



**AUDIT REPORT
ON
THE ACCOUNTS OF
PETROLEUM DIVISION
AND
OIL AND GAS REGULATORY
AUTHORITY
AUDIT YEAR 2020-21**

AUDITOR-GENERAL OF PAKISTAN

TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS		i
PREFACE		v
EXECUTIVE SUMMARY		vii
	Sectoral Analysis	1
CHAPTER-1	Public Financial Management	7
CHAPTER-2	PETROLEUM DIVISION	
2.1	Ministry of Energy (Petroleum Division)	
2.1.1	<i>Introduction</i>	15
2.1.2	<i>Comments on Budget and Accounts</i>	16
2.1.3	<i>Compliance of PAC Directives</i>	18
2.1.4	<i>Audit Paras</i>	19
2.2	Oil & Gas Development Company Limited	
2.2.1	<i>Introduction</i>	45
2.2.2	<i>Comments on Audited Accounts</i>	45
2.2.3	<i>Compliance of PAC Directives</i>	47
2.2.4	<i>Audit Paras</i>	48
2.3	Pakistan Petroleum Limited	
2.3.1	<i>Introduction</i>	73
2.3.2	<i>Comments on Audited Accounts</i>	73
2.3.3	<i>Compliance of PAC Directives</i>	75
2.3.4	<i>Audit Paras</i>	76
2.4	Pakistan State Oil Company Limited	
2.4.1	<i>Introduction</i>	90
2.4.2	<i>Comments on Audited Accounts</i>	90
2.4.3	<i>Compliance of PAC Directives</i>	92
2.4.4	<i>Audit Paras</i>	92
2.5	Sui Northern Gas Pipelines Limited	
2.5.1	<i>Introduction</i>	99
2.5.2	<i>Comments on Audited Accounts</i>	99
2.5.3	<i>Compliance of PAC Directives</i>	103
2.5.4	<i>Audit Paras</i>	104

2.6	Sui Southern Gas Company Limited	
2.6.1	<i>Introduction</i>	134
2.6.2	<i>Comments on Audited Accounts</i>	134
2.6.3	<i>Compliance of PAC Directives</i>	137
2.6.4	<i>Audit Paras</i>	137
2.7	Pakistan LNG Limited	
2.7.1	<i>Introduction</i>	151
2.7.2	<i>Comments on Audited Accounts</i>	151
2.7.3	<i>Audit Paras</i>	153
2.8	Pakistan LNG Terminal Limited	
2.8.1	<i>Introduction</i>	166
2.8.2	<i>Comments on Audited Accounts</i>	166
2.8.3	<i>Audit Paras</i>	167
2.9	Other Organizations	179
CHAPTER-3	CABINET DIVISION	
3.1	Oil and Gas Regulatory Authority	
3.1.1	<i>Introduction</i>	183
3.1.2	<i>Comments on Audited Accounts</i>	183
3.1.3	<i>Compliance of PAC Directives</i>	184
3.1.4	<i>Audit Paras</i>	184
ANNEXES		
	Annex-1 MFDAC	211
	Annex-2 Non-submission of Audited Accounts	224
	Annex-3 Audit profile of MoP (PD) & OGRA	225
	Annex-4 to 14	226

ABBREVIATIONS AND ACRONYMS

AG	Accountant General	FTO	Federal Treasury Officer
AGP	Auditor-General of Pakistan	FY	Financial Year
AGPR	Accountant General Pakistan Revenues	GDS	Gas Development Surcharge
APL	Attock Petroleum Limited	GENCO	Generation Company
BoD	Board of Directors	GFR	General Financial Rules
BoG	Board of Governor	GHPL	Government Holdings Private Limited
BoM	Board of Management	GIC	Gas Internally Consumed
BGRC	Bidder Grievance Review Committee	GIDC	Gas Infrastructure Development Cess
CCI	Council of Common Interest	GM	General Manager
CEO	Chief Executive Officer	GoP	Government of Pakistan
CWIP	Capital Work in Progress	GPPs	Government Power Producers
DES	Delivered Ex-Ship	GSD	Gas Security Deposit
DG (PC)	Director General Petroleum Concession	GSP	Geological Survey of Pakistan
DC	Deputy Commissioner	GSPA	Gas Sales and Purchase Agreement
DMD	Deputy Managing Director	GTA	Gas Transportation Agreement
E&P	Exploration & Production	HDIP	Hydrocarbon Development Institute of Pakistan
ECC	Economic Co-ordination Committee	HoD	Head of Department
EPCC	Engineering Procurement Construction & Commissioning	HR	Human Resource
ERR	Estimated Revenue Requirement	HSD	High Speed Diesel
EWCI	East West Consultant International Ltd	HUBCO	Hub Power Company Ltd
EWT	Extended Well Testing	IAS	International Accounting Standards
FBR	Federal Board of Revenue	IFEM	Inland Freight Equalization Margin
FCF	Federal Consolidated Fund	IPPs	Independent Power Producers
FDP	Field Development Plan	ISGS	Inter State Gas System
FGE	Fact Global Energy	JJVL	Jamshoro Joint Venture Limited
FRR	Final Revenue Requirement	JV	Joint Venture

KM	Kilometer	OGDCL	Oil and Gas Development Company Limited
KMI	Key Monitoring Indicator	OGRA	Oil and Gas Regulatory Authority
LAC	Land Acquisition Collector	OMCs	Oil Marketing Companies
LCDCL	Lakhra Coal Development Company Limited	OSA	Operator and Service Agreement
LD	Liquidity Damages	PAC	Public Accounts Committee
LDO	Light Diesel Oil	PAO	Principal Accounting Officer
LNG	Liquefied Natural Gas	PBG	Performance Bank Guarantee
LPG	Liquefied Petroleum Gas	PCA	Petroleum Concession Agreement
LPS	Late Payment Surcharge	PD	Petroleum Division
LSA	LNG Service Agreement	PGPCL	Pakistan Gas Port Consortium Ltd
MCF	Metric Cubic Feet	PLL	Pakistan LNG Limited
MD	Managing Director	PLTL	Pakistan LNG Terminal Ltd
MFDAC	Memorandum for Departmental Accounts Committee	PMG	Premium Motor Gasoline
MMBTU	Million Metric British Thermal Unit	PMDC	Pakistan Mineral Development Corporation
MMCF	Million Metric Cubic Feet	PO	Purchase Order
MOE-PD	Ministry of Energy-Petroleum Division	POL	Petrol, Oil and Lubricant
MPCL	Mari Petroleum Company Limited	PNR	Petroleum and Natural Resources
Mt	Metric Ton	PPL	Pakistan Petroleum Limited
MTBF	Medium-Term Budgetary Framework	PPRA	Public Procurement Regulatory Authority
NG	Natural Gas	PQA	Port Qasim Authority
NGL	Natural Gas Liquids	PRL	Pakistan Refinery Limited
NICL	National Insurance Company Limited	PSEs	Public Sector Enterprises
NOC	No objection Certificate	QC	Quality Control
NTDC	National Transmission and Dispatch Company	RFO	Residual Fuel Oil
OEM	Original Equipment Manufacturer	R&D	Research & Development

RLNG	Re-gasified Liquefied Natural Gas
RoA	Return on Assets
SAP	System Application and Product
SBP	State Bank of Pakistan
SCP	Supreme Court of Pakistan
SECP	Securities and Exchange Commission of Pakistan
SEZ	Special Economic Zone
SGM	Senior General Manager
SIGTTO	Society of International Gas Tanker and Terminal Operators
SML	Saindak Metals Limited
SMS	Service Meter Station
SNGPL	Sui Northern Gas Pipelines Limited
SOP	Standard Operating Procedure
SSGC	Sui Southern Gas Company Limited
TA	Travelling Allowance
TCF	Trillion Cubic Feet
T&D	Transmission and Distribution
TBS	Town Border Stations
ToRs	Terms of References
TURA	Terminal Use and Regasification Agreement
UFG	Un-accounted For Gas
WACOG	Weighted Average Cost of Gas
WACC	Weighted Average Cost of Capital
WHT	Withholding Tax
WIO	Working Interest Owner
WPPF	Workers Profit Participation Fund

Preface

Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973 read with Sections 8, 12 and 15 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 the receipts and expenditure from the Federal Consolidated Fund, Public Account and that of Government Commercial Undertakings and of any Authority or Body established by the Federation.

This report is based on audit of the accounts of Ministry of Energy (Petroleum Division) of Government of Pakistan and all the organizations under this Ministry as well as Oil and Gas Regulatory Authority under Cabinet Division for the financial year 2019-20. The Director General Audit Petroleum and Natural Resources, Lahore, conducted audit for the financial year 2019-20 on a test check basis, with a view to report significant findings to the relevant stakeholders. The main body of the Audit Report includes the systemic or significant issues and audit findings of material nature under issue based audit. Sectoral analysis has been added in this report covering strategic review that presents an overall perspective of audit results. Relatively less significant issues have been listed in the **Annex-I** as MFDAC. These shall be pursued with the relevant Principal Accounting Officers of the Divisions at Departmental Accounts Committee level.

This report has been finalized in light of the discussions held on the paras in Departmental Accounts Committee meetings.

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 Parliament (Majlis-e-Shoora).

-sd-

(Javaid Jehangir)
Auditor-General of Pakistan

Dated: February 22, 2021

EXECUTIVE SUMMARY

The office of the Director General Audit, Petroleum and Natural Resources, Lahore (DGA, PNR) carries out audit and evaluation of Ministry of Energy (Petroleum Division), Public Sector Enterprises under the Petroleum Division and Oil & Gas Regulatory Authority under Cabinet Division.

The audit was conducted by utilizing 4,674 mandays and incurring expenditure of Rs 145.972 million during the FY 2019-20. This report contains results of audit inspection and evaluation of financial performance of entities under the jurisdiction of this office for the financial year 2019-20 conducted during the audit year 2020-21.

This report also contains comments on the audited annual accounts of 9 Public Sector Enterprises / Authority (6 pertain to the financial year 2019-20 and 3 to the previous years). However, comments on the accounts of 8 organizations (**Annex-2**) could not be included in this report as the concerned management did not submit their audited accounts by the prescribed date i.e. December 31, 2020.

a. Scope of Audit

This office is mandated to conduct audit of revenue and expenditure of Ministry of Energy (Petroleum Division), 16 Public Sector Enterprises / institutes under this Ministry, 1 Public Sector Enterprises under Energy & Power Department, Government of Khyber Pakhtunkhwa, and Oil & Gas Regulatory Authority under Cabinet Division. Total expenditure and Non-Tax Receipts of these formations were Rs 6,094.037 billion and Rs 428.575 billion respectively for the financial year 2019-20.

Audit coverage relating to expenditure for the current audit year comprises formations of Ministry of Energy (Petroleum Division), 9 Public Sector Enterprises / institutes and Oil & Gas Regulatory Authority under Cabinet Division having a total expenditure of Rs 5,746.852 billion for the financial year 2019-20 (**Annex-3**).

Audit coverage relating to receipts for the current audit year comprises 4 formations of Ministry of Energy (Petroleum Division) having total Non-Tax Receipts of Rs 428.575 billion for the financial year 2019-20.

