Auditor-General of Pakistan

AUDIT REPORT ON

PAKISTAN AGRICULTURAL STORAGE & SERVICES CORPORATION LIMITED (PASSCO)

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Assistant Audit Officer (IT)
20 October 2026 03:06:30 PM

Report No: DG CA&E 25-001

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 ***Pakistan Agricultural Storage & Services Corporation Limited (PASSCO))*** 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 & 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) and executive responses were evaluated before finalization of this report. The report was discussed with the PAO in Departmental Accounts Committee (DAC) meeting held on January 26, 2026 and the outcome of the meeting has been incorporated in the 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).

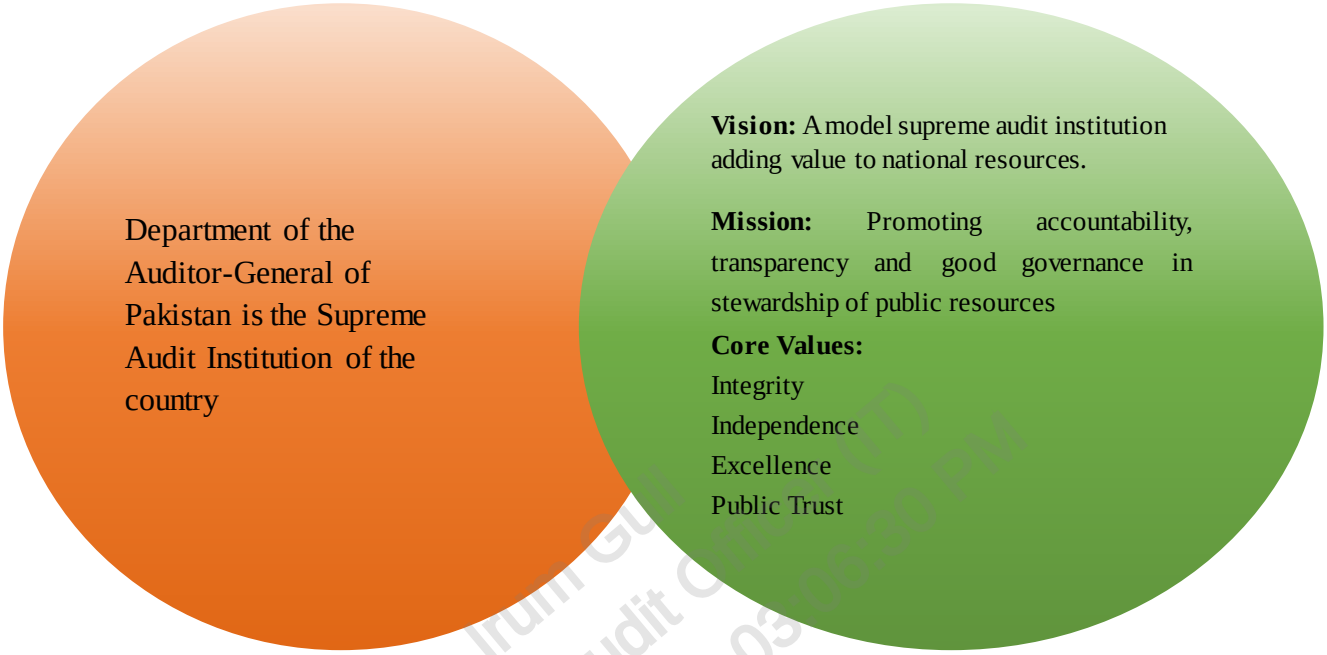
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Islamabad
Dated: *February, 2026*

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

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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 levels.

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AUDIT SNAPSHOT

Why did we conduct this audit?

The audit was initiated to assess PASSCO's financial sustainability, compliance with relevant laws and regulations, effectiveness of internal controls, and the extent to which its operations align with its mandated role in national food security. Persistent losses, rising debt, operational inefficiencies, and significant audit observations over multiple years triggered the need for a comprehensive evaluation.

What did we find?

- Incurred a net loss of Rs 20,478 million for the year 2024-25 with a cumulative loss of Rs. 21,340.11 million for the years 2021-25, signaling weakening Financial Viability.
- Unauthorized policies facilitated malpractice, while accountability mechanisms failed to address established financial irregularities.
- Financial Mismanagement resulted in substantial overbilling to the Government, avoidable finance costs, and massive unrecovered receivables.
- Systemic non-compliance with PPRA involving ineligible consultants and collusive bidding.
- Ineffective vigilance mechanisms.

Key Assessments

FINANCIAL SUSTAINABILITY — **CRITICAL**

FY2025 Net Loss**: Rs 20,478 million**

Net Loss Margin**: –33.1% Severely Negative**

Debt Burden**: High and Increasing**

Liquidity Position**: Below Safe Operating Thresholds**

⚠ RISK SIGNAL

PASSCO's financial condition indicates severe fiscal stress. Ongoing losses, rising debt, and weak liquidity undermine financial viability and threaten service delivery under the food security mandate.

⚠ **Risk Exposure** High Financial losses, debt dependency, stock risks, and governance gaps expose the entity to significant fiscal and operational risk.

What did we Recommend?

- Rationalize costs, reduce debt reliance, and implement strict fiscal controls.
- Mandate Board approval for all policies and ensure strict accountability for confirmed irregularities and administrative lapses.
- Refund overbilled government claims, optimize treasury decisions, and aggressively pursue the recovery of outstanding dues.
- Investigate irregular procurements, fix responsibility for collusion and non-compliance.
- Restructure the Vigilance Wing for effective monitoring, and digitize inventory management.
- Improve monitoring, reduce stock holding times, and enforce quality-control measures to minimize losses.

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HIGHLIGHTS

ENTITY SUMMARY SHEET — PASSCO (FY 2024–25)

Description	Details (*Figures in Rs million)*
Legal Framework of Entity	Public Sector Company under the Companies Act, 2017; administrative control of Ministry of National Food Security & Research.
Key Responsibilities / Mandate & Objectives	Maintain Federal Strategic Wheat Reserves; ensure food security; procure wheat from farmers at support price; maintain stocks for emergencies; storage, preservation and release of wheat.
Accounting Policy	IFRS-compliant; prepared under Companies Act 2017 and Public Sector Company (Governance) Rules.
Total Assets (Current / Non-Current)	**Total Assets:** 552,951 m **Current Assets:** 552,218 m -**Non-Current Assets:** 733 m
Total Liabilities (Current / Non-Current)	**Total Liabilities:** 554,736 m **Current Liabilities:** 554,088 m **Non-Current Liabilities:** 648m
Total Revenue	132,080 m
Government Grants / Subsidies	Cost Differential Subsidy (CDS): **58,753 m**
Expenditure	Cost of Sales: **54,818** m Operating & Administrative Expenses: **14,264 m** Finance Cost: **82,695 m**
Cash Balances	971 m
Total Investments	2,712 m
Funding Sources	Government of Pakistan (CDS) Commercial banks (short-term borrowings + working capital financing).
Total Budget for Procurement	Not prepared
Total Expenditure on procurement	9,563.670 m
Was procurement made through e-PADS (Yes or No)	Yes
Status of Financial Statements	Audited & Approved by Board of Directors for FY 2025.
Composite Risk Rating	**D — High Risk** due to: • Heavy losses and reliance on debt • Finance cost exceeding revenue • Procurement & stock management irregularities • Unauthorized policy approvals
Compliance Status of Audit Recommendations	**Partially Compliant / Weak Implementation** Past recommendations largely unimplemented; issues recurring in procurement, stock control, HR & financial management.

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ABBREVIATIONS AND ACRONYMS

AIR	Audit and Inspection Report
AGP	Auditor-General of Pakistan
BoD	Board of Directors
CDS	Cost Differential Subsidy
DSCR	Debt Service Coverage Ratio
DTA	Debt-to-Assets Ratio
DAC	Departmental Accounts Committee
DG CA&E	Directorate General Commercial Audit & Evaluation
EBIT	Earnings Before Interest & Taxes
ERP	Enterprise Resource Planning
GoP	Government of Pakistan
HRM / HR	Human Resource Management / Human Resources
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standards
KPI	Key Performance Indicator
LOC	Letter of Credit
MT	Metric Ton
MSP	Minimum Support Price
OM	Observation Memo
PASSCO	Pakistan Agricultural Storage & Services Corporation Limited
PAO	Principal Accounting Officer
PCs	Procurement Centers
PAC	Public Accounts Committee
PPRA	Public Procurement Regulatory Authority / Rules 2004
SOP	Standard Operating Procedure
SOEs Act	State-Owned Enterprises (Governance & Operations) Act, 2023
WPP	Wheat Procurement Policy (contextually referenced)

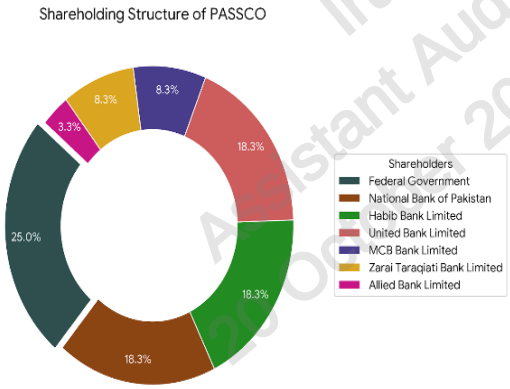
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1. OVERVIEW OF THE ENTITY

Pakistan Agricultural Storage & Services Corporation Limited (PASSCO) was incorporated on August 31, 1973 as a public sector organization and is functioning under the administrative control of the Ministry of National Food Security & Research. Established to ensure national food security, PASSCO plays a central role in the Government of Pakistan's wheat procurement and strategic grain reserve system. Its operations extend across major wheat-producing regions of the country, supported by zonal offices, storage centers, procurement centers (PCs), and regional godowns.

PASSCO is a public limited company with a paid-up capital of Rs. 30 million. The shareholding is split between the Federal Government and major commercial banks.



The PASSCO is involved in the implementation of the Federal Government's policy of support price programme of food grains, equitable distribution of food commodities and to maintain their reserve stock. GoP has assured the Company that all losses incurred on sale and purchase of any commodity purchased on the directions of the Federal Government will be picked up by the Government.

