Auditor-General of Pakistan

February 2026

Audit Report on

Installation of Electronic Toll Collection System and Operations, Management & Maintenance of Toll Plazas and Toll Collection through ETC System along with Provision of Allied Services on Motorways M-1, E-35, M-14, M-3, M-4 & M-5

National Highway Authority

Report No: DGAWF-26-003

(Financial Years 2022-23 to 2024-25)

Audit Year 2025-26

Irum Gul
Assistant Audit Officer (IT)
20 October 2026 03:04:32 PM

Irum Gull
Assistant Audit Officer (IT)
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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.

The report is based on audit of "Installation of Electronic Toll Collection System and Operations, Management & Maintenance of Toll Plazas and Toll Collection through ETC System along with Provision of Allied Services on Motorways (M-1, E-35, M-14, M-3, M-4 & M-5)" executed by National Highway Authority. The Directorate General Audit Works (Federal) conducted the audit of the project during the year 2025-26 for the period covering 2022-23 to 2024-25 with a view to make an independent assessment of the project's status and performance, highlight potential gaps, issues and risks in project implementation and identify areas for improvement. The report also aims at improving the internal controls system of the project, thereby allowing the management to take corrective action and improve effectiveness of the overall project management processes.

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Assistant Audit Officer (D)
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At the outset, the report provides key facts and details about the project followed by an audit snapshot summarizing the reasons for conducting the audit, findings on various matters and actionable recommendations. The Audit Report covers a variety of aspects of the project including project objectives, project planning, Human Resource Management, financial management, procurement, contract management, monitoring and evaluation and physical/on-site progress. The report also includes conclusion and recommendations for executive action.

Most of the audit findings contained in the report were discussed with the PAO in Departmental Accounts Committee meetings held on 30th January, 2025, 8th December, 2025 and 23rd December, 2025 and outcome of the meetings has been incorporated in the report.

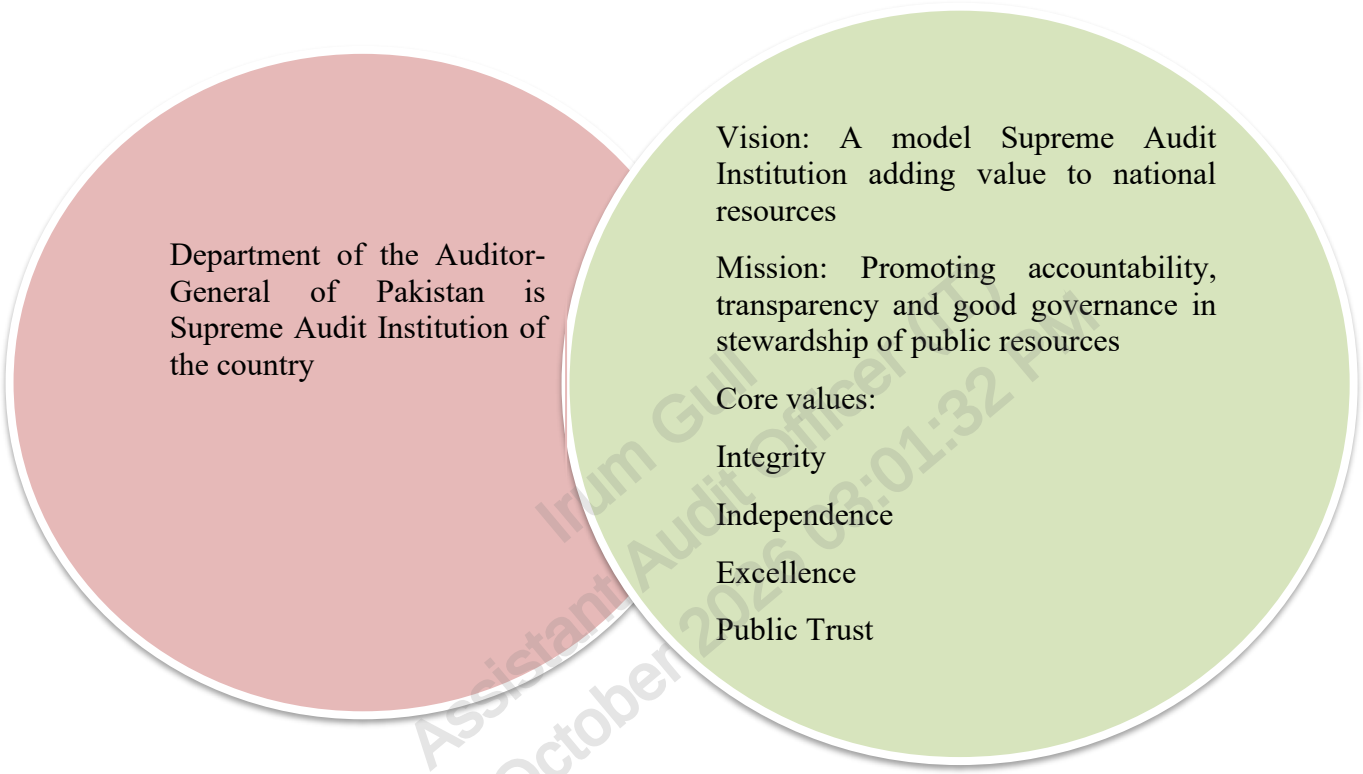
The Audit Report is submitted to the President of Pakistan in pursuance of Article 171 of the Constitution of the Republic of Pakistan 1973, for causing it to be laid before both houses of Majlis-e-Shoora (Parliament).

