Auditor-General of Pakistan

AUDIT REPORT ON EXPORT PROCESSING ZONES AUTHORITY (EPZA) KARACHI

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Assistant Audit Officer (IT)
20 October 2026 03:04:22 PM

Report No: DG CA&E (South) Karachi 25-002

Audit Year 2025-26
(Financial Year 2024-25)

PREFACE

Articles 169 and 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 receipt 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 the accounts of *Export Processing Zones Authority (EPZA) Karachi* for the financial year 2024-25. The Director General Commercial Audit & Evaluation (South), Karachi 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 execution action. Audit findings indicate a number of matters related to financial management, human resource management, procurement & contract management, asset management and achievements of the targets / KPIs.

The report was shared with the entity as well as the Principal Accounts Officer (PAO). However, no DAC meeting was convened by the PAO despite written request by the audit.

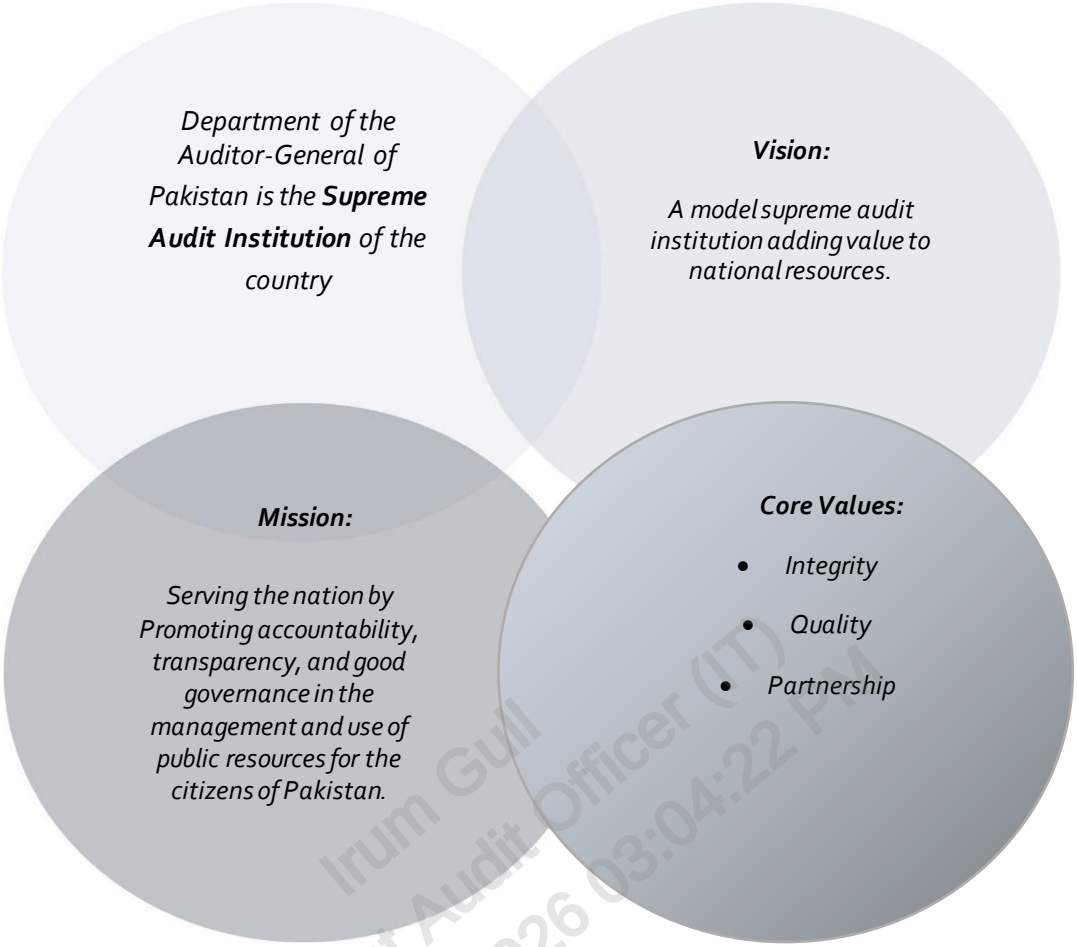
The Audit Report is submitted to the President of Pakistan in pursuance of Article 171 of the Constitution of the Islamic Republic of Pakistan 1973, for causing it to be laid before both Houses of Majlis-e-Shoora (Parliament).

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Islamabad
Dated: February, 2026

(Maqbool Ahmad Gondal)
Auditor-General of Pakistan

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 the financial discipline and internal control environment in the executive departments for minimizing 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.

AUDIT SNAPSHOT

Why did we do this audit?

- Export Processing Zones Authority (EPZA) was established by Government of Pakistan for promotion of the export-oriented industrialization.

- The audit of EPZA was conducted under Article 169 of the Constitution of the Auditor General's (Functions, Powers and Terms & Conditions of Service) Ordinance, 2001, to ensure transparency, accountability and proper utilization of public resources. EPZA is performing its mandated regulatory function, i.e. the management and development of export processing zones, investors' facilitation for export promotion, acting as a one window facility for establishing industrial units. Audit looked into efficient and effective co-ordination with other concern departments, e.g. Pakistan Customs etc. Audit also scrutinized utilization of public resources, financial and human resource management.

What did we find?

- Non provision of approved financial statement for the financial years 2019-20 to 2024-25.
- Loss of remittance due to zero exports
- Less exports against the imports
- Exports in tariff area in excess of allowed limit.
- Smuggling/Mis-declarations of import
- Non-recovery of Annual Ground Rent
- Un-authorized establishment of local units in GEPZ (Gujranwala Zone)
- Non reflection of investment in shares in financial accounts
- Mis-declaration of imported goods

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Key Assessment

- Weaknesses in monitoring and control environment.
- Non-compliance of EPZA regulations.
- Declining revenue from scrutiny transfer fee etc.
- Excessively high administration and general expenses; 107 % (2016-17) and 100.2% (2019-20).

What did we recommend?

- Ensure timely finalization of financial statements.
- Strict vigilance on investors to ensure conversion of imported materials into finished goods for export.
- Ensure monitoring of exports in tariff areas within permissible limit (20%) accordance to rules.
- Effective coordination with custom authorities to prevent illegal import and tax evasion
- Strengthen existing procedures for periodic reconciliation between books and banks and effective recovery mechanism for long outstanding dues.
- Strict actions against the unapproved units established in GEPZ.

HIGHLIGHTS

ENTITY SUMMARY SHEET — EPZA (Financial Year 2024-25)

Description	Details *(Figures in Rs million)*	
Legal Framework of Entity	The Export Processing Zones Authority was established by the Government of Pakistan on February 06, 1980 through Export Processing Zones Authority Ordinance 1980, under the administrative control of Ministry of Industries and Production.	
Key Responsibilities / Mandate & Objectives	The main objective of the Authority is to plan, develop, manage and operate Export Processing Zones under (EPZ) in Pakistan.	
Total Assets (Current / Non-Current)	Audit Financial Statements 2018-19	Draft Financial Statements 2020-21
	Total Assets: 5,918.589 m	6,707.544 m
	Current Assets: 4,956.906 m	5,693.727 m
	Non-Current Assets:959.6834	1,013.816
Total Liabilities (Current / Non-Current)	Total Liabilities: 2,827.620 m	2,938.567 m
	Current Liabilities: 355.021 m	463.425 m
	Non-Current Liabilities:2,472.598 m	2,475.141 m
Income / Revenue	Revenue: 1,756.138 m	2,432.968 m
	Interest Income: 191.156 m	163.666 m
	Other Income 34.074 m	116.604 m
	Exchange Gain: 161.300 m	(26.106) m
	Amortization of deferred Income: 3.235 m	3.008 m
	Total Income: 2,145.905 m	2,690.140 m
Government Grants / Subsidies	**NiL**	
Expenditure	1,681.783 m	2,034.036 m
Cash Balances	171.215 m	742.51 m
Total Investments	-	
Funding Sources	Self- generation	
Accounting Policy	IAS and IFRS-Compliant	
Status of Financial Statements	Audited & Approved by Board of Directors till FY 20218-2019. However, the financial statements for the years 2019-20 to 2020-21 are only drafted and not signed so far.	
Compliance Status of Audit Recommendations	Compliance audit was conducted for the financial year 2024-25	

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ABBREVIATIONS

AGP	Auditor-General of Pakistan
AGR	Annual Ground Rent
BoD	Board of Directors
DAC	Departmental Accounts Committee
ECC	Economic Coordination Committee
EPZA	Export Processing Zones Authority
FCICL	Franklin Credit & Investment Company Limited
FDI	Foreign Direct Investment
GEPZ	Gujranwala Export Processing Zone
GD	Goods Declaration
KEPZ	Karachi Export Processing Zone
LD	Liquidated Damages
MoIP	Ministry of Industries & Production
NTS	National Testing Services
PSDP	Public Sector Development Program
PTCL	Pakistan Textile City Limited
REPZ	Resalpur Export Processing Zone
SEPZ	Sialkot Expo Processing Zone
USD	United State Dollar

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OVERVIEW OF THE ENTITY

The Export Processing Zone Authority (EPZA) was established by the Government of Pakistan on February 6, 1980 through Export Processing Zones Authority Ordinance, 1980 with the objectives to making all arrangements for the planning, development and management of the Zones and to provide for matters connected therewith or ancillary thereto.

Export Processing Zones Authority (EPZA) conceived and designed to increase and improve the exports of the country. Its main objectives are accelerating the pace of industrialization in the country and enhancing the volume of exports by creating an enabling environment for investors to initiate ambitious export-oriented projects in zones which would, as a corollary, create job opportunities, bring new technology and attract foreign investment.

Despite the existence of the Finance and Audit Committee of the Board and a sanctioned position of General Manager Internal Audit, the Internal Audit Department of the Export Processing Zones Authority does not perform its fiduciary functions. The Internal Audit Department remained limited to pre-audit activities, which do not constitute an independent, risk-based internal audit. This weakness highlights the need to strengthen control procedures and enhance audit independence and documentation. The performance of the Board' members and its committee performance was not shared during the audit. Board did not approve the financial statements for the year 2019-20 & 2020-21.

