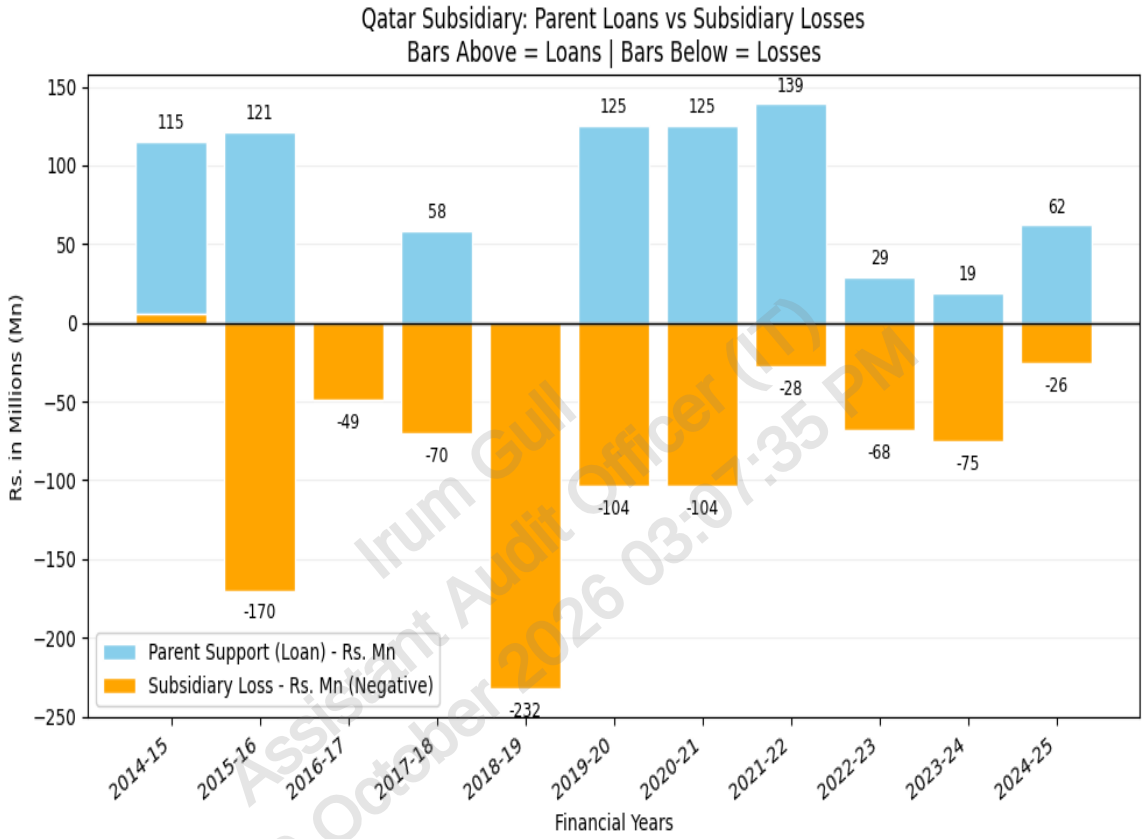


Figure 4 Estimated Annual Savings

4.4 Poor performance of overseas Qatar subsidiary

Financial performance of Qatar subsidiary remained poor across most of the period, while the parent company continued to extend financial support through loans. Losses peaked sharply in FY 2018-19 reaching Rs. 232.45 million and remained materially high in following years and accumulated to Rs. 925.859 million till FY 2024-25, indicating that the subsidiary was unable to achieve operational stability. Subsidiary was able to secure only thirteen projects during the FY 2020-21 to 2024-25. Despite low project acquisition and recurring

losses, the parent company injected loans in multiple years amounting Rs. 817.711 million, reflecting continued dependence of the subsidiary on loan to meet its operating or working capital needs. The repeated funding in the presence of persistent losses raises concerns regarding the recoverability of the outstanding loan and exposure of NESPAK to risks when clearly the subsidiary was showing all signs of a non-going concern. [3]



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Figure 5 Parent Loans and Losses

4.5 Poor performance of overseas Saudi Arabia subsidiary

The financial performance of the Saudi Arabian subsidiary reflects an operating loss of Rs. 698.125 million in FY 2020-21 and Rs. 694.619 million in FY 2023-24, primarily due to lower project acquisition and increased consultancy costs. However, the subsidiary reported a profit of Rs. 11,974.291 million in FY 2024-25 following the acquisition of a +high-value project, which significantly boosted revenue and resulted in exceptionally strong operating and net profits.

[3] Un-audited Financial Statements of NESPAK's Subsidiary for the FY 2014-15 to 2024-25

Management should implement strategic measures to sustain profitability in the coming years.