The Federal Government sets PASSCO's wheat procurement targets and fixes the Minimum Support Price (MSP) in light of expected national production. It also directs the onward sale of wheat to deficit provinces and other agencies at a selling price that covers procurement cost plus incidental expenses, within the annual allocation approved by the Federal Government. Accordingly, PASSCO has no independent authority to purchase or sell wheat; it must act strictly on Government instructions regarding quantities, prices, recipients, and the treatment of any cost differentials on a case-by-case basis.

PASSCO operates on a short-term financing model whereby funds are borrowed from commercial banks on a quarterly basis. These borrowings are routinely rolled over or swapped among banks, resulting in the continuity of debt rather than its liquidation. Consequently, PASSCO remains exposed to recurring finance costs, making bank borrowings a persistent feature of its operating and financial structure.

PASSCO prepares its financial statements in accordance with the Companies Act, 2017 and International Financial Reporting Standards (IFRS). Oversight and accountability are exercised through the Board of Directors, internal audit mechanisms, and external audit by the Auditor-General of Pakistan.

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AUDIT FINDINGS

SUMMARY

This audit report presents an integrated assessment of PASSCO's financial performance for the years 2021-25, alongside a comprehensive review of its governance, operational controls, procurement, and ICT frameworks for the year 2024-25. The audit results reveal critical systemic weaknesses that undermine the Corporation's financial sustainability, transparency, and operational integrity.

PASSCO's financial health has deteriorated sharply, evidenced by a record net loss in FY2025, negative equity, and a capital structure almost entirely financed through high-cost debt. The Corporation faces an acute liquidity crisis driven by heavy reliance on commercial borrowing, slow-moving inventory, and the prolonged **non-recovery of Rs. 257.128 billion** from government agencies. This financial instability was further exacerbated by weak treasury management, including avoidable delays in debt swaps and imprudent KIBOR rate selection, which significantly inflated finance costs.

On the operational front, governance failures were widespread. The Corporation executed the 2024 procurement drive under an unapproved Wheat Procurement Policy and failed to enforce accountability in confirmed cases of misappropriation. Ineffective vigilance and weak internal controls facilitated operational malpractice, including stock losses, and the inefficient utilization of godowns.

Audit also identified **material financial mismanagement**, including inflated billing of incidental and strategic reserve charges, unauthorized interest claims submitted to the Federal Government, and inaccurate cost build-ups—exposing the Government to excessive financial liabilities.

Procurement processes reflected pervasive non-compliance with PPRA Rules. Irregularities included mis-procurement of consultants, collusive bidding and engagement of ineligible firms—indicating manipulation, weak due diligence, and lack of transparency.

Operational controls remain fragile. Ineffective monitoring by the Vigilance Wing, and failure to produce inquiry reports point to deep-rooted oversight gaps. High levels of outstanding receivables continue to strain liquidity and financing costs.

PASSCO's ICT environment lacks automation and system-based controls. The absence of an ERP and digital dashboards has resulted in fragmented manual processes, inconsistent data, and delayed detection of operational irregularities.

Overall, the audit concludes that PASSCO requires **urgent structural, financial, governance, procurement, and technological reforms** to restore accountability, strengthen financial sustainability, and ensure reliable performance as a national food-security institution.

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2. STATED MANDATE, ROLES & RESPONSIBILITIES

This section highlights severe governance and operational lapses within PASSCO. Key observations include the unauthorized implementation of the Wheat Procurement Policy 2024, which bypassed Board approval and facilitated systemic malpractice through the introduction of intermediaries ("Arhties"). It further documents a breakdown in accountability, evidenced by the failure to initiate legal action or effective recovery in confirmed misappropriation cases involving Rs. 62.055 million. Finally, the section addresses weak oversight mechanisms, where ineffective vigilance and poor asset management exposed the Corporation to significant operational and financial risks.

2.1 Unauthorized Circulation of Wheat Procurement Policy

Audit observed that PASSCO circulated and implemented the **Wheat Procurement Policy 2024 without any record of approval by the Board of Directors**. The policy introduced the term "Arhties", enabling intermediaries to obtain bardana and later sell each bag at Rs. 1,000–1,500, creating opportunities for exploitation of growers and facilitating systemic corruption. **The Intelligence Bureau report confirmed large-scale malpractice linked to this unauthorized policy inclusion**. The last Board-approved procurement policy dated back to 2020–21, demonstrating a serious governance lapse and absence of policy controls.

The irregularity occurred because management failed to follow the mandatory policy approval process and did not ensure that all policy changes were duly authorized by the Board as a result, unauthorized policy provisions were implemented, enabling irregular practices, distorting operational controls, and weakening governance integrity. Bypassing Board approval for procurement policies represents a critical breakdown in governance, enabling unauthorized policy manipulation.

The matter was reported to the management on December 22, 2025. The irregularity was discussed in DAC meeting held on January 26, 2026. The DAC directed the management to provide documentary evidence regarding disciplinary actions taken against the responsible employees and share the updated status of the cases currently under FIA investigation. Furthermore, the Committee directed the management to ensure that all operational policies are circulated and implemented only after obtaining formal approval from the Board of Directors.

Audit recommends implementation of the DAC directives.

Assistant Audit Official (IT)
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2.2 Failure to Enforce Accountability in Confirmed Misappropriation Cases

According to Section 192 of the Companies Act 2017, management must safeguard assets and ensure recovery of losses. Section 6(2)(c) of the SOEs Act 2023 mandates that SOEs enforce accountability mechanisms and take timely action against fraud. Efficiency & Discipline Rules require prompt disciplinary proceedings and recovery in confirmed misconduct cases.

Audit noted that despite confirmed misappropriation of wheat valuing Rs. 62.055 million at PC/RV Lasharian and Tandlianwala, management neither initiated civil nor criminal

action against the involved officials. One official was on EOL, another was dismissed without any recovery initiated, while remaining officials were **allowed nominal installments—for example Rs. 36,079 per month against a loss of Rs. 20.65 million, stretching recovery to nearly 48 years.** Such lenient treatment, despite conclusive inquiries, reflects a systemic breakdown in accountability enforcement.

The irregularity occurred because management did not enforce the prescribed disciplinary rules and failed to initiate timely recovery and punitive action against officials involved in misappropriation.

As a result, confirmed losses remained unrecovered, accountability mechanisms weakened, and the likelihood of future misconduct increased.

Failure to enforce meaningful accountability after confirmed fraud indicates severe governance deficiency and non-compliance with statutory obligations.

The matter was reported to the management on December 22, 2025. The irregularity was discussed in DAC meeting held on January 26, 2026. The DAC directed the management to review the recovery plan and provide documentary evidence regarding the initiation of civil and criminal proceedings, where applicable. Furthermore, the Committee directed the management to revise the unduly lenient installment schedules strictly in accordance with the rules to ensure timely recovery.

Audit recommends implementation of the DAC directives.

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2.3 Weak Governance Oversight and Failure of Vigilance Wing to Detect Procurement Irregularities

According to Section 6(1)(a) & 6(2)(a) of the SOEs Act 2023, SOEs must ensure sound and prudent management and maintain governance systems that uphold integrity, due care, and transparency. Further, according to the PASSCO HR Policy 2016, the Vigilance Cell is responsible to the Managing Director for maintaining operational, financial, and administrative discipline. The policy mandates the Cell to conduct spot inquiries, investigate complaints, and identify irregularities through periodic intelligence reports to support smooth organizational functioning.

Audit noted systemic weaknesses in governance oversight and monitoring functions. Audit noted that the Vigilance Wing failed to detect or report irregularities during the Wheat Procurement Drive 2024, where an Intelligence Bureau report later revealed the involvement of 247 employees in malpractices. The internal monitoring mechanism remained silent on critical issues such as the illegal sale of bardana to Arhtis, limiting the inquiry only to external findings. This demonstrates a lack of continuous supervision and ineffective governance structures to prevent corruption during critical operations.

The irregularity occurred because management did not maintain effective governance oversight and failed to establish adequate monitoring systems for operational performance.

As a result, operational weaknesses persisted, irregularities remained undetected, and transparency was compromised, causing reputational damage to the Corporation.

Governance structures require strengthening to ensure effective monitoring, oversight, and strategic decision-making.

The matter was reported to the management on December 22, 2025. The irregularity was discussed in DAC meeting held on January 26, 2026. The DAC directed the management to provide documentary evidence regarding vigilance reporting and the specific actions taken during the wheat procurement season of 2024. The Committee further directed the management to devise a comprehensive training plan for vigilance field staff to enhance their capacity.

Audit recommends implementation of the DAC directives.

2.4 Weak Governance Oversight Leading to Non-Utilization of Godowns

According to Section 6(a) of the SOEs Act 2023, every State-Owned Enterprise (SOE) is required to undertake its operations with sound and prudent management, ensuring business is conducted with integrity, objectivity, and due care to maximize the scale of its activities.

Audit noted the non-utilization of PASSCO-owned godowns in non-operational areas, reflecting inadequate strategic oversight and failure to ensure optimal resource deployment. Specifically, godowns situated in prime locations like cities and industrial areas remained vacant and unused. The management failed to monetize these idle assets by renting them out, despite the potential to generate significant revenue.

The irregularity occurred because management did not maintain effective strategic oversight and failed to establish a proactive asset management policy.

As a result, organizational resources were not utilized efficiently, leading to idle assets and foregone rental income.

Governance structures require strengthening to ensure effective monitoring and strategic decision-making regarding asset utilization.

The matter was reported to the management on December 22, 2025. The irregularity was discussed in DAC meeting held on January 26, 2026. The DAC recommended adopting the upgraded Standard Operating Procedures (SOPs) and submitting a utilization plan for godowns and covered storage, duly approved by the Competent Authority.

Audit recommends implementation of the DAC directives.