In addition to this compliance audit report, this office also conducted 2 financial attest audits, and 1 performance audit. Reports of these audits are being published separately.

b. Recoveries at the instance of audit

As a result of audit, a recovery of Rs 1,077.585 billion was pointed out in this report. Recovery effected from January to December, 2020 was Rs 309,439.421 million which was verified by Audit.

c. Audit Methodology

The audit of the accounts for the FY 2019-20 of the audited organizations started from audit planning which included consulting and updating the permanent files. Desk audit and in-house audit planning sessions were held to develop understanding of the entities and define core objectives for the subject audit exercise. Accordingly, high risk areas based on financial and managerial significance with reference to each entity were identified. Sources of information such as Government's regulations / BoD proceedings and other related events relevant to the audited organizations were used as reference. Audit checks were applied keeping in view the nature of transactions, accounting standards and best auditing practices. The audit exercise was conducted on a sample selection basis of relevant types of transactions in accordance with the guidelines provided in Financial Audit Manual.

d. Audit Impact

Audit contributed towards improving financial transparency and internal controls in the audited organizations through its findings. Management's adherence to competitive procurement processes, transparent recruitments and effective fund utilization was reinforced and further strengthened. The following incidents may be quoted as audit impact:

- PSO and PLL made excess payments, amounting to Rs 4,092 million, in respect of Port Charges agreed with LNG Suppliers. On pointation by Audit, PSO and PLL stopped making these additional payments. PSO has reported recovery of these excess charges, whereas PLL is in the process of initiating recoveries [Para Nos. 2.4.6.4 & 2.7.5.4 of Audit Report 2020-21].
- Audit proposed modifications in pipeline specifications of South-North Pipeline Project and North-South Gas pipelines from two 42” dia pipeline, having a capacity of 1.2 bcfd each and costing cumulatively US\$ 2,034 million, to be replaced with 56” pipeline, costing US\$ 1,122.275 million with a capacity of transport 3.2 bcfd. It will result in potential savings of US\$ 40 million with transport of 33% additional gas without any additional cost for next 50 years. The Government is now considering to revise size of pipeline as proposed by Audit [Para No. 4.1.4.1 of Performance Audit of ISGS audit year 2019-20].
- On pointation by Audit, OGRA vide ERR 2020-21 directed both SNGPL and SSGCL to review their HR cost structure including perks, wide pay scales, & other medical, club membership and car / petrol policies and bring it down to a reasonable level so that the same can be comparable with other similar public sector organizations involved in the business of transmission & distribution of power sector. In case the companies continue their current policies the financial impact may be met from shareholders profit [Para Nos. 2.5.6.2 & 2.6.6.2 of Audit Report 2019-20].
- Conflict of interest was identified by Audit as a number of employees of various Public Sector Enterprises were working in Ministry of Energy (Petroleum Division) Resultantly the regulator, Ministry of Energy (Petroleum Division), repatriated the employees [Para No. 4.3.1 of Performance Audit of ISGS audit year 2019-20].
- Ministry of Energy (Petroleum Division) was not utilizing 25% of training funds on local inhabitants out of training fund account maintained by DG(PC) as required under Guidelines for Utilization of Training Obligation 2009. Now the division has issued new Guidelines for Management and Utilization of Training Fund 2020. As per new Guideline 30% of the

obligation shall be deposited by the operator in respective Provincial Energy Department's Training Fund Account. The fund shall be used for training and capacity building of local inhabitants and employees of Energy Department of respective province [Para Nos. 2.4.24 & 2.1.7.23 of Audit Reports 2017-18 & 2019-20].

e. Comments on Internal Controls

Internal controls in any organization comprise policies, procedures, rules, regulations and monitoring mechanisms etc. These controls help to prevent fraud, waste, inefficiency and enhance confidence level of the management. Internal controls are essential part of management's efforts to achieve its objectives and goals. A number of internal control weaknesses were observed during the audit and communicated to the respective management accordingly. A few instances are as follows:

- **Financial Management**

Certain financial management weaknesses were noticed in Ministry of Energy (Petroleum Division) as no mechanism was in place for monitoring of assessment / collection of revenue receipts, recovery of arrears of GDS, GIDC, Petroleum Levy and Royalties. The management only relied on the information provided by the companies relating to due receipts. It was noticed that non-tax receipts amounting to Rs 11,368.286 million had been deposited but not accounted for by DG (Oil). In the case of OGDCL, PSO, PPL, SNGPL and SSGC, financial lapses were also noticed.

- **Weak Procurement Management**

Cases of internal controls failures were noticed in various procurements made by PPL. Recurrent violations of PP Rules were observed leading to wastage of company's resources.

- **Weak Project Management**

It was noticed that the project management was one of the weak areas in E&P companies. For example, in case of OGDCL, PPL, SNGPL and SSGC multiple projects were either delayed or could not achieve set targets.

- **Failure to perform key functions by OGRA**

It was noticed that OGRA failed to monitor development of storage facility by the OMCs and it did not impose penalties on certain OMCs who violated the regulations. Weak monitoring mechanism of the Authority on OMCs also resulted in shortage of petroleum products in the country during the months of April and May, 2020.

- f. Key audit findings**

- i. Non-production of record was reported in 3 cases;¹
- ii. Non-recovery of receivables by public sector enterprises was noticed amounting to Rs 645,810.920 million;²
- iii. Non-recovery of Non-Tax Receipts under different heads of accounts was reported amounting to Rs 137,885.505 million;³
- iv. Non-recovery of gas charges from active and disconnected consumers / defaulters by SNGPL and SSGC – Rs 87,570.043 million;⁴
- v. Non-recovery of long outstanding gas charges from consumers / Power Sector due to circular debt - Rs 54,532 million;⁵
- vi. Non-recovery of cost of RLNG retained by SSGC and non-payment of terminal charges, cost of supply of gas and LSA margin by SNGPL - Rs 46,314.37 million;⁶
- vii. Loss on account of UFG - Rs 32,952 million;⁷
- viii. Unjustified pendency in completion of gas schemes despite receipt of Government funds - Rs 32,402 million;⁸
- ix. Loss due to under-utilization of terminal capacity - Rs 11,364 million;⁹
- x. Mismanagement in procurement of LNG was observed resulting in high prices and shortage of gas - Rs 10,706.417 million;¹⁰

¹ Para 2.5.6.1, 2.6.6.1 & 3.1.7.1

² Para 2.2.6.8, 2.3.6.1, 2.4.6.1 & 2.7.5.6

³ Para 2.1.7.1, 2.1.7.2, 2.1.7.3, 2.1.7.4, 2.1.7.6 & 2.1.7.9

⁴ Para 2.5.6.4 & 2.6.6.6

⁵ Para 2.5.6.5

⁶ Para 2.6.6.7 & 2.5.6.7

⁷ Para 2.5.6.2 & 2.6.6.2

⁸ Para 2.5.6.9

⁹ Para 2.8.5.2

¹⁰ Para 2.7.5.8, 2.7.5.9 & 2.7.5.10

- xi. Excess payment of port charges by PSO & PLL - Rs 4,092.75 million;¹¹
- xii. Violation of PP Rules was observed in PPL - Rs 2,836.013 million;¹²
- xiii. Excess capitalization of jobs by SNGPL - Rs 2,088.970 million;¹³
- xiv. Irregular award of LPG recovery contract to M/s JJVL by OGDCL – Rs 1,341.117 million;¹⁴
- xv. Loss due to unlawful flaring of gas by OGDCL - Rs 1,219.170 million;¹⁵
- xvi. Unauthorized expansion of retail outlets and non-imposition / recovery of fine & penalty / further penalty by OGRA – Rs 361.10 million;¹⁶
- xvii. Shortage of Petroleum Products due to delayed action by Directorate General of Oil and OGRA;¹⁷
- xviii. Non-implementation of certain ECC decision by Petroleum Division;¹⁸
- xix. Illegal establishment of retail outlets of AOSPL and Gas & Oil Petroleum Ltd.¹⁹; and
- xx. Non-determination of final RLNG prices by OGRA since 2017 causing running of entire RLNG supply chain on provisional basis.²⁰

Recommendations:

- i. Petroleum Division may take disciplinary action against the persons (s) responsible for non-production of record and ensure timely provision of record in future;
- ii. The management of respective organization must take necessary steps to recover the outstanding dues from customers;
- iii. Petroleum division may take steps for early recovery of non-tax receipts under different heads;
- iv. Gas utility companies may expedite recovery of outstanding gas charges.
- v. Petroleum Division may take up the matter with Committee constituted by Cabinet on circular debt;

¹¹ Para 2.4.6.4 & 2.7.5.4

¹² Para 2.3.6.3 & 2.3.6.5

¹³ Para 2.5.6.11

¹⁴ Para 2.2.6.6

¹⁵ Para 2.1.7.7

¹⁶ Para 3.1.7.6

¹⁷ Para 2.1.7.14 & 3.1.7.9

¹⁸ Para 2.1.7.15

¹⁹ Para 3.1.7.11

²⁰ Para 3.1.7.14

- vi. Petroleum Division may coordinate between the two gas companies to resolve the RLNG related disputes;
- vii. UFG reduction plan & key monitoring indicators may be implemented by gas utility companies;
- viii. SNGPL may expedite completion of gas schemes;
- ix. Petroleum Division may finalize policy for optimal usage of terminal capacity;
- x. Petroleum Division may streamline the procedures to manage process of import of LNG;
- xi. The management may investigate the matter and fix responsibility besides recovering the excess payment;
- xii. PPL may improve procurement management to ensure compliance with PP Rules;
- xiii. SNGPL may take corrective action to reverse over-booking;
- xiv. Petroleum Division may conduct inquiry to fix responsibility for undue favour to the contractor;
- xv. Management may ensure implementation of Flare Gas Utilization Guidelines in true letter and spirit;
- xvi. OGRA may improve regulatory oversight;
- xvii. Management may investigate the matter and fix responsibility besides ensuring regulatory oversight;
- xviii. Management may improve compliance to ECC decisions;
- xix. OGRA may take remedial measures and ensure implementation of license conditions; and
- xx. OGRA may resolve regulatory issues relating to RLNG business and finalize RLNG prices.

Sectoral Analysis

The office of Director General Audit, Petroleum and Natural Resources is mandated to conduct audit of revenue and expenditure of Ministry of Energy (Petroleum Division), sixteen public sector enterprises / institutes under this Ministry, one public sector enterprise under Energy & Power Department, Government of Khyber Pakhtunkhwa and Oil & Gas Regulatory Authority under Cabinet Division. Under the Rules of Business 1973, the Ministry of Energy (Petroleum Division) deals with all matters relating to oil, gas and minerals at national and international levels. Its mandate and responsibilities include policy and planning regarding indigenous exploration, development and production of hydrocarbons / minerals. Further, it also governs import, export, refining, distribution, marketing and transportation of all petroleum and related products. The sector holds a preeminent position in the economy of Pakistan due to following salient reasons:

- i. With a foreign direct investment of Rs 49,824 million (US\$ 311.4 million) in FY 2019-20, the sector remained a leading recipient of foreign direct investment.²¹
- ii. The sector raised significant non-tax income for the government amounting to Rs 428,571 million.²²
- iii. Net imports of petroleum products during the FY 2019-20 remained at Rs 1,637,727 million.²³

Achievements against Targets

Petroleum Division measures its performance in terms of budget, geological surveys, distribution, exploration and production of oil and gas and other energy resources. A review of achievement of targets set in Mid-term

²¹ Pakistan Investment Board Data

²² Petroleum Division Receipts

²³ Pakistan Statistics Bureau Report

Budgetary Framework (MTBF) for FYs 2018-19 and 2019-20 is tabulated below:

Sr. No.	Item	Unit	2018-19			2019-20		
			Target	Actual	% Achievement	Target	Actual	% Achievement
1	Domestic Production							
1.1	Crude Oil	M. B.	32.5	21.86	67.26%	29.39	29.16	99.21%
1.2	Gas	TCF	1.51	0.96	63.57%	1.57	1.46	93.00%
1.3	LPG	Tons	880,000	805,000	91.47%	820,000	784,200	95.63%
2	No of Wells drilled							
2.1	Exploratory	Nos.	63	27	56.58%	52	19	36.53%
2.2	Development	Nos.	66	46	42.85%	40	28	66.66%
3	Gas Consumers Added							
3.1	SNGPL	Nos.	403,300	403,300	100%	305,450	305,450	100%
3.2	SSGCL	Nos.	117,995	121,137	102.66%	120,098	124,695	124%
4	Gas Network Extension by Gas Companies							
4.1	SNGPL	Km	8,585	4,743	55%	12,100	4,155	34%
4.2	SSGCL	Km	1,478	863	56%	1,498	850	56%

(Source: Annual Plan 2019-20 and 2020-21 by Planning Commission)

As can be seen from the above data, the Division has seen progress in domestic production, but it has not been able to achieve its targets of wells exploration and gas network extension.

Position of oil and gas reserves

Oil

Domestic production was 29.16 million barrels in 2019-20 against target of 29.39 million barrels showing 99.21% achievement from previous year. Although, the Division reduced the targets for the FY 2019-20 compared to FY 2018-19, oil production surpassed the same last year. According to Petroleum Division, out of total oil reserves of 1,229 million barrels, 958 million barrels have been consumed leaving a balance of 271 million barrels of oil reserves in Pakistan.

Oil Reserves (Million US Barrels) as on 30th June, 2020

Province	Original Recoverable	Cumulative Production / consumed	Balance Recoverable	%age
Balochistan	1.72	0.21	1.51	0.56%
KPK	255.24	156.98	98.26	36.20%
Punjab	469.07	377.58	91.49	33.70%
Sindh	502.91	442.71	80.19	29.54%
Total	1,228.93	957.49	271.45	100%

(Source: Petroleum Division letter dated December 14, 2020)

The primary challenge that the Division confronts is the rapid decline in recoverable reserves despite fairly large amount of hydrocarbon resources underground.

Gas

Pakistan had over 62 TCF of natural gas, out of which around 41 TCF has already been consumed. As per Petroleum Division, domestic production of gas during 2019-20 was 1.46 TCF against the target of 1.57 TCF, hence, there was a significant improvement from last year when the total production was 0.96 TCF against the target of 1.51 TCF.