First project at Karachi (KEPZ) was developed under Public Sectors Development Program (PSDP) and land measuring 311 acres were acquired by EPZA through Sindh Board of Revenue. The funds amounting to Rs. 362.735 million for development of phase-I were provided through Annual Development Program (ADP). Phase-I was completed in the year 1989. Currently, KEPZ comprises of 261 units.

As of now EPZA operates following six more established zones across the country, with its head office located at Karachi in KEPZ.

i. Sialkot Export Processing Zone comprises of 24 units having land covered area 238 acres. It is property of provincial Government of Punjab.
ii. Risalpur Export Processing Zone comprises of total 14 units having land covered area of 92 acres. It is the property of provincial Government.
iii. Gujranwala Export Processing Zone comprises of 13 units having land area of 113 acres.
iv. Saindak Export Processing Zone, only one unit having area of 1,284 acres.
v. Duddar Export Processing Zone, only one unit.
vi. Tuwairqi Steel Mill Export Processing Zone, located at Port Qasim Authority land. Tuwairqi Steel Mill is the only unit in this zone.

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AUDIT FINDINGS

SUMMARY

This audit provides an integrated assessment of EPZA's financial performance for FY 2024-25, along with its governance structure, internal controls, and human resource management. The review identifies systemic weaknesses that affect regulatory effectiveness, operational integrity, and institutional performance.

A major concern is non-preparation of financial statements for the financial years 2021-22,2022-23, 2023-24 and 2024–25, which hinders examining financial transparency and accountability. After the lapse of 7 years the management provided copies of audited financial statements 2014-15 to 2018-19 to this office in the year 2025.

Review of these FS (from 2014-15 to 2018-19) revealed that external auditor repeatedly issued qualified opinions and highlighted deficiencies in financial reporting and record maintenance. Key audit qualifications these audited years included non-observance of physical verification of property, plant and equipment; incomplete investment records; lack of confirmations of closing balances from banks, details of litigation cases from legal advisors and weaknesses in cash verification procedures. In financial year 2016-17, actuarial valuation of gratuity and leave encashment liabilities were not finalized.

In the financial year 2024-25, the audit noted that the Export performance remained unsatisfactory. In KEPZ, where head office of EPZA situated, 159 industrial units out 270 units failed to meet committed export targets, resulting in estimated less foreign exchange earnings approximately to USD 398 million. Additionally, Annual Ground Rent remained unrecovered from 12 investors, with USD 48,489 outstanding. Irregularities in tariff area sales were also observed. Twenty-four units reported exports of USD 100.792 million but sold goods worth USD 84.227 million in the tariff area, exceeding the permissible limit by USD 64.068 million.

Production and import imbalances were noted in various zones. 16 units out of 270 in KEPZ made no exports despite imports of USD 16.292 million, 4 units out of 14 in REPZ made no exports despite imports of USD 0.236 million, 2 units out of 24 in SEPZ made no exports despite imports of USD 0.09 million, 3 units out of 13 in GEPZ made no exports despite imports of USD 0.09 million. Whereas, in cases of less export than import, 46 units of KEPZ exported USD 52.366 million against imports of USD 81.440 million, creating a shortfall of USD 29.074 million. This reflects ineffective monitoring of input–output performance. Such deviations indicate weak enforcement of export-oriented regulations.

Governance and compliance issues were also identified, including improper handling of performance bank guarantees, undeclared imported goods, misuse of authority in approving rented premises and non-compliance with contractual obligations in plot allocation. These non-observance of regulations besides recurring audit qualifications emphasize to uphold stronger financial governance and regulatory enforcement.

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1. STATED MANDATE, ROLES & RESPONSIBILITIES

The Export Processing Zones Authority (EPZA) was established by the Government of Pakistan through Export Processing Zones Authority (EPZA) Ordinance, 1980 with a mandate to promote and facilitate export-oriented investment and to develop an enabling environment for it. According to the Ordinance, the authority shall be a corporate body administration of which shall vest in a Board.

The Board of Directors consists of nine members, including Chairman appointed by the Federal Government.

The Cabinet has approved the following composition of the Board of Directors of Export Processing Zones Authority (EPZA) for a period of three (03) years w.e.f. 20th February,2023.

Ser#	Name / Appointment of Member	Status
1.	Chairman, Export Processing Zones Authority	Chairman
2.	Member (Customs) FBR	Member
3.	Additional Secretary-II,MOI&P	Member
4.	Representative of M/o Finance (Not below the rank of BS-21)	Member
5.	Representative of M/o Commerce (Not below the rank of BS-21)	Member
6.	President, Federation of Pakistan Chambers of Commerce & Industry (FPCC&I)	Member
7.	Mr. Mustafa Hemani, M/s. Hemani International, Karachi	Member
8.	Mr. Hassan Masood Khawaja, M/s. Forward Group, Sialkot	Member
9.	Mr. Idrees Gigi, M/s. IF Zippers Pakistan (Pvt) Ltd. Karachi.	Member

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Board is mandated to improve governance and operational efficiency in accordance with State-Owned-Enterprises (Governance and Operations) Act of 2023 with reviewing the plan, including exploring cooperation with potential investors. The Board reviews financial statements, oversees the financial reporting process, and ensures with legal requirements and identification and management of risks. Besides, there are also two committees to the Board, i.e. Finance and Audit Committee and HR Committee.

Subsequent to the ordinance, Federal Government (Ministry of Industries) notified governing rules on 23rd September,1981 titled as "Export Processing Zones authority Rules,1981. Under these rules EPZA was to set up export-oriented industries requiring sophisticated technology, advanced marketing arrangements by using preferably local raw material and labor.

The EPZA is also mandated to safeguard environment by ensuring measures necessary for proper treatment of pollutants before they are disposed-off.

2. FINANCIAL PERFORMANCE ANALYSIS (2014-15 To 2020-21)

(Audited FS for FY 2014-15 to 2018-19 and draft FS for FY 2019-20 & 2020-21)

2.1 Non-Finalization of Financial Statements

Audit observed that Financial Statements were neither finalized nor audited by a chartered accounting firm since 2020. The preparation of Financial Statements was responsibility of the management.

Due to non-preparation of financial statements; the true picture of accounts could not be ascertained. However, un-audited financial statements for the years 2019-20 and 2020-21 have been prepared.

The matter was pointed out through observation dated 09.09.2025. The management in its reply dated 30-09-2025 stated that the account for the financial year 2019-20 has been finalized by the External Auditor and will be presented at the upcoming Board of Directors meeting. The reply of the management is not tenable because accounts still not finalized.

Audit recommends early finalization of audited financial statements with approval of Board.

AIR EPZA 24-25, PARA No.29

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2.2 Comments on Audited Accounts

EPZA management prepared financial statements up to the financial year 2018-2019 and draft/unaudited accounts for the financial years 2019-2020 and 2020-21. Financial statements are prepared on International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISAs).

External auditor has given consistently qualified opinion report on the financial statements for the financial years 2014-15 to 2018-19 i.e. non-observance of physical verification of property, plant and equipment, non-confirmation from legal advisors and banks.

Absence of long-term investments for the years 2017-18, 2018-19 and 2020-21 reflects an inactive investment strategy. This likely reduced potential stable income and represents a missed opportunity to enhance returns on accumulated resources.

Total income increased from Rs. 2,215.51 million in the year 2019-20 to Rs. 2,690.14 million in the year 2020-21, registering an increase of Rs. 474.63 million, i.e., 21.4% Surplus After Tax increased from Rs. 184.9 million in FY 2019-20 to Rs. 471.6 million in FY 2020-21, registering an increase of Rs. 286.7 million, i.e., 155.0%.

EPZA's cash balance of Rs. 742.51 million in FY 2020-21 appears strong but is largely inefficient, as Rs. 495.65 million is parked in non-interest-bearing current accounts.

Operating cash flows fell sharply by 74.6% to Rs. 26 million, while the increase in cash mainly came from a 40% rise in refundable investor security deposits. Moreover, the reliability of these balances is questionable due to auditors' qualifications in earlier years over weak bank confirmations and cash controls.

Current Ratio is estimated to be approximately 12.3 times (Rs. 5,693.7 / Rs. 463.4). This indicates an exceptionally strong liquidity position, with more than twelve rupees of liquid assets available for every one rupee of short-term payables.

Furthermore, in operational performance of EPZA audit noted that 221 exporting units did not achieve committed exports targets. Out of which 159 exporting units have achieved only $71.028 million against the export target of $415.921 million (17.07% achievement). Alarmingly, 16 units had zero export despite importing $16.292 million worth of items. Another 46 units underperformed, exporting $52.366 million against $81.440 imports. This shows weak internal controls and inefficient operations.

2.3 Revenue Structure Analysis

2.3.1 Revenue performance

Financial analysis depicts that total income increased from Rs. 2,215.51 million in the year 2019-20 to Rs. 2,690.14 million in the year 2020-21, registering an increase of Rs. 474.63 million, i.e., 21.4%. Authority's surplus before tax of Rs. 219.740 million and Rs.656.104 million for the years 2014-15 to 2020-21 has been increased. As it is primarily driven by three items. i,e. interest income, exchange gain, and other income of Rs. 300.425 million and Rs. 254.164 million in FY 2019-20 and FY 2020-21. The growth was primarily driven by higher operating revenue, partially offset by declines in financial income and adverse foreign exchange movements.