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3. FINANCIAL PERFORMANCE ANALYSIS

This section highlights a critical deterioration in PASSCO's financial health, marked by severe losses and a liquidity crisis. In FY2025, the Corporation reported a massive net loss of Rs 20,478 million, with a negative net margin of –33.1%, meaning it effectively loses one-third of every rupee earned. This collapse is driven by increasing finance costs and structural inefficiencies that have entirely eroded profitability. The Corporation faces a deepening liquidity crisis, with its Current Ratio falling below 1.0 and Net Working Capital turning negative in FY2025, indicating it cannot meet short-term obligations without further borrowing. Reliance on debt has become unsustainable, with 97% of assets now financed by debt, effectively wiping out the equity base. Operational cash flows remained negative, confirming that the Corporation is borrowing just to survive, creating a high-risk financial environment that requires urgent structural reform.

3.1 Revenue and Profitability Trend

PASSCO is facing a severe financial crisis. Its profitability has collapsed, turning from healthy gains to massive losses. The Corporation's profit dropped from **Rs 3,942 million** in 2021 to just **Rs 419 million** in 2023. By 2025, this worsened into a huge loss of **Rs 20,478 million**.

Currently, PASSCO operates with a **negative loss margin of 33.1%**, which means for every **Rs 100** earned, the company loses about **Rs 33**. This collapse is driven by high interest payments on loans and poor management of wheat stocks. The situation poses a major financial risk to the government and requires immediate corrective action.

This scenario indicates that PASSCO has moved from making profits to suffering heavy losses. This is mainly due to high bank interest and poor wheat stock management, creating a serious risk for public finances and needing urgent action.[1]

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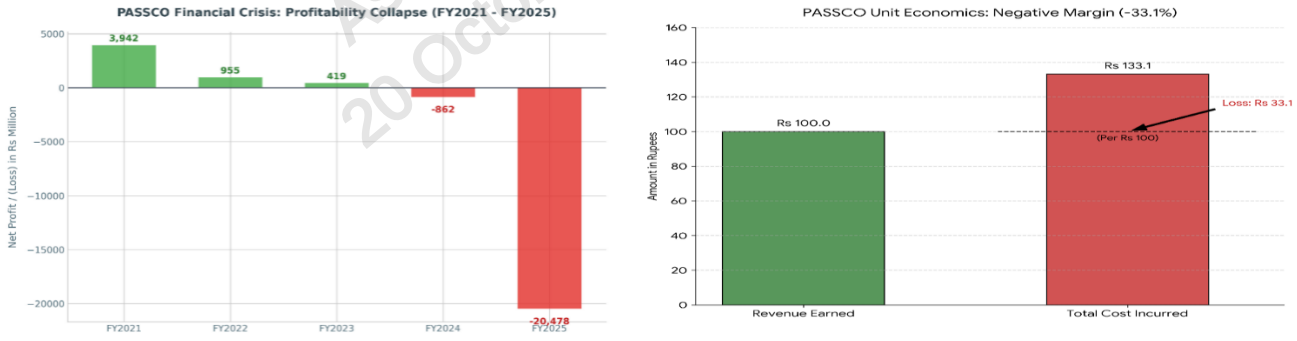


Figure 1 Profitability & Net Margin

The matter was reported to the management on December 22, 2025. The irregularity was discussed in DAC meeting held on January 26, 2026. The management replied that the loss occurred due to non-fulfillment of commitments regarding receivables and stock lifting by

[1] ----*Source (Financial Statements of PASSCO 2021-25)*

Federating Units/Agencies, which increased incidental costs. The DAC directed the management to prepare a recapitalization mechanism and debt restructuring plan duly approved by the BoD for onward submission to the M/o NFS&R.

Audit recommends implementation of the DAC directives.

3.2 Liquidity Crisis and Working Capital Stress

PASSCO's liquidity position has weakened gradually and becomes critical by FY2025:

Current Ratio declines from 1.30 (FY2021) to around 1.05 (FY2024) and falls below the benchmark to 0.99 (FY2025), indicating that current liabilities marginally exceed current assets.

Quick Ratio deteriorates from 1.11 in FY2021 to around 0.45–0.65 in the middle years and remains at 0.52 in FY2025, reflecting insufficient liquid assets (excluding inventory) to meet short-term obligations. Cash Ratio remains extremely low throughout (close to zero), indicating very limited immediate cash buffer. Net working capital (NWC) remains positive and sizeable and was Rs 18.45 billion (FY 2021), but turns negative to approximately Rs –1.9 billion (FY2025), implying that short-term liabilities now exceed short-term assets in absolute value.

PASSCO's short-term financial position has steadily worsened and became serious by FY2025, as its liabilities are now higher than its assets. The organization has very little cash available to meet immediate payments. Overall, this shows strong liquidity stress and difficulty in paying short-term obligations.

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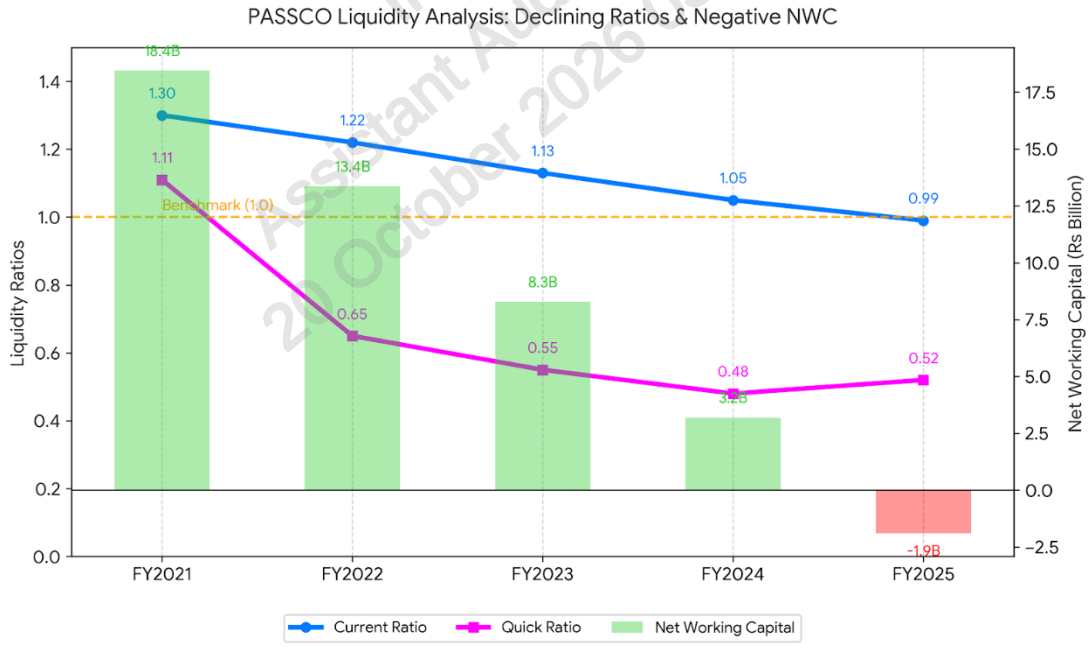


Figure 2 Liquidity Trend for 2021-25

The matter was reported to the management on December 22, 2025. The irregularity was discussed in DAC meeting held on January 26, 2026. The DAC directed the management to prepare a receivable recovery strategy to mitigate the liquidity risks.

Audit recommends implementation of the DAC directives.

3.3 Unsustainable Capital Structure and Debt Reliance

PASSCO's capital structure is highly leveraged and becomes unsustainable by FY2025: It means PASSCO is financing most of its assets through debt rather than equity.

Debt-to-Equity Ratio increases sharply from around 3.1 times in FY2021 to 6.7 times (FY2022), 15.5 times (FY2023) and 19.0 times (FY2024). By FY2025, equity turns negative, resulting in a mathematically very high negative debt-to-equity figure, which practically signifies that accumulated losses have wiped out the equity base.

At the same time, the Debt-to-Assets Ratio rises from 0.71 in FY2021 reaches approximately 0.97 in FY2025, indicating that 97% of the company's assets are funded by debt, leaving virtually no ownership cushion.[2]

This reflects that accumulated losses have substantially wiped out PASSCO's capital and reserves. Concerted corrective measures are required to restore financial stability and rebuild the Corporation's capital base.

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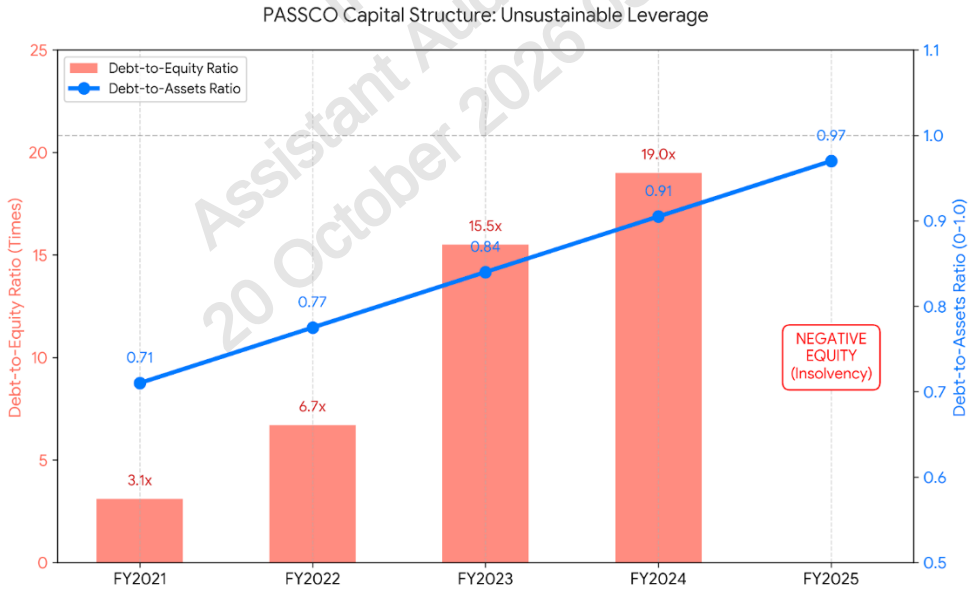


Figure 3 Debt to Equity & Debt to Assets Trend 2021-25

The matter was reported to the management on December 22, 2025. The irregularity was discussed in DAC meeting held on January 26, 2026. The DAC directed the management

[2] ----*Source (Financial Statements of PASSCO 2021-25)*

to prepare a recapitalization mechanism and debt restructuring plan for onward submission to the Ministry of National Food Security & Research (M/o NFS&R).