Gas Reserves (TCF) as on 30th June, 2020

Province	Original Recoverable	Cumulative Production / consumed	Balance Recoverable	%age
Balochistan	20.324	14.897	5.427	25.95%
KPK	2.811	1.589	1.222	5.84%
Punjab	3.994	2.336	1.628	7.79%
Sindh	34.911	22.275	12.637	60.42%
Total	62.04	41.097	20.914	100%

(Source: Petroleum Division letter dated December 14, 2020)

Total demand of gas in the country is about 2.190 TCF²⁴ per annum whereas indigenous production is 1.46 TCF per annum leaving a deficit of 0.79 TCF per annum. In order to meet the deficit, 0.12 TCF, LNG was imported during FY 2019-20. The shortage of gas was also met from local production of LPG (784,200 Mt) and from its import (197,842 Mt) during FY 2019-20.

Minerals

Production of main minerals i.e. salt and coal was 1,351,003 ton and 348,439 ton respectively for the FY 2019-20²⁵ registering a decrease of 8% in salt and a decrease of 36% in coal production. On the other hand, Dolomite, Quartz, Ocher posted a positive growth of 16.27 percent, 130.82 percent, 68.87 percent respectively²⁶. This represents potential in the sector which the Petroleum Division needs to tap.

Issues in Ministry of Energy (Petroleum Division) & OGRA under Cabinet Division

The office of Director General Audit, Petroleum and Natural Resources carried out a risk-based audit of entities under its audit jurisdiction. Significant risk areas involving implementation of projects, infrastructure development, import of LNG, weak regulatory oversight, procurement of goods and services, UFG targets vs actual and non-tax receipts were focused upon during the audit cycle.

Petroleum Division being regulator of the petroleum sector, deferred payment of royalty payable by PPL to Government of Balochistan in violation of Article 161(1 a) of the Constitution of Pakistan.²⁷

Regulatory role carried out by OGRA and Petroleum Division depicted weak oversight leading to the oil crisis in the last quarter of the financial year

²⁴ Economic Survey of Pakistan 2019-20

²⁵ PMDC annual report 2019-20

²⁶ The Economic Survey of Pakistan 2019-20

²⁷ Para 2.1.7.6

2019-20. DG Oil failed to perform its function of managing demand and supply of crude oil. Similarly, OGRA failed to ensure development of mandatory backup storage facilities and continuous supply of petroleum products by OMCs which resulted in oil shortage in June, 2020. The Authority did not initiate punitive action against the responsible OMCs.²⁸

Absence of a strategic approach towards managing and optimizing resources was observed as tenders for LNG procurement for winter seasons were not floated timely. Hence, benefit of low international price of LNG could not be availed and additional payment of Rs 7,732 million was made.²⁹

Owing to lack of coordination between Power and Petroleum Divisions, Government failed to match imports of LNG with actual demand, resulting in high prices and shortage of LNG. Moreover, demand-supply gap of RLNG was also aggravating but Petroleum Division failed to identify new RLNG consumers³⁰ which led to payment of capacity charges for underutilized LNG terminal³¹. Further, instances of financial mismanagement were exhibited through excess payment of port charges and payments on provisional invoices³².

Public Sector Enterprises i.e. PSO, OGDCL, GHPL, PPL, SNGPL and SSGC working under Petroleum Division were facing liquidity issues due to piling up of huge circular debt amounting to Rs 1,601 billion due to non-payment by power sector companies which remained unresolved. Further, the PSEs remained unable to recover outstanding amounts from other consumers too and relied on short / long term borrowing which reduced their profitability. Due to non-availability of funds, gas companies remained unable to complete gas development schemes and SNGPL / SSGC could only achieve 34% and 56% of gas network expansion targets³³.

²⁸ Para 2.1.7.14 & 3.1.7.9

²⁹ Para 2.7.5.8

³⁰ Para 2.1.7.32 (AR 2019-20)

³¹ Para 2.8.5.2

³² Para 2.4.6.4 & 2.7.5.4

³³ Summary submitted by PD to Cabinet

OGRA failed to finalize provisional RLNG prices since April, 2017 due to non-resolution of RLNG related issues resulting in running of entire supply chain on provisional basis. Currently RLNG business is being governed under two different legal regimes i.e. pricing under Petroleum Product Ordinance, 1961 on monthly basis and transportation charges of gas companies are determined under OGRA Ordinance, 2002 on annual basis. SSGC is claiming high UFG due to handling of RLNG volumes in its pipeline and disputes i.e. retaining of RLNG by SSGC and payment of LSA margin / re-gasification charges by SNGPL could not be resolved by both the OGRA and PD.³⁴

Project management remained one of the risk areas in E&P companies especially in M/s OGDCL. Multiple projects were either delayed or could not achieve set targets. Defective LPG extraction plant installed at KPD-TAY resulted in non-inclusion of 257,679 Mt³⁵ of LPG in the system. Moreover, delay in installation of LPG extraction plant resulted in discount on sale of off spec gas amounting to Rs 2,849.825 million³⁶.

Petroleum Division needs to play a proactive role to ensure better performance of PSEs under its administrative control. Better resolution of issues among PSEs and improved coordination among multiple stakeholders within the sector will ensure survival of these vital companies as going concerns³⁷.

³⁴ Para 3.1.7.14

³⁵ Para 2.2.6.1

³⁶ Para 2.2.6.5

³⁷ Para 2.3.6.1, 2.5.6.5, 2.5.6.7, 2.7.5.2, 2.7.5.3, 2.7.5.6 & 2.7.5.7

Chapter-1

Public Financial Management

1.2 Issues related to AGPR, M/o Energy (Petroleum Division) and Geological Survey of Pakistan

Significant paras framed during Certification Audit of Non-Tax receipts of Ministry of Energy (Petroleum Division) and Geological Survey of Pakistan for FY 2019-20 are as under:

1.2.1 Non-reconciliation / reporting of receipts relating to Development Surcharge Petroleum – Rs 11,368.286 million

According to Para 5(d) of System of Financial Control and Budgeting, 2006 the Principal Accounting Officer shall make sure that the accounts of receipts shall be maintained properly and reconciled on monthly basis. Further, Para 7(i) of *ibid*, provides that the Chief Finance and Account Officer shall monitor the progress of the expenditure and receipts and furnish, with the approval of the Principal Accounting Officer, a monthly statement of departmental expenditure and receipts to Finance Division (Budget and Accounts Section - Budget Wing) by the 10th and the reconciled statement of expenditure and receipts by the 25th of the month following the month to which it relates.

During financial attest audit of receipts administered by DG (Oil) for the financial year 2019-20, it was transpired from SAP data (challan-wise) provided by AGPR, Islamabad that in 151 cases, an amount of Rs 11,368.286 million relating to Development Surcharge Petroleum / Petroleum Levy was booked by AGPR Sub-Office, Lahore under the head B03041. However, the challans of said receipt were not available with the department which showed weak internal controls. The department neither reconciled the above receipts nor reported to the Finance Division (Budget Wing) during the whole financial year 2019-20.

Audit is of the view that absence of mechanism for assessing due receipts resulted in non-reporting and non-reconciliation of total receipts amounting to

Rs 11,368.286 million. Further, the same figures were disclosed in financial statements under the head 'other indirect taxes' instead of 'Petroleum'.

The matter was reported to the PAO / management on September 23, 2020. The management of DG (Oil) requested the Controller General of Accounts, vide its letter dated September 24, 2020, to enquire the matter that on whose request the head of account was allotted, enabling to sort out the name of respective line department of the Petroleum Division. The department also requested the concerned branch of NBP to provide information of the organization / formation and relating documents to ascertain the fact that who deposited the Petroleum Surcharge.

The DAC in its meeting held on December 01, 2020 directed the DG (Oil) to probe the matter within one month. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[ML-02]

1.2.2 Variation between figures of department and AGPR – Rs 11,133.58 million

According to Para 5(d) of System of Financial Control and Budgeting, 2006 the Principal Accounting Officer shall make sure that the accounts of receipts shall be maintained properly and reconciled on monthly basis. Further, Para 7(i) of ibid provides, that the Chief Finance and Account Officer shall monitor the progress of the expenditure and receipts and furnish, with the approval of the Principal Accounting Officer, a monthly statement of departmental expenditure and receipts to Finance Division (Budget and Accounts Section - Budget Wing) by the 10th and the reconciled statement of expenditure and receipts by the 25th of the month following the month to which it relates.

During financial attest audit of receipts administered by DG (PC) and DG (Oil) for the financial year 2019-20, it was observed that:

- i) There was a variation between figures of receipts as per Federal Civil Accounts (FCA) June (Final), 2020 prepared by AGPR, Islamabad and figures as per Royalty Register maintained by the DG (PC), Islamabad as summarized below:

(Rs in million)

Sr. No.	Head of Account	Description	Figures of receipts as per soft data provided to Audit by		Variations
			AGPR-FCA June(F), 2020	DG PC-Royalty Register	
1.	C03905	Royalty on Crude Oil	28,393.298	22,794.209	5,599.089
2.	C03906	Royalty on Natural Gas	50,981.180	47,812.711	3,168.469
Total			79,374.478	70,606.920	8,767.558

- ii) There was a variation between figures of Petroleum Levy as per FCA June (Final), 2020 prepared by AGPR, Islamabad and figures as per reconciliation statements provided by DG (Oil), Islamabad as summarized below:

(Rs in million)

Head of Account	Description	Figures of receipts as per soft data provided to Audit by		Variations
		AGPR (FCA June-Final, 2020)	DG Oil (summery & reconciliations)	
B03805	Petroleum Levy	292,092.646	294,458.668	2,366.022

This showed that meaningful reconciliation was not carried out due to which there was variation of Rs 11,133.58 million in figures of AGPR and department.

Audit is of the view that weak internal controls resulted in variation of figures which may impair the financial statements.

The matter was reported to the PAO / management on September 23, 2020. In the case of DG (PC), it was replied that figures of royalty had been reconciled with AGPR Islamabad & Karachi and the same were reported to Finance Division. The reply is not tenable because challans were not available, hence, the same were not entered in royalty register maintained by DG (PC).

In the case of DG (Oil), it was replied that Rs 294 billion was deposited under the head of Petroleum Levy which was duly reconciled with the AGPR

offices. Audit held that as per financial statements, figures of Petroleum Levy were Rs 292 billion. Hence, there was a variation of Rs 2 billion between DG (Oil) and AGPR.

The DAC in its meeting held on December 01, 2020 directed the DG (PC) to get the Royalty Register verified from Audit within 15 days. In case of DG (Oil) the DAC directed to take up the matter with AGPR for clarification.

Audit recommends to implement the decision of DAC.

[ML-01]

1.2.3 Misclassification of Royalty on Crude Oil & Gas - Rs 3,962.621 million

According to Chart of Accounts, under element “C-Non Tax Revenue” receipts on account of Royalty on Oil are classified under the C03905 and receipts on account of Royalty on Natural Gas are classified under the C03906. Further, according to Correction Slip No. 276 of Controller General of Accounts dated February 18, 2014 new detailed object heads of Account under element “B-Tax Revenue” were opened in Chart of Account in pursuance of Finance Act, 2012. Consequently Petroleum Levy was allotted head of B03085.

During financial attest audit of receipts administered by DG (PC) for the financial year 2019-20, it was observed that in 20 cases, figures of Royalty on Natural Gas were misclassified under the head C03905 (Royalty on Oil) and C03805 (Petroleum Levy) amounting to Rs 3,135.249 million. Further, in other 32 cases, figures of Royalty on Crude Oil were misclassified under the head C03906 (Royalty on Natural Gas) amounting to Rs 827.372 million.

Audit is of the view that negligence on the part of management resulted in misclassification of receipts of Royalty on Oil & Gas amounting to Rs 3,962.621 million.

The matter was reported to the PAO / management on September 23, 2020. The DG (PC) replied that matter was taken up with AGPR, however, due to Covid-19 the relevant section of AGPR was closed. Further, it was also pertinent that the major amounts were misclassified between Royalty on Oil and

Gas and however, both amounts were transferred to relevant Provinces. Audit held that the receipt should had been classified under proper head of accounts.

The DAC in its meeting held on December 01, 2020 directed the DG (PC) to probe the matter and report within one month. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[ML-04]

1.2.4 Non-disclosure of receipts relating to Royalty on Gas and Oil – Rs 4.121 million

According to Para 5(d) of System of Financial Control and Budgeting, 2006 the Principal Accounting Officer shall make sure that the accounts of receipts shall be maintained properly and reconciled on monthly basis.

During financial attest audit of receipts administered by DG (PC) for the financial year 2019-20, it was observed that in one (01) case, a challan relating to Royalty on Natural Gas amounting to Rs 1.989 million was available as per Royalty Register maintained by DG (PC) but the same was not accounted for / fed in SAP by AGPR as summarized below:

Reg. S. No.	Challan Date	Period	Head of Account	Royalty on Natural Gas (Rs)	Company
908	13.01.2020	Nov. 2019	C03906	1,988,565	IPR

Further, in three (03) other cases, challans relating to Royalty on Crude Oil amounting to Rs 2.132 million were available as per Royalty Register maintained by DG (PC) but the same were not accounted for / fed in SAP by AGPR as summarized below:

S. No.	Reg. Sr. No.	Challan Date	Period	Head of Account	Royalty on Crude Oil (Rs)	Company
1	696	27.12.2019	Nov. 2019	C03905	51,806	Attock Oil Co
2	697	27.12.2019	Nov. 2019	C03905	5,248	-do-
3	1791	26.06.2020	Mar. 2020	C03905	2,075,006	GHPL
Total					2,132,060	

Audit is of the view that this resulted in non-disclosure of figures of Royalty on Gas and Royalty on Oil amounting to Rs 4.121 million in Financial Statements of Federal Government.