Sd/-
(Maqbool Ahmad Gondal)
Auditor-General of Pakistan

Islamabad
Dated: 24th February, 2026

Irum Gull
Assistant Audit Officer (IT)
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Department of the Auditor-General of Pakistan



Irum Gul
Assistant Audit Officer (IT)
20 October 2026 08:01:32 PM

The Auditor-General of Pakistan is appointed under Article 168 of the Constitution of Islamic Republic of Pakistan. The reports of the Auditor-General are laid before the legislature and are discussed by the Public Accounts Committees of the respective Assemblies. The constitutional mandate enables the Auditor-General to strengthen legislative oversight by providing an independent, reliable and objective assessment of the process of governance at the federal, provincial and district level.

AUDIT SNAPSHOT

Audit Report on Installation of Electronic Toll Collection System and Operations, Management & Maintenance of Toll Plazas and Toll Collection through ETC System along with Provision of Allied Services on Motorways (M-1, E-35, M-14, M-3, M-4 & M-5)

DGAWF 26-003
February 2026

Why did we do this Audit	What did we find?
The audit of the Project was conducted to evaluate financial discipline, regulatory adherence, and the management of the project with a view to assess potential gaps, issues and risks in project implementation.	1. Award of work through direct contracting without fulfilment of requirements of Rule 42(f) 2. Non-installation of Automatic Vehicle Classification (AVC) System 3. Execution of work in violation of Executive Board decision 4. Retention of M-tag advances without reconciliation 5. Non-obtaining of Performance Security in Operation Phase
Key Assessment	**What do we recommend?**
i. Automatic vehicle classification was not installed to verify and authenticate vehicle class and number plate for toll revenue. ii. Award of work without assessment of reasonability of rates. iii. Third party services were not hired for independent verification, ensuring authenticity, and detecting potential revenue leakages in toll collections. iv. Non-development of Pak-Tag with exclusive ownership of NHA.	• Completion of project as per timelines at the earliest and according to the specifications. • Observance of public procurement rules in letter and spirit. • Hire an independent third party (such as NIFT or NADRA) to verify and reconcile toll revenue • Implementation of contract clauses for development of Pak-Tag

Ilyum Gull
Assistant Auditor General (IT)
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Highlights

Audit Report on Installation of Electronic Toll Collection System and Operations, Management & Maintenance of Toll Plazas and Toll Collection through ETC System along with Provision of Allied Services on Motorways (M-1, E-35, M-14, M-3, M-4, M-5)