Audit recommends implementation of the DAC directives.

3.4 Inefficient Inventory Management and Stock Holding

The Inventory Days (Stock-in-Trade) indicator shows very high and increasing magnitude over FY2021–FY2025, implying slow movement and prolonged holding of wheat stocks:

Inventory turnover decreased sharply from around 5.86 times in FY2021 to 0.26 times in FY 2025 which indicated the slow conversion of inventory into sales. The number of inventory days in absolute terms is large and increases. Holding period of inventory increased from 62 days in FY 2021 to **1388 days in FY 2025**, reflecting longer stock-holding periods and potential overstocking. Such long inventory holding is consistent with high storage costs, quality deterioration risk, and potential stock losses, which are already being observed in the audit findings (e.g., damaged wheat and storage-related losses).

In addition, PASSCO imported wheat during 2021–22 on the directions of the Federal Government without conducting an adequate assessment of actual requirements or apprising the Government of the availability of sufficient existing stocks. The imported wheat continues to remain in storage for an extended period, leading to deterioration in quality and its realizable value. PASSCO is holding wheat stocks for an extremely long time instead of selling them quickly, which increases storage costs and causes the wheat to lose quality and value. This problem became worse after unnecessary imports, resulting in excess stock, wastage, and financial losses already noted during audit.[3]

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[3] ----Source (Financial Statements of PASSCO 2021-25)

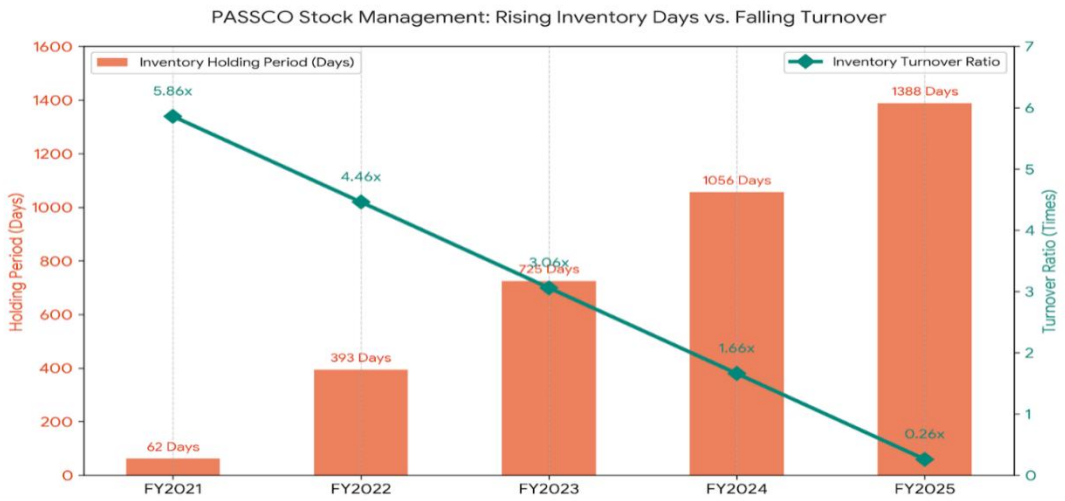


Figure 4 Inventory Turnover 2021-25

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The matter was reported to the management on December 22, 2025. The irregularity was discussed in DAC meeting held on January 26, 2026. The management replied that PASSCO is maintaining strategic reserve of 2.0 MMT as per direction of the ECC of the Cabinet. The management has submitted a stock disposal plan of 0.8 MMT to ECC for its approval. The DAC directed the management to provide the approval of ECC alongwith status of Wheat disposal to Audit.

Audit recommends implementation of the DAC directives.

3.5 Cost component of the PASSCO and piling up of receivable

The review of the income statement indicates that a significant proportion of the Company's revenue is being consumed by finance costs, highlighting a critical financial risk. In FY 2025, finance cost represented **approximately 54% of total operating costs**, whereas the **cost of sales accounted for only 36%**. This imbalance indicates that the Company is under substantial debt-servicing pressure.

Furthermore, Receivables surged by **321%** from Rs. 60.96 billion (FY 2021) to **Rs. 257.13 billion** (FY 2025), while receivable days escalated from **96 to 709 days**, signaling a structural breakdown in recovery mechanisms. This accumulation has locked substantial funds outside operational circulation, forcing reliance on costly external financing. Effective recovery of these dues could reduce borrowing by up to **50%**, significantly lowering finance costs and easing liquidity pressures to restore financial sustainability.

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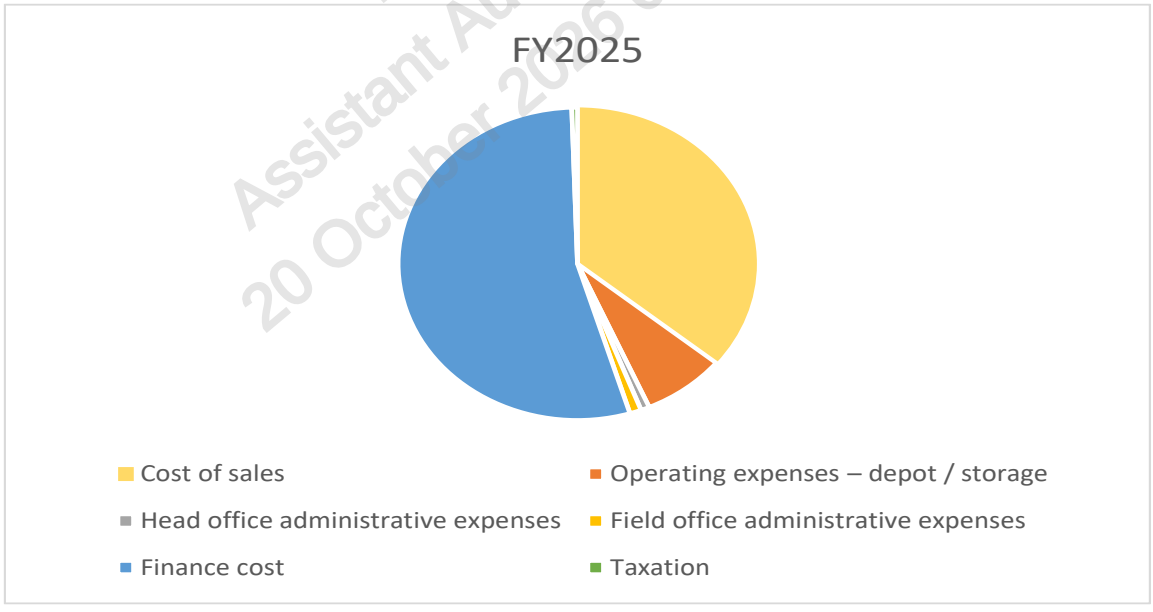


Figure 5 cost component 2021-25

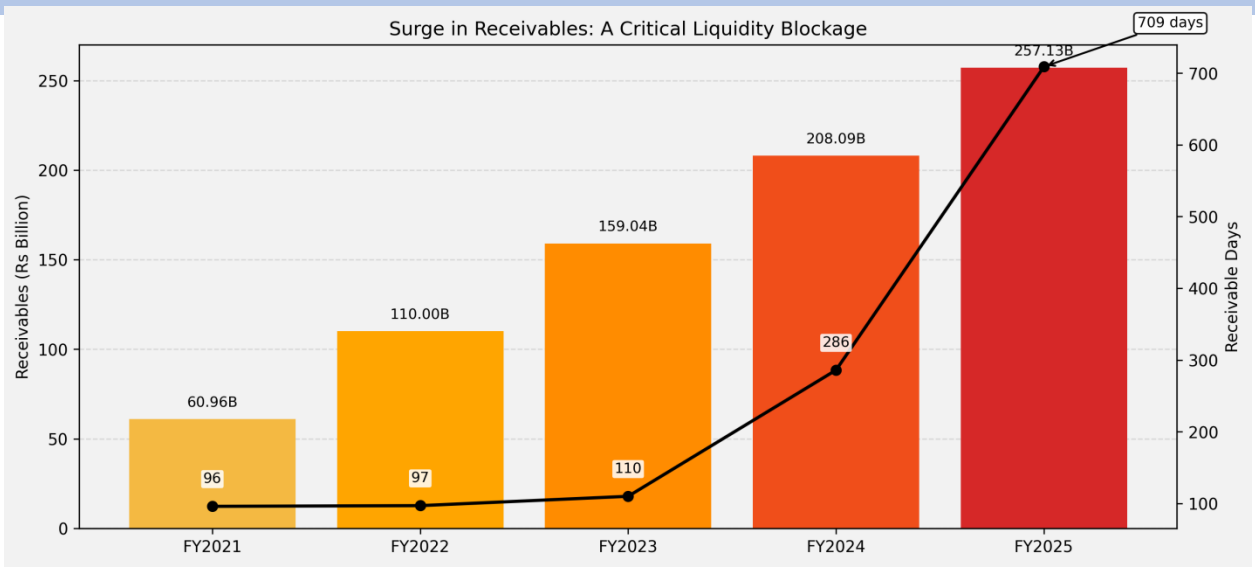


Figure 6 Receivable Position FY 2021-25

The matter was reported to the management on December 22, 2025. The irregularity was discussed in DAC meeting held on January 26, 2026. The DAC directed the management to take up the matter with M/o NFS&R/MoF for time bound recovery road map to recover the receivables.

Audit recommends implementation of the DAC directives.

Assistant Audit Officer (IT)
Irum Gull
10 October 2026 03:06:30 PM

3.6 Non-Recovery of Receivables: Financial Impact & Opportunity Cost Analysis

Analysis of Financial Statements reveals that Rs 257,128.24 million remains outstanding against various government agencies (Federal and Provincial) for wheat supplies. Despite contractual obligations requiring settlement between March and May of each crop year, these dues remain unpaid. This violates the SOEs Act 2023 (Clause 6), which mandates prudent financial management and timely realization of assets. Summary is given in (**Table-6)**. The delayed recovery has forced PASSCO to rely on expensive commercial borrowing to sustain operations.