The matter was reported to the PAO / management on September 23, 2020. The DG (PC) replied that matter was taken up with AGPR and copies of original challans were provided to AGPR for verification, however, due to Covid-19, the relevant section of AGPR was closed and verified challans would be shared with Audit. The reply is not tenable as the matter was pointed out in August, 2020 and the management did not take corrective measures timely for disclosure of receipts.

The DAC in its meeting held on December 01, 2020 directed the management to account for the missing challans in SAP by AGPR and get the same verified from Audit within 15 days. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[ML-09]

1.2.5 Non-existence of system for assessing due receipts

According to Para 5(e) of System of Financial Control and Budgeting, 2006, in the matter of receipts pertaining to the Ministry / Division, Attached Departments and Subordinate Offices, the Principal Accounting Officer is expected to ensure that adequate machinery exists for due collection and bringing to account of all receipts of any kind connected with the functions of the Ministry / Division(s) / Departments and Subordinate Offices under his control.

During Certification Audit of receipts of Ministry of Energy (Petroleum Division) for the FY 2019-20, it was observed that there was no mechanism in DG (Oil) for assessment and collection of receipts amounting to Rs 322,092.144 million. The management relied on the information provided by the companies concerned, and just maintained the following record:

- i. Payment Challans of windfall levy on crude oil;

- ii. Payment Challans of discount retained on crude oil; and
- iii. Cash Payment receipts.

The management only considered receipts which were revealed in the challans provided by the oil companies and did not itself evaluate the due receipts. Further, no register was maintained by the department to record the payment challans/CPRs date-wise/company-wise.

Audit is of the view that in the absence of mechanism for cross verification of receipts reported by oil companies, the management could not ensure deposit of due amounts, which could lead to concealment of revenue.

The matter was reported to the PAO / management on September 23, 2020. The management replied that the reconciliation of receipt was carried out. However, department had also started to maintain register to record payment challans/CPRs as advised by the Audit.

The DAC in its meeting held on December 01, 2020 directed the management to develop a mechanism for assessing the due receipts.

Audit recommends to implement the decision of DAC.

[ML-13]

Chapter-2

Ministry of Energy

(Petroleum Division)

2.1 Ministry of Energy (Petroleum Division)

2.1.1 Introduction

The Ministry of Energy was created in August, 2017 after merging of Ministry of Petroleum and Natural Resources with the Power Division of the Ministry of Water and Power. The Ministry has two Divisions - Petroleum and Power, each being administered by a Federal Secretary. The Petroleum Division is responsible for coordinating the development of natural resources of energy and minerals in Pakistan. It aims to ensure, secure and make available sustainable energy supply for economic development as well as facilitate and promote exploration and production of oil, gas and mineral resources in the country. The Petroleum Division also collects a number of receipts of government of Pakistan through DG (PC), DG (Oil), DG (Gas) and DG (LGs). The DG (PC) deals with receipts of Royalty on oil and gas, Rent of lease / license area, Marine Research Fee and Production Bonus etc. The DG (Oil) deals with Petroleum Levy, Discount retained on local Crude Oil price and Windfall Levy on crude oil. The DG (Gas) deals with Gas Development Surcharge and Gas Infrastructure Development Cess whereas DG (Special Projects) coordinates between different directorates of Petroleum Division for implementation of decisions of Cabinet and its committees. Geological Survey of Pakistan (GSP) is an attached department of the Ministry of Energy (Petroleum Division) which is primarily responsible for collection and dissemination of geological information about the country so that the earth's resources could be best exploited and utilized. The Hydrocarbon Development Institute of Pakistan (HDIP) is an autonomous Research & Development organization under Ministry of Petroleum & Natural Resources.

2.1.2 Comments on Budget and Accounts

The comments on revenue collection and expenditure for the year 2019-20 as compared to the previous years are detailed below:

2.1.2.1 Revenue Collection vs Targets (Non-Tax Receipts)

A comparison of revised estimates and actual receipts of the Ministry for the FY 2019-20 is tabulated as follows:

(Rs in million)

Nature of Receipt	Original Target 2019-20	Revised Target 2019-20	Collection 2019-20	Difference from Revised Target	
				Absolute	Percentage
1	2	3	4	5 (4-3)	6
Petroleum Levy	216,025	268,000	303,461	35,461	13
Gas Development Surcharge	10,000	10,000	13,966	3,966	40
Royalty on Oil	24,673	25,000	28,393	3,393	14
Royalty on Gas	51,560	54,050	50,981	(3,069)	(6)
Discount Retained on Local Crude Oil	16,000	16,000	13,456	(2,544)	(16)
Windfall Levy	7,000	7,000	5,175	(1,825)	(26)
Gas Infrastructure Development Cess	30,000	11,000	9,346	(1,654)	(15)
Petroleum Levy on LPG	4,000	3,635	3,247	(388)	(11)
Others	542	542	547	5	1
Total	359,258	395,227	428,571	33,345	8

⁸Explanatory Memorandum of Federal Receipts 2020-2021 and Financial Statements of Federal Government for the 2019-20

The Ministry collected Rs 428,571 million against revised estimates of Rs 395,227 million for the FY 2019-20. It showed overall excess collection of Rs 33,345 million (8%) as compared with the revised estimates of the receipts. However, there was less collection of Rs 1,654 million of Windfall Levy (26%), Rs 2,544 million of Discount retained on local crude oil (16%) and Rs 1,654 million of GIDC (15%) as compared with the revised estimates.

2.1.2.2 Comparison of actual receipts between the FYs 2018-19 and 2019-20

A comparison of actual receipts between the FYs 2018-19 and 2019-20 is tabulated as follows:

(Rs in million)

Nature of Receipt	Collection		Difference	
	FY: 2019-20	FY: 2018-19	Absolute	Percentage
1	2	3	4 (2-3)	5
Petroleum Levy	303,461	206,280	97,181	47
Gas Development Surcharge	13,966	5,304	8,662	163
Royalty on Oil	28,393	30,348	(1,955)	(6)
Royalty on Gas	50,981	57,434	(6,453)	(11)
Discount Retained on Local Crude Oil Price	13,456	13,932	(476)	(3)
Windfall levy	5,175	7,793	(2,618)	(34)
Gas Infrastructure Development Cess	9,346	21,471	(12,125)	(56)
Petroleum Levy on LPG	3,247	3,743	(496)	(13)
Others	547	357	190	53
Total	428,571	346,662	81,909	24

(Source: Financial Statements of the Federal Government for the FYs 2018-19 and 2019-20)

The table shows increase in overall collection of Rs 81,909 million (24%) in receipts administered by the Ministry of Energy (Petroleum Division) during the FY 2019-20 as compared with receipts during FY 2018-19. However, Gas Infrastructure Development Cess has witnessed a decrease of 56%.

2.1.3 Audit Profile of Ministry of Energy (Petroleum Division)

Audit profile of Ministry of Energy (Petroleum Division) is under:

(Rs in million)

Sr. No.	Description	Total Nos.	Audited	Expenditure audited FY 2019-20	Revenue / Receipts audited FY 2019-20
1	Ministry of Energy (Petroleum Division)	1	1	1,814,519.000	428,575.313
2	Autonomous Bodies / PSEs etc. under the PAO as detailed in Annex-3	17	9	2,720,770.825	3,021,670.155

2.1.4 Classified Summary of Audit Observations

Audit observations amounting to Rs 146,035.612 million were raised in this report during the current audit of Ministry of Energy (Petroleum Division). This amount also includes recoveries of Rs 135,998.942 million as pointed out by Audit. Summary of the audit observations classified by nature is as follows:

2.1.5 Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Assessment and realization of GIDC and GDS	107,139.585
B	Assessment and realization of Petroleum Levy and Windfall Levy	18,963.917
C	Assessment and realization of Royalties on crude oil and gas	10,876.442
2	Others	8,930.852
3	Receipts and Functions of HDIP	124.816

2.1.6 Compliance of PAC Directives

Audit year	PAC directives	Compliance received	Compliance not received	%age of compliance
1990-91	04	04	-	100
1991-92	01	01	-	100
1992-93	04	04	-	100
1993-94	01	01	-	100
1994-95	01	01	-	100
1995-96	01	01	-	100
1996-97	05	05	-	100
1997-98	03	03	-	100
1998-99	15	15	-	100
1999-00	04	04	-	100
2000-01	06	-	06	0
2001-02	01	-	01	0
2002-03	01	-	01	0
2003-04	01	01	-	100
2004-05	03	-	03	0
2005-06	02	01	01	50
2006-07	-	-	-	0
2007-08	04	-	04	0
2008-09	16	10	06	63
2009-10	11	-	11	0
2010-11	15	08	07	53

2011-12	27	05	22	19
2013-14	38	08	30	21
2014-15	24	0	24	-
2015-16	PAC not held	-	-	-
2016-17	26	11	15	42
2017-18	30	05	25	17
2018-19	05	01	04	20
Total	249	89	160	36%

The table showed lacklustre compliance of PAC's directives in recent years. The division, therefore, needs to take the issue of compliance of PAC's directives seriously to improve the current position.

2.1.7 Audit Paras

Assessment and realization of GIDC and GDS

2.1.7.1 Non-realization of Gas Infrastructure Development Cess – Rs 78,228.543 million

According to Section 3(1) of the Gas Infrastructure Development Cess Act, 2015, the Cess shall be levied and charged by the Federal Government from gas consumers or the company at the rates as provided in second Schedule to this Act. The gas company shall be responsible for billing of Cess to gas consumers, its collection and onward payment to the Federal Government in the manner as prescribed.

During audit of Petroleum Division for the FY 2019-20, it was observed that DG (Gas) did not recover Gas Infrastructure Development Cess (GIDC) from the following companies in respect of gas sold to fertilizer / power companies and other consumers as detailed under:

(Rs in million)

Sr. No.	Name of Company M/s	Amount
1	MPCL	21,273.225
2	SNGPL	15,960.689
3	PPL	3,308.826
4	OGDCL	3,261.652
5	SSGC	34,424.151
Total		78,228.543

Further, the Honourable Supreme Court of Pakistan in its judgment, dated August 13, 2020, dismissed all appeals and petitions filed by fertilizer / industrial companies challenging enactment of GIDC Act on the ground that GIDC was not being spent on intended purpose. The Supreme Court directed to utilize the GIDC on development of infrastructure for transportation of gas. The Apex Court directed the Federal Government to initiate appropriate legislation within a period of six months as per delineated principles. In case the Federal Government failed to do so during this period, the Federal Government should refund the amount of GIDC. A sum of Rs 295 billion had been collected as GIDC for the last 10 years. Moreover, all arrears of GIDC were to be recovered in 24 instalments with waiver of interest on previous default. Despite clear injunctions by the Supreme Court, the companies did not start recovery of GIDC instalments in spite of lapse of more than four months.

Audit is of the view that weak monitoring by DG (Gas) resulted in non-recovery of GIDC amounting to Rs 78,288.543 million.

The matter was reported to the PAO / management in December, 2020 and January, 2021. The management in its reply dated December 16, 2020 stated that the stay orders pending in High Courts were being pursued for vacation and recovery of amounts as per orders of Supreme Courts dated August 13, 2020 and November 02, 2020. Further, companies were advised to get the recovery verified from Audit.

The DAC in its meeting held on December 17, 2020 directed the management to get the recovered amount verified from Audit and pursue the court cases vigorously. DAC further directed to intimate Audit on the issue of Circular Debt once the matter was decided by the Committee on Circular Debt constituted by the ECC of the Cabinet.

Audit recommends to implement the decision of DAC besides ensuring utilization of GIDC on development of gas infrastructure.

[DP Nos. 1060-GIDC 1263/K & 1337/K]

2.1.7.2 Non-realization of Gas Development Surcharge - Rs 25,026.442 million

According to Section 3 of the Natural Gas Development Surcharge Ordinance 1967, every company shall collect and pay to the Federal Government a development surcharge equal to differential margin, in respect of gas sold by it.