DGAWF 26-003 February 2026

Data Summary Sheet

Description	Details
Project Name	Installation of Electronic Toll Collection (ETC) System and Operations, Management & Maintenance of Toll Plazas and Toll Collection through ETC System along with Provision of Allied Services on Motorways (M-1, E-35, M-14, M-3, M-4 & M-5).
Location	The project covers the following Motorways in Pakistan: 1. Islamabad – Peshawar Motorway (M-1) 2. Hassanabdal – Mansehra Expressway (E-35) 3. Hakla – D.I. Khan Motorway (M-14) 4. Lahore – Abdul Hakeem Motorway (M-3) 5. Pindi Bhattian – Multan Motorway (M-4) 6. Multan – Sukkur Motorway (M-5)
Approving Forum & Dates	National Highway Executive Board (NHEB) • 393rd Meeting: May 12, 2022 (Approved in principle). • 395th Meeting: May 27, 2022 (Final Approval of Cost & Award)
Executing Entity	National Highway Authority (NHA)
Feasibility Study	No feasibility study was conducted. Award of conversion on real time M-Tag and Automatic Number Plate Recognition Based Tolling including allied services on motorways was deliberated by NHA Executive Board in its 393rd Meeting held on 12th May, 2022 and it was decided to award the contract to M/s FWO as per Rule 42-f of the Public Procurement Rules, 2004 (Direct contracting with State owned entities) and FWO was required to submit final proposal before finalization of contract.
Funding Sources (Govt/Donor agency)	NHA's self-generated funds
Approved cost	1. ETC System: Rs. 12.200 billion (Fixed Cost) 2. O&M Services: 32.5% of collected Toll Revenue
Total Allocations (year-wise)	Completion period of the project as per contract was 08 months effective from July 01, 2022. However, the project has gone beyond the stipulated period and extension of time was yet to be approved.

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Description	Details
Total Releases and Expenditure (Year-wise & date-wise)	2022-23: Rs 7.320 billion 2023-24: Rs 2.668 billion 2024-25: Rs 0.764 billion Total: Rs. 10.752 billion
Was procurement made through e-PADS	No
Expenditure up to date	ETC Contract Payments till 30.06.2025: Rs. 10.752 billion.
Status of project i.e. Completed or Ongoing	Partially completed.
Cost Over-run	Within approved cost (EPC contract)
Stated Completion date	ETC System Deployment Deadline: 28.03.2023. Operation period: 07 Years (Original Term from 01.07.2022) + 03 Years (Extendable) Completion of Initial Term of Operations: 30.06.2029
Status of PC-II to V	No PC-II and other Planning Commission Proforma were prepared.
Time over-run	35 months (AVC Component is yet to be installed)
Scope of work (Targets / Deliverables of project)	1. Tolling Services: Conversion from Manual to Real-Time M-Tag/Pak-Tag tolling; 100% ETC based 2. IT Services: Operation of Traffic Operations Centers (TOC) & Traffic Control Centers (TCC), maintenance of IT equipment 3. Allied Services: Fire Fighting, Mechanized Sweeping, Ambulances/Rescue, Mobile Workshops, Recovery Vehicles 4. Maintenance: Street lights, buildings, horticulture, and generators
Sustainability	The project is self-sustaining via toll revenue generation. The Operations & Management cost including allied services @ 32.5% of the collected revenue throughout the operation period.
Outcome of the project	• Automation of toll collection except AVC. • Revenue generation (Total revenue recorded by ETC system: Rs. 39.38 billion from July 2022 to June 2025)
Physical Progress in terms of %	ETC system is assembly of hardware component and software solution involving three major technologies i.e. (i) Automatic Vehicle Identification (AVI) involved Radio Frequency Identification (RFID) to identify vehicle to charge the toll to a particular commuter, (ii) Automatic Vehicle Classification (AVC) and (iii) Automatic Number Plate Recognition (ANPR). Physically two components installed leaving AVC yet to be installed as such physical completion 66%.
Financial Progress in terms of %	ETC Contract: 88.13% (Rs. 10.75 billion paid out of Rs. 12.2 billion)

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Description	Details
Composite (risk) Rating (derived from audit finding to provide an at-a-glance summary of project integrity and performance)	Medium Risk (Incomplete AVC, non-engagement of third party; non-obtaining of Performance Security in Operation Phase)

Irum Gull
Assistant Audit Officer (IT)
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Irum Gull
Assistant Audit Officer (IT)
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Irum Gull
Assistant Audit Officer (IT)
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Irum Gull
Assistant Audit Officer (IT)
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Abbreviations and Acronyms