- Direct Impact: The non-recovery of Rs 257.1 billion has severely aggravated liquidity constraints.
- Opportunity Cost: Had these funds been realized and invested (or used to retire debt), PASSCO could have generated significant fiscal space.

The following analysis projects the financial benefit (Interest Income Earned or Finance Cost Avoided) under three recovery scenarios, assuming an average cost of funds/return rate of 17.5% (based on average T-Bill/Commercial rates).

Recovery Scenario	Amount Recovered (Rs Bn)	Annual Finance Cost Saved / Income Earned (Rs Bn)
Scenario A (50% Recovery)	128.56	22.5
Scenario B (70% Recovery)	179.99	31.5
Scenario C (90% Recovery)	231.42	40.5

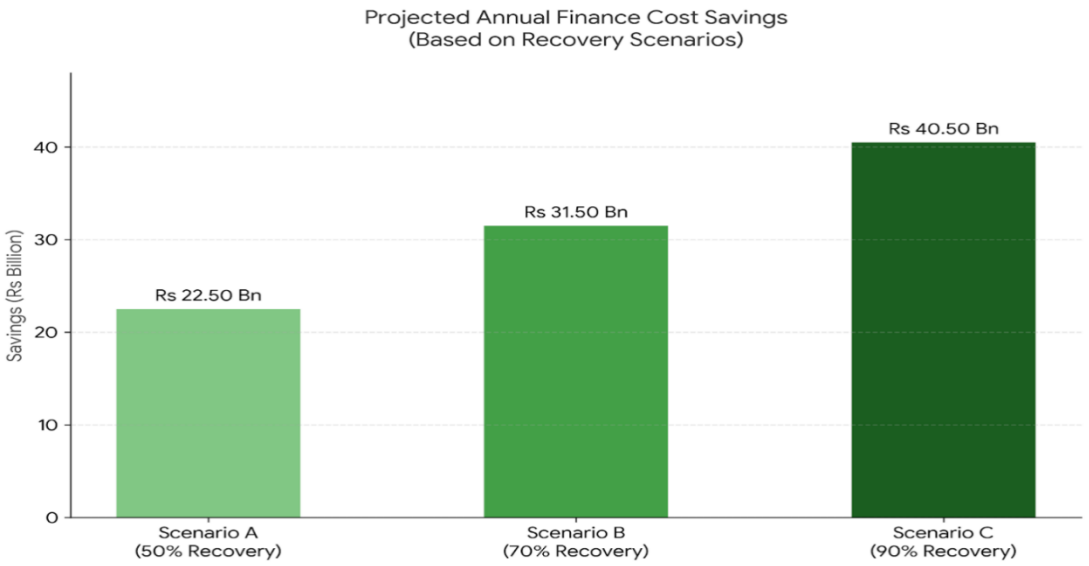


Figure 7 Potential Finance Cost Savings

The irregularity stems from the management's failure to enforce contractual payment terms and the absence of a structured, time-bound recovery mechanism with federal and provincial counterparts. Management must urgently implement a time-bound recovery plan to realize at least **50% of outstanding dues**, thereby saving **Rs 22.5 billion** in annual finance costs. This requires engaging the Finance Division for "at-source deductions" from provincial funds to clear legacy debt. Furthermore, future supplies to defaulting agencies should be strictly conditioned on advance payments or bank guarantees to prevent further liquidity strain and ensure financial sustainability.

The matter was reported to the management on December 22, 2025. The irregularity was discussed in DAC meeting held on January 26, 2026. The DAC directed the management to take up the matter with M/o NFS&R/MoF for time bound recovery road map to recover the receivables.

Audit recommends implementation of the DAC directives.

Assistant Chief Audit Officer (IT)
20 October 2026 03:06:30 PM

3.7 Rising Reliance on Short-term Debt and Increasing Finance Cost

Analysis of Financial Statements reveals that a clear linkage between short-term debt reliance and the financing burden over FY2016–FY2025. Short-term borrowings remained broadly stable during FY2016–FY2019, declined in FY2020–FY2021, and then increased sharply from FY2022 onward, reaching their highest level by FY2025. Finance cost followed the same trajectory, rising disproportionately during FY2023–FY2025, which suggests the combined impact of higher borrowing volumes and an adverse interest-rate environment. This trend indicates growing pressure on cash flows and higher refinancing risk due to heavy reliance on short-term debt.

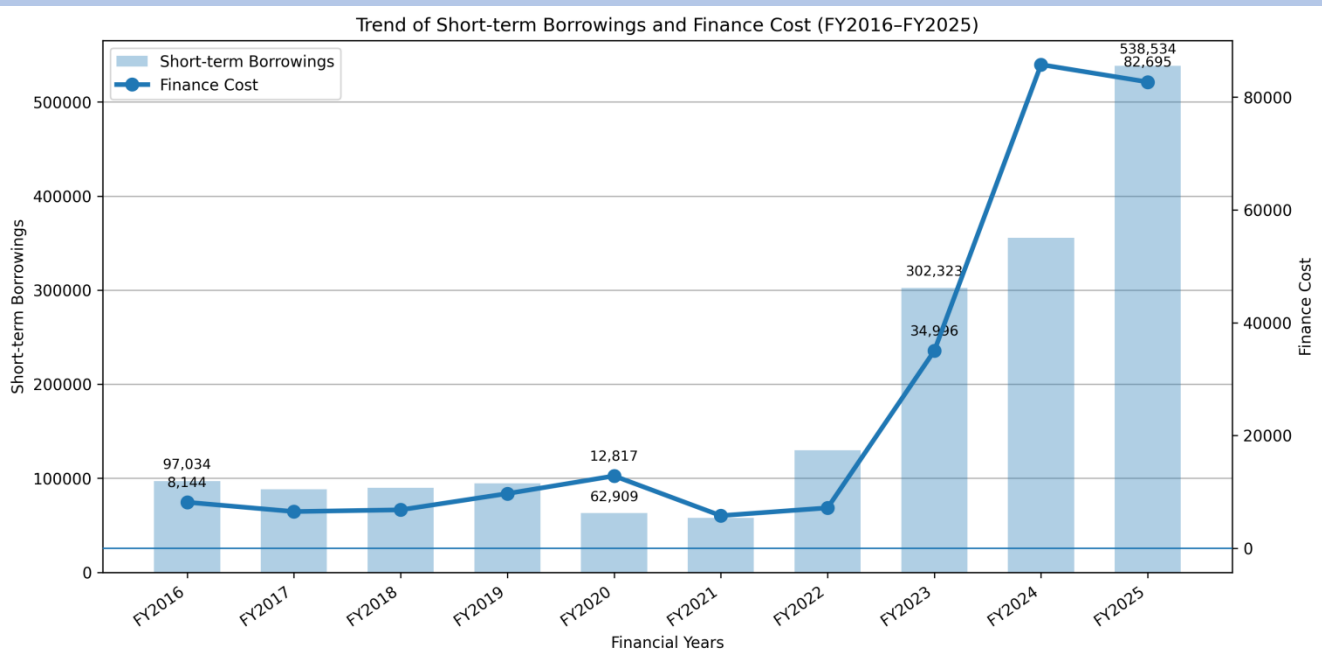


Figure 8: Trend of debt vs. finance cost

The matter was reported to the management on December 22, 2025. The irregularity was discussed in DAC meeting held on January 26, 2026. The DAC directed the management to provide the borrowing policy for PASSCO duly approved by the M/o NFS&R and Finance Division.

Audit recommends implementation of the DAC directives.

Team Gull
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20 October 2026 03:06:30 PM

4. FINANCIAL MANAGEMENT

This section highlights systemic failures in PASSCO's financial governance, characterized by imprudent treasury management, inflated billing practices, and ineffective recovery mechanisms. Audit observed that delays in executing debt swaps and the unjustified use of higher KIBOR benchmarks imposed an avoidable financial burden of Rs. 2.84 billion. Financial indiscipline was further evident in claims submitted to the Federal Government, where the Corporation overbilled approximately Rs. 32.26 billion through inflated strategic reserve costs, incorrect incidental charges, and unauthorized markup claims. These irregularities are compounded by a severe liquidity crisis driven by the non-recovery of Rs. 257.13 billion from various government agencies, trapping the Corporation in a cycle of high-cost commercial borrowing and eroding its fiscal sustainability.

4.1 Delay in Cash Credit Debt Swap Resulting in Excess Financial Charges

As per Section 6(1)(a) of the SOEs Act 2023, every state owned enterprise shall undertake its operations in accordance with the criteria for sound and prudent management, namely: - (a) the business of the state-owned enterprise is carried on with integrity, objectivity, due care, and the professional skills appropriate to the nature and scale of its activities.

Audit noted that PASSCO floated four tenders for cash credit facilities during 2024-25. Review of the 2nd and 3rd quarters showed that, despite receiving more competitive rates in the 3rd quarter, management did not execute the debt swap between banks in a timely manner, causing a 20-day delay. This delay resulted in continuing with higher-interest borrowing, leading to an excess financial burden of Rs. 1,260.92 million. No documented justification, risk analysis, or approval trail was found to explain the deferment. The absence of timely action and lack of financial oversight led to materially higher financial charges that were avoidable. Details in Table-1.

The irregularity occurred because management did not exercise timely financial decision-making and failed to implement the favorable refinancing opportunity despite evident financial benefits.

As a result, PASSCO incurred substantial avoidable financial charges, reducing fiscal space and undermining prudent financial management.

Delay in executing a clearly beneficial financial swap indicates a conflict of interest on the part of BoDs as they are the decision makers and financers of the PASSCO.

The matter was reported to the management on December 22, 2025. The irregularity was discussed in DAC meeting held on January 26, 2026. The management replied that debt swap request was forwarded to M/o NFS&R that approved on 27.09.2024 and matter was referred to MoF for allocation which was granted on 18.10.2024. The DAC directed to place the matter before PAC.

Audit recommends implementation of the DAC directives.

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20 October 2026 03:46:59 PM

4.2 Use of 3-Month KIBOR Benchmark Leading to Excess Financial Cost

As per Section 6(1)(a) of the SOEs Act 2023, every state owned enterprise shall undertake its operations in accordance with the criteria for sound and prudent management, namely: - (a) the business of the state-owned enterprise is carried on with integrity, objectivity, due care, and the professional skills appropriate to the nature and scale of its activities.