During audit of Petroleum Division for the FY 2019-20, it was observed that DG (Gas) did not realize Gas Development Surcharge from MPCL amounting to Rs 6,676.314 million and PPL amounting to Rs 18,350.128 million on gas sold to fertilizer / power sector. This resulted in non-realization of GDS amounting to Rs 25,026.442 million. This was a recurring phenomenon wherein these companies withheld GDS payments on the plea of circular debt. Although, the companies were paying other taxes on their due dates, GDS was being paid after adjusting all other costs / taxes with delay ranging from 3 months to 30 months as detailed below:

(Rs in million)

Company	FY	Amount of GDS	Amount deposited	Balance outstanding	Delay in months
PPL	2017-18	9,845.118	7,009.596	2,835.522	Upto 04 month
	2018-19	7,926.294	5,485.448	2,456.590	24 to 30 months
	2019-20	13,611.594	0	13,611.594	No payments made yet
MPCL	2017-18	2,783.872	1,953.261	830.608	3 to 12
	2018-19	4,517.300	1,420.308	3,096.992	5 to 20
	2019-20	6,971.246	3,743.274	3,227.972	08 to 16

Further, as per amended Natural Gas Development Surcharge (GDS) Rules, 1967, GDS was payable by the company within one month of the receipts from the consumer but no time limit was prescribed for payment by the consumer. This resulted in delayed / non-payment of GDS as indicated above and hence, an amendment regarding time limit for deposit of GDS was required in the Rules.

Audit is of the view that weak monitoring by DG (Gas) and weakness in Rules resulted in non-realization of GDS amounting to Rs 25,026.442 million.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 16, 2020 stated that this was an issue of circular debt and would be resolved with the settlement of circular debt issue. The reply is not tenable because GDS being a provincial receipt had no nexus with circular debt issue and its withholding by the companies was not justified.

The DAC in its meeting held on January 17, 2020 directed the management to pursue the recovery and update Audit once the matter was decided by the Committee on Circular Debt constituted by ECC.

Audit recommends to expedite recovery of outstanding amount by directing the companies to deposit GDS on priority basis and get GDS rules amended.

[DP No. 1062-GDS]

2.1.7.3 Inadmissible adjustment of Gas Development Surcharge – Rs 3,884.600 million

According to Section 3 of the Natural Gas Development Surcharge Ordinance, 1967, every company shall collect and pay to the Federal Government a development surcharge equal to differential margin, in respect of gas sold by it.

During audit of Petroleum Division for the FY 2019-20, it was observed that DG (Gas) did not recover Gas Development Surcharge from M/s MPCL. The shortfall in payment of GDS occurred due to inadmissible adjustments of negative GDS by MPCL of feed stock against GDS payable on fuel stock. Audit contended that no such adjustment was allowed under the GDS Ordinance. Hence, inadmissible adjustment resulted in short realization of GDS amounting to Rs 3,884.600 million.

Audit is of the view that weak regulatory oversight by DG (Gas) resulted in inadmissible adjustment of GDS amounting to Rs 3,884.600 million.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 16, 2020 stated that in the case of

MPCL the wellhead/ prescribed price was higher than the sale price, therefore, MPCL recovered prescribed price from the total sale of gas for feed and fuel stock. The reply is not tenable because no such adjustment is admissible under the GDS Ordinance.

In DAC meeting held on December 17, 2020, the management stated that comments on proposed amendments in GDS Ordinance were still awaited from Power Division. On receipt of comments, the proposed amendments would be submitted to Law Division for vetting. DAC directed the management to pursue the matter with Power Division for early finalization of proposed amendments in the GDS Ordinance.

Audit recommends to recover the amount of GDS from MPCL and ensure discontinuation of the adjustment of GDS.

[DP No. 1061-GDS]

Assessment and realization of Petroleum Levy and Windfall Levy

2.1.7.4 Non-realization of Petroleum Levy - Rs 18,963.917 million

According to Section 3 of the Petroleum Products (Petroleum Levy) Ordinance 1961, as amended vide Petroleum Products Development Levy (Amendment) Ordinance 2009, every licensee shall pay a Petroleum Levy at such rates and in such manner as the Federal Government may by rules prescribe, on the quantity of petroleum products produced by the refinery or purchased by company for sale. According to Section 3-A and notifications issued from time to time, Petroleum Levy is to be collected at rates notified by the DG (Oil) / OGRA in the same manner as excise duty is collected under the Federal Excise Act, 2005. Further, the Ministry of Law, Justice and Human Rights Islamabad clarified vide letter dated June 16, 2015 that for bonded products, the date applicable for charging Petroleum Levy would be the date of actual removal of the products.

During audit of Petroleum Division for the FY 2018-19, it was observed that DG (Oil) did not recover Petroleum Levy from M/s BYCO Petroleum Pakistan Limited (BPPL) on account of various sales through retail outlets, sale

to OMCs or direct sales of petroleum products. This resulted in non-realization of petroleum levy amounting to Rs 18,848.120 million. Further, DG (Oil) in 12 cases, failed to realize the due amount of petroleum levy from M/s Askar Oil Services Pvt. Ltd on imported MoGAS. This happened due to application of incorrect rate of petroleum levy by the company which resulted in short-realization of petroleum levy amounting to Rs 115.797 million. This resulted non / short realization of Petroleum Levy of Rs 18,963.917 million.

Audit is of the view that weak internal controls resulted in non-recovery of petroleum levy amounting to Rs 18,963.917 million.

The matter was reported to the PAO / management in December, 2020.

In DAC in its meeting held on December 17, 2020, the management explained that necessary amendments had been made in Petroleum Levy Ordinance, 1961 through Finance Act, 2020. Thereby Petroleum Levy would be collected through sales tax mode instead of excise Act mode for prompt recovery of Petroleum Levy. DAC directed the management to share the findings in respect of M/s Byco and expedite recovery. In the case of M/s Askar the management explained that it had been advised to clarify the position. The DAC directed the management to expedite the recovery and get the same verified from Audit.

Further, Audit contended that effect of changes in Petroleum Levy Ordinance, 1961 would be prospective, therefore, recovery in case of M/s Byco was required to be effected. Furthermore, during verification dated January 20, 2021 recovery of Rs 1,098.269 million from M/s Byco was verified by Audit.

Audit recommends to recover outstanding amount of Petroleum Levy with interest besides fixing responsibility for causing loss to the Government.

[DP Nos. 1130, 1080/K& 1081/K-DG Oil]

2.1.7.5 Hoarding of imported petrol

According to Sections 3 and 3-A of the Petroleum Products (Petroleum Levy) Ordinance, 1961 as amended vide Petroleum Products (Petroleum Levy) (Amendment) Act, 2011 every company, refinery and licensee was obliged to

pay a Petroleum Levy to the Federal Government at such rates and in such manner as might be notified by the Federal Government in the official gazette from time to time. Petroleum Levy is to be collected in respect of imported products in the same manner as import duty was collected under the Customs Act, 1969 and in respect of local petroleum products in Pakistan, in the same manner as a duty excise leviable under the Federal Excise Act 2005, is collected. Further, according to Section 98 of Customs Act, 1969 “Warehoused goods other than perishable goods notified by the Board, may remain in the warehouse for a period of six months following the date of their admission into the warehouse and perishable goods so notified may remain in the warehouse for a period of one month following the said date”.

During audit of Director General (Oil), Islamabad for the FY 2019-20, it was observed that M/s BE Energy Ltd. imported a quantity of 137,778 Mt of petrol from July, 2019 to March, 2020. However, the imported petrol was not marketed (ex-bonded) by M/s BE Energy Ltd. despite acute shortage of POL throughout the country during the last quarter of the FY 2019-20 for which an inquiry was also conducted at the orders of the Prime Minister. However, DG (Oil) did not take any action against the company for hoarding of the POL and subsequent non-payment of Petroleum Levy.

Audit is of the view that poor monitoring by DG (Oil) resulted in hoarding of POL and non-deposit of petroleum levy.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 17, 2020 stated that the matter of hoarding was already under investigation by Committee constituted by the order of the PM. The reply is not tenable as DG (Oil) failed in monitoring of OMCs which resulted in hoarding of POL.

The DAC in its meeting held on December 17, 2020 directed the management to share the report with Audit on its receipt.

Audit recommends the Petroleum Division to improve the regulatory functions of DG (Oil) besides implementation of DAC directives.

[PDP No. 1112]

Assessment and realization of Royalties on crude oil and gas

2.1.7.6 Non-realization of royalty on oil and gas and unlawful deferment of royalty – Rs 9,657.272 million

According to the Regulation of Mines and Oil fields and Mineral Development (Government Control) Act, 1948 read with Rule 18 (PART-V of Second Schedule) and 36 of Pakistan Petroleum (Exploration and Production) Rules 1949 and 1986, holder of a lease shall pay a Royalty at the rate of 12.5% of the wellhead value of the petroleum produced and saved within two months after the end of each calendar year and 10 days of expiry of the calendar month in question respectively. Further, Article 161(1 a) of the Constitution of Pakistan provides that the net proceeds of the royalty collected by the Federal Government, shall not form part of the Federal Consolidated Fund and shall be paid to the Province in which the well-head of natural gas is situated.

During audit of Petroleum Division for the FY 2019-20, it was observed that DG (PC) did not recover royalty on crude oil and natural gas from six E&P companies in 75 fields. This resulted in non-realization of royalty amounting to Rs 3,357.272 million. Moreover, in another case DG (PC) allowed deferment of payment of royalty of Rs 6,300 million (approximately) by PPL in July, 2020 against the Sui field although there was no provision for deferment of royalty in prevailing laws and rules. The company was allowed to deposit the outstanding royalty in six equal monthly instalments commencing from August, 2020. This resulted in unlawful deferment of royalty.

Audit is of the view that weak monitoring and non-compliance of rules resulted in non-realization / deferment of royalty amounting to Rs 9,657.272 million.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 15, 2020 stated that an amount of Rs 1,236.711 million had been recovered and verified by Audit whereas, an amount of Rs 2,120.561 million was under recovery. In the deferment case, management stated that late payment of royalty was due to circular debt issue. The reply is not tenable as royalty is to be paid within time and there is no provision in prevailing laws and rules for deferment of royalty.

The DAC in its meeting held on December 17, 2020, directed the management to pursue the recovery of balance amount vigorously. In the case of deferment, the DAC directed the management to refer the case to Finance Division for advice.

Audit recommends to implement the decision of DAC.

[DP Nos. 1065, 1076 & 1078-DGPC]

2.1.7.7 Loss due to unlawful flaring of gas - Rs 1,219.170 million

According to Rule 56(2) of Pakistan Petroleum (Exploration and Production) Rules 1986, the holder shall not flare any natural gas or use it to create or increase the pressure in the reservoir without the Government's approval. According to Section I of Utilization of Flare Gas (FG) Guidelines, 2016 "flare gas utilization plan should be an integral part of the Field Development Plan (FDP). All existing lease holders shall submit flare gas utilization plan within 120 days of the publication of these guidelines".

During audit of Petroleum Division, for the FY 2019-20, it was observed that M/s OGDCL flared 2,608,315 MMBTU gas from 5 fields. The flaring that ranged from 0.97 % to 54% of production was carried out without approval of DG (PC). This flaring was other than the flaring of acid gas (co₂/h₂s), sour gas, permeate, shrinkage, flaring due to repair and maintenance or from commercially unviable fields. However, DG (PC) did not initiate any action for implementation of flaring guidelines and subsequently failed to realize royalty on flared gas. This resulted in loss of gas and royalty amounting to Rs 1,219.170 million. It is pertinent to mention that Audit requested provision of Flare Gas Utilization Plans submitted by E&P companies but no plan was provided.

Audit is of the view that lack of proper monitoring and non-implementation of flare policy by DG (PC) resulted in loss of Rs 1,219.170 million.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 16, 2020 stated that the flaring was done on technical grounds / reasons.

The DAC in its meeting held on December 17, 2020 directed the management to get the stated stance verified besides revision of FDP thereby incorporating provision of flare gas utilization plan.

Audit recommends to implement the decision of DAC.

[DP No. 1073-DGPC]

Others

2.1.7.8 Loss due to defective agreement with Asia Petroleum Limited – Rs 4,207.858 million

According to Clause 5.1.1 of the Fuel Transportation Agreement between PSO and Asia Petroleum Limited (APL) dated 13.05.2004 “until the 19th anniversary of the completion date, the pipeline tariff will be US\$ 12.13 per tons for the annual guaranteed quantity and afterwards US\$ 8.49 per tons for the annual guarantee quantity and for any product transported by APL over and above annual guaranteed quantity. Further, according to definition (e) “annual guaranteed quantity means a quantity of 1,500,000 tons of product per agreement year. Moreover, according to Clause (f) of above contract, notwithstanding anything contained above, APL will be entitled for any agreement year to invoice and receive payment for the sum of the actual quantity or the annual guaranteed quantity, whichever is higher.

During audit of Petroleum Division, Islamabad for the FY 2019-20, it was observed that PSO entered into a contract with M/s Asia Petroleum Limited (a subsidiary company of PSO) for transportation of RFO with guaranteed throughput of 1,500,000 tons per year. Consequently, APL claimed Rs 3,709.858 million as guaranteed throughput besides default surcharge of Rs 498 million aggregating to Rs 4,207.858 million for the period from July 2017 to June 2020. However, during this whole period, the management failed to transport the stipulated quantity of RFO whereas in 04 quarters, PSO failed to dispatch any quantity of RFO at all. Hence, due to defective agreement PSO was making payment for the services that it did not acquire. This resulted in loss of Rs 4,207.858 million due to defective agreement.