AVC	Automatic Vehicle Classification
AVI	Automatic Vehicle Identification
ANPR	Automatic Number Plate Recognition
DAC	Departmental Accounts Committee
EOT	Extension of Time
EPC	Engineering, Procurement and Construction
ETC	Electronic Toll Collection
FWO	Frontier Works Organization
NADRA	National Database and Registration Authority
NHA	National Highway Authority
NH&MP	National Highway and Motorway Police
NHEB	National Highway Executive Board
NIFT	National Institutional Facilitation Technologies
NTOC	National Traffic Operation Centre
OMC	Operations and Management Contractor
OM&M	Operations, Management & Maintenance
PAO	Principal Accounting Officer
RFID	Radio Frequency Identification
SOPs	Standard Operating Procedures
TOC	Traffic Operation Center
TCC	Traffic Control Center

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Assistant Audit Officer (IT)
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Irum Gull
Assistant Audit Officer (IT)
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Background and Overview of the Project

Project Title:

Installation of Electronic Toll Collection System and Operations, Management & Maintenance (OM&M) of Toll Plazas and Toll Collection through Electronic Toll Collection (ETC) System along with Provision of Allied Services on Motorways (M-1, E-35, M-14, M-3, M-4 & M-5).

Objectives:

- Road User Benefits: Time saving as vehicles do not stop for toll transaction. Fuel saving due to elimination of acceleration.
- Toll agency benefits: The toll agency benefits include reduction in operating cost, manpower, maintenance cost, while ensuring cashless toll transactions.
- Social benefits: The social benefits include the reduction in greenhouse gas emissions that impact the nearby areas where ETC is deployed.

Irum Gul
Assistant Audit Officer (IT)
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Coverage:

The project encompasses six major motorway networks: M-1 (Islamabad-Peshawar), E-35 (Hassanabdal-Mansehra), M-14 (Hakla-D.I. Khan), M-3 (Lahore-Abdul Hakeem), M-4 (Pindi Bhattian-Multan), and M-5 (Multan-Sukkur).

Contracting Authority & Lead:

Awarded by the National Highway Authority to the Frontier Works Organization (FWO) under PPRA Rule 42(f) "Direct Contracting with State-Owned Entities".

PC-I / Approval Context:

While a formal PC-I document was not provided, the project was approved in principle during the 393rd NHA Executive Board (NHEB) meeting on May 12, 2022, and finalized in the 395th meeting on May 27, 2022.

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Assistant Audit Officer (IT)
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FINDINGS

1. Project Objectives

1.1 Non-installation of Automatic Vehicle Classification (AVC) System

Clause 4(iii) of the Scope of Services in the agreement dated 27.06.2022 between National Highway Authority (NHA) and Frontier Works Organization (FWO) requires installation of an auditable system with Automatic Vehicle Classification (AVC) and Automatic Number Plate Recognition (ANPR) to verify and authenticate vehicle class and number plate for toll revenue.

The contract for installation of Electronic Toll Collection (ETC) System and operations/maintenance of toll plazas on Motorways M-1, E-35, M-14, M-3, M-4 & M-5 was awarded to M/s FWO on 27.06.2022 for Rs. 12.200 billion, with completion date by 28.03.2023. Payments of Rs. 10.752 billion (88% of contract value) were made up to 30.06.2025. However, the contractor failed to install the AVC system despite more than one year beyond the stipulated date, and no compliance records were maintained. Non-installation of AVC prevented independent authentication and auditing of toll transactions, thereby compromising the verifiability of toll revenue of Rs. 39.38 billion collected from Motorways M-1, E-35, M-14, M-3, M-4 & M-5 during July 2022 to June 2025.

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Assistant Audit Officer (IT)
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The management replied that entire system except AVC were deployed and made operational. Fiber based AVC sensors installation having cost of Rs. 1.4 billion was delayed primarily due to import restrictions imposed by the government during 2022–2023, which affected the procurement of specialized equipment. As per contract, Sensor line AVC (German Origin) was required to be imported, however, involving substantial amount of foreign currency could not be imported. In order to address the issue FWO has submitted alternate options to AVC which are under review by NHA.

The matter was discussed in DAC meeting held on 8th December, 2025 wherein the Committee directed NHA to provide comprehensive report on the project since its inception within two weeks.

Audit recommends that installation of AVC be ensured without further delay to safeguard NHA's financial interest.