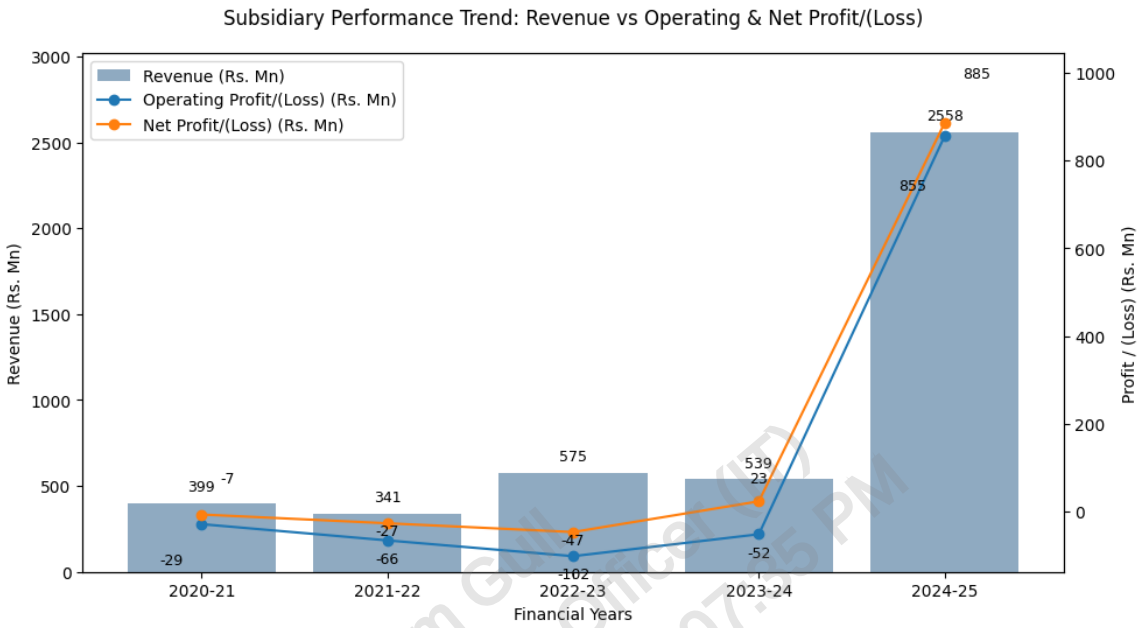


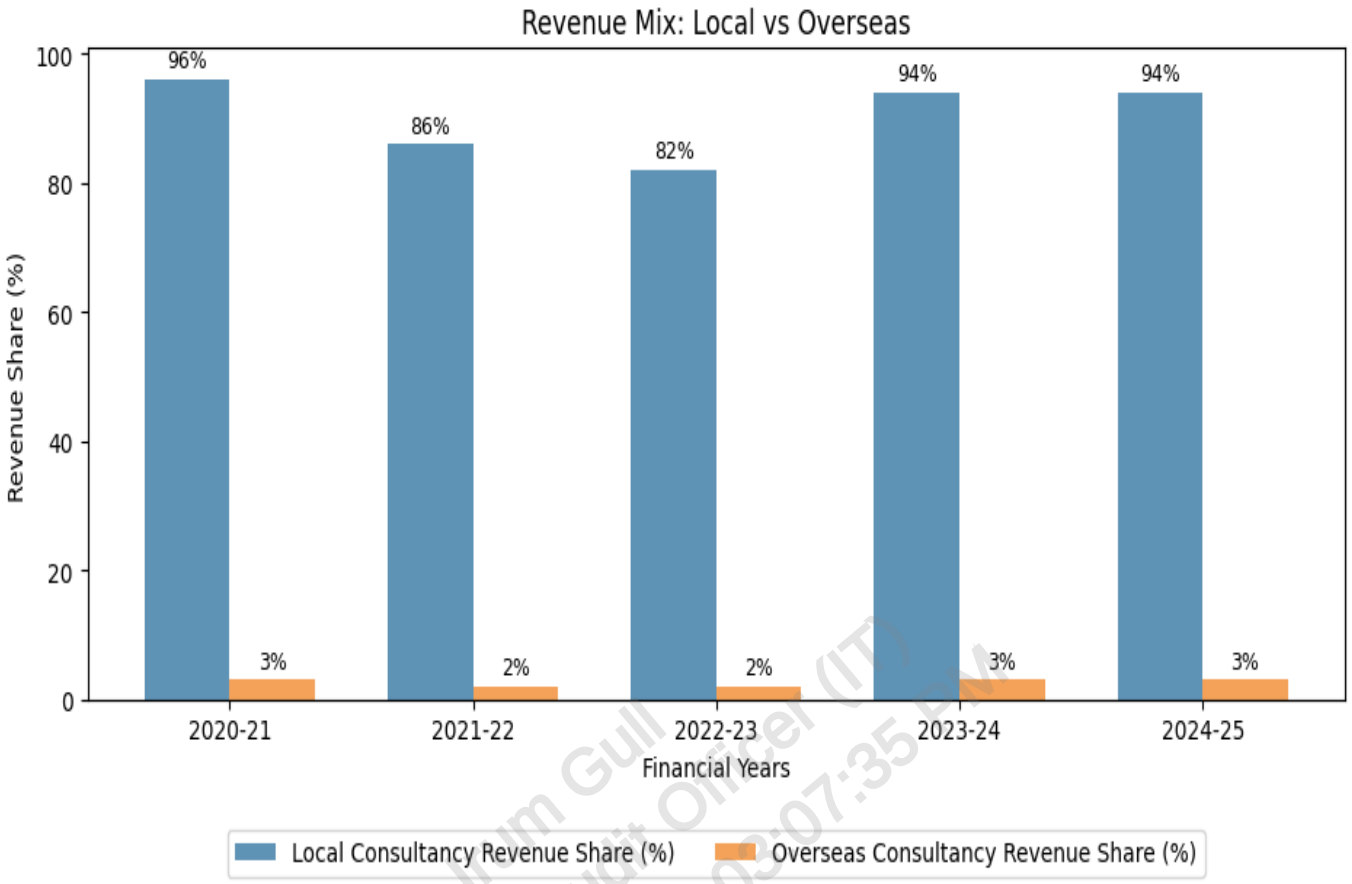
Figure 6 KSA Subsidiary Performance Trend