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Rs. in millions

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Revenue	1,319.828	1,396.921	1,409.076	1,591.314	1,756.138	1,911.959	2,432.968
Interest income	149.159	154.828	196.114	90.878	191.156	256.881	163.666
Other Income	5.619	60.987	65.711	48.486	34.074	39.713	116.604
Exchange Gain/(Loss)	8.592	2.360	(2.413)	16.116	161.300	3.831	(26.106)
Amortization of deferred income	3.765	3.622	3.486	3.357	3.235	3.118	3.008
Total income	1,486.965	1,618.721	1,671.976	1,750.154	2,145.905	2,215.504	2,690.140
Surplus before Income Tax	219.740	309.638	162.848	179.180	414.121	299.227	656.104
Surplus after tax	150.995	188.047	90.226	128.047	304.08	184.912	471.620

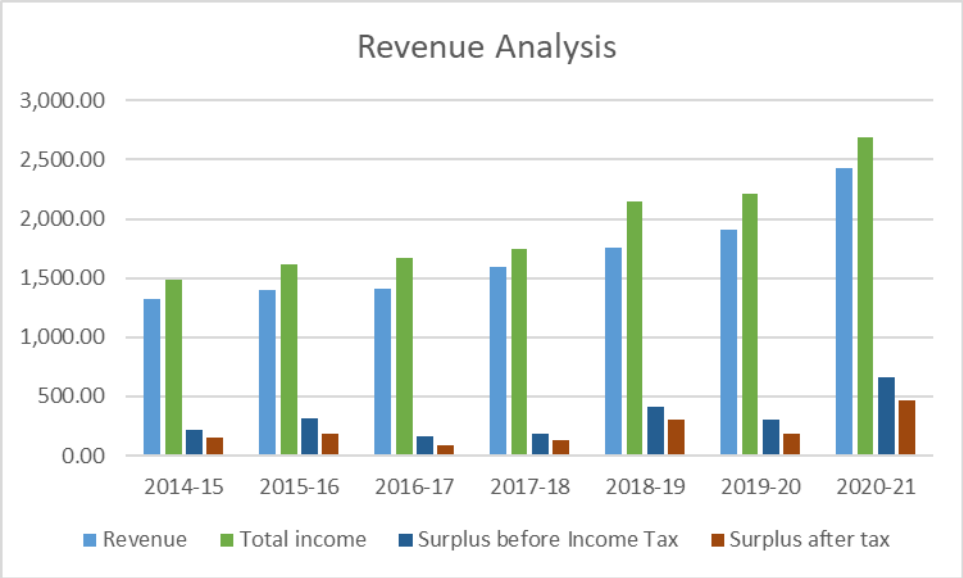


Figure 1 (Source: Annual audited Financial Statements 2014-15 to 2017-18 and Draft FS 2019-20 and 2020-21)

2.3.2 Major Revenue Heads

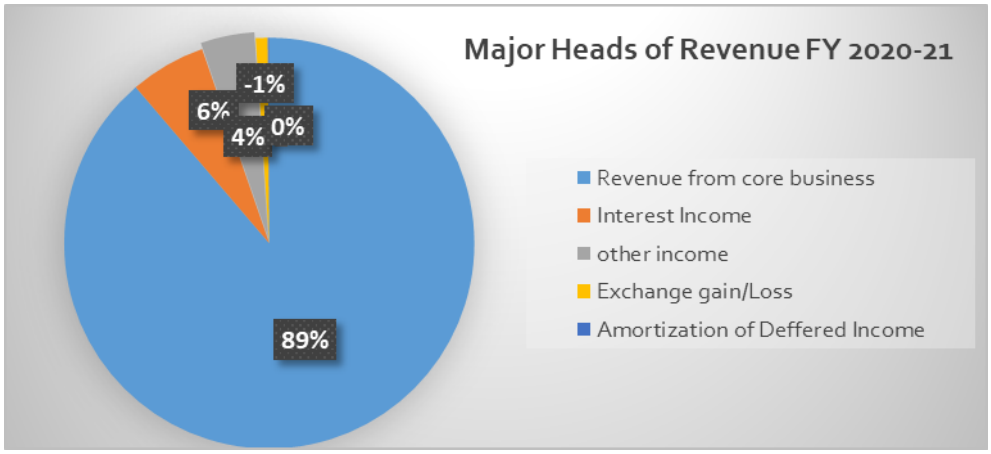
It was noted from financial statements that the major revenue generating sources of EPZA were Ground Rent, Income from utility services and service charges. Other revenue is generated from non-core business activities such as interest income, exchange gain, deffered income and other income. Revenue income generated from core business was 86% and 89% of the total income in FY 2019-20 and 2020-21 respectively. Moreover, Interest income was 12% and 6% in 2019-20 and 2020-21. The Authority recorded exchange loss of Rs.26.106 million in the FY 2020-21.

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Amount Rs. In millions

	2019-20	**2020-21**
Revenue from core business	1,911.959	2,432.968
Interest Income	256.881	163.666
other income	39.713	116.60
Exchange gain/(Loss)	3.831	(26.106)
Amortization of Deferred Income	3.118	3.008
Total Income	**2,215.51**	**2,690.14**

Source: Annual audited Financial Statements 2014-15 to 2017-18 and Draft FS 2019-20 and 2020-21



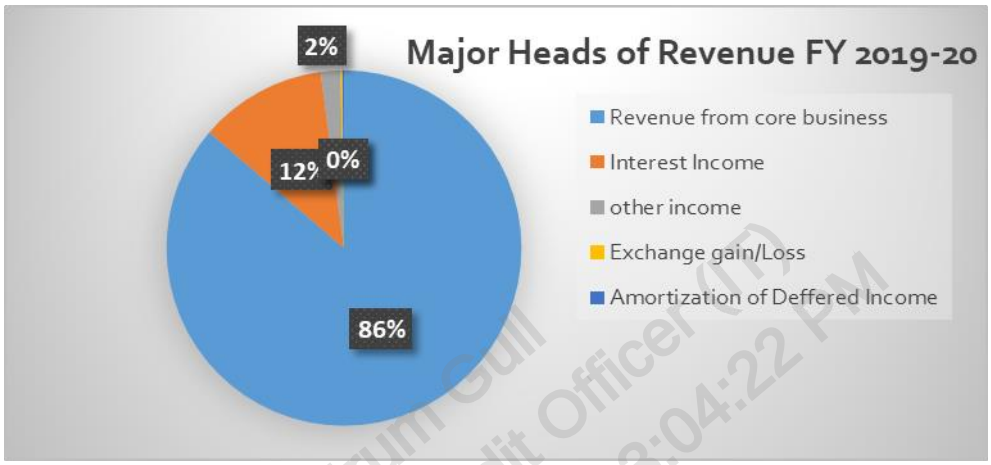
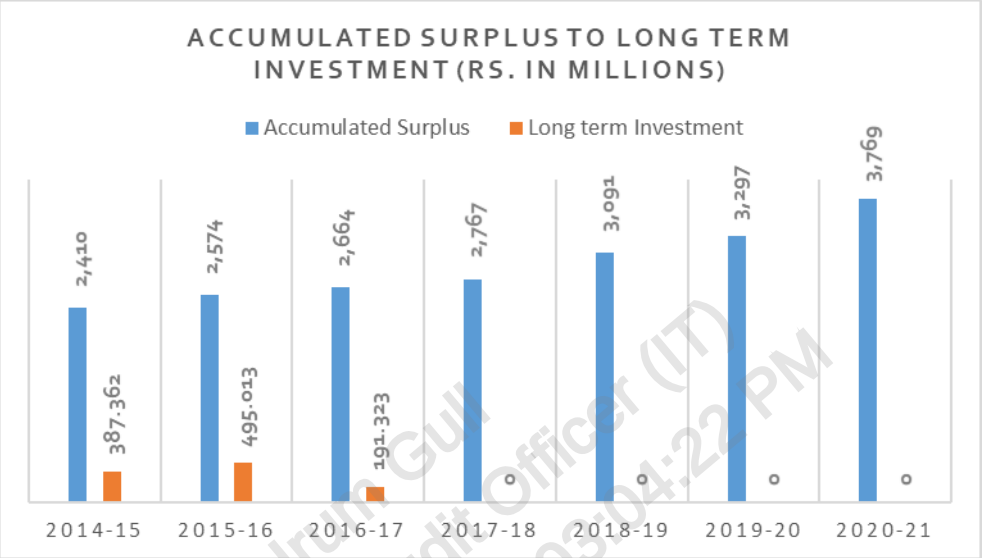


Figure 2 & 3: Source: Annual audited Financial Statements 2014-15 to 2017-18 and Draft FS 2019-20 and 2020-21

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2.4 Long-Term Investment to Accumulated Surplus

The Authority's accumulated surplus rose from Rs. 2,410 million in FY 2014-15 to Rs. 3,769 million in FY 2020-21; however, long-term investments declined from Rs. 387.362 million to nil from FY 2017-18 onward. Despite availability of surplus funds, no long-term investments reflected imprudent investment strategy. This likely reduced potential stable income and represents a missed opportunity to enhance returns on accumulated resources.



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Figure 4: Source: Annual audited Financial Statements 2014-15 to 2017-18 and Draft FS 2019-20 and 2020-21

2.5 Current Ratio

The Authority's current ratio declined from 14.97 times in FY 2014–15 to 12.29 times in FY 2020-21, yet remains excessively high, indicating inefficient use of resources. This is mainly due to large idle funds, including cash and bank balances of Rs. 742.507 million and short-term investments of Rs. 4,311.774 million, forming most of total current assets of Rs. 5,693.727 million. Such low-return holdings limit financial returns and divert funds from core developmental and export-promotion activities.