Audit observed that management floated four tenders during the audit period to obtain cash credit facilities to meet its funding requirements. The mark-up on the outstanding balances was calculated on a quarterly basis using the 3-month KIBOR plus the spread offered by the banks. Management was repeatedly requested to provide justification for using the 3-month KIBOR, but no satisfactory explanation was provided. Audit analyzed that PASSCO calculated its financing cost using the 3-month KIBOR, whereas available alternatives such as longer-tenor KIBOR rates would have resulted in lower financial charges. This choice led to an excess cost of Rs. 1,576.90 million. No financial rationale, cost comparison, or Board approval was available to support the use of the higher benchmark. The decision reflects inadequate financial analysis and lack of adherence to prudent financial management practices. Analysis is provided in Table-2 at the end of this report.

The irregularity occurred because management did not conduct comparative financial analysis and failed to select the most economical benchmark.

As a result, financing costs increased unnecessarily, placing additional financial pressure on the organization.

The choice of a suboptimal benchmark without proper justification represents a deviation from prudent financial management required under the SOEs Act.

The matter was reported to the management on December 22, 2025. The irregularity was discussed in DAC meeting held on January 26, 2026. The DAC directed the management to provide the documentary evidences.

Audit recommends implementation of the DAC directives.

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4.3 Overstatement of Incidental Charges Due to Incorrect Costing Practices

Section 6(2) of the SOEs Act 2023 states that; Accounting and other records shall not be regarded as adequate for the purposes of this provision unless they: - (a) enable the business of the state-owned enterprise to be prudently managed; (b) enable the state-owned enterprise to comply with the obligations imposed by this Act; and (c) comply with all professional standards and pronouncements of relevant professional bodies as applicable in Pakistan.

Audit observed that PASSCO submitted a proposal to the Finance Division on 29.04.2025 for fixation of incidental charges at Rs. 21,037.18 per MT for 2023-24. Incidental charges recover actual storage and maintenance costs from Government agencies. Examination revealed that management used a complex, non-standard proforma and the calculation did not reflect actual costs. Using PASSCO's financial data, audit recalculated the rate at Rs. 18,176.41 per MT, indicating an excess of Rs. 2,860.77 per MT.

Based on wheat sales of 603,082 MT, the excess claim amounts to Rs. 1.725 billion. Details are provided in Table-3.

The irregularity occurred because management applied an incorrect costing methodology and failed to ensure that all cost components complied with admissibility rules.

As a result, the Government was billed excessive amounts, exposing PASSCO to financial disputes and undermining the reliability of its financial reporting.

Costing processes require immediate improvement, as current practices do not ensure accuracy or compliance with financial rules.

The matter was reported to the management on December 22, 2025. The irregularity was discussed in DAC meeting held on January 26, 2026. The DAC directed the management to submit revise reply to Audit and kept the para pending.

Audit recommends implementation of the DAC directives.

4.4 Excess Billing and Unauthorized Interest Claims Submitted to Government

Section 6(1)(a) and 6(2)(b) of the SOEs Act 2023 mandate prudent financial conduct and prohibit imposing unauthorized financial burdens on the Government. Additionally, GoP directive No. F.1.7/2008 assures reimbursement of losses but does not explicitly authorize penal markup on delayed payments.

Audit observed substantial financial irregularities in PASSCO's claims submitted to the Federal Government, totaling Rs. 30.533 billion:

3.4.1 Excess Billing of Strategic Reserve (Rs. 18.706 billion): PASSCO charged an overstated rate for strategic wheat reserves by inflating storage and incidental components. Audit calculated an excess of Rs. 10,708.05 per metric ton, resulting in an overbilling of Rs. 18.705 billion without any supporting cost breakdown or validation. (Table-4)

3.4.2 Unauthorized Interest Claims (Rs. 11.828 billion): During FY 2024–25, total finance costs amounting to Rs. 82.695 billion were incurred, out of which Rs. 47.384 billion was charged to the Government against the strategic reserve. However, management additionally claimed Rs. 11.827 billion as markup on delayed payments. The working for calculating interest cost alongwith authorization by Finance Division were not provided.

The irregularities occurred due to inclusion of additional interest costs which are aligned with approved cost structures, and lacked specific Government authorization for the additional markup.

Consequently, the Federal Government was substantially overbilled by Rs. 30.533 billion, increasing its financial liability and exposing the Corporation to compliance risks.

The inclusion of inflated rates and unauthorized interest components demonstrates a systemic breakdown in financial governance and a failure to ensure the accuracy and admissibility of claims.

The matter was reported to the management on December 22, 2025. The irregularity was discussed in DAC meeting held on January 26, 2026. The DAC directed the management to submit revise reply to Audit and kept the para pending.

Audit recommends implementation of the DAC directives.

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5. PROCUREMENT

This section details significant breaches of Public Procurement Rules, amounting to irregular commitments of approximately Rs. 374.50 million. Audit observed systemic manipulation in the hiring of consultants for third-party audits and winding-up strategies, characterized by the unfair disqualification of eligible bidders, the engagement of ineligible firms, and the concealment of critical deliverables. Transparency was further compromised in the procurement of Aluminum Phosphide tablets through reliance on irrelevant and unapproved sources for rate estimation. Additionally, the procurement process was marred by collusive bidding in stationery purchases and the unjustified splitting of dunnage tenders, reflecting a deep-seated culture of non-compliance and ineffective internal controls.

5.1 Mis-Procurement and Uneconomical Engagement of Third-Party Audit Firm

Rule 4 of PP Rules 2004 requires procurement to be fair, transparent, and economical. Rules 29 and 30 mandate that technical evaluations follow advertised criteria without discrimination. Rule 38B requires ascertaining rate reasonability for single bids. Additionally, the PASSCO Board approved a budget of Rs. 14–20 million for this assignment.

Audit observed mis-procurement in the hiring of a third-party auditor (advertised 16.05.2024), **M/s Munif Ziauddin & Co. was disqualified with 49 marks (threshold 50) by arbitrarily assigning zero scores where documents were actually provided (Table-5).** This created a single-bidder scenario for M/s Tariq Abdul Ghani & Co., who was engaged at a cost of Rs. 22.00 million—exceeding the Board's approved budget. This cost was exorbitantly higher than the statutory audit fees (Rs. 2.65–3.15 million) which covered a similar scope (wheat quality/quantity verification). Management accepted this single bid without conducting the mandatory rate-reasonability assessment under Rule 38B.

The mis-procurement resulted from the manipulation of technical scores to eliminate competition, followed by the acceptance of a high-cost single bid without assessing rate reasonability or value for money.

This led to the unfair disqualification of an eligible firm and the engagement of services at an excessive cost, causing an avoidable financial burden and constituting a violation of PP Rules.

The procurement process had irregularities and lacked transparency, causing mis-procurement and unnecessary financial expenditure.

The matter was reported to the management on December 22, 2025. The irregularity was discussed in DAC meeting held on January 26, 2026. The DAC directed the management to probe the matter and submit a report within 15 days.

Audit recommends implementation of the DAC directives.

Irum Gull
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5.2 Hiring of Consultant for Winding-Up Strategy and Non-Production of Deliverables

The advertisement dated 29.01.2025 specified strict eligibility for winding-up consultants, requiring leading firms with 5 years of proven experience in winding up public limited companies, qualified staff (legal, financial, HR, etc.), and completion of at least 2 projects. Public Accounts Committee instructions mandate the provision of all records to audit, with disciplinary action for delays.

Audit observed two major irregularities regarding the Rs. 55.00 million contract awarded to M/s TAG & Co. and JV partners on 20.03.2025:

4.2.1 Irregular Hiring: The JV did not meet mandatory criteria. They lacked the required 5 years of winding-up experience (submitting irrelevant delisting letters instead) and failed to provide financial documents for all partners. The claimed workforce of 324 was unsupported by payroll evidence and contradicted by audited salary expenditures. The lead firm had zero winding-up experience, yet received high marks. Additionally, the RFP inconsistently allowed JVs while the advertisement restricted participation to single firms.

4.2.2 Concealment of Report: Despite the contract's scope requiring a comprehensive winding-up plan, management failed to produce the consultant's report despite multiple written requisitions (Sept-Nov 2025) and meetings. This failure renders the Rs. 55.00 million expenditure unverified.

The irregularities occurred due to weak procurement controls, lack of due diligence in verifying bidder claims, and a deliberate lack of commitment to facilitate government audit requirements

This resulted in the irregular award of a contract to an ineligible firm and the potential wastage of Rs. 55.00 million, as the expenditure remains unverified due to the non-production of the required winding-up strategy report.

The contract award violated eligibility criteria and was marred by undue favors, while the subsequent concealment of the consultant's report indicates a lack of transparency and accountability.

The matter was reported to the management on December 22, 2025. The irregularity was discussed in DAC meeting held on January 26, 2026. The DAC directed the management to probe the matter and submit a report within 15 days. The Committee further directed to provide a copy of the winding-up report to Audit for review immediately.

Audit recommends implementation of the DAC directives.

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5.3 Unfair Competition and Related Party Involvement in Stationery Procurement

According to Rule 18 of Public Procurement Rules, 2004, a procuring agency must disqualify a supplier submitting false or materially inaccurate information. Furthermore, Rule 2(f) prohibits arrangements between parties designed to stifle open competition for wrongful gain and to establish prices at artificial, non-competitive levels.

Audit observed that during the procurement of field stationery for crop year 2024, management awarded a contract totaling Rs. 13.522 million to M/s Smith & Co. following a tender process where the only other qualified bidder was M/s Triple H Traders. Scrutiny revealed that both firms were not independent entities; they shared the same business and residential addresses and were owned by a father and son (Mr. Zulfiqar Ashraf and Mr. Hamza Ahmed). Conclusive evidence of non-independence included identical document formatting and the fact that Mr. Hamza Ahmed

(representing the "competitor") purchased the stamp paper for the winning bidder’s contract.

The irregularity occurred due to weak scrutiny of bids and the procurement committee's failure to verify the authenticity and independence of participating bidders to detect obvious conflicts of interest.