2. Financial Management

2.1 Unreconciled toll revenue collection due to Non-Maintenance of Authentic Real-Time Toll Collection Data and Non-Engagement of Third-Party Verification

According to Scope of Services given in the contract (clause 3.1 & 3.2), the Operations and Management Contractor (OMC) shall be responsible to provide following main services:

i. OMC shall provide connectivity to National Traffic Operation Centre (NTOC) NHA HQ free of cost during the contract period. OMC shall also provide 02 Support Engineer and 02 Software Engineer for 02 years at NHA Headquarters.

ii. OMC shall provide real-time visibility of traffic data, toll collection, and revenue reports to NTOC, NHA HQ.

As per agenda item 6(i) of the minutes of the 393rd Executive Board Meeting dated May 12, 2022 "Services of third party (e.g. NIFT/ NADRA etc.) will be hired by NHA to review, verify and reconcile real time traffic/revenue data on shift, daily and monthly basis. In this respect, unhindered access will be provided by FWO.

Clauses-2 & 6 of Article-VII of OM &M Contract agreement provide that a joint escrow account in the name of Employer & OMC will be opened and Toll Revenue collected shall be deposited after segregation of motorway-wise revenue as reflected by ETC system reports on next working day. Disbursement of shares of the parties from the Escrow account will be made to the designated accounts by the bank on next working day of the deposit date.

Audit noted that NHA's record indicated a toll collection of Rs. 39.379 billion from July, 2022 to June, 2025 as its share (67.5%) on six (06) motorways, (excluding 32.5% share of FWO on account of Operations & Management cost. Audit observed the followings:

i. Real-time visibility of traffic data, toll collection, and revenue reports of the operator at NTOC, NHA HQ as required under agreement were not on record.

ii. NHA did not acquire the services of third-party institutions (such as NIFT or NADRA), as required, for independent verification, ensuring authenticity, and detecting potential revenue leakages in toll collections.

iii. Segregated Motorway wise Collection of Toll Revenue, date wise deposit into Joint Escrow Account and disbursement of share of NHA and OMC from escrow account to parties designated accounts were not available on record.

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This resulted in reliance on unreconciled toll collection data, increasing the risk of revenue leakages, misreporting, and weak financial control.

The matter was discussed in DAC meeting held on 8th December, 2025 wherein the management explained that NHA approached NADRA being the government entity having expertise for assignment. Accordingly, NADRA submitted its proposal which was assessed by NHA and found on higher side as per transaction charges. Now, NHA plans to engage NTRC as third party to verify, validate, review and reconcile real-time traffic and revenue data. DAC directed NHA to finalize the process of hiring of third party and reconcile the data within one week under intimation to Ministry and Audit.

Audit recommends compliance of contract provisions regarding real time connectivity/visibility of traffic data at NHA HQ and engagement of an independent third party to verify and reconcile toll revenue and ensuring transparency.

Assistant Audit Officer (IT)
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2.2 Non-Recovery of Penalty for delayed deposit of Toll Revenue

As per Clause-3 (v) of Article-VII of Contract Agreement, in case of violation, Operations & Management Contractor (OMC) will be penalized as per provision of the contract given in Article-IV. As per Clause-3(i), Toll Revenue is required to be deposited in Escrow Account on next working day. The Article-IV of the contract agreement provides that in case of delay 0.05% of Revenue being delayed per day per Motorway for each day of delay. Further, Clause-3 (iv) states that the OMC shall deposit the impact on Revenue due to revision in toll rates to employer designated bank account on next working day separately.

Audit observed that the increased toll collections for four quarters for the year 2024-25 amounting to Rs 3,499.881 million was retained by the contractor for three months before being credited to NHA. The Authority did not take penal action as required under Article-IV of the contract agreement regarding imposition of penalty on account of delay deposit of toll revenue as detailed below:

Quarter	Amount (Rs in million)	Date of Deposit
July, 2024 to September, 2024	426.901	23.10.2024
October, 2024 to December, 2024	822.828	04.02.2025
January, 2025 to March, 2025	810.019	14.04.2025
April, 2025 to June, 2025	1,440.133	28.07.2025
Total	**3,499.881**	

Audit further observed that as per contract, OMC was required to deposit the entire impact of revision of rates on revenue. As per record, toll rates were revised from 1st July 2024. OM&M charges were not applicable on difference of enhanced rates and original rates. However, nothing was on record to establish whether OM & M charges @ 32.5% were charged by the operator or not.

The irregular retention of toll revenue caused financial hardship and loss of interest to NHA.