Audit is of the view that poor contract management resulted in defective agreement causing loss of Rs 4,207.858 million.

The matter was reported to the PAO / management in December, 2020.

In DAC meeting held on January 12, 2021, the management stated that minimum guaranteed throughput was fixed on the basis of expected throughput at the time of agreement negotiation in the 1990. However, power generation from residual furnace oil-based plants started declining from FY 2018 onwards due to which throughput target couldn't be achieved. This resulted in shortfall in guaranteed throughput. DAC shifted the Para to DG (Oil) Petroleum Division to review the agreement.

Audit recommends to review the agreement and expedite working on alternate use of pipeline.

[DP No. 1247]

2.1.7.9 Non-realization of production bonus – Rs 2,124.731 million

According to Articles 23.1 of Mirpur Khas & Khipro Petroleum Concession Agreements and Article 6 of Supplementary Agreement of blocks, Production Bonus of US\$ 5000,000 and 7000,000 will be payable on achieving 80 MMOBE and 100 MMBOE cumulative production level respectively. According to Article 6 of Supplementary Agreement of Sinjhora US\$ 600,000 will be payable on start of commercial production.

During audit of Petroleum Division for the FYs 2018-20, it was observed that DG (PC) failed to recover/ short recovered production bonus from three E&P companies due on four blocks as detailed below:

Name of E&P Company M/s	Name of Block	Production Bonus Due (in US\$)	Production Bonus paid (in US\$)	Production Bonus Short Paid (in US\$)	Production Bonus Short Paid (Rs in million)	Remarks
UEPL	Mirpur Khas	7,000,000	0	7000,000	1,181.950	Due on achieving the Cumulative Production level of 100 MMBOE

UEPL	Khipro	5000,000	0	5000,000	844.250	Due on achieving the Cumulative Production level of 80 MMBOE
OPL	Sinjhorro (15% share)	90,000	75,000	15,000	2.531	Short paid on start of commercial production
OGDCL	Baratai	600,000	0	600,000	96.00	Non-payment on start of commercial production
Total					2,124.731	

Audit is of the view that poor monitoring resulted in non-realization of production bonus amounting to Rs. 2,124.731 million causing loss to the national exchequer.

The matter was reported to the PAO / management in November, 2019 and December, 2020. The management in its reply dated December 23, 2019 stated that OGDCL had installed production facilities at Barati block and it would deposit the production bonus upon start of commercial production from the field. Further, the management in its reply dated December 15, 2020 stated that 1,154.510 million had been recovered whereas Rs 27.440 million were not recoverable due to exchange rate difference. The same was verified by Audit. Moreover, Rs 2.531 million were not due as per Clause 6.3 of supplemental agreement of Sinjhorro PCA. The reply is not tenable as production from the Barati block had started in June 2020 but no production bonus had been deposited by OGDCL.

The DAC in its meeting held on December 17, 2020 directed the management to get the position verified from Audit in respect of Rs 2.531 million and expedite the recovery of remaining amount. DAC further reduced the para to the extent of recovered amount.

Audit recommends to recover the outstanding amount besides improving monitoring mechanism to avoid such instances in future.

[DP Nos. 565 2018-19 & 1066-DGPC]

***2.1.7.10 Non-realization of liquidated damages on surrender of blocks -
Rs 1,604.455 million***

According to Rule 28 of the Pakistan Onshore Petroleum (Exploration and Production) Rules, 2013 where upon the surrender or the expiry of a license, the obligations pursuant to rules have not been fulfilled, holder of a license shall either pay the Government liquidated damages which correspond to the minimum expenditure of un-discharged work obligations under the license within thirty days from the surrender or expiry of the license or request the transfer of un-discharged work obligation to another area.

During audit of Petroleum Division for the FY 2019-20, it was observed that in three blocks, the holder of blocks failed to fulfill the minimum work commitments as stipulated in the license and surrendered these blocks. However, DG (PC) failed to perform its regulatory function and did not realize liquidated damages or transfer un-discharged work commitment to other blocks. It is pertinent to mention that in one case, the company was holder of license in another block as well and requested to transfer un-discharged work commitment but approval was still pending. This resulted in loss of Rs 1,604.455 million (US\$ 9.422 million @ Rs 170.29).

Audit is of the view that weak regulatory oversight by DG (PC) resulted in non-realization of liquidated damages amounting to Rs 1,604.455 million.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 16, 2020 stated that an amount of Rs 188 million had been recovered from M/s KUFPEC Petroleum whereas transfer of work commitments of remaining blocks was under process.

The DAC in its meeting held on December 17, 2020, directed the management to get the recovered amount verified from Audit within a week and expedite the transfer of work units to other blocks. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1064-DGPC]

2.1.7.11 Non-utilization of training fund - Rs 600.226 million

According to Section 3 of Guidelines for Utilization of Training Obligation 2009, 50% of the fund shall be earmarked by the operator for imparting training to their Pakistani national employees. 25% of the total training fund obligation under the PCAs will be utilized by the Ministry of Petroleum & Natural Resources through DG (PC) as per policy. 25% of the total training fund obligation under the PCAs will be utilized by the DGPC on the internship/training of local inhabitants of the area of operations. The training fund shall be maintained by the DG (PC).

During audit of Petroleum Division for the FY 2019-20, it was observed that DG (PC) had Rs 600.226 million at its disposal for training of local inhabitants. However, the management did not arrange any training / internship during the period as required by the guidelines. This resulted in non-utilization of training fund amounting to Rs 600.226 million.

Audit is of the view that weak internal controls resulted in non-utilization of training fund amounting to Rs 600.226 million.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 15, 2020 stated that revised guidelines issued in March, 2020 were applicable from 1st July, 2020. According to these guidelines, E&P companies would deposit 30% of the training fund amount directly to the concerned provinces. The reply is not tenable as unutilized training funds available with DG (PC) were required to be spent according to previous guidelines.

The DAC in its meeting held on December 17, 2020 directed the management to coordinate with concerned Provincial Governments for timely utilization of funds. No further progress was reported till finalization of this report.

Audit recommends to ensure proper utilization of training funds as per guidelines.

[DP No. 1067-DGPC]

2.1.7.12 Non / Short deposit of training fund and Social Welfare Obligation by E&P companies – Rs 245.771 million

According to Section 3 of guidelines for utilization of training obligation 2009, 50% of the fund shall be earmarked by the operator for imparting training to their Pakistani national employees. 25% of the total training fund obligation under the PCAs will be utilized by the Ministry of Petroleum & Natural Resources through DG (PC) as per policy. 25% of the total training fund obligation under the PCAs will be utilized by the DG (PC) on the internship / training of local inhabitants of the area of operations (district-wise). The training fund shall be maintained by the DG (PC). The unspent amount of training obligation shall be deposited in DG (PC)'s training account as provided in the PCAs.

According to Annexure VII of the Pakistan Petroleum (Exploration and Production) Policy, 1994 and other policies introduced from time to time read with Clause 4 of revised Social Welfare Guidelines, 2017, E&P companies will open a joint bank account with DCOs/DCs concerned and will deposit the social welfare contribution fund within one month of signing of PCA and subsequently by 31st January each year.

During audit of Petroleum Division for the FY 2019-20, it was observed that DG (PC) did not recover training funds from eight E&P Companies in 51 cases who either did not deposit or short deposited training obligation Rs 117.208 million (US\$ 695,720 @ Rs 168.47). Further, DG (PC) also failed to monitor eleven (11) E&P Companies who either did not deposit or short deposited social welfare obligation in 32 blocks / leases amounting to Rs 128.563 million (US\$ 765,436 @ Rs 167.96).

Audit is of the view that weak monitoring by the DG (PC) resulted in non /short realization of training fund and social welfare obligation amounting to Rs 245.771 million.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 15, 2020 stated that an amount of Rs 14.746 million (US\$ 87,530) had been recovered out of which Rs 0.842 million (US\$ 5,000) had been verified by Audit in respect of training fund.

Further in respect of social welfare obligation it was reported that an amount of Rs 21.185 million had been recovered while an amount of Rs 3.593 million was not recoverable due to exchange rate difference. Recovery of balance amount was under progress.

The DAC in its meeting held on December 17, 2020 directed the management to get the recovered amount verified from Audit besides pursuing the recovery of balance amount. No further progress was reported till finalization of this report.

Audit recommends to recover outstanding amount besides improving monitoring mechanism to avoid such instances in future.

[DP Nos. 1072 & 1074-DGPC]

2.1.7.13 Non-realization of license and lease rent from E&P companies - Rs 147.811 million

According to Pakistan Petroleum (Exploration and Production) Rules 1949, 1986, 2001, 2009, 2013, the licensee and lessee shall pay to the Government annually in advance rent, at rates prescribed therein.

During audit of Petroleum Division for the FY 2019-20, it was observed that in 42 licenses and 48 leases, the rent was neither demanded by DG (PC) nor paid by the concerned E&P companies. This resulted in non-realization of rent amounting to Rs 147.811 million.

Audit is of the view that weak monitoring by the DG (PC) resulted in non-realization of rent.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 15, 2020 stated that an amount of Rs 11.274 million had been recovered and an amount of Rs 37.890 million had already been deposited and verified by Audit whereas recovery of Rs 98.647 million was in progress.

The DAC in its meeting held on December 17, 2020 directed the management to develop a mechanism for timely realization of lease rent and share the same with Audit within a month. DAC further directed to expedite the recovery of balance amount.

Audit recommends to recover the outstanding rent leases/licenses besides implementation of the decision of DAC.

[DP Nos. 1068 & 1069-DGPC]

2.1.7.14 Shortage of Petroleum Products due to delayed action by Directorate General of Oil

According to section 29(1)(ii) of Rule of Business 1973 (Schedule II - Distribution of Business among Divisions) Petroleum Division deals in all matters relating to oil, gas and mineral at the national and international levels, including import, export, refining, distribution, marketing, transportation and pricing of all kinds of petroleum and petroleum products. Further, as per functions entrusted to DG (Oil) for regulating the petroleum products in the country, it is required that demand & supply analysis of petroleum products be carried out and is also required to monitor the entire supply chain / logistics as well as to ensure that sufficient stocks of POL products are available in the country.

During audit of Petroleum Division for the FY 2019-20, it was observed that substantial reduction of petroleum prices by the Federal Government from May 01, 2020 resulted in countrywide shortages of petroleum products. Reason of this shortage can primarily be attributed to a ban on imports by DG (Oil) barring all OMCs except PSO to import HSD in March, 2020, and allowing only 84,000 Mt of HSD as against the required demand of 204,587 Mt of HSD in April, 2020. Furthermore, the DG (Oil) failed to take any corrective action on stock requirements as pointed out by PSO vide its letter No. MPNR/2020, dated May 02, 2020, wherein the company pointed out that stock was not being maintained by the OMCs as per rules or stocks existed with the OMCs but they were not making it available at up-country. Resultantly, the country faced shortages of petroleum products. Moreover, the country could not benefit from low international prices prevailing at that point in time.

Audit is of the view that weak monitoring and failure to ensure supply vis-à-vis required demand by DG (Oil) resulted in shortage of petroleum products in the country.

The matter was reported to the PAO / management in January, 2021. The management in its reply dated January 28, 2021 stated that there was no petrol

shortage during May, 2020. The petrol shortage crisis was artificially created by some OMCs through product hoarding. The letter of PSO was forwarded to OGRA for further investigation as the matter fell under their domain. Further, the report of inquiry commission on oil shortage was still under consideration by the Federal Cabinet. The final outcome of the report would conclude the ultimate responsibility. The reply is not tenable as department's contention that there was no petrol shortage, was not justified, as the inquiry commission was constituted to investigate the reasons for oil shortage.

The DAC its meeting held on January 29, 2021 directed the Petroleum Division to share the outcome of the inquiry report with Audit.

Audit recommends the Petroleum Division to fix responsibility for shortage of petroleum products in the light of inquiry report.

[DP No. 1324]

2.1.7.15 Non-implementation of ECC decision regarding Special Economic Zones (SEZs)

According to Rule 24 (1 to 5) of Rules of Business, 1973, when a case has been decided by the Cabinet or their Committees, the Minister-in-Charge shall take prompt action to give effect to the decision. Further to ensure implementation of the Cabinet decisions or their Committees, the Secretary of each Division shall watch progress of action until it is completed. It shall be his responsibility as Secretary of the Division sponsoring the summary to consult or inform any other Divisions concerned, in order to ensure full implementation of the decision. The Cabinet Secretary shall also watch the implementation of Cabinet decisions.