Rs. in millions

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Current Assets	2,505.763	2,818.971	3,401.491	3,861.383	4,958.906	5,434.114	5,693.727
Current Liability	167.425	204.789	242.733	286.509	355.021	427.135	463.425
Current Ratio (times)	14.97	13.77	14.01	13.48	13.97	12.72	12.29

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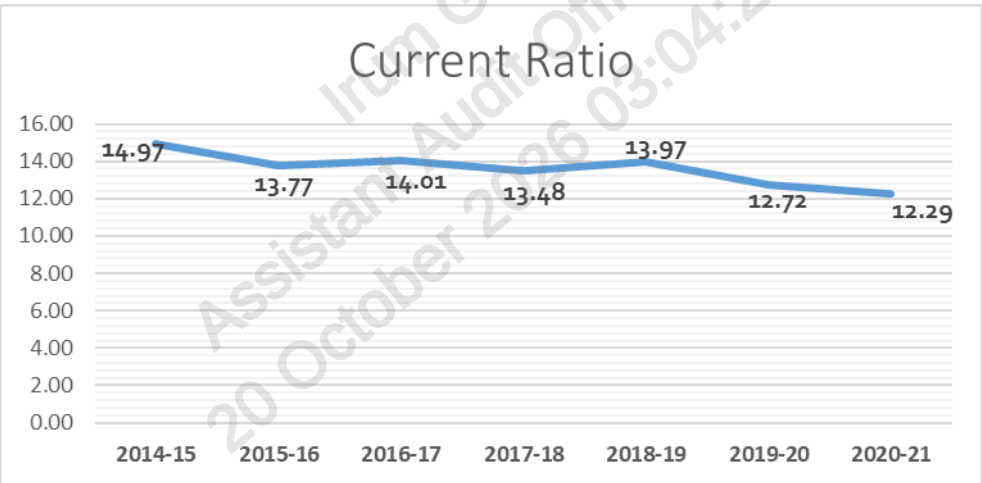
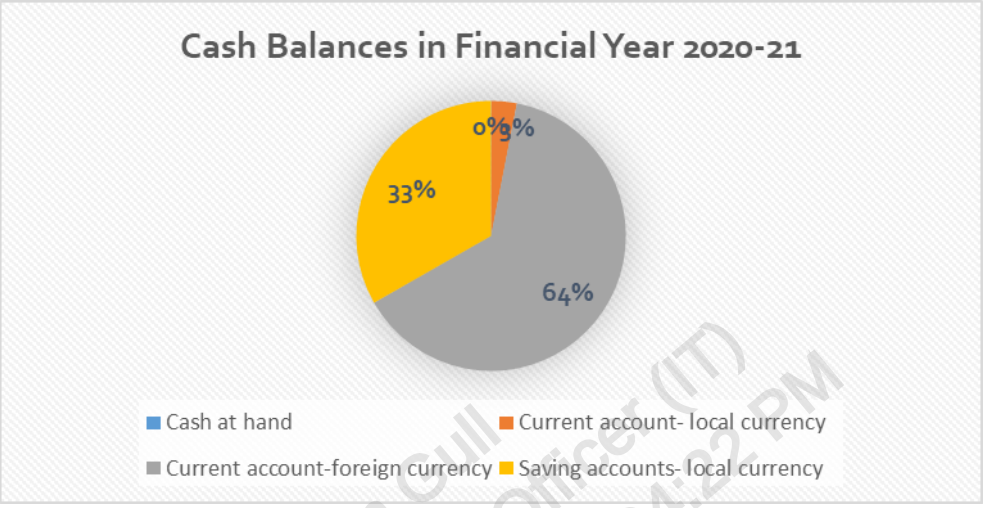


Figure 5 Source: Annual audited Financial Statements 2014-15 to 2017-18 and Draft FS 2019-20 and 2020-21

2.6 Imprudent placement of cash in current bank accounts

EPZA's cash balance of Rs. 742.51 million in FY 2020-21 appears strong but is largely inefficient, as Rs. 495.65 million is parked in non-interest-bearing current accounts and is not generated from core operations. Operating cash flows fell sharply by 74.6% to Rs. 26 million, while the increase in cash mainly came from a 40% rise in refundable investor security deposits. Moreover, the reliability of these balances is questionable due to auditors' qualifications in earlier years over weak bank confirmations and cash controls.



Figures 6 Source: Draft Financial Statement 2020-21

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2.7 Performance of Export

Audit reviewed that overall, 221 exporting units didn't achieve committed exports targets. Out of which 159 exporting units have achieved only $71.028 million against the export target of $415.921 million (17.07% achievement). Alarmingly, 16 units had zero export despite importing $16.292 million worth of items. Another 46 units underperformed, exporting $52.366 million against $81.440 imports. This shows weak internal controls and inefficient operations.

S No	Description	Number of Units
1	Units export less than their imports	46
2	Units with zero exports	16
3	Units not achieved export targets	159
	Total	221

Total number of units	Actual Export (USD)	Committed Export (USD)	Non achievement of target (USD)	Non achievement of target (Rs.) in billions USD @ 280
221	123,394,224	572,921,000	449,526,776	Rs.125.867
Source: as per Export Data provided by EPZA				

3. ENFORCEMENT AND REGULATORY FRAMEWORK

Audit observed financial mismanagement due to weak controls and non-implementation of regulatory oversight resulted in smuggling and mis-declaration of imported goods, tax evasion through duty-suspended machinery, and inadequate monitoring of sub-license (tripartite) agreements. Besides, defective tender clauses led to imposing of avoidable penalties.

Whereas, unauthorized local units, excess exports to tariff areas, and non-achievement of committed exports resulted in revenue and foreign exchange losses. Further, non-withdrawal of security deposits from courts indicating ineffective financial oversight has also been noted in this report.

3.1 Non-monitoring of execution of sub-license agreement (Tripartite)

As per Rule 4(3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Act and these rules.

Audit observed that the Board of Directors, in its 119th meeting held on 06th December,2016, decided that approved 'Industrial Unit' of Karachi Expo Processing Zone Phase-III, may do business in KEPZ Phase-I & II on rental basis. For implementation of Boards decision for enhancing export in KEPZ, M/s IF Zipper Pakistan (Pvt.) Ltd. Signed Sub-License Agreement (Tripartite) on rental basis with M/s Home Furnishing Ltd., M/s Jubilee Apparel and Export Processing Zone Authority on 26th December 2016. It was further observed that the Engineering Division made calculation of the area under use of M/s IF Zipper on 30-10-2024 and found excess area then declared. At the time of execution of Sub-license agreement, the covered area of both the companies, i.e M/s Home Furnishing Ltd. and M/s Jubilee Apparel was mis-declared and so less rental amount was paid to EPZA which caused loss of US$75,770. Detail is annexed in Table-1.

Audit is of the view that the irregularity occurred because management did not calculate the actual rented area of both companies before signing the Sub-License Agreement (Tripartite) and could not charge/recover the actual EPZA rental share. As a result, Authority deprived of the full benefit of rental share.

The management stated that the rental area was calculated by the Authority for record purposes and that, since the matter is sub judice, no charges can be imposed until the final decision in Suit No. 895 of 2020, High Court of Sindh, Karachi. However, the reply is not tenable, as the management failed to measure and calculate the exact covered area of both companies at the time of executing the tripartite sub-license agreement.

Audit recommends that matter may be investigated, besides recovery of rental amount. AIR EPZA 2024-25 Para No.2

Irum Gull
Assistant Audit Officer (IT)
28 October 2026 03:04:23 PM

3.2 Establishment of Local units in GEPZ and failure of EPZA to prevent financial losses

Government of Pakistan Ministry of Industries Notification Islamabad, 23rd September, 1981 Export Processing Zones Authority Rules, 1981 S.R.O. 1058(1)/81.- In exercise of the powers conferred by section 26 of the Export Processing Zones Authority Ordinance, 1980 (IV of 1980), the Federal Government is pleased to make the following rules, (9). Registration: If an industrial undertaking is sanctioned for a Zone, the investor shall register himself or itself with the Authority before commencing work on the project or site by entering into an agreement in such form, as may be specified from time to time, by Authority containing the General terms, conditions and procedure under which an industrial undertaking is sanctioned to operate in the Zone.

Audit observed that 147 local units were operating within the Gujranwala Export Processing Zone (GEPZ) without registering as investors with the EPZA. Around 90% of the units completed heavy-structure buildings, yet no record of entry or exit of construction materials was existed.

Construction materials continued to enter through the GEPZ gates, raised serious concerns about unauthorized activities. Despite this situation, the GEPZ authority and EPZA management did not take any action to regulate vehicle and material movement for these illegal units. Consequently, significant losses occurred due to the illegal transfer of goods manufactured in the zone to the local market caused substantial financial damage to the government exchequer and EPZA funds, including an estimated annual loss of USD 75 million in service charges on exports, presumptive taxes, and other applicable advance taxes.

The irregularities occurred because EPZA's failure to exercise effective control over the Gujranwala Export Processing Zone in allowing unregistered local units to construct facilities and operate without authorization.

Consequently, Government and EPZA deprived of 1 % presumptive tax & 0.5% services charges on export value respectively.

The management stated that EPZA fulfilled its responsibilities and that the matter was raised at high forums, including the Ministry of Industries & Production and the Economic Coordination Committee of the Cabinet. However, the reply is not tenable, as EPZA failed to exercise effective control over the Gujranwala Export Processing Zone, permitting unauthorized operations and taking no action against negligent officers.

Audit recommends that the management enforce strict monitoring and accountability measures besides taking disciplinary and legal action against unregistered units.

AIR EPZA 2024-25 Para No.5

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20 October 2026 03:04:22 PM

3.3 Non-recovery of Annual Ground Rent

As per clause 30 of license agreement that upon failure of the investor to pay the said ground rent within the scheduled dates, they shall be liable to pay late payment surcharge at the rate of USD 12% per month of the amount in default and would also entitle the Authority to revoke the license for consecutive default of two years. The security deposit shall be adjusted toward the period of default.

Audit observed that management could not recover Annual Ground Rent (AGR) from various investors. It was noted that an amount of USD 48,489/- was lying outstanding against the various investor units on account of Annual Ground Rent (AGR). Detail is provided in Table-3.
Audit is of the view that loss of revenue amounting to USD 48,489 (Equivalent to Rs.13.576 million @ 1USD=Rs.280) due to weak credit policy.

The management stated that action had been taken against 12 defaulting units through AGR for recovery of outstanding dues. However, the reply is not tenable, as no recovery has been made from the investors' AGR accounts to date.

Audit recommends that outstanding amount should be recovered from investor.

AIR EPZA 2024-25 Para No. 8

Assistant Audit Officer (IT)
20 October 2026 03:04:22 PM

3.4 Tax evasion due to import of duty suspended machinery

Audit noted that M/s. A.K. International had applied for an additional line of business for manufacturing of aluminum, copper, and stainless steel (S.S.) products. The Export Processing Zones Authority (EPZA) raised certain observations and, therefore, did not grant approval to M/s. A.K. International. Meanwhile, the Customs Authorities informed EPZA that a penalty had been imposed on M/s. A.K. International for the import of duty-suspended die-casting machinery under the EPZ regime, vide Import GD No. GJZI-HC-23 dated 07-06-2022. Meanwhile, M/s. A.K. International commenced production within the EPZA zone; however, EPZA management neither intervened to stop the unauthorized production nor took any action to recover the penalty amount imposed by the Customs Authorities.