4.6 Consultancy revenue mix (Local Vs. Overseas)

Local revenue remains the dominant source throughout the period, accounting for almost the entire revenue base. After a decline from 96% in FY 2020-21 to 82% in FY 2022-23, the share recovered in FY 2023-24 (94%) and remained broadly stable in FY 2024-25 (93%). This indicates a temporary contraction followed by stabilization, suggesting improved domestic business conditions or pricing/volume recovery post-FY 2022-23. Overseas revenue contribution is consistently minimal, fluctuating between 2-3%, indicating the absence of a sustained international expansion strategy. The revenue mix reflects high dependence on the local market, exposing the entity to domestic economic and regulatory risks. The marginal and volatile overseas share highlights untapped diversification potential. Management may consider formulating a structured overseas growth strategy to reduce concentration risk and enhance long-term revenue stability.

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Figure 7 Revenue Mix of NESPAK



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5. FINANCIAL MANAGEMENT

An unauthorized financial support of Rs 817.711 million was extended to a loss-making subsidiary at Qatar without obtaining mandatory Board approval, raising serious concerns about governance. The Neelum Jhelum project suffered closures due to deficiencies in design, construction, and supervision resulting in an estimated loss of Rs 42,934.00 million. In addition, improper vetting of Interim Payment Certificates (IPCs) submitted by the contractor led to questionable payments amounting to Rs 1,400.00 million. The company also faces significant receivables accumulation of Rs 13,785.121 million as of June 2025, with Rs 5,983.623 million outstanding for more than five years. This prolonged recovery cycle has materially impaired liquidity and strained working capital management.

5.1 Unauthorized loan support to loss -making Qatar Subsidiary

According to section 183(1) & (2) of Companies Act, 2017, the business of a company shall be managed by the board and the board shall exercise powers to make loans on behalf of the company.

NESPAK extended cumulative loans of Rs. 817.711 million to its overseas subsidiary at Qatar during FY 2013-14 to FY 2024-25 without obtaining mandatory Board approval. In parallel, the Qatar subsidiary incurred recurring losses since FY 2012-13. On October 16, 2017, the Committee on International Operations (CIO) of NESPAK dealing with the affairs of subsidiaries abroad recommended to make the Qatar office self-sustainable by June 30, 2018, otherwise close its operations. Despite the fact, matter was not placed before the Board and loans were granted to loss making Qatar subsidiary. Resultantly, accumulated loss reached to Rs. 1553.263 million by June 2025.

Continued funding of a persistently loss-making subsidiary—especially without Board authorization—creates significant governance and compliance exposure, weakens transparency and accountability and increases the risk that the inter-company "loan" may be non-recoverable.

Management should regularize all loans/advances through ex-post Board approval and ensure the recoverability of loan. Audit also recommends to undertake a comprehensive viability assessment of all foreign subsidiaries to determine their future strategic direction, including continuation, restructuring, or exit.

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5.2 Loss of Govt. due to faulty consultancy services for Neelum Jehlum Power project.

Section 15(3)(c) of the SOEs (Governance and Operations) Act, 2023 requires to ensure that funds and resources are safeguarded and used economically, efficiently, and effectively in accordance with the enterprise's objectives and statutory obligations.

NESPAK provided consultancy services to M/s Neelum Jhelum Hydropower Company (Pvt.) Limited, a subsidiary of WAPDA through an unincorporated joint venture with M/s MWH, M/s NORPLAN, M/s ACE, and M/s NDC. Record scrutiny revealed that the Neelum Jhelum Power Project was shut down in July 2022 due to tunnel collapse and was handed back to the company in

November 2023. The plant operated for only five to six months before another collapse in May 2024, after which power generation ceased. An estimated loss of Rs 42,934.00 million was incurred due to poor workmanship and consultancy services provided by the NESPAK JV. NESPAK was involved in all phases of the project, from design to construction supervision. Despite substantial government expenditure, the project remains closed due to multiple technical failures, resulting in significant loss to the public exchequer. Repeated closure of the project indicates deficiencies in design, construction, and supervision.