During audit of DG (Special Projects), Petroleum Division, for the FY 2019-20, it was observed that ECC in Case No. ECC-19/5/2019 dated 04.02.2019 regarding issues faced by existing Special Economic Zones (SEZs) directed Petroleum Division to devise a plan for provision of gas to all existing industrial zones in consultation with Provincial Governments and Board of Investment and present the same to ECC within 30 days for consideration. The cost of provision of utilities (gas & electricity) to Special Economic Zones was

to be met through PSDP. However, implementation of decision of ECC was pending despite lapse of more than one and a half year.

Audit is of the view that poor monitoring by management resulted in non-implementation of ECC decision.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 16, 2020 stated that funds amounting to Rs 576.500 million and Rs 151.580 million had been released for Rashkai and Dhabyji projects respectively. The projects were at procurement of material stage. The PC-I of Bin Qasim and Allama Iqbal SEZ had also been approved by the DDWP in February and October, 2020 respectively. The PC-I of Bostan SEZ had been submitted to Petroleum Division which would be placed to DDWP shortly.

The DAC in its meeting held on December 17, 2020 directed DG (Gas) / Development Wing to take up the matter with SNGPL / SSGCL for expeditious completion of Rashakai and Dhabayji SEZ for gas provision. DAC further directed to expedite the re-appropriation / allocation of funds in respect of Allama Iqbal and Bin Qasim SEZ and get the PC-I in respect of Bostan SEZ approved from DDWP.

Audit recommends to implement the decision of DAC.

[DP No. 1119-DG SP]

2.1.7.16 Non-utilization of funds allocated for development and current expenditure

According to Para 12 of General Financial Rules (GFR) Vol-I, a controlling Officer must see not only that the total expenditure is kept within the limits of the authorized appropriation but also that the funds allotted to spending units are expended in the public interest and upon objects for which the money was provided.

During audit of GSP for FY 2019-20, it was observed that funds of Rs 248.109 million allocated to GSP for purchase of rig were not utilized fully and surrendered at the end of the financial year. The management had

continuously failed to procure rigs for five preceding years and surrendered / re-appropriated an amount of Rs 1,864.907 million during this period.

Audit is of the view that weak financial management and communication gap between Ministry of Finance and Ministry of Energy (Petroleum Division) resulted in non-procurement of rigs and subsequent surrender of funds.

The matter was reported to the PAO / management in September, 2020. The management in its reply dated November 18, 2020 stated that amount allocated for acquisition of drilling rigs was never released and funds had been surrendered. The reply is not tenable as the management failed to pursue the case with Ministry of Finance/ Ministry of Energy (Petroleum Division) for lump sum allocation / release of funds.

The DAC in its meeting held on November 20, 2020 directed the management to get the complete record verified from Audit relating to development within a week and to provide object code wise justification for non-utilization of funds relating to current expenditure.

Audit recommends to implement decision of DAC besides timely utilization of the allocated amount in future. Audit further recommends to make efforts to get the required funds released in lump sum.

[MR-01/GSP]

2.1.7.17 Poor performance of DG (Oil) in conflict resolution between E&P companies, refineries and OMCs

According to Rule 29(1) of Rules of Business 1973, Directorate General of Oil is responsible for all issues relating to import of crude oil and petroleum products. Further, Directorate of Oil requested OGDCL to supply Nashpa Crude to ARL as per allocation vide letter dated September 12, 2017.

During audit of Petroleum Division for the FY 2019-20, it was observed that Directorate General of Oil failed to resolve the issue of upliftment of crude oil and refined POL products among E&P companies, refineries and OMCs since 2017. ARL informed DG Oil that OGDCL was not supplying full quantity of allocated crude oil, however, on the other hand, OGDCL informed DG (Oil) that

ARL was not receiving daily supplies of Nashpa crude oil. ARL further informed DG (Oil) in March, 2020, that the OMCs were also not uplifting the allocated POL products and in case of failure of OMCs to uplift their allocations, ARL would have to reduce the refinery output. Again OGDCL informed DG (Oil) that NRL and PRL were not accepting Nashpa crude oil and if the situation continued, OGDCL would have no option but to shut down Nashpa field which would be a national loss. Further, ARL informed MoE/DG Oil that OMCs except APL were not uplifting any significant product from them. On September 22, 2020, DG (Oil) requested ARL to uplift crude oil of Nashpa as per allocation. However, during this whole period, DG (Oil) failed to play its supervisory role as conflict between the parties continued and DG (Oil) failed to take any action for its resolution.

Audit is of the view that weak regulatory oversight by DG (Oil) resulted in non-resolution of conflict between E&P companies, refineries and OMCs thus further contributing to the shortage of POL in the country during the last quarter of FY 2019-20 creating shortage crises artificially.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated January 28, 2021 stated that in March, 2020 there was an unprecedented situation due to outbreak of Covid-19 and consumption of petroleum products was decreased significantly. Accordingly refineries decreased receipt of local crude / condensate due to non-uplifting of petrol and diesel from refineries. Audit contented that the issue between ARL and OGDCL was prevailing since 2017 and its relevance with COVID-19 was not justified.

During DAC meeting held on January 29, 2021 the management explained that DG (Oil) had taken extra ordinary steps during Covid-19 period with reference to letter dated March 25, 2020 through which imports were rationalized in order to save refineries, E&P fields and their associated gas from shut down. The DAC directed the management to get the stated stance verified from Audit with supporting documents.

Audit recommends DG (Oil) to perform its regulatory role effectively besides apprising Audit regarding the steps taken in conflict resolution.

[PDP No. 1058]

2.1.7.18 Non-finalization / renewal of Gas Sale & Purchase and Crude Oil Sale Agreements

According to Sub-rule 40 of Petroleum Exploration & Production Rule, 2001, the Government may decide that holder of a petroleum right shall deliver petroleum from his production to cover the requirements of the national market for petroleum. The lease holder shall deliver the petroleum at such place or places in Pakistan as the Government may direct and the price to be paid for petroleum to be delivered pursuant to this rule shall be such price as may from time to time be determined in accordance with terms and conditions of applicable agreement between the Government and the holder. Further, according to Serial No. 11 of DG (Oil) letter dated 20.10.2020, allocation of local crude oil/condensate to oil refineries and execution of sale/purchase agreements is included in the functions of DG (Oil).

During audit of Petroleum Division, Islamabad for the FY 2019-20, it was observed that DG (Gas) failed to finalize the gas purchase agreements and gas sale agreement in 48 cases (**Annex-4**), whereas DG (Oil) could only finalize 38 COSAs out of 279 fields. The absence of these agreements could create hurdles in resolution of conflict between the parties and lead to litigation.

Audit is of the view the weak regulatory oversight by DG (Gas) and DG (Oil) resulted in non-finalization of GSAs and COSAs.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated January 28, 2021 stated that after formal gas allocation to government designated buyers i.e SNGPL & SSGCL, the companies negotiate and execute gas supply agreements. Once the terms of GSA are agreed between the seller and buyer, the GSA is approved by OGRA. Further, COSAs were being signed between Petroleum Division and producers after completion of all necessary formalities.

The DAC its meeting held on January 29, 2021 directed the management to provide the details of COSAs which were in process of finalization for verification of Audit within a week. DAC also directed SNGPL and SSGC to expedite the finalization of GSAs.

Audit recommends to implement the decision of DAC.

[DP No. 1059-Oil & 1222-GDS]

2.1.7.19 Non-implementation of gas sector reforms / proposed tariff regime for natural gas sector in Pakistan

According to Para 3.6(3)(iii) of Proposed Tariff Regime for Natural Gas Sector in Pakistan, 2018, at present, two state owned gas companies are operating for the distribution of gas. The Federal Government at present in order to improve the efficiency of gas companies and attract the private investment in this sector is considering the proposals including unbundling of gas network, laying of dedicated transmission network and encouragement of common carrier through third party access regime. According to Para 4 of *ibid*, Ministry of Energy Petroleum Division is advancing the development of the gas sector to meet the shortage of gas in the country. With expertise extended by the World Bank and consultation with stakeholders, MoE has formulated options for the evolution of the gas sector in line with the Government's policy objectives. Therefore, for sustainable gas sector reforms, there should be consensus among all stakeholders.

During audit of DG (Special Projects), Islamabad for the FY 2019-20, it was observed that the Petroleum Division got a study to evaluate the proposals for unbundling of gas companies conducted by M/s KPMG in February, 2017. However, the matter was deferred by the Petroleum Division. The Gas Sector Reforms process was re-launched with technical assistance of the World Bank in 2018. In this regard, a World Bank Mission on Gas Sector Reform held meetings with relevant stakeholders. As a result of these meetings, the Petroleum Division was in the process of reconstitution of the apex Gas Leadership Committee to suggest the reforms. Working Groups on different aspects of Gas Sector Reforms were reconstituted and were required to submit report to the Gas Leadership Committee. However, despite lapse of considerable period of time, the committee could not finalize the reforms proposal.

Audit is of the view that poor pursuance by the management resulted in non-implementation of gas sector reforms.

The matter was reported to the PAO / management in December, 2020.

The DAC in its meeting held on December 17, 2020 directed the management to submit detailed reply to Audit within a week. No further progress was reported till finalization of this report.

Audit recommends to expedite the finalization of Proposed Tariff Regime for Natural Gas Sector.

[DP No. 1125-DG SP]

Receipts and functions of HDIP

2.1.7.20 Recurring revenue loss due to non-assignment of inspection of all the CNG stations - Rs 70.75 million

According to objectives and function defined under Section 4(o) of HDIP Act, 2006, the HDIP shall conduct the functions of demonstration, training, testing, inspection, equipment approval, data processing, technical advice, transfer of technology, refuelling and vehicle conversions for use of CNG in automobiles. Further, as per Section 9(f) of the Hydrocarbon Development Institute of Pakistan Act 2006, the fund of the institute shall consist of fee and charges for the services rendered.

During audit of HDIP for the FY 2019-20, it was observed that OGRA assigned 438 CNG stations to HDIP for annual inspection out of 3,330 CNG stations operating in Pakistan. It was common practice of OGRA to assign 400 to 500 CNG stations to HDIP for annual inspections and remaining to other third party inspectors from private sector. Non-assignment of inspection of all the CNG stations to HDIP by OGRA resulted in revenue loss of approximately Rs 70.75 million per annum. It was further observed that out of total 438 CNG stations assigned by OGRA for annual inspection HDIP conducted annual inspection of 256 CNG stations as 153 stations were temporarily closed and 29 CNG stations were permanently abandoned / demolished.

Audit is of the view that inspection of CNG stations was the function of HDIP but due to negligence and laxity of the management, the matter of assignment of inspection of all the CNG stations was not taken up at appropriate level resulting in recurring revenue loss.

The matter was reported to PAO / management in December, 2020. The management in its reply dated December 11, 2020 stated that HDIP was

pursuing the matter with OGRA through Petroleum Division in terms of ECC decisions dated June 14, 2006.

The DAC in its meeting dated January 01, 2021 directed the management to actively pursue the matter with OGRA through Petroleum Division.

Audit recommends to implement DAC directives.

[DP No. 1056-Isb]

2.1.7.21 Loss of revenue due to non-finalization of lease agreement to hand over the operations of CNG stations - Rs 54.066 million

According to Para 6 of HDIP Act 2006, the Board of Governors shall have the power to supervise, control, direct and regulate the affairs of the Institute. In compliance of Para 4.4 of 25th meeting of HDIP's Board of Governors dated August 07, 2018 read with decision No. 21/7, all CNG stations located at Islamabad, Lahore, Peshawar and Quetta were to be leased out.

During audit of HDIP, Islamabad for the FY 2019-20, it was observed that the Board of Governors in its meeting dated August 07, 2018 decided to outsource CNG stations to M/s Attock Petroleum Ltd Rawalpindi for rent of Rs 4.505 million per month along with call deposit of Rs 40 million. However, despite lapse of more than two years, the management failed to finalize the lease agreement to hand over the operating CNG stations to the successful bidder. This resulted in loss of Rs 54.066 million on account of rent of CNG stations. It was pertinent to mention here that all the CNG Station were running on loss of approximately Rs 43 million as per financial statements of current financial year.

Audit is of the view that negligence by management resulted in loss of Rs 108 million due to non-finalization of lease agreement.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 11, 2020 stated that in case of two CNG Stations in Islamabad and Quetta, lease of land was granted by CDA and Forest Department, Government of Balochistan specifically for setting up of CNG. Since, ARL intended to set up petrol pumps on the said premises, there could be obstacles in obtaining the NOC. The reply is not tenable because obtaining NOCs for setting up petrol pumps was responsibility of M/s Attock Petroleum Ltd.

The DAC in its meeting dated January 01, 2021 directed the management to place the matter before A&F Committee / BoG for early resolution.

Audit recommends to fix responsibility for delay in finalization of lease agreement and handing over the CNG station to the successful bidder.