Assets Value (AV) in Rs.	ACD	Sales Tax	AST	WHT	Total Duty/Taxes(Rs.)
98,581,148	1,971,623	18,099,499	3,016,583	14,600,262	37,687,967

Audit observed that EPZA management failed to exercise effective monitoring and control over the operations of M/s. A.K. International. Despite the non-approval of the additional line of business and the imposition of a penalty by the Customs Authorities, EPZA did not take timely action to prevent unauthorized production within the zone or to recover the penalty amount

The management stated that a penalty was imposed, the fine was deposited, and approval for expansion and an additional business line was granted on 26-03-2024. However, the reply is not tenable, as the investor imported machinery without an approved additional business line and was therefore liable to pay full duty and taxes to the Government.

Audit recommends that management should recover the outstanding amount of penalty Rs. 37.687 million from the investors besides taking legal proceedings for running illegal business.

AIR EPZA 2024-25 Para No.18.

3.5 Non-withdrawal of Security Deposits from Court

As per clause 5 (5) Public Sector Companies (Corporate Governance) Rules, 2013 states that the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity, honesty and relationship with the stakeholders, in the following manner, namely:-the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage.

Audit pointed out that M/s Franklin Credit & Investment Company Limited (FCICL) was approved by EPZA on January 31, 1990 for providing financial and project management services to the industrial and commercial enterprises. They constructed an office building on two plots W1 & W2 in sector B-VII over an area of 432 square meters and deposited a down payment of US$ 10,800/- to EPZA. The company was defaulted on account of Annual Ground Rent amounting to US$ 41,000/-. Several notices were issued to the investors but no progress was made by the investor, subsequently his allotment was cancelled in 2004 and handed over to M/s Bank Al-Habib Limited. M/s Franklin Credit Investment Co. filed the case No.46/2005 in Sindh High Court against EPZA for cancellation of allotment. The Sindh High Court passed an order in December, 2004 directed the EPZA to deposit US$41,000 which were submitted by Bank Al-Habib to EPZA for allotment till decision of the court. On 15.11.2023, the case of M/s Franklin Credit Company was dismissed due to non-prosecution under order IX Rule 8 CPC. However, the management did not withdraw deposited amount from the court.

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Audit is of the view that non- withdrawal of deposited amount of US$ 41,000 equivalents to Pak Rs.11.808 million (US$41000*288) due to the negligence of the management despite lapse of almost two years.

The matter was pointed out through preliminary observation dated 09.09.2025. The management in its reply on 09-10-2025 stated that the Authority filed an application for the release of deposited funds a subsequent hearing date has now been fixed by the Honorable Sindh High Court for 19.12.2025.

Audit recommends that management should withdraw the deposit amount from the Court without further delay.

AIR EPZA 24-25, PARA No.19

3.6 Electric Connection without recovering outstanding payment

Audit observed that M/s Munawwar International was allowed a 650 KW H.T. electric connection at a cost of USD 84,905.93. The investor paid only the first installment of USD 28,301.98, leaving an outstanding balance of USD 56,604.00. Despite this, EPZA energized the power supply based solely on the investor's written undertaking to pay the remaining amount within the due time.

Furthermore, under EPZA's electric policy, the electrical cable and metering panel from permanently disconnected or surrendered power supply must be retrieved and become EPZA property. However, the LT-to-HT connection cable was handed over to the investor, and the matter was later regularized through a policy decision vide Office Order No. Eng14-299/E dated September 5, 2022, with ex-post-facto approval to be obtained in a forthcoming Board meeting, which remains pending.

The irregularly energized a 650 KW H.T. electric connection for M/s Munawwar International despite an outstanding balance of USD 56,604 relying only on an undertaking for payment depicts undue favour to the investor. Additionally, the LT-to-HT cable was handed over to the investor in violation of EPZA's electric policy.

The management stated that M/s Munawar International paid the invoice in five installments, with the final payment made on November 16, 2023, and that Board approval would be sought in the 144th meeting. However, the reply is not tenable, as the management failed to obtain Board approval for more than three years and handed over the LT-to-HT cable in violation of EPZA's Electric Policy.

Audit recommends expedite recovery of the outstanding dues besides fixing responsibility on person(s) at fault.

AIR EPZA 24-25, PARA No.43

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Assistant Audit Officer (I)
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3.7 Mis-declaration of imported Goods

Clause 9-A of Export Processing Zones Authority Rules, 1981, sates that if in the opinion of the Authority an investor has failed to carry out the purpose for which, or has not fulfilled the conditions of, the sanction accorded to him under sub-section (1) of section 11 of the Ordinance, it may, after giving him notice to show cause, cancel, revoke or withdraw the sanction.

Audit observed that M/s Sunridge Global (Pvt) Ltd., along with its clearing agency M/s Pamir International Agencies was involved in the mis-declaration of imported goods by declaring rice flour instead of wheat flour in five consignments. The import of wheat flour from the tariff area into the EPZA is prohibited under S. No. 19 of Appendix-A of the EPO 2022. The Customs authorities requested EPZA to take strict action against M/s Sunridge Global (Pvt) Ltd. and their clearing agent for repeated irregularities.

However, the EPZA authority merely imposed a penalty of USD 2,000 and issued a warning to refrain from violating the EPZA Rules, 1981.

Audit is of the view that the management did not comply with the recommendations of the Customs authorities i.e issue notice to show cause, cancel, revoke or withdraw the sanction against M/s Sunridge Global (Pvt) Ltd. Instead, only a warning was issued and a nominal penalty of USD 2,000 was imposed, which was disproportionately low as compared to the import consignment valued at USD 3.5 million.

Resultantly, investor did no pay actual custom duties on prohibited items as per rule.

The management stated that the mis-declaration fell under Customs' jurisdiction and that the dray-off was considered by Customs. Considering it was the unit's first import consignments, EPZA issued a warning and imposed a penalty on the investor.

Audit recommends that the management may take punitive action against besides fixing responsibility on the officers found negligent in this regard.

AIR EPZA 24-25, PARA No.48

Irum Gull
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3.8 Non-recovery of utility bills

Audit observed that management did not recover utility bills on account of electricity charges ($ 15,280 * Rs. 280/- = Rs.4,278,400 + Rs.1,440,250) Rs. 5.719 million and water charges Rs.2.333 million from various investors despite lapse of significant time. Detail is provided in Table-5.

Audit is of the view that due to non-recovery of outstanding electricity charges and water charges from various investor units tantamount to loss of revenue of Rs. 8.051 million for the Authority.

The management stated that US$ 160.83 was recovered from M/s Laiba Industries and Rs 1.291 million from Telenor Pakistan, Mobilink, and CM Pak Ltd., with Zong also settled. However, the reply is not tenable, as US$ 15,119.17 remains outstanding from the investors.

Audit recommends that strenuous efforts must be taken by the management for recovery of outstanding utility bills from investors.

AIR EPZA 24-25, PARA No.11

3.9 Illegal import and sell out of readymade Garments

It was observed during audit of Export Processing Zone Authority (EPZA), Karachi for the year 2024--25, that an investor of KEPZ, M/s. Gulf Trading imported 5,600 pieces of Ready Made Garments Lady Polar Fleece Garment (Jacket) by tampering and submission of textile import documents for transportation of goods to KEPZA illegally.

However, M/s Gulf Trading imported the items against the line of trading approved to him. Furthermore, the Trading unit cannot sale goods to the manufacturing units within the zone however, the imported goods were also sold to M/s Rija Fashions a manufacturing unit situated in KEPZ despite to export the same to the abroad as per rule.

Audit is of the view that management's failure to identify illegal of imported goods into the KEPZ initially and subsequent sell out the goods within the zone reflected serious internal control weaknesses

The management stated that internal sale of readymade garments was not allowed, only 100% dying fabric, as per SRO 450(1)/2001. However, the reply is not tenable, as M/s Gulf Trading imported readymade garments and sold them to M/s Rija Fashions, and the cited SRO is not applicable.

Audit recommends that the management may take due action against the investor besides fixing responsibility on the person(s) found at fault.

AIR EPZA 24-25, PARA No.3

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3.10 Non-reflection of investment in shares

During audit of Export Processing Zone Authority-Karachi for the year 2024-25, it was observed that the management invested an amount of Rs. 50 million (Shares 5,000,000 @ Rs.10 per shares) in 2005 in the equity shares of Pakistan Textile

City Ltd. (PTCL). But, the invested amount of Rs. 50 million was not reflected in head of long-term investment in Audited financial statements for the year 2019.

Furthermore, Port Qasim Authority vides its letter No.PQA/Dir(I.M)/16/2025 dated 17-02-2025 referred the decision of the Cabinet vide case No.323/12/2021 dated 13-04-2021 and Ministry of Maritime Affairs letter No.F.No. (16)/2003-PQA dated 13-08-2024 regarding the matters related to settlement of liabilities of Pakistan Textile City Ltd. (PTCL) through Finance & Commerce Division, in this connection PQA will pay Rs.10/- per shares total Rs. 50 million as compensation to EPZA and requested to show its consent within 15 days.

Audit is of the view that as PQA agreed to pay compensation to EPZA amounting to Rs. 50 million but the management did not show its consent to PQA as the investment did not earn a single penny and has remained stuck since 20 years

The matter was raised through preliminary observation dated 09.09.2025. In its reply dated 09.10.2025, management stated that impairment losses were recognized in the 2018–19 financial statements; however, investment realization remains uncertain due to the winding-up process initiated by PTCL.

The reply is not tenable, as PQA, in compliance with the Cabinet decision, intimated EPZA, but management failed to convey its consent.

Audit recommends that the management may take the matter to its Board.

AIR EPZA 24-25, PARA No.24

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3.11 Foreign exchange loss due to non-achievement of committed exports

As per part H of Export Projections for five years of Application form of investors for setting up an industrial/ trading unit an investor was required to mention committed annual export which must be maintained. The investors were bound to follow their commitments in case they retain the allocated land.