Audit recommends conducting an independent third-party inquiry to identify root causes, fixing responsibility, and recovering the losses.

5.3 Verification of IPCs without execution of work

Section 15(3)(c) of the SOEs (Governance and Operations) Act, 2023 requires to ensure that funds and resources are safeguarded and used economically, efficiently, and effectively in accordance with the enterprise's objectives and statutory obligations.

NESPAK provided consultancy and supervision services for the Federal Government Employees Housing Authority's infrastructure development project at Park Road, Islamabad. The NESPAK Engineer's representative incorrectly verified IPC-1, IPC-2, and IPC-3 amounting to Rs 1,400 million as pointed out by the client, i.e., the Federal Government Employees Housing Authority vide its letter dated 15.02.2024. This showed that NESPAK, being a consultant certified the IPCs without execution of work.

NESPAK should strengthen its internal control and oversight mechanisms to prevent collusion between staff and contractors and to safeguard the Company reputation.

Matter be investigated at Ministry-level to fix responsibility against management and field staff and recover the fraudulent payments.[4]

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5.4 Non-recovery of long-outstanding receivables impacting liquidity and working capital

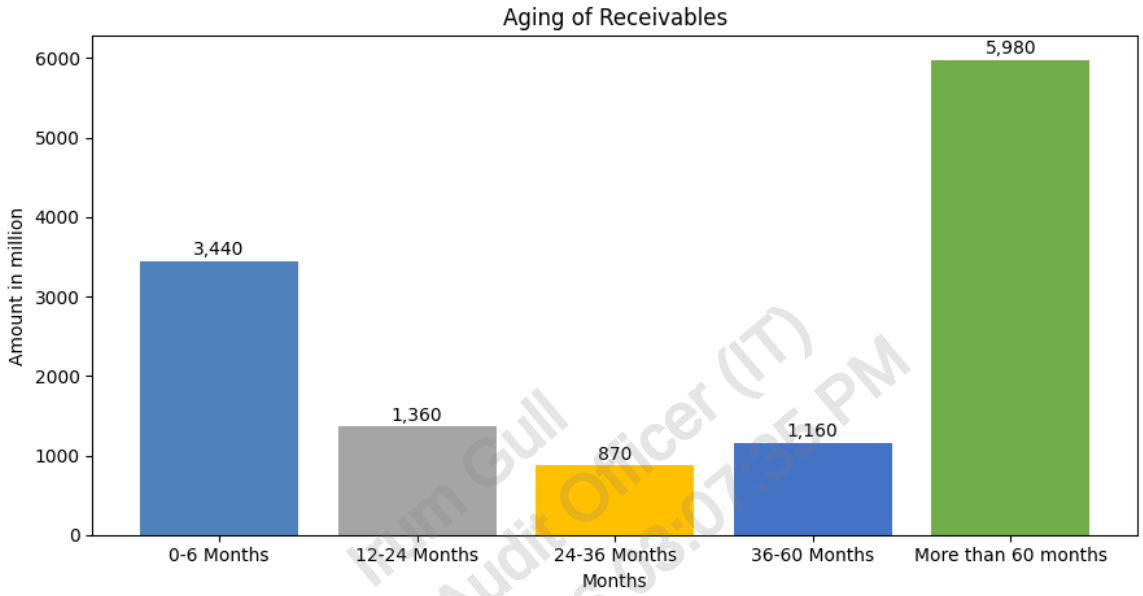
According to minutes of 130th meeting of NESPAK Board of Directors held on August 09, 2010, the Board instructed to the Managing Director, NESPAK to keep its receivables at minimum level. Audit observed that receivables from various clients and related parties have accumulated to Rs. 13,785.121 million till June 2025 with an increase of 11.03% as compared to last year. Out of this, an amount of Rs. 5,983.623 million is outstanding since more than five years which is a matter of serious concern. Current ratio (current assets/ current liabilities) reflected an upward trend reaching 2.70 during FY 2024-25 as compared to 2.38 during FY 2020-21. Although, it declined during FY 2023-24 against previous year, it increased again in following year. Reason behind this upward path of current ratio was

[4] *Source: Correspondence of Director, FGEHA with MD NESPAK*

increase in receivables over a period of 2020-21 to 2024-25.

Delayed recovery reduced liquidity, restricted operational flexibility, and increased exposure to potential revenue losses and impairment of receivables.

NESPAK should establish a centralized receivables management policy for early recovery of receivables and penalty on delayed payments.[5]



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Figure 8 Aging of Receivables

[5] Un-audited Financial Statements of NESPAK for the FY 2024-25

6. HUMAN RESOURCE MANAGEMENT

This section highlights that dual employment and irregular payments of salary and final settlement amounting to Rs 42.923 million were made during FY 2009-10 to 2024-25 due to weak verification mechanisms and internal controls. Additionally, overseas recruitment in KSA and Oman was undertaken without a formal HR policy framework, indicating governance and compliance weaknesses. Rising outsourcing/ sub-consultancy with under utilized in house capacity was also observed.