The management replied that matter has been taken up with the FWO to explain the un-authorized retention of toll besides recovery of interest on delayed deposit.

The matter was discussed in DAC meeting held on 8th December, 2025, wherein the management explained that the matter has been taken up with the operator through meetings and written correspondence for deposit of toll revenue on daily basis into the escrow account. DAC directed NHA thar the decisions of the meeting held with Director General FWO and NHA be shared with Ministry and Audit.

Audit recommends early recovery of penalty on account of delay deposit besides assuring that Operations, Management & Maintenance Charges are not applied on toll revenue as a result of enhanced rates.

Irum Gull
Assistant Audit Officer (IT)
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2.3 Payment against Operations, Management and Maintenance of Motorways and Allied Facilities without authenticating the Services performed

According to Scope of Services, the Operations and Management Contractor (OMC) shall be responsible to provide following main services:

i. Provision of IT support and Repair and Maintenance of IT Equipment
ii. Fire Fighting Services
iii. Mechanized Sweeping
iv. Rescue, First Aid and Ambulances Services
v. Mobile Workshop and Recovery Vehicle
vi. Repair and Maintenance of Street lights
vii. Repair and Maintenance of buildings handed over to OMC Horticulture & Beautification at Toll plazas and building areas
viii. Commuters will be provided with the services like drinking water for which a water cooler shall be installed at each toll plaza, neat and well-maintained washrooms, ablution, prayer place, and provision of first aid on both sides.

ix. Canopy lights, fog lights and flood Lights on entry/exit ramps shall be kept operational by the OMC regularly.

x. OMC to ensure that Firefighting vehicle full with 20,000 liters capacity with pressure Pump and extension of 20 equipment throw pipe of 4 inches, firefighters etc. 24 hours a day, 7 days a week for 365 days a year. The response time in this regard will be 15 minutes from the time of intimation of occurrence of the incident

xi. The OMC shall provide Mobile workshops for 24/7 for 365 days a year. The Auto Mechanic on duty on every shift must have a valid driving license. The Operator shall also make necessary arrangements to carry additional Fuel petrol fifty (50) liters & diesel fifty (50) liters with each Mobile Workshop to attend to the vehicles, requiring refueling,

xii. The OMC shall provide an efficient communication system for information of any incident that occurred during any emergency in coordination with NH&MP. The equipment includes efficient wireless sets with charging facilities or as required by NH&MP. The equipment should be maintained in good and perfect working conditions all the time. The equipment sets shall be provided to NH&MP, Employer representative, and relevant staff of OMC involved in the provision of all services related to incident Response Management during an emergency.

Irum Saif
Assistant Audit Officer (IT)
20 October 2026 03:01:32 PM

The Employer shall review, verify & reconcile the OMC monthly invoice through third party to be appointed by Employer within fifteen (15) days and intimate the OMC accordingly. Discrepancies (if any) pursuant to reconciliation of ETC reports shall be intimated by the Employer to OMC. Deductions/penalty (if any) from OMC due to non-compliance with required Services, shall also be intimated to OMC by the Employer Representative. The OMC shall make required adjustment in ETC reports to address discrepancies as intimated by Employer Representative and deposit toll revenue accordingly to Escrow Account after review by the OMC not later than seven (07) days of intimation of Employer.

Audit noted that the Operator was paid a sum of Rs. 3.124 billion during 2022-23 on account of Operations, Management and Maintenance of Motorways and Allied Facilities as detailed below:

Motorway	O&M charges (Rs in million)
Islamabad-Peshawar	1,189.824
Khanewal-Lahore	629.231
Pindi Bhattian-Multan	456.906
Multan-Sukkur	568.431
Hassanabdal-Mansehra	279.475
Total	**3,123.867**

Audit observed that O&M services performed as per provisions of the contract were not authenticated through respective regional General Managers Motorways. No record of compliance of contract provisions was being maintained. The issue of non-illumination of lights on M-1 was also highlighted by different fora i.e. Pakistan Citizen Forum, Peshawar High Court etc.

Audit recommends implementation of contract clauses besides due recoveries from the contractor.

2.4 Retention of unutilized M-Tag advances and interest

As per Clause-3(ii) and (iii) of Article-VII of agreement, M-Tag Advance collection in respect of all motorways (till development of Pak-Tag) will continue to be deposited in existing M- Tag Account owned by OMC. However, earned M-Tag toll (cashless) pertaining to motorways will be deposited in Escrow Account after segregation of motorway-wise revenue as reflected by ETC system reports on next working day. After establishment of Pak-Tag (when applicable), the advance Pak-Tag collection will be deposited with Employer's designated bank account.