This resulted in the restriction of fair competition, the establishment of potentially artificial prices through coordinated bidding, and a clear violation of PPRA regulations, undermining the transparency of the procurement process.

Management failed to ensure transparency and fair competition as required under PPRA Rules, allowing related parties to manipulate the tender process, which constitutes a serious lapse in procurement governance.

The matter was reported to the management on December 22, 2025. The irregularity was discussed in DAC meeting held on January 26, 2026. The DAC directed the management to probe the matter to fix responsibility and submit a report within 15 days.

Audit recommends implementation of the DAC directives.

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6. ICT & DIGITIZATION

This section highlights a systemic failure in PASSCO's ICT governance, specifically the absence of an integrated ERP system mandated by the SOEs Act 2023. Reliance on manual processes for core operations—procurement, inventory, and recoveries—has created critical control gaps. The lack of automated dashboards and audit trails prevents real-time oversight, directly contributing to data inconsistencies and undetected operational irregularities.

6.1 Systemic Operational Vulnerabilities Due to Absence of Integrated IT Systems and Digital Controls

Section 6(1)(a) and 6(2)(a) of the SOEs Act 2023 mandate prudent management through adequate internal controls and transparency systems to detect irregularities. Additionally, the IT Governance Framework for Public Sector Entities (2018) and ISO 27001 principles require the automation of critical business processes to ensure data integrity, auditable logs, and reliable performance monitoring.

Audit observed that PASSCO operates without an integrated Enterprise Resource Planning (ERP) system or centralized IT platform, relying instead on fragmented manual processes for critical functions such as procurement, stock issuance, bardana distribution, and recovery tracking. Consequently, the organization lacks essential system-based controls, including automated audit trails, real-time dashboards, and digital alerts for operational deviations. This technological gap has resulted in inconsistent data and delayed reporting, directly exacerbating high-risk irregularities in moisture monitoring, stock losses, and vigilance detection which could have been prevented with automated workflows.

The irregularity occurred because management failed to prioritize ICT governance and did not invest in an enterprise-wide automated system to integrate digital controls across operations.

This reliance on manual systems increased the risk of errors and irregularities, rendered reporting unreliable, and prevented the early detection of operational deviations, thereby weakening overall organizational oversight and accountability.

PASSCO's current digital infrastructure is wholly insufficient for a large-scale commodity operation, creating systemic vulnerabilities that undermine accuracy, transparency, and decision-making capability.

The PAC, in its meeting held on August 02, 2023, also directed PASSCO to devise a centralized, automated, and digitalized system with foolproof internal preventive controls. However, no tangible progress was made by the management in this regard.

The matter was reported to the management on December 22, 2025. The irregularity was discussed in DAC meeting held on January 26, 2026. The DAC directed the management to submit a phased IT road map for the adoption of IT governance.

Audit recommends implementation of the DAC directives.

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7. CONCLUSION

The compliance audit of PASSCO for the year 2024-25 reveals a critical breakdown in financial sustainability, governance standards, and operational controls. The Corporation is facing an existential fiscal crisis, evidenced by a staggering net loss of **Rs 20,478 million** and the complete erosion of its equity base. This financial collapse is compounded by severe liquidity constraints and an unsustainable reliance on commercial borrowing, driven largely by the non-recovery of **Rs 257.13 billion** in receivables from government agencies.

Structurally, the organization suffers from a profound governance deficit. The unauthorized implementation of procurement policies, failure to enforce accountability in confirmed fraud cases, and systemic procurement violations—including mis-procurement and collusive bidding reflect a deep-seated culture of non-compliance. These issues are exacerbated by operational inefficiencies, and a critical lack of digital integration, which denies management the oversight necessary to prevent irregularities.

In its current state, PASSCO's operational model is financially unviable and administratively compromised. Restoring the Corporation's viability requires urgent and holistic reform, shifting from debt-driven survival to strict fiscal discipline, enforced accountability, and the modernization of its technological infrastructure to safeguard national food security.

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8. RECOMMENDATIONS

- **Enforce Policy Governance:** Mandate that all operational frameworks, specifically the Wheat Procurement Policy, be vetted and approved by the Board of Directors to prevent unauthorized changes that facilitate malpractice.
- **Ensure Accountability:** Initiate immediate civil and criminal proceedings against officials involved in confirmed misappropriation (e.g., the **Rs 62 million** loss), ensuring full recovery of public funds.
- **Strengthen Oversight:** Establish robust internal control mechanisms to ensure management decisions align with the Corporation's statutory mandate.
- **Restore Financial Viability:** Implement immediate austerity measures and cost-rationalization strategies to arrest the **Rs 20,478 million** net loss and reverse the negative equity position.
- **Resolve Liquidity Crisis:** Develop a strategic roadmap to improve the current ratio and working capital, moving away from unsustainable reliance on short-term debt to finance long-term assets.
- **Standardize Quality Controls:** Enforce uniform moisture content thresholds across procurement and disposal stages to prevent quantity manipulation and the associated **Rs 1.49 billion** loss.
- **Rationalize Treasury Operations:** Optimize debt management by executing timely debt swaps and selecting economical KIBOR benchmarks to avoid unnecessary finance costs (e.g., the avoidable **Rs 2.84 billion** burden).
- **Rectify Billing Practices:** Reconcile and validate all claims submitted to the Federal Government, ensuring that incidental charges and interest claims are accurate, authorized, and strictly admissible under applicable rules.
- **Accelerate Receivables Recovery:** Execute an aggressive, time-bound recovery plan for the **Rs 257.13 billion** outstanding against government agencies to resolve the liquidity crunch.
- **Enforce Policy Governance:** Mandate that all operational frameworks, specifically the Wheat Procurement Policy, be vetted and approved by the Board of Directors to prevent unauthorized changes that facilitate malpractice.
- **Ensure Accountability:** Initiate immediate civil and criminal proceedings against officials involved in confirmed misappropriation (e.g., the **Rs 62 million** loss), ensuring full recovery of public funds.
- **Strengthen Oversight:** Establish robust internal control mechanisms to ensure management decisions align with the Corporation's statutory mandate.
- **Investigate Irregular Awards:** Conduct a high-level inquiry into the **Rs 374.5 million** in irregular procurements, specifically regarding the hiring of ineligible consultants and the concealment of the winding-up report.
- **Curb Anti-Competitive Practices:** Fix responsibility for collusive bidding (stationery) and enforce strict adherence to PPRA rules.

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- **Implement Digital Transformation**: Implement an integrated ERP platform covering procurement, finance, HR, inventory, and stock monitoring to eliminate manual data gaps.
- **Establish Real-Time Monitoring:** Introduce digital dashboards for wheat stocks, bardana issuance, moisture testing, procurement progress, and receivable tracking to prevent future irregularities.

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9. APPENDICES

Audit Objectives

The primary objective of this audit was to assess PASSCO's financial sustainability, governance framework, operational efficiency, and compliance with statutory and regulatory requirements during FY2021–FY2025. Specifically, the audit aimed to:

- Evaluate the extent to which PASSCO's financial management practices—including liquidity, debt, 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.
- Review operational processes relating to procurement, wheat storage, stock handling, disposal, and recoveries to determine whether PASSCO achieves value for money and fulfils its strategic role in national food security.
- Assess the adequacy of ICT systems and digital processes supporting financial reporting, monitoring, and decision-making.

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Audit Scope

The audit covered **PASSCO headquarters, regional offices, storage centers, procurement operations**, and relevant supporting functions for the period **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.
- Assessment of stock management practices, including procurement of wheat, storage conditions, moisture testing, quality assurance, inventory turnover, and handling losses.
- Evaluation of governance mechanisms, including Board oversight, policy approvals, accountability processes, and performance of the Vigilance Wing.
- Analysis of recoveries from government agencies, ancillary financial claims, incidental charges, and debt servicing arrangements.
- Verification of ICT readiness, system controls, data reliability, and the extent of digital integration across operational functions.

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, PC-1s, procurement records, contracts, stock reports, policy documents, Board minutes, and internal correspondence.
- **Data Analysis:** Trend analysis of financial ratios, liquidity indicators, debt levels, inventory metrics, 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.
- **Operational Observations:** Review of physical stock management, including inspection reports, quality testing procedures, and surveillance records from storage centers.

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Finding No.	Finding Title (as in Report)	OM No.	Original OM Title
1	**STATED MANDATE, ROLES & RESPONSIBILITIES**		
1.1	Unauthorized Circulation of Wheat Procurement Policy and Weak Oversight	**OM-23**	*Inclusion of middleman in Wheat Procurement Policy and Weak Oversight by BoD Leading to Corruption & Malpractices*
1.2	Failure to Enforce Accountability in Confirmed Misappropriation Cases	**OM-15**	*Misappropriation of wheat at PC/RV Lasharian and Tandlianwala and non-initiation of civil/criminal action*
1.3 (i)	Weak Governance Oversight and Failure of Vigilance Wing to Detect Procurement Irregularities	**OM-28**	*Weak monitoring by Vigilance Wing;*
1.3 (ii)	Inadequate Strategic Oversight Leading to Non-Utilization of Godowns	**OM-33**	*Non-utilization of PASSCO-owned godowns*
2	**FINANCIAL PERFORMANCE ANALYSIS**	-	Analysis based on Financial Statements
3	**FINANCIAL MANAGEMENT**		
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3.2	Use of Higher KIBOR Benchmark Resulting in Excess Financial Cost	**OM-2**	*Use of 3-Month KIBOR benchmark causing excess finance charges*
3.3	Overstatement of Incidental Charges Due to Incorrect Costing Practices	**OM-4**	*Overstatement of incidental charges submitted to GoP – Rs. 1,725.279 million*
3.4	Excess Billing and Unauthorized Interest Claims Submitted to Government	**OM-7 & OM-11**	*i. Unjustified excess charging of strategic reserve cost to the Govt. of Pakistan -Rs. 18,705.700 million* *ii. Unauthorized charging of interest on delayed payments to Govt. of Pakistan -Rs. 11,827.521 million*
	4. PROCUREMENT		
4.1	Mis-Procurement and Uneconomical Engagement of Third-Party Auditor	**OM-12 & OM-14**	*i. Mis-Procurement Due to Unjustified Technical Disqualification of an Eligible Firm-Rs. 22.301 million* *ii. Award of Third-Party Audit at Exorbitant Cost Without Establishing Rate Reasonability-Rs. 22.300 million*
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4.4	Collusive Bidding and Mis-Procurement	**OM-10**	*Non-Transparent Tendering Process for Procurement of Stationery -Rs 13.522 million*
	5. ICT & DIGITIZATION		
5.1	Absence of Integrated ICT Systems	*(Implicit)*	*Derived from systemic weaknesses across multiple operational OMs*