6.1 Irregular payment of salary and benefits due to dual employment

According to Clause-3 (j) (p) & (s) of Employees Efficiency and Discipline Rules 1974 of NESPAK, fraud or dishonesty in connection with company business, working of any department and giving false information regarding previous experience at the time of employment will be considered as act of misconduct"

Audit observed that an employee simultaneously held a public servant position (Sub-Engineer) in Works Department, Government of Sindh while serving as Chief Engineer in NESPAK across multiple years. Despite clear evidence of dual employment and eventual removal, NESPAK continued paying salary, including final settlement dues totaling Rs 42.923 million from 2010 to 2025. The HR Wing failed to verify employment credentials, conduct periodic background checks, or detect dual-service status through routine validations. The lapse indicates systemic weaknesses in employee verification, disciplinary controls, and enforcement of service rules, resulting in sustained irregular payments over more than a decade.

Lapse led to unauthorized payments, potential misuse of public funds, and compromised HR integrity and discipline across the organization.

NESPAK should implement strict employee verification controls, integrate cross-agency employment checks and strengthen disciplinary processes to prevent recurrence of dual employment cases and impose penalty on the concerned under Employees Efficiency and Discipline Rules, 1974.

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6.2 Recruitment of employees in overseas offices without HR policy

According to Section 29 of State-Owned Enterprises (SOEs), Ownership and Management Policy, 2023, all SOEs shall establish Human Resource (HR) policies to improve the quality of their human resources and organizational structure after approval from their respective Board of Directors. Audit observed that NESPAK's overseas offices (Saudi Arabia and Oman) appointed 54 employees in absence of advertisement, transparent selection criteria and Board-approved HR frameworks. Regional Managers made appointments independently without documented justification, competitive processes, or HR endorsements. Further, NESPAK paid Rs 122.813 million in salaries and allowances to these employees despite procedural lapses. **The absence of a unified overseas HR policy resulted in inconsistent pay structures, undocumented deployment approvals, and potential inequity in selection processes.**
Non-transparent hiring increased financial exposure, inconsistent compensation practices,

and undermining of merit-based recruitment principles.

NESPAK should formulate and approve overseas HR policy, enforce centralized recruitment controls, and ensure that all overseas appointments follow transparent and competitive selection procedures.

6.3 Loss due to idle man-hours and ineffective workforce planning

Section 15(3)(c) of the State-Owned Enterprises (Governance and Operations) Act, 2023 requires the Chief Executive Officer to ensure that funds and resources are safeguarded and used economically, efficiently, and effectively in line with the enterprise's business plan, objectives, and statutory obligations. Audit observed that NESPAK incurred a significant cost amounting to Rs 459.503 million as a result of 334,155 idle man-hours across multiple divisions. These idle human resources were routinely charged to overheads instead of being effectively redeployed to active or revenue-generating projects, which led to inflated consultancy costs and distortions in project costing and profitability. The continued absorption of idle time into overheads indicates hidden operational inefficiencies and reduced efficiency. Furthermore, management failed to perform workforce planning and did not reallocate staff in accordance with actual project requirements.

Continuous idle capacity showed absence of monitoring mechanisms to track staff utilization, identify inefficiencies and take corrective actions. As a result, available human capital was not deployed optimally, leading to underutilization of skills, increased overhead costs, and reduced operational efficiency.

NESPAK should deploy workload forecasting tools and comprehensive HR dashboards that provide real-time visibility into staff utilization, idle man-hours, and deployment efficiency across divisions.

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7. PROCUREMENT

HR services were procured from NESPAK Foundation and TurkPak International (Pvt.) Ltd. without open competitive bidding in violation of PPRA Rules. Work was awarded at higher rates despite availability of lower bids causing financial implications. Medical empanelment was conducted on a pick-and-choose basis, compromising transparency and fairness in the procurement process.

7.1 Irregular hiring of services without competitive bidding

Rule 12(2) of PP Rules 2004 requires that all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. Rule 4 of PP Rules 2004 requires procurement to be fair, transparent, and economical.

NESPAK hired services from NESPAK Foundation and TurkPak International Pvt. Limited for human resources during the period 2021–25 without following open competitive bidding procedure as required under PPRA Rules and made business with its associated company and foundation worth Rs. 10,550.591 million during the FY 2020-21 to 2024-25.

NESPAK Foundation is wholly owned by the NESPAK and registered under the Societies Registration Act, 1860, on July 19, 1995 with the objective to provides services of experts, undertakes studies, prepares and submits reports, and supplies manpower, materials, and other services as required by NESPAK. However, Societies Registration Act, 1860 permitted work only for a literary, scientific or charitable purpose only. Whereas foundation was working beyond the societies act. Further, the registration of NESPAK foundation is within province of Punjab while NESPAK obtaining HR services of NESPAK foundation outside the territorial boundary of Punjab. Considering both grounds, the engagement of HR from NESPAK foundation is irregular.