As per Clause-4 (i) & (ii) of Article-VII of agreement, the sharing of interest/profit accrued between employer and OMC on un-utilized advance of M-Tag will be determined as per utilization of M-Tag on Motorways during the month. Accordingly, the interest will be transferred to employer's account on monthly basis within first seven days of succeeding month. The interest accrued on un-utilized Pak-Tag/M-Tag Revenue may also be passed as incentive to the commuters of the Motorways with the approval of employer.

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According to Clause 3.2 (i)(l) of Scope of Services, OMC may provide Pak Tag services upon request of Employer for which separate proposal will be submitted by OMC to Employer along with payment terms & conditions. OMC will help employer to develop Pak-Tag on Motorways having the ownership of employer and integrate the same with M-Tag.

Audit observed that:

i. NHA did not maintain the information regarding the advances and recharges of M-Tag, which were required to be determined on the basis of total M-Tag revenue. Furthermore, the interest/profit accrued on such balances was to be distributed between NHA and OMC but no sharing of interest/profit and its passing on to the commuters was available on record.

ii. No steps towards developing Pak-Tag with exclusive ownership of NHA were taken as per provision of the contract agreement.

This resulted in non-distribution of accrued financial benefits, thereby depriving both NHA and commuters of their due share.

The matter was discussed in DAC meeting held on 8th December, 2025 wherein the management explained that FWO was approached to provide details of unutilized M-tag balances along with utilization on six motorways for determination of interest amount. The Committee directed NHA to provide details of Escrow account and matter be pursued with FWO at the earliest. The minutes of the meeting should also be shared with Ministry and Audit. Status of development of Pak-Tag also be shared with Audit.

Audit recommends implementation of contract clauses besides due recoveries from the operator.

2.5 Non-obtaining of Toll Revenue Security from the contractor

As per clause 08 of Operations and Management Contract, the OMC will submit to the Employer, in form of Pay Order/Demand Draft or in shape of irrevocable, unconditional Bank Guarantee of Rs. 500 million (Rs. 250 million before commencement of Operations on 01.07.2022 on three (03) Motorways i.e. M-1, M-3 & E-35 and Rs. 250 million before commencement of operations on other three (03) Motorways i.e. M-4, M-5 & M-14 after completion of installation of Electronic Toll Collection (ETC) System.

Audit observed that the contractor did not submit toll revenue security amounting to Rs. 500 million.

The Authority replied that directions have been conveyed to M/s FWO for deposit of toll revenue security. Compliance will be shared with Audit accordingly.

The matter was discussed in DAC meeting held on 30.01.2025 wherein the Committee directed NHA to take appropriate measures to obtain performance security as per contract or make adjustment/recovery from the operator dues and compliance be shared with Audit.

Audit recommends compliance of DAC directive.

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3. Procurement

3.1 Irregularities in award, execution, and operation of Electronic Toll Collection System on Motorways

Rule 42(f) of Public Procurement Rules, 2004, permits direct contracting with state-owned entities for time-sensitive public interest works, subject to price reasonability via rate analysis. The procuring agency shall devise a mechanism for determining price reasonability to ensure that the prices offered by the state-owned entities are reasonable for award of the contract. The organization or the body to be engaged in direct contracting shall be eligible to perform the works or render the services. The organization shall accomplish the work or services including consultancy services, exclusively through its own resources without involving private sector as a partner or in the form of a joint venture or as a sub-contractor.

Further, Contract Scope of Services and Conditions require the OMC to provide all manpower, equipment, maintenance, allied services as per SOPs, obtain insurance (Clauses 18.1–18.3), achieve milestones for payments, and face penalties/liquidated damages for delays/non-compliance i.e. 0.005% of contract price for each day of delay, subject to a maximum of 10% of the amount of balance work as per clause 8.7 of the contract agreement.

NHA awarded the Rs 12.200 billion contract for installation of Electronic Toll Collection System and operations/maintenance of toll plazas on Motorways M-1, E-35, M-14, M-3, M-4 & M-5 to M/s FWO on direct contracting basis vide contract agreement dated 02.06.2022, with stipulated period of completion of 08 months.