Audit observed that the management failed to get committed export targets achieved by various investors during the year. Reviewing the record at length, it was observed that 159 units failed to achieve their committed export targets during the year, resulting in a loss of foreign exchange earnings of USD 398.846 million. In addition, 16 units made zero exports during the year 2024-25 despite importing goods valued at USD 16.292 million (equivalent to Rs. 4,561.76 million). Furthermore, 46 units made less export of US$ 29.074 million during the year 2024-25. They made exports of US$ 52.366 million against import of US$81.440 million equivalent to Rs. 8,140.786 million. Details are provided in Table-2 and Table-4.

Audit is of the view that the management failed to exercise effective oversight and enforcement resultantly, the country suffered a substantial loss of foreign exchange in the form of unrealized export proceeds.

The management stated that the matter was presented to the Board in its 143rd meeting held on September 8, 2025,

regarding standardization of committed exports and imposition of a 10% penalty for non-achievement. However, as per management reply the matter is currently under consideration by the Board of Directors for further directives.

Audit recommends that the management to establish an efficient oversight in terms of achieve the committed exports by the investors.

AIR EPZA 2024-25 Para No.6, Para No. 45 & Para No.46

3.12 Smuggling /Mis-declarations of import

As per Collectorate of Customs Exports Port Muhammad Bin Qasim letter No.Sl/38/Audit/2034-24/CUS/EPZ dated 28-01 2025. "In view of the above, this office re-emphasizes that EPZA must investigate why no action was taken by its concerned officers on the Collectorate's earlier letter and also initiate proceedings regarding suspension /cancellation of the unit's license without any further delay so that such criminal elements are suppressed".

Audit noted that two incidents of smuggling & mis-declaration occurred in which M/s Sardar Enterprises, a trading unit of EPZA having License No.AT70166, found involved in attempting to smuggle 930 tablets and 16 keyboards in the grab of one lot of mix old & used faulty LCD Laptops, LCD panels, Computer Parts and accessories.

Another incident on port examination uncovered concealment of precious goods, Cellulose Acetate Tow, within the cotton bales. A quantity of 14,000 KG of Cellulose Acetate Tow was found concealed in the form of 72 cartons within the bales of cotton waste/raw cotton that is a high-duty item.

On 23-10-2024 Customs authority informed EPZA to take notice of these irregularities as to how and why the trading unit was allowed to Import / export of old & used refurbished laptops to tariff area without any authorization and asked to probe the matter on priority and initiate necessary penal action

against the trading unit under intimation to Custom office.

Furthermore, again on 28-01-2025, Custom authority re-emphasized that EPZA must have investigated as to why no action was taken by the authorities on Collectorate's earlier letter 23-10-2024 and also did not initiate proceedings regarding "suspension /cancellation of the unit's license without any further delay so that such criminal elements were suppressed" as demanded in their above quoted letter.

Audit is of the view that the irregularity occurred because of management's failure to investigate the matter and not taken any action against M/s Sardar Enterprises on the Collectorate's earlier letter to initiate proceeding regarding suspension /cancellation of the unit's license to suppress the criminal elements. As a result, unauthorized import/export in tariff area was attempted to avoid custom duties and taxes to Government.

The management, in its reply, stated that the matter had been detected by Customs and subsequently communicated to EPZA,

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upon which EPZA suspended the unit's license and cancelled its additional activity. However, the reply is not tenable, as EPZA failed to investigate the issue despite the first call letter dated 23-10-2024.

Audit recommends that management may take punitive action against the investor besides fixing responsibility on the officers found negligent in this regard.

AIR EPZA 2024-25 Para No.1

3.13 Export in tariff area in excess of allowed limit

As per Rule 228(5) of Custom Rules 2001, the units established in the Export Processing Zone shall export only up to twenty percent of their total production to tariff area in Pakistan while eighty percent shall be exported to other countries.

Audit observed that various investors were exporting in tariff area beyond the allocated limit of 20%. It was noted that 24 investors made total export of US$100.792 million against which investor exported products amounted to USD 84.227 million in tariff area, which was in excess by USD 64.068 million (Equivalent to Rs.17,939.265 million @1USD=Rs.280) beyond allowed limit and in violation of above-mentioned rule, which subsequently pointed towards the failure of management to monitor the trading activities or exports of the investors in accordance with rules and subsequent inaction against delinquents. Detail of excess export in tariff area is hereunder.

Audit is of the view that the management did not monitor the exports of investors in accordance with rules which resulted in irregular export of products in tariff area beyond allocated limit.

The management stated that, as per the Facilities Division record, no excess exports to the tariff area were found, except for two units operating beyond the 20% quota due to a court order. However, the reply is not tenable, as various investors exported to the tariff area beyond the allocated 20% limit.

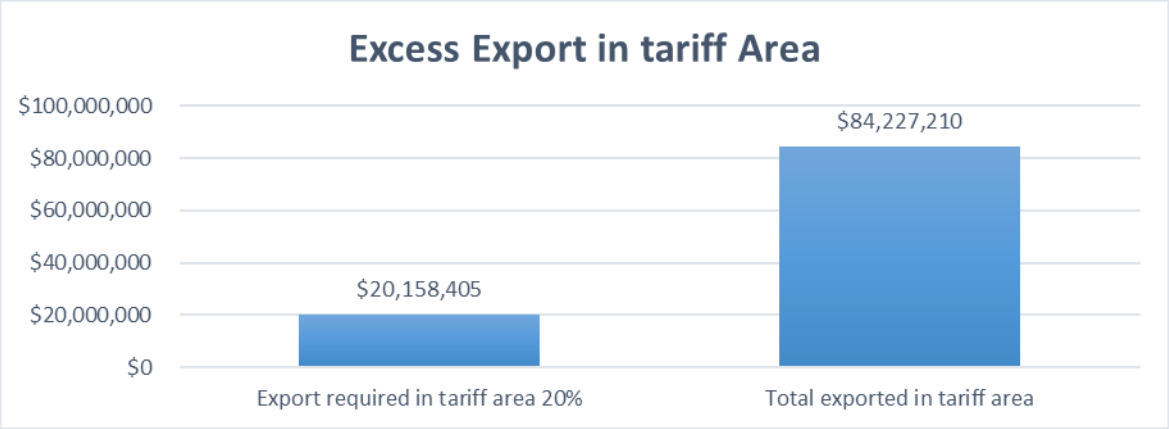
Audit recommends that the management should strengthen the control to monitor the export.

AIR EPZA 2024-25 Para No 10

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Total Export (abroad plus tariff area)	Export required in tariff area 20%	Total exported in tariff area	Excess export in tariff area
$100,792,028.32	$20,158,405	$84,227,210	$64,068,805

Source: Import and Exports data of EPZA 2024-25



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4. HUMAN RESOURCE MANAGEMENT

Weak human resource controls and inadequate oversight by the human resource management of EPZA was observed in the process of appointments and re-instatement on the basis of a fake academic degree. Besides, non-conducting of mandatory NTS tests for officers/officials, and re-instatement of an employee involved in illegal exit of goods from the EPZ reflects weak internal controls prevailing in the authority.

4.1 Appointment/re-instatement of Manager

Audit observed that Mr. Zuhaib Ahmed was appointed as Manager (E-III) on 23-05-2013 and deputed to Punjab Workers Welfare Board from 31-12-2014 to 28-12-2019. He was dismissed from service on the basis of non-verification of degree and non-joining his duty after availing deputation. On appeal, the EPZA Board in its 126th BOD meeting (23-08-2023) approved his reinstatement as recommended by BHRC.

However, his probation was considered as terminated on 30-04-2024, whereas earlier Board decision required successful clearance of NTS for confirmation. But the management of EPZA did not conduct NTS despite lapse of 10 years.

Audit is of the view that reinstatement and payment of Rs.6.195 million to the officer despite non verification of degree depicts weak internal controls and non-transparency in process of appointment and reinstatement.

The matter was raised through preliminary observation dated 09.09.2025. Management replied on 09.10.2025 that the probationary period was terminated per Ministry of Industries & Production instructions.

The reply is not tenable, as it does not address verification of Mr. Zohaib Ahmed's degree and contradicts the BoD's 109th meeting decision that probation should end only after NTS confirmation.

Audit recommends that management investigate the matter by fixing responsibility upon the person(s) at fault.

AIR EPZA 24-25, PARA No.14

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4.2 Non-conducting of NTS test

High Court of Sindh vide C.P No.D-1405 of 2015 issued an order regarding holding of NTS test and 109th meeting of the Board of Director of the respondent Authority held on 24-04-2014, that NTS test will be conducted and petitioners shall be bound to appear for such test.

Audit noted that after lapse of 10 years, the management did not arrange /conduct the NTS test to regularize the officials.

Thus, the management neither complied the directives of Sindh High Court for conducting NTS test of officers/officials.

Audit recommends compliance of the order of Hon'ble High Court of Sindh.

AIR EPZA 24-25, PARA No.44

4.3 Re-instatement of officer involved in illegal exit of goods from KEPZ

Audit noted that Mr. Syed Almas Hussain Shah, Ex-Assistant Manager (E-I), was initially dismissed on 18-11-2020 for illegally removing 11 sewing machines from EPZA bonded area, which were kept under Clauses 59(b) & 59(c)(ii). On appeal, the Human Resource Committee recommended reducing the penalty to withholding promotion for one year, treating his dismissal period as EOL. The EPZA Board approved this in its 136th meeting on 09-08-2024.

The irregularity occurred because the management neither maintained effective governance oversight nor established an adequate monitoring systems for operational performance.

As a result, upon appeal, the Human Resource Committee reviewed the facts of the case and recommended that the penalty be reduced into a minor penalty of withholding promotion for one year, as provided in Rule 60(1)(a)(ii) of Chapter VI (Part II) of the EPZA Employee Service Rules. Besides, appellant's absence from duty during the dismissal period would be treated as Extra-Ordinary Leave (EOL).

The matter was raised through preliminary observation dated 09.09.2025. Management replied on 09.10.2025 that the dismissal penalty was reduced to withholding of promotion for one year under EPZA Service Rules. The reply is not tenable, as the official was involved in subversive activities and found guilty.