TurkPak International (Pvt.) Limited having 50% shares by NESPAK and 50% shares by Turkish Engineering Consulting and Contracting Company, Turkey was registered with the Securities and Exchange Commission of Pakistan on October 13, 1983 with the objective of primarily carrying on the business of engineering, surveys and investigations, planning, feasibility studies, design, construction supervision, and development of all types of engineering projects. TurkPak Internation Pvt. Ltd is a separate private limited company like other private limited companies run in the Pakistan. The HR services of TurkPak Internation (Pvt) Ltd should be obtained by following all codal formalities as required under PPRA rules.

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7.2 Award of work at higher rates despite availability of lower evaluated bids

According to Rule 38 of PPRA Rules 2004, the bidder with the lowest evaluated bid shall be awarded the procurement contract. According to Rule 04 of Public Procurement Rules, 2004, the procuring agencies while engaging in procurement, shall ensure that the procurement are conducted in a fair and transparent manner. As per Clause 2.3.2(i) of the Bidding Documents (Volume-I), "The Bidder or its proposed Manufacturer must have at least five (05) years of design/manufacturing experience of similar goods of the respective lot having similar or higher rating and capacity."

Audit observed that NESPAK, acting as consultant, invited bids for procurement of ACSR Bunting Conductor under the 500 kV Sangal–Maira Transmission Line project and prepared bid evaluation on 06.05.2022. Four bidders participated and two bidders, M/s Henan Tong-Da (China) and M/s Newage Cables (Lahore) were declared technically qualified. Financial evaluation revealed that M/s Henan Tong-Da quoted the lowest bid of Rs. 3,601.340 million, whereas M/s Newage Cables quoted Rs. 3,739.964 million. However, NESPAK allowed 15% domestic preference to **M/s Newage Cables despite it being a manufacturer of ACSR Rail Conductor, not the specified ACSR Bunting Conductor.** Resultantly, the contract was awarded to M/s Newage Cables on 21.03.2023 at a higher evaluated cost of Rs. 138.624 million. Subsequently, complaints were lodged to NTDC Board by M/s Henan Tong-Da and Ministry for re-evaluation of bids. The NTDC Board and Ministry recommended re-examination of tendering process. However, final status of both evaluations has still not been shared with audit.

Awarding works at higher rates caused reduced value for money and undermined procurement fairness and competitiveness.

NESPAK should enforce strict bid evaluation procedures for selection of bidder according to bidding documents as well as PPRA rules.

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7.3 Irregular empanelment of hospitals and doctors for medical treatment of staff

According to Rule 4 of Public Procurement Rules 2004, procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical. Audit observed that NESPAK provided free medical facilities to employees through empaneled hospitals and doctors. The empanelment of hospitals and doctors were made on pick and choose basis without obtaining competitive rates. Hence, the selection as well as related payments of Rs.111.544 million held irregular.

NESPAK management was required to devise transparent criteria and mechanism and adopt competitive selection process for empanelment.

Audit seeks the reason(s) for selecting hospitals, and doctors on pick and choose basis besides fixing responsibility on person(s) at fault.

8. OPERATIONAL PROCESSES, TARGETS & KPIs

Incorrect financial control estimates of completed projects resulted into excess expenditures over income Rs 341.336 million. Overseas client claim / arbitration risk (Qatar) Rs 137.863 million due to drawing/quantity issues and damages claim.

8.1 Excess of expenditures over revenue of various projects

According to NESPAK's business model, it makes cost estimates (including direct/ indirect costs and profit margin) for each assignment and enters into agreement with client only when project seems profitable **whereas seventeen (17) completed projects incurred substantial losses as actual expenditures of these projects exceeded revenues.** This indicates management's failure to accurately assess project costs and reliance on incorrect financial projections. Consequently, highway and transportation engineering projects sustained cumulative losses of **Rs. 341.336** million.

However, only eight completion certificates were provided by client to NESPAK out of seventeen completed projects.

NESPAK management prepared financial control estimates without considering factors that could potentially impact actual costs and sustained financial losses.

Investigate the matter and take appropriate measures to prevent future losses besides recovery of current losses from the responsible.

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8.2 Loss due to claim of damages by overseas client

Section 15(3)(c) of the State-Owned Enterprises (Governance and Operations) Act, 2023 requires the Chief Executive Officer to ensure that funds and resources are safeguarded and used economically, efficiently, and effectively in line with the enterprise's business plan, objectives, and statutory obligations. Audit observed that NESPAK Regional Office Qatar was awarded work by M/s Sheikh Jassim Bin Jabar Al Thani Charity Foundation for Design and Engineering Consultancy services of Al-SAAD Apartment Building in October, 2012 at a fee of QR 130,000. After approval of design and tender documents, "issued for construction (IFC)" Drawings were submitted to the Client in January, 2018. Later on, during October, 2018, the client pointed out variation of 191,452.32 Kg of Steel in IFC and tender drawings which was vetted by NESPAK on the basis of variation claim of QR. 235,611 as compared BOQ and contractor-submitted IFC quantities. However, client didn't agree with stance of the NESPAK, served legal notice on July 31, 2019 and demanded variation claim of QR 1,267,471 and damages of QR 500,000. Since then, matter is under arbitration in Qatar International Center for Conciliation and Arbitration (QICCA) which may result in payment of variation and damages claim of Rs. 137.863 million ((QR 1,267,471+500,000) *78.00) due to negligence of project team of Qatar office.