Audit observed the following:

i. NHA awarded the contract to M/s FWO in violation of Rule 42(f) (iv) of the Public Procurement Rules as the requirement of determining price reasonability, with reference to analysis of rates, was not fulfilled.

ii. The work was awarded on the ground that M/s FWO has the proprietary rights of M-Tag facility. The contract agreement executed with the operator contains a general clause (4.4) regarding sub-contracting which states that the contractor shall be responsible for the acts or defaults of any sub-contractor, his agents or employees as if they were the act or default of the contractor. As per rules 42(f) (ii), the organization cannot engage sub-contractor. Making a provision of sub-contracting in contract agreement is a violation of very spirit of Rule 42(f).

Irum Gull
Assistant Audit Officer (IT)
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iii. Invoking of Rule 42(f) is for projects which are time sensitive and in public interest. The project was required to be completed in eight months. The award under Rule 42(f) is not justified because the project was still incomplete.

iv. The contractor did not complete the work within stipulated period but NHA did not impose liquidated damages under clause 8.7 of the contract agreement.

v. As per scope of the project, Electronic Toll Collection system is assembly of hardware component and software solution. Further, processes of the Traffic Operation Centres, Traffic Control Centers and maintenance of IT equipment require substantial IT expertise. M/s FWO is expert in civil engineering rather than an IT services provider.

vi. The work was awarded for collection of revenue without adjustment of previous outstanding receivables from M/s FWO against the SOP of NHA.

vii. Insurance policies required under clauses 18.1, 18.2 and 18.3 of contract were not obtained.

viii. Contractor did not provide the manufacturer certificate, model, company, warranties, etc., of the imported item/accessories of the Electronic Toll Collection System.

ix. Equipment/items were installed without carrying out tests and inspections at site specified in the contract agreement under clause 7.3 and 9.1.

The management replied that direct contract was awarded with the approval of Executive Board for compatibility with existing M-Tag system as it was solely owned and implemented by FWO since 2016. Reconciliation of dues, obtaining of insurance policies and manufacturer certificates are in process. Further, delay was due to economic conditions and EOTs are in process.

DAC in its meeting held on 23rd December, 2025 directed NHA to provide comprehensive reply to Audit.

Audit recommends compliance of DAC directives besides implementation of contract clauses regarding insurance policies, manufacturer's certificate, inspection and testing, liquidated damages etc.

Ikram Ullah
Assistant Audit Officer (IT)
20 October 2026 03:01:32 PM

4. Sustainability Assessment

The Project is a self-funding operation and maintenance (O&M) model where the contractor is responsible to collect Toll Revenue and also provide various allied services with its share of 32.5% of collected revenue.

Irum Gull
Assistant Audit Officer (IT)
20 October 2026 03:01:32 PM

5. Conclusion

The contract was awarded on 02.06.2022 to M/s FWO under Rule 42 (f) of Public Procurement Rules without fulfilling all requirements envisaged under the rule. Work of Electronic Toll Collection System was awarded without assessment of reasonability of rates of equipment to be installed besides determination of operations and management cost including allied services @ 32.5%. The project was to be completed within 8 months but the same was not completed within given timelines.

The project is partially operational with reference to revenue collection, operations, management and maintenance. Three Motorways i.e. M-1, M-3 & E-35 were operationalized from 01.07.2022 as M-Tag was already installed. M-5 became operational from 15.12.2022, M-4 from 01.02.2023 and M-14 from 01.03.2024. However, Automatic vehicle classification system was not installed till January, 2026, to verify and authenticate vehicle class for toll revenue. Further, third party services for independent verification, ensuring authenticity, and detecting potential revenue leakages in toll collections were also not hired.

Pak-Tag with exclusive ownership of NHA was not developed with the assistance of operator.

Irum Gul
Assistant Audit Officer (IT)
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6. Recommendations

i. Full compliance of all conditions of Rule 42(f) in direct contracting be ensured and its invoking be allowed when it is genuinely required.

ii. Completion of left over component of AVC be ensured to authenticate the collected revenue and safeguarding the NHA's financial interest.

iii. Contract management be ensured in letter and spirit.

iv. Development of Pak-Tag be ensured as provided in the contract.

Irum Gull
Assistant Audit Officer (IT)
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