Audit recommends the management to investigate the matter of re-instatement of officer involving in the theft/smuggling of Sewing Machine.

AIR EPZA 24-25, PARA No.41

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5. PROCUREMENT & CONTRACT MANAGEMENT

This section details significant breach of Public Procurement Rules, handing over Performance Bank Guarantee of Rs. 16.00 million reflects ineffective internal control.

5.1 Handing over Performance Bank Guarantee to Contractor

As per PPRA Rules (39) Performance guarantee. - Where needed and clearly expressed in the bidding documents, the procuring agency shall require the successful bidder to furnish a performance guarantee which shall not exceed ten per cent of the contract amount.

Audit observed that the management awarded a contract to M/s Barqtoon Engineering Solution on 21-07-2020 for Rs.177.82 million to supply and install sub-station equipment, with a 120-day completion period. Despite two extensions, the work was delayed over three years, completed on 27-08-2023. EPZA imposed Rs.17.78 million as liquidated damages, which the contractor refused to pay and a recovery case sued in the court. Performance Bank Guarantee of Rs.16 million expired on 31-12-2022, and the management failed to renew it.

Audit is of the view that on contractor's refusal of payment of LD charges the management was required to en-cash the performance bank guarantee of the contractor, instead the management handed over the performance bank guarantee to the contractor in violation of rules.

The matter was pointed out through preliminary observation dated 09.09.2025. The management in its reply on 09-10-2025 stated that the have original addendums of the bank guarantee. The reply of the management was not tenable because management accepted that they have the original addendums of the bank guarantee instead of original bank guarantee which was not renewed by the management before completion of the contract.

Audit recommends to conduct an investigation and fix responsibility for favoritism and rule violations.

AIR EPZA 24-25, PARA No.13

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5.2 Non-Compliance with contractual obligations and governance issues in plot allocation

Audit observed that the management approved the sale/purchase/transfer of M/s. Combine Holdings (Pvt.) Ltd., located on Plot No. 11 & 21, Sector E-V, measuring 1,902.87 sq.m, along with the structure/building, to M/s. AZ Ghanchi (Pvt.) Ltd., subject to the condition that industrial production activity would start within six months from August 29, 2023, with a committed value of exports of $2.00 million per annum. However, a notice dated September 30, 2024, from EPZA management was issued to M/s. AZ Ghanchi, stating that despite the possession order being issued on August 30, 2023, no business activity had commenced. A second notice was issued on October 29, 2024, reiterating that no business activity had been initiated by the company.

Audit is of the view that the management did not cancel the plot despite the investor's inability to commence business activities and fulfill the contractual commitment of exporting $2.00 million per annum by February 28, 2024, after the six-month timeframe. Furthermore, the management did not penalize the investor by imposing a 25% service charges, equivalent to $0.5 million (approximately Rs. 140 million at an exchange rate of Rs. 280 per USD).

The matter was raised through preliminary observation dated 09.09.2025. Management, in its reply dated 30.09.2025, acknowledged that M/s. AZ Ghanchi 72 (SMC-Pvt.) had not commenced business activity and that notices were issued. The reply is not tenable, as management failed to impose the prescribed 25% service charge (equivalent to $0.5 million).

Audit recommends that the EPZA management should take action for cancellation of the plot allocation and impose penalty of $0.5 million on M/s. AZ Ghanchi (Pvt.) Ltd. for non-compliance with contractual obligations. The management should also ensure strict adherence to the terms and conditions of plot allocations to prevent similar cases in the future.

AIR EPZA 24-25, PARA No.25

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6. OPERATIONAL PROCESSES, TARGETS & KPIs

The Export Processing Zones Authority (EPZA) in Pakistan facilitates export-oriented investment by approving project proposals, allocating land and issuing licenses to investors. It provides a one-window service for construction approvals, utilities, and simplified customs procedures, allowing duty-free import of inputs and streamlined export operations. Once operational, EPZ units must comply with EPZA regulations and report periodically.

6.1 Defective clause in the tender resulting into penalty imposed by the contractor

The management awarded the contract for supply, installation, testing and commissioning of sub-station equipment to M/s Barqtoon Engineering Solution on 21.07.2020 for Rs.177,8181,720/- with completion period of 120 days. The work on the project was started on 23.07.2020 and required to be completed on 23.11.2020. However, the management gave the contractor two extensions from 15.11.2021 to 15.01.2022 and 2nd extension from 07.02.2022 to 30.06.2022.

Audit noted that the contractor demanded the payment of Rs.120 million for payment of equipment's delivery i.e. transformers, panels, wire cables to the company vide letter No.M-22-002-KEPZ-NK dated 13.01.2022. However, the payment was made to the contractor on 13.09.2022 after delay of 09 months subsequently, the contractor imposed the penalty of Rs.14.409 million which was paid by the management. Due to addition of defective clause in the tender document and the Authority sustained a loss on account of penalty of Rs.14.409 million which indicates poor financial/contract management.

The matter was raised through preliminary observation dated 09.09.2025. Management replied on 09.10.2025 that payment of Rs. 14.409 million was made to the contractor under Clause 11.1 of the contract, approved by the Chairman. The reply is not acceptable, as the defective clause was incorporated against the Authority's interest, granting undue favor to the contractor.

Audit recommends that the management may investigate the matter.

AIR EPZA 24-25, Para No.04

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6.2 Mis-use of power by Manager (IP) for approval of rented out premises

Audit revealed that the Chairman EPZA rejected the for renting out premises of M/s Amar & Sons (Pvt) Ltd. to M/s Galaxy Rags on 26-02-2020, with the direction that the practice of converting Industrial

units into Trading and also for Used Clothing was not in consonance with the objective of EPZA. But, General Manager (IP) approved the case in favor of M/s Amar & Sons and subsequently a permission Letter was issued for renting out the portion of building area measuring 58,993.53 Sq. Ft. situated at plot No.9,10,11,20 & 22 Sector E-IV Phase-II to M/s Galaxy Rugs for eleven (11) months on 09.06.2020. Furthermore, the investor had already rented out the premises w.e.f 01-06-2020, prior to the unauthorized permission of GM on 09.06.2020.

Audit is of the view that premises were rented out without approval and even rejection by the then Chairman stands irregular.

The matter was raised through preliminary observation dated 09.09.2025. Management replied on 30.09.2025 that rental permission was granted as a special case during COVID-19 with the Chairman's approval. The reply is not tenable, as the Chairman had rejected the request, yet the Manager (IP) allowed the premises to be rented out.

Audit recommends that management may investigate the matter for fixing of responsibility on the person(s) at fault.

AIR EPZA 24-25, PARA No.20

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CONCLUSION

The audit of EPZA for the year 2024–25 revealed widespread weaknesses in governance, financial management and internal controls across almost all functional areas.

Repeated cases of smuggling, mis-declaration, tax evasion, illegal imports and unauthorized exports indicate serious failures in monitoring, enforcement and coordination with Customs authorities. EPZA management did not take timely or effective action despite clear alerts, leading to continued violations and loss of government revenue.

Significant financial losses were observed due to non-achievement of committed exports, excess sales in the tariff area, zero or low exports against heavy imports and illegal operations of unregistered local units. Weak recovery mechanisms resulted in non-recovery of ground rent, utility bills, duties and penalties.

Non-finalization of audited financial statements since 2019-20 further undermined financial transparency and accountability.

Human resource management was marked by irregular appointments, reinstatements without proper verification, non-compliance with court orders, and failure to conduct mandatory NTS tests. Procurement and contract management showed violations of weak contract enforcement, favoritism, and avoidable penalties.

Overall, the audit findings reflect ineffective management oversight, weak internal controls and lack of accountability.

Strong corrective actions, recoveries of annual ground rent & utilities, disciplinary measures, strengthening of internal controls and strict compliance with laws, rules and Board decisions are urgently required to safeguard public funds and ensure EPZA achieves its core mandate of export-led growth.

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RECOMMENDATIONS

In light of the audit findings, following recommendations are given relating to all categories of the report;

1. **Financial Performance Analysis:**

- Strengthen export monitoring mechanisms to ensure committed export targets are achieved and properly reported.
- Implement a robust system to track imports versus exports to prevent tariff violations and reduce financial leakage.
- Conduct a periodic reconciliation of all foreign exchange earnings and remittances to identify gaps and prevent future losses.
- Introduce regular internal audits focused on export-import transactions to prevent mis-declaration and under-reporting.

2. **Enforcement and Regulatory Framework**:

- Strengthen the collection mechanism for ground rent, utility bills, and security deposits, with clear escalation protocols for overdue payments.
- Enforce compliance with tax and import duties strictly, including regular audits and coordination with customs authorities.

3. **Human Resource Management:**

- Implement stringent verification processes for all recruitment and reinstatement, including academic and professional qualification checks.
- Ensure compliance with court orders and regulatory directives in HR processes, with proper documentation of actions taken.

4. **Procurement**:

Strengthen internal controls in procurement to ensure proper verification before releasing performance guarantees.

5. **Operational process, Targets & KPIs;**

- Review tender and contract clauses rigorously before finalization to mitigate potential financial penalties.

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APPENDICES

A. Audit Objectives

The main audit objectives were:

- To determine whether imports, exports, foreign exchange transactions, revenues, and expenditures were conducted in accordance with applicable laws, rules, and EPZA regulations.
- To verify whether cases of smuggling, mis-declaration, tax evasion and duty suspension were properly monitored, detected and reported.
- To evaluate whether appointments, reinstatements and promotions were made in a transparent manner and in accordance with recruitment rules, court orders, and prescribed qualifications.
- To determine whether imports, exports, foreign exchange transactions, revenues, and expenditures were conducted in accordance with applicable laws, rules, and EPZA regulations.
- To verify whether cases of smuggling, mis-declaration, tax evasion and duty suspension were properly monitored, detected and reported.

B. Scope of Audit

The audit of the accounts has been conducted in accordance with the Regularity Auditing Standards of International Organization of Supreme Audit Institutions (INTOSAI), which are as follows-:

- he audit covered a review of the records for the FY 2024-25, transactions, systems and procedures of the Export Processing Zones Authority (EPZA) to assess compliance with applicable laws, rules, regulations, and policies. The scope included examination of imports, exports, foreign exchange transactions, revenues and expenditures; review of cases relating to smuggling, mis-declaration, tax evasion and misuse of duty suspension facilities and evaluation of human resource decisions including appointments and reinstatements.