NESPAK management was required to execute consultancy services with dure care and in accordance with best engineering practices. However, negligence of the project team resulted

in financial and reputational damage to NESPAK.

State the reason(s) for preparation of defective drawings/ estimates and fix responsibility on the person(s) at fault.

8.3 Irregular hiring of sub-consultancy firm

Section 15(3)(c) of the State-Owned Enterprises (Governance and Operations) Act, 2023 requires the Chief Executive Officer to ensure that funds and resources are safeguarded and used economically, efficiently, and effectively in line with the enterprise's business plan, objectives, and statutory obligations. Audit observed that NESPAK awarded a contract of Rs. 40.700 million on January 26, 2022 by Director General, Archaeology, Tourism Department, Government of Punjab for Shalimar Garden studies. NESPAK subsequently engaged two sub-consultants i.e M/s Heritage Matters and M/s Integrated Environment Consultants (IEC) on the same justification and MD approval with a financial sharing arrangement of NESPAK 90% (Rs. 36.70 million) and HM 10% (Rs. 4.00 million). A preliminary inquiry later found that a Principal Engineer, Mr. M. Shariq, prepared fictitious documents related to IEC's contract. The inquiry committee (Jan 2025) held him guilty of misconduct and recommended disciplinary action, which remains unimplemented. Meanwhile, NESPAK also released a payment of Rs. 1.150 million to IEC during this period out of Rs.4.00 million. Hence, the engagement and released of payment on unverified documents is considered irregular.

NESPAK management paid said amount on fictitious documents prepared by the involvement of NESPAK employee due to weak internal, supervisory and financial controls.

NESPAK should formulate a clear strategy to develop in-house resources rather than subletting consultancy work to other firms. Additionally, recovery of Rs. 1,150,896 from M/s IEC and responsibility should be fixed on the person(s) involved in the misappropriation/irregularity.

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9. CONCLUSION

The compliance audit of NESPAK for the FY 2024-25 reveals although NESPAK demonstrated revenue growth and a recovery in profitability during the financial year, significant increase in sub-consultancy cost, ineffective utilization of human resources, losses due to faulty designing, vetting of IPCs wrongly and non-recovery of receivables have been noted repeatedly as chronic issues. These shortcomings pose risks to cash-flow sustainability and require timely corrective measures to safeguard the company's financial stability and operational efficiency.

Persistent weaknesses in financial management including poor receivable recovery, irregular loaning, and inadequate controls, undermined profitability and cash-flow stability. These deficiencies highlight the need for stronger planning, monitoring, and financial governance to mitigate ongoing financial risks.

Non-compliance with statutory and governance requirements undermined financial transparency and effective oversight. Delays in finalization of financial statements and the absence of mandated business plan indicate deficiencies in compliance discipline, strategic planning, and performance management that require immediate corrective action.

Weaknesses in human resource controls and planning led to inefficiencies, financial losses, and underutilization of technical capacity. Strengthening HR governance and optimizing workforce deployment are essential to improve productivity and reduce costs.

Significant non-compliance with PPRA Rules and weak procurement controls exposed the company to financial losses and reduced transparency. Strengthening procurement governance and ensuring strict adherence to regulations are essential to mitigate these risks.

Operational weaknesses and lapses in governance have directly contributed to financial and reputational risks. Addressing deficiencies in subsidiary management, contract administration, and oversight of external engagements are critical. Strengthening controls and monitoring mechanisms will be essential to ensure sustainable and risk-conscious operations.

Hence, NESPAK needs to formulate strong operational policy to rationalize its project costs, proactively pursue new project avenues locally and abroad, improve its recovery cycle and promote a merit based and progressive HR policy.

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10. RECOMMENDATIONS

- Fix responsibility and take action against management who failed to provide audited financial statements since 2021. Board should discharge its responsibilities in accordance with SOE Act-2023 including preparation of business plan and timely audit of Financial Statements.
- Undertake a comprehensive viability assessment of all foreign subsidiaries to determine their future strategic direction, including continuation, restructuring, or exit and establish accountability for past actions.
- Take action against Project Director/ Resident Engineer and other supervisory officers in NESPAK for wrong vetting of IPCs and take preventive measures for occurrence of such irregularities in future. In addition, a review mechanism for vetting of IPCs may be established as a fool proof internal control mechanism.
- Impose penalty on clients for delay in payment of invoices after due date and recover all amounts including penalties.
- Immediately discontinue the engagement of associated entities, including TurkPak International (Pvt.) Ltd. and NESPAK Foundation, for hiring and sub-consultancy services without competitive process.
- Develop comprehensive HR policy so that well-equipped employees can be hired and get the credentials verified from relevant forums. In addition, a transparent and merit based policy on hiring and deputing staff to foreign offices may be got approved from board.
- Improve project planning and resource allocation to minimize idle hours.
- Ensure strict compliance of PPRA Rules to bring economy, efficiency and effectiveness in procurement and establish accountability for violation of PPRA rules in the instances quoted in the report.
- Ensure periodic review to analyze variances between estimated and actual costs and take corrective actions to prevent erosion of margins. In addition, place the matter before board for regular review.