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Table 1 Delayed Debt Swap (3.1)

Bank	Amount of Loan	2nd quarter rates	3rd quarter rates	Difference	Delay in days	Excess Markup Paid
Meezan Bank Limited	124,823.005	15.91%	10.83%	5.08%	20	346.50
Habib Bank Islamic	21,999.99	16.07%	10.83%	5.24%		62.99
Allied Bank Islamic	31,996.361	16.07%	10.83%	5.24%		91.62
MCB Islamic	29,999.987	16.08%	10.83%	5.25%		86.07
Habib Bank	27,999.213	16.13%	10.83%	5.30%		81.09
MCB	59,999.242	16.13%	11.02%	5.11%		167.54
NBP	46,642.779	16.13%	11.02%	5.11%		130.24
Allied Bank	37,998.187	16.13%	11.02%	5.11%		106.10
Habib Metropolitan Banak	23,999.999	15.78%	11.02%	4.76%		62.43
NBP Aitmad	15,000.00	16.13%	10.83%	5.30%		43.44
Soneri Bank	24,999.999	16.13%	11.02%	5.11%		69.81
Soneri Islamic	4,000.00	16.12%	10.13%	5.99%		13.09
Total						**1,260.92**

Source: Files of F&A wing regarding Credit Facility & markup paid

Table 2 KIBOR Analysis (3.2)

Name of Bank	Credit facility availed	3 Month KIBOR rate	6 Month KIBOR rate	Difference	Excess payment of financial charges
1st Quarter Credit Facility					
Meezan Bank	122,988.878	21.99	21.71	0.28	84.68
HBL- Islamic	22,000.00				15.15
Allied Bank Limited	31,996.361				22.03
Faysal Bank Limited	39,978.918				27.53
MCB Islamic	19,999.900				13.77
Habib Bank Limited	27,826.886				19.16
Allied Bank Limited	27,084.432				18.65
Muslim Commercial Bank	59,750.831				41.14
National Bank of Pakistan	45,707.536				31.47
Habib Metropolitan Islamic	24,000.0				16.52
Askari Bank	70,000.00				48.20
Soneria Bank	20,899.934				14.39
Askari Islamic	18,000.00				12.39
3rd Quarter Credit Facility					
Habib Metropolitan Islamic	24,000.00	16.13	15.20	0.93	54.89
Meezan Bank	124,823.005				285.46
Faysal Bank Limited	50,000.00				114.34
HBL- Islamic	22,000.00				50.31
ABL Islamic	31,996.361				73.17
MCB-Islamic	29,999.941				68.61
Soneri-Islamic	4,000.00				9.15
Habib Bank Limited	27,999.213				64.03
Allied Bank Limited	37,999.999				86.90
Muslim Commercial Bank	59,999.242				137.21
National Bank of Pakistan	49,999.998				114.34

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Name of Bank	Credit facility availed	3 Month KIBOR rate	6 Month KIBOR rate	Difference	Excess payment of financial charges
National Bank of Pakistan- Aitmad	15,000.00				34.30
Soneri Bank	25,000.00				57.17
Bank Alfalah	27,080.613				61.93
Total					**1,576.90**

Source: Files of F&A wing regarding Credit Facility availed

Table 3 Over Invoicing Calculations (3.3)

Description	Quantity	Remarks	Amount (Rs.)
Opening Stock of Wheat in MT`	1,343,137	Valued at Rs. 8,184.14 (Last approved incidental rate)	10,992,421,247
Purchase of Wheat in MT (Crop 2023)	1,502,716	As per the audited Financial Statement of 2023-24 Operating Expense: 8,545.074 HO admin expense: 901.459 FO admin expense: 1,512.417 Finance Cost: 85,775.080 Taxation: 2,077.091 Less Other income 1,437.982	97,373,140,000
Total Qty & Cost	2,845,853 (A)		108,365,561,247
Cost Charged to the Govt. of Pakistan for maintenance of Strategic reserve			56,638,170,000
Cost to be claimed from other Govt. agencies			51,727,391,247 (B)
Rate per metric ton as per actual cost		(B/A)	18,176.41
While approved rate for 2023-24 by FD on the basis of management working			21,037.18
Excess Claim per MT			2,860.77
Total sale of wheat during 2023-24 for which excess incidental will be claimed	603,082		1,725,278,893

Source: Financial Statements 2023-24

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Table 4 Excess charging of strategic reserve cost (3.4)

Description	Quantity	Remarks	Amount (Rs.)	Remarks
Opening Stock of Wheat in MT`	1,343,137	Valued at Rs. 8,184.14 (Last approved incidental rate)	10,992,421,247	
Purchase of Wheat in MT (Crop 2023)	1,502,716	As per the audited Financial Statement of 2023-24 Operating Expense: 8,545.074 HO admin expense: 901.459 FO admin expense: 1,512.417 Finance Cost: 85,775.080 Taxation: 2,077.091 Less Other income 1,437.982	97,373,140,000	
Total Qty & Cost	2,845,853 (A)		108,365,561,247	(B)
Cost per M. Ton			38,078.41 Per M.Ton	(B/A)=C
Rate for 2023-24 approved by FD to be charged to Govt. agencies			21,037.18 Per M.Ton	D
Remaining amount to be claimed from Govt. of Pakistan			17,041.23 Per M.Ton	C-D=E
While rate charged to Govt. of Pakistan			27,749.28 Per M.Ton	F
Excess charging per M.ton			10,708.05 Per M.Ton	E-F=G
Average Strategic Reserve maintained during 2023-24			1,746,882 Metric ton	H
Excess charging to the Govt. of Pakistan			18,705,699,800	G*H

Source: Financial Statements 2023-24

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Table 5 Rejection of Firms on Technical Grounds (5.2)

Criteria	Marks allocated	Reason for rejection	Audit observation	Marks to be allocated
2.3 (b) Technical experts dealing in food grains on firm board (05 marks for each expert maximum 10 marks)	0	Firms technical expert have no practical experience they completed the qualification in 2023. They only worked as teacher assistant	Firms mentioned three experts having Master in Agriculture, M.Sc (Hons) in Agriculture and have teaching experience. As per criteria they fulfilled the requirement but later on management on its own added that practical experience is necessary. Firm qualified in this category had also mentioned Prof. Ayub khan and Prof. Zahid Mahmood as expert. Both are teachers and having no practical experience.	10
2.5Firms must have professional qualified staff relating to food grains (10 marks for each staff)	0	Firm assigned Mr. Arqam ACA who has no food grain experience.	Audit noted with concern that how management know that the said professional had not such experience while the firm in its profile mentioned number of companies related to food which have been audited by the company	10
2.7 Firm must hold satisfactory QCR rating issued by the ICAP with proof	0	QCR rating of the firm expired on 19.04.2023 and not renewed since then	The said firm has attached letter from ICAP (QCR rating agency) in which it was mentioned that the QCR rating of the firm remain valid as the QCR renewal is in process. Hence awarding 0 on this ground is not justified.	10
2.2 Audited financial statements (for first three year= 10 marks)	09	Not mentioned	It is pertinent to mention that submission of three years' audited financial statements warrants full allocation of 10 marks; otherwise, the firm should receive 0 marks. Awarding 9 marks instead of 10 indicates an apparent intent to exclude the firm from competition by a margin of just one mark.	10

Source: Tender Files

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Table 6 Outstanding Receivable from Agencies (1.5 & 1.6)

Sr. No.	Name of Agency	Total Outstanding (Rs in million)
1	Food Department Azad Jamu & Kashmir	17,861.354
2	Food Department Gilgit Baltistan	8,227.046
3.	Defence (Pak Army & Air force)	3,908.676
4.	Food Department, GoPb	34,432.216
5.	Khyber Pakhtunkhwa (KPK)	41,970.156
6.	Food Department, GoSd	17,455.485
7.	Finance Division-GoP	133,273.311
	Total	257,128.244

Source: Financial Statements 2024-25 & Updated figures provided by F&A wing

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Table 7 Definitions of Ratios included in the report

Ratio Name	Formula	Ratio Interpretation
Gross Margin Ratio	Gross Profit ÷ Revenue × 100	Shows profitability after cost of sales higher = better
Current Ratio	Current Assets ÷ Current Liabilities	Measures ability to pay short-term obligations (>1 generally healthy)
Liquid (Quick) Ratio	(Current Assets – Inventory) ÷ Current Liabilities	Liquidity without inventory; shows immediate ability to meet liabilities
Cash Ratio	(Cash + Cash Equivalents + Short-Term Investments) ÷ Current Liabilities	Measures most conservative liquidity; ability to pay liabilities using only cash
Net Working Capital	Current Assets – Current Liabilities	Indicates available short-term funds for operations (positive = good liquidity)
Debt to Equity Ratio	Total Debt ÷ Total Equity	Shows leverage and risk; high ratio = more reliance on debt financing.
Debt to Asset Ratio	Total Debt ÷ Total Assets	Shows % of assets financed by debt; <50% indicates lower financial risk
Inventory Turnover Ratio	Cost of Goods Sold ÷ Average Inventory	Indicates how fast inventory is sold; higher = efficient stock movement
Inventory Turnover Days	365 ÷ Inventory Turnover Ratio	Shows number of days inventory stays before being sold; lower days = better
Receivable Turnover Ratio	Net Credit Sales ÷ Average Accounts Receivable	Measures how quickly customers pay; higher = efficient collection
Receivable Turnover Days	365 ÷ Receivable Turnover Ratio	Shows average collection period; fewer days = faster recovery of dues

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