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- The audit further examined procurement and contract management to assess compliance with PPRA Rules and contractual obligations; reviewed management of performance guarantees and enforcement of penalties; assessed operational approvals, manufacturing activities and sales within and outside the Zones and examined plot allocation, lease agreements and asset management practices to ensure compliance with EPZA rules, contractual terms and principles of good governance.

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C. Audit Methodology

The compliance audit was conducted in accordance with applicable auditing standards and guidelines. The methodology adopted included the following steps:

- Review of previous audit reports, and identification of high-risk areas based on materiality and financial exposure.
- Examination of relevant laws, rules, EPZA regulations, PPRA Rules, SROs, and court orders through test checks.
- Scrutiny of import/export documents, contracts, licenses, financial records, foreign exchange data, utility bills and recovery statements on a sample basis.
- Analysis of trends and variances in imports, exports, revenues, losses, and recoveries, including comparison of committed versus actual performance.
- Physical and documentary verification of assets, plots, units, bank guarantees and court deposits, where applicable.
- Obtaining explanations from concerned officers and evaluation of internal controls and monitoring mechanisms.

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Annexures

List of Tables

Table 1 Non-monitoring of execution of sub-license agreement (Tripartite) (2.2)

S.No	Name of Company	Period of Rent paid	Rent amount due/payable as per Actual Area	Rent amount Paid as per mis-declared Area by M/s IF Zipper Ltd.	Differentiate Amount payable @ of 10% to EPZA share
1	M/s Home Furnishing Ltd.	Dec.2020 to July 2024 (44 Months)	36,146 Sq. Ft	7,560 Sq. Ft.	28,586 Sq.Ft.
			36,146 Sq.Ft@$0.35=$12,561 (PM)		
			US$12,651x44months =$556,644 (Total) As per above, an amount payable @ of 10% to EPZA share US$ 55,664 ($556,644 @ 10%)	US$5,822	($55,664 - $5,822) US$49,842(A)
2	M/s Jubilee Apparel	Oct.2019 to May 2024 (56 Months)	14,800 Sq. Ft	1,600 Sq. Ft.	13,200 Sq.Ft.
			14,800 Sq.ft @ $0.35= $5180 (PM) US$5,180 x 56 months =$290,080 (Total) As per above an amount payable @ of 10% to EPZA share US$ 29,008 ($290,080 @ 10 %)	US$3,080	($29,008 - $3,080) US$25,928(B)
				Total	**(A + B)** **US$ 75,770**

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Table 2 non-achievement of committed exports (2.4) (Rs.in million)

No. of investors/units	Committed export targets	Actual exports	Non-achievement of export target
KEPZ			
108	178.00	32.565	199.388
REPZ			
14	120.512	10.492	110.02
Gujranwala EPZ			
13	40.738	10.741	29.997
Sialkot EPZ			
24	76.671	17.230	59.441
Grand Total			**398.846**

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Table 3 non-recovery of Annual Ground Rent (2.5)

S.No	Name of unit	Outstanding amount ($)	Default from
1	City Clothing (Pvt.) Ltd.	7,000	01-01-2023
2	Opulent Industries(Pvt.) Ltd.	9,206.40	01-01-2023
3	Royal Impex(Pvt.) Ltd.	2,853.76	01-07-2024
4	Steel Vision (Pvt.) Ltd.	9,800	01-01-2023
5	Blue Moon Industries	4,200	01-01-2024
6	Coastex(Pvt.) Ltd.	6,720	01-01-2024
7	Gexin (Pvt.) Ltd.	787	01-01-2025
8	Maray International(Pvt.) Ltd.	1,960	01-01-2025
9	Vision Hub	1,108.80	01-01-2025
10	Adamjee Insurance Co.	376.32	01-07-2024

Table 4 loss of remittance due to zero export (2.10)

Amount in USD

Export & Import Report July from 2024 to June 2025			
S No.	**Unit**	**Actual Export**	**Actual Import**
1	Al Mawajeh (Pvt.) Ltd.	0	3,125,349
2	Beltexco Limited (Warehouse/Trading)	0	82,893
3	BTI International pvt ltd	0	23,522
4	Ghanchi Global Plastic Recycling (SMC Pvt.) Ltd.	0	269,412
5	Ghanchi Rags (SMC-Pvt.) Ltd.	0	1,668,244
6	Gulf Trading	0	201,984
7	Halima Industries (Pvt.) Ltd.	0	111,059
8	Ideas Recycling (Pvt.) Ltd.	0	157,994
9	Liberty Rags (Pvt.) Ltd.	0	116,000
10	Long International Recycling (Pvt.) Ltd.	0	52,500
11	Pacific Rags (Pvt.) Ltd.	0	39,520
12	Progressive Enterprises (Pvt.) Ltd. (C&F) (T/U)	0	409,139
13	SAH Export (Pvt.) Ltd.	0	5,664,095
14	Steel Vision (Pvt) Ltd	0	825,905
15	Universal Ropa (SMC-Pvt.) Ltd.	0	3,544,820
16	Sunridge Global (Pvt. Ltd.	0	0
	Total	**0**	**16,292,434**

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Table 5 non-recovery of utility bills (2.13)

S.No	Name of investors	Electricity Outstanding amount (USD)	Due from dated
1	Adamjee Insurance Co.	69.30	01-03-2025
2	NAPCO International Co.	81.28	01-02-2025
3	Laiba Industries	160.83	-
4	Blue Moon Industries	2,509.06	01-09-2024
5	Steel Vision	177.35	01-09-2024
6	Japan Packages	4,781.34	01-12-2019
7	Japan Packages II	1,203.06	01-12-2019
8	Diamond S Trading	364.77	01-03-2020
9	Achak Enterprises	98.15	01-01-2025
10	Ahmed Food International	5,834.77	01-07-2022
11	Telenor Pakistan	Rs.623,045	01-01-2025
12	Mobilink	Rs.570,434	01-01-2025
13	CM Pak Ltd. Zong	Rs.98,450	-

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Index of Findings

Finding No	Finding title (as in Report)	Para No	Original Para Title
1.	**Stated Mandate, Roles & Responsibilities**		
2	**Financial Performance Analysis**		
2.1	Non-Finalization / Preparation of Financial Statements	Para 29	Non-Finalization / Preparation of Annual Audited Accounts/Financial Statements.
3.	**Enforcement and Regulatory Framework**		
3.1	Non-monitoring of execution of sub-license agreement (Tripartite)	Para 02	Loss due to fraudulent execution of sub-license agreement (Tripartite) US$ 75,770 (75,770x280)= 21.215
3.2	Establishment of Local units in GEPZ and failure of EPZA to prevent financial losses	Para 5	Unauthorized Establishment of Local Units in GEPZ and Failure of EPZA to Prevent Financial Losses to US$ 1.00 million per annum approx. Rs.280.000 million
3.3	Non-recovery of Annual Ground Rent	Para 08	Non-recovery of Annual Ground Rent -USD 48,489 (Eqv to Rs.13.576 million)
3.4	Tax evasion due to import of duty suspended machinery	Para 18	Tax evasion due to import of duty suspended machinery-Rs.37.687 million
3.5	Non-withdrawal of Security Deposits from Court	Para 19	Blockage of funds due to non-withdrawal of Security Deposits from Court US$-41,000 equivalent to Pak Rs. 11.808 million
3.6	Electric Connection without recovering outstanding payment	Para 43	Loss due to provision of 650 KW HT Electric connection without covering outstanding payment to M/s Munawar International of US$ 56,604 approximately 15.849 million.
3.7	Mis-declaration of imported Goods	Para 48	Mis-declaration of imported Goods US$3.5 million approximately Rs.980.000 million
3.8	Non-recovery of utility bills	Para 11	Loss due to non-recovery of utility bills – Rs. 8.051 million
3.9	Illegal import and sell out of readymade Garments	Para 03	Illegal import and sell out of readymade Garments to manufacture unit within the zone amounting to Rs.59.958 million (equivalent to $21,280x280=Rs.59.958 million)

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3.10	Non-reflection of investment in shares	Para 24	Non-reflection of investment in shares in financial accounts -Rs.50 million
3.11	Foreign exchange earnings due to non-achievement of committed exports	Para 6	Loss of foreign exchange earnings due to non-achievement of committed exports – USD 398.846 million (Equivalent to Rs.111,676.880 million)
3.12	Smuggling/Mis-declarations of import	Para 01	Loss to exchequer due to repeated attempts of Smugglings/Mis-declaration under the Umberlla of EPZA Rs.825.438 million
3.13	Export in tariff area in excess of allowed limit	Para 10	Irregular export in tariff area in excess of allowed limit – USD 64.068 million (Equivalent to Rs.17,939.265 million)
4	**Human Resource Management**		
4.1	Appointment/re-instatement of Manager	Para 14	Irregular appointment/re-instatement of Manager (Human Resource) on fake Degree resulting into loss of Rs.6.195 million.
4.2	non-conducting of NTS test	Para 44	Non holding of NTS test of the officers/officials in violation of court order
4.3	Re-instatement of officers	Para 41	Undue favor to re-instatement of Mr.Almas Hussain Shah involved in illegal exit of goods from KEPZ.
5	**Procurement and Contract Management**		
5.1	Handing over Performance Bank Guarantee to Contractor	Para 13	Irregular handing over Performance Bank Guarantee to Contractor Rs.16.00 million
5.2	Non-Compliance with contractual obligations and governance issues in plot allocation	Para 25	Non-Compliance with contractual obligations and governance issues in plot allocation
6	**Operational Processes, Target & KPIs**		
6.1	Defective clause in the tender resulting into penalty imposed by the contractor	Para 04	Defective clause in the tender resulting into penalty imposed by the contractor
6.2	Mis-use of power by Manager (IP) for approval of rented out premises	Para 20	Mis-use of power by Manager (IP) for approval of rented out premises

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