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11. APPENDICES

Audit Objectives

The primary objective of this audit was to **assess NESPAK'S financial sustainability, governance framework, operational efficiency, and compliance with statutory and regulatory requirements** during FYs 2021–2025. Specifically, the audit aimed to:

- Evaluate the extent to which NESPAK'S financial management practices—including revenue, and expenditure—support a sustainable operational model.
- Assess compliance with relevant laws, rules, and government policies, including the Public Procurement Regulatory Authority (PPRA) Rules, financial regulations, internal governance frameworks, and directives issued by the Government of Pakistan.
- Examine the effectiveness of internal controls, accountability mechanisms, and oversight structures in preventing irregularities, misuse of public funds, and operational inefficiencies.

Audit Scope

The audit covered **NESPAK head office and regional offices** for the **FY2024–25**. The scope included:

- Examination of financial statements, balance sheets, cash flow statements, and supporting accounting records.
- Review of procurement activities, tender processes, bid evaluations, contract awards, consultant engagements, and compliance with PPRA Rules.
- Evaluation of governance mechanisms, including Board oversight, policy approvals, and accountability processes.
- Analysis of recoveries from government agencies and other receivables.

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Audit Methodology

The audit was conducted in accordance with **INTOSAI/ISSAI audit standards**, adopting a risk-based and evidence-driven approach. Key methodologies included:

- **Document Review:** Examination of financial statements, ledgers, bank reconciliations, procurement records, contracts, policy documents, Board minutes, and internal correspondence.
- **Data Analysis:** Trend analysis of financial ratios, liquidity indicators, revenue and expenditure patterns, and cost structures using analytical procedures and Excel-based modeling.
- **Compliance Testing:** Verification of adherence to PPRA Rules, financial regulations, service rules, and statutory governance frameworks.

Index of Findings

Finding No.	Finding Title (as in Report)	OM No.	Original OM Title
3.	**STATED MANDATE, ROLES & RESPONSIBILITIES**		
3.1	Non-finalization of financial statements in violation of statutory requirements	**OM-19**	Non finalization of annual accounts of NESPAK since 2021-22
3.2	Non-preparation and adoption of mandatory business plan	**OM-29**	*Non preparation and adoption of Business Plan as required under SOE Act, 2023*
4	**Financial Performance Analysis**		
5	**FINANCIAL MANAGEMENT**		
5.1	Unauthorized loan support to loss -making Qatar Subsidiary	**OM-01**	Irregular grant of loan to NESPAK' s subsidiary in Qatar
5.2	Loss of Govt. due to faulty consultancy services for Neelum Jehlum Power project	**ARPSE Para 2.2.4.1**	Loss of Govt. due to faulty consultancy services for Neelum Jehlum Power project
5.3	Verification of IPCs without execution of work	**ARPSE Para 2.2.4.5**	Wrongly certification of the contractor claims by NESPAK
5.4	Non-recovery of long-outstanding receivables impacting liquidity and working capital	**OM-13**	Non-recovery of huge amount of receivables
6.	**HUMAN RESOURCE MANAGEMENT**		
6.1	Irregular payment of salary and benefits due to dual employment	**OM-08**	*Irregular payment of salary and other financial benefits due to dual employment simultaneously*
6.2	Recruitment of employees in overseas offices without HR policy	**OM-23**	*Irregular appointments and payment of pay and allowances at overseas offices*
6.3	Loss due to idle man-hours and ineffective workforce planning	**OM-11**	*Loss due to retention of idle staff*
7.	**PROCUREMENT**		

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Finding No.	Finding Title (as in Report)	OM No.	Original OM Title
7.1	Irregular hiring of services without competitive bidding	**OM-04**	Hiring of human resources without competitive bidding from TURPAK and NESPAK Foundations
7.2	Award of work at higher rates despite availability of lower evaluated bids	**OM-16**	Loss due to award of bunting conductor work at higher rates
7.3	Irregular empanelment of hospitals and doctors for medical treatment of staff	**OM-12**	Irregular empanelment of hospitals, doctors and pharmacies for medical treatment of staff
8	**OPERATIONAL PROCESSES & KPIs**		
8.1	Excess of expenditures over revenue of various projects	**OM-09**	Excess of expenditure over income
8.2	Loss due to claim of damages by overseas client	**OM-02**	Expected loss due to claim of damages by overseas client
8.3	Irregular hiring of sub-consultancy firm	**OM-06**	Irregular hiring of sub-consultancy firm

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Definitions of important Ratios

Ratio Name	Formula	Ratio Interpretation
Current Ratio	Current Assets ÷ Current Liabilities	Measure's ability to pay short-term obligations (>1 generally healthy)

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