[DP No. 1047-Isb]

2.2 Oil and Gas Development Company Limited

2.2.1 Introduction

Oil and Gas Development Company Limited (OGDCL) was established in 1961 as a public sector corporation which was converted into a public limited joint stock company on October 23, 1997 under the Companies Ordinance, 1984. The company is registered on Pakistan Stock Exchange as well as on London Stock Exchange. Currently, the GoP holds 74.97% of paid up capital of the company as on June 30, 2020. The company is engaged in exploration and development of oil and gas resources, including production and sale of oil and gas and related activities.

2.2.2 Comments on Audited Accounts

The financial results of the company for the year 2019-20 as compared to the previous years are tabulated below:

(Rs in million)

	2019-20	% Inc / (Dec)	2018-19	% Inc / (Dec)	2017-18
Sales	244,856.75	(6.36)	261,481.19	27.34	205,335.00
Royalty	27,626.10	(5.83)	29,335.93	33.52	21,970.95
Operating expenses	66,560.47	4.89	63,455.85	5.38	60,213.46
Transportation charges	1,592.12	(2.19)	1,627.85	(2.57)	1,670.85
Gross Profit	149,078.06	(10.76)	167,061.56	37.52	121,479.74
Exploration and prospecting Expenditure	18,213.44	45.72	12,499.32	(22.80)	16,190.50
General & Admin. Expenses	5,070.90	22.80	4,129.25	1.01	4,087.86
Finance cost	3,011.45	77.92	1,692.54	(2.16)	1,729.89
Workers Profit Participation Fund (WPPF)	7,529.73	(18.99)	9,294.71	56.80	5,927.72
Other income	21,749.79	(32.64)	32,288.25	101.70	16,008.12
Share of profit in associate-net of taxation	6,062.57	24.58	4,866.42	58.26	3,074.87
Profit before taxation	143,064.90	(18.99)	176,599.41	56.80	112,626.76
Taxation	42,983.23	(26.16)	58,213.625	71.77	33,890.46
Profit for the year	100,081.67	(15.46)	118,385.79	107.31	78,736.30
Earnings per share	23.27	(15.47)	27.53	50.36	18.31

(Source: Annual Audited Accounts)

- i. Sales revenue decreased from Rs 261,481.19 million in FY 2018-19 to Rs 244,856.75 million during the FY 2019-20 which showed decrease of 6.36% as compared to previous year. Whereas, company's operating expenses increased by 4.89% and general & administrative expenses increased by 22.8% during the same period which showed loose control of the management over expenses. The management is advised to exercise proper control over operating, general and administrative expenses.
- ii. Exploration and prospecting expenditure increased to Rs 18,213.44 million during the year 2019-20 from Rs 12,499.32 million in 2018-19 which showed an increase of 42.72% as compared to previous year. However, company's exploration portfolio increased by 3.16% i.e from 77,543 sq. km in 2018-19 to 79,994 sq. km in 2019-20. This needs to be explained with full facts and figures.
- iii. The return on average capital employed was 32% in 2012-13 which declined to 20% in 2018-19 and to 15% in 2019-20. Similarly, the total return over assets was 59% in 2012-13 also wilted to 36% in 2018-19 and to 30% in 2019-20. The management is advised to improve its operations regarding control over expenditure to maintain the healthy return as achieved previously.
- iv. Finance cost during the year under review increased to Rs 3,011.45 million as compared to Rs 1,692.54 million in 2018-19 registering an increase of 77.92% which caused extra burden on the company. Whereas, an amount of Rs 445,802 million was outstanding against major parties which also included LPS of Rs 119,881 million, 77% of which was outstanding against SSGC and SNGPL due to non-settlement of circular debt issue. Reasons thereof need to be elucidated and proactive measures need to be taken to solve the issue of circular debt.
- v. Other income of the company decreased to Rs 21,749.79million during the year 2019-20 from Rs 32,288.25 million in 2018-19 which shows decrease of 32.64% as compared to previous year. This needed to be justified besides taking remedial action.

2.2.3 Classified Summary of Audit Observations

Audit observations amounting to Rs 267,511.175 million were raised in this report during the current audit of OGDCL. This amount also includes recoveries of Rs 184,132.766 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

2.2.4 Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Project management	36,965.762
B	Receivables management	173,709.915
C	HR / Employees related irregularities	-
D	Corporate Social Responsibility	91.952
2	Others	56,743.546

2.2.5 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	%age of compliance
1994-95	19	14	05	74
1995-96	13	11	02	85
1998-99	09	04	05	44
1999-00	11	08	03	73
2000-01	29	24	05	83
2001-02	04	03	01	75
2002-03	05	03	02	60
2003-04	15	08	07	53
2004-05	04	03	01	75
2005-06	23	19	04	83
2006-07	30	29	01	97
2007-08	17	10	07	59
2008-09	13	10	03	77
2009-10	12	09	03	75
2010-11	21	07	14	33
2013-14	28	10	18	36
2014-15	50	02	48	04
2016-17	41	26	15	63
2018-19	03	02	01	
2019-20	01	0	01	
Total	348	202	146	58%

Overall compliance of PAC directives was not satisfactory which needs to be improved.

2.2.6 Audit Paras

Project management

2.2.6.1 Loss due to installation of defective LPG extraction plant – Rs 18,037.530 million

According to Clause 24.2 of the contract between M/s OGDCL and M/s Shandong Kerui Petroleum Equipment Co. Ltd, the performance test shall be carried out in accordance with the approved procedure for a minimum period of seventy-two (72) continuous hours. If the equipment does not meet the specified guaranteed performance (operating) parameters / requirements during the abovementioned operating period despite remedial action i.e., repair, alteration, modification and replacement by contractor during a period of 3 months OGDCL shall claim as liquidated damages an amount equivalent to 10% of the contract price from the contractor.

During audit of OGDCL for the FY 2019-20, it was observed that the management developed a plan to process 250 MMSCFD of natural gas, 413 Mt of LPG and 5058 bpd of condensate from KPD-TAY. Hence, an EPCC contract was awarded to M/s Shandong Kerui Petroleum Equipment Co. Ltd. for KPD-TAY LPG extraction plant on March 20, 2013 at the lump sum amount of US\$ 197.464 million. The date of completion of the contract was June 27, 2014 but the contractor handed over the plant to OGDCL after lapse of almost 3 years on May 02, 2017. However, due to defective installation, the plant could not run on its full capacity. It could only produce 312,261 Mt of LPG from November, 2016 to September, 2020 against planned production of 569,940 Mt i.e., almost 54% of the planned production. This resulted in a loss of Rs 18,037.530 million $[(569,940 \text{ Mt} - 312,261 \text{ Mt}) \times \text{Rs } 70,000 \text{ per Mt}]$ due to non-extraction of LPG. It is pertinent to mention that the management neither carried out the 72 hours performance test nor took any punitive action against the contractor for installation of defective plant. Further, the management proposed a bottleneck study to ascertain causes of low LPG production after only 5 months of the installation of the plant which was subsequently dropped.

Audit is of the view that poor project management resulted in installation of defective LPG extraction plant causing loss of Rs 18,037.530 million on

account of LPG production loss.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 28, 2020, stated that LPG production could not be compared with the plant design capacity. Further, a new bottleneck study was being conducted to optimise the efficiency of the plant. The reply is not tenable as the plant was designed specifically for KPD-TAY and was required to achieve the production target set out by the management in field study. Further, management failed to conduct performance test as per contract.

In DAC meeting dated December 31, 2020, the management explained that LPG plant performance test had been carried out as per site conditions. DAC directed the management to develop a mechanism for timely finalization of plant studies in future. DAC further directed the management to share changes in gas composition and well behaviour before and after the installation of LPG plants.

Audit recommends implementing the decision of DAC besides provision of bottleneck study to Audit.

[DP No. 1087]

2.2.6.2 Loss due to non-imposition of LD charges and non-encashment of performance guarantee of M/s Shandong Kerui Petroleum – Rs 6,318.864 million

According to Clause 21.1 of the contract between OGDCL and M/s Shandong Kerui Petroleum Equipment Co. Ltd, if the contractor fails to deliver any or all of the goods within the time period(s), OGDCL shall, without prejudice to other remedies under the contract, deduct maximum 10% of the contract value as liquidated damages. According to Clause 24.2 and 24.3 of *ibid*, the performance test shall be carried out in accordance with the approved procedure for a minimum period of seventy-two (72) continuous hours. If the equipment does not meet the specified guaranteed performance (operating) parameters/requirements during the abovementioned operating period despite remedial action i.e., repair, alteration, modification and replacement by

contractor during a period of 3 months, OGDCL shall claim as liquidated damages an amount equivalent to ten (10) per cent of the contract price.

During audit of OGDCL for the FY 2019-20, it was observed that the management awarded EPCC contract for LPG recovery unit at KPD-TAY field to M/s Shandong Kerui Petroleum Equipment Co. Ltd. on March 20, 2013 at the lump sum amount of US\$ 197.464 million. The date of completion of the contract was June 27, 2014. However, the management allowed 3 extensions to the contractor till December 31, 2015. The contractor finally handed over the operations of the installed equipment to OGDCL on May 02, 2017. However, despite substantial delay, the management did not impose any LD charges on the contractor as required under the contract. Moreover, the management issued acceptance certificate to the contractor without performing 72 hours continuous performance test and the performance bank guarantee was gradually released by December 20, 2018. Later, the plant did not operate as per requirement but management could not recover the loss from the contractor due to unjustified release of PBG. Hence, non-imposition of LD charges of Rs 3,159.432 million and unjustified release of PBG amounting to Rs 3,159.432 million resulted in cumulative loss of Rs 6,318.864 million.

Audit is of the view that weak financial management resulted in non-imposition of LD charges and non-encashment of performance bank guarantee causing loss of Rs 6,318.864 million.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 28, 2020 stated that the EPCC contractor's part was completed on July 22, 2015 but the performance test could not be conducted as OGDCL was not able to supply dehydrated gas due to non-completion of allied units. Further, according to Clause 24.4 of the contract, in the event of failure of OGDCL to provide feed gas, the performance test would deem to have been successfully performed. The reply is not tenable as non-conducting the 72 hours continuous performance test and subsequent non-achievement of LPG production target besides initiation of bottleneck study showed that the plant was defective. Further, the management provided relaxation to the contractor in Clause 24.4 of the contract by absolving the contractor from obligation to conduct performance test.

The DAC in its meeting held on December 31, 2020 directed the Petroleum Division to conduct fact finding inquiry and share the outcomes within three months.

Audit recommends to implement the decision of DAC.

[DP Nos. 1040 &1044]

2.2.6.3 *Loss due to non-encashment of performance guarantee - Rs 4,736 million*

According to Clause 41.4 of the contract between OGDCL and M/s Hong Kong Huihua (HKH) Global Technology Ltd., if the plant fails to give satisfactory performance or otherwise adhere to the requirements outlined in the contract, then the contractor shall advise the cause of failure and advise changes / modification or addition. The contractor shall be liable to bear all expenses of such modifications or additions. According to Clause 41.5 of ibid, if after all such additions / modification, the plant still fails to meet the performance in final test to be demonstrated within 3 months of the agreement of changes to be made to the plant, the contractor shall pay to OGDCL as liquidated damages an amount equal to twenty percent of the contract value.

During audit of OGDCL for the FY 2019-20, it was observed that the management awarded an EPCC contract for LPG extraction plant and allied facilities at Nashpa field to M/s HKH Global Technology Ltd. on November 16, 2015 for US\$ 148 million. Once completed, the plant was expected to process 100 MMSCFD of gas and produce 373 Mt of LPG per day. The date of completion of the contract was June 10, 2017 but it was extended till February, 2018. The Nashpa plant started production in February, 2018 but the management failed to conduct performance test till October, 2018. On October 03, 2018, the management forwarded the performance bank guarantee for encashment but withdrew the same after 7 days without justification. Subsequently, a provisional acceptance certificate was issued after conducting a performance test in July, 2018, with the condition to complete all the outstanding punch items list by September 20, 2020. Meanwhile, during the same period i.e. from February, 2018 to September, 2020, Nashpa plant produced 132,211 Mt of LPG at an average production of 138 Mt per day i.e. 37% of its designed

capacity. However, the management failed to encash performance guarantee by the contractor for defective installation of plant. This resulted in a loss of Rs 4,736 million (20 % of US\$ 148 million @ Rs 160).

Audit is of the view that poor financial management resulted in non-encashment of bank guarantee causing loss of Rs 4,736 million.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 28, 2020, stated that performance test was initiated in July 2018 but M/s HHK failed to achieve contractual parameters. The contractor agreed to execute the contract and carry out some modification jobs. Furthermore, OGDCL withdrew request for PBG encashment on the contractor's request for settlement. The current PBG was valid till December 31, 2020. The reply is not tenable as the management was required to encash performance guarantee due to defective installation of the plant which was not done. Further, the modifications were required to be completed in 3 months but the same were still awaited despite lapse of more than 2 years.

The DAC in its meeting held on January 28, 2021 directed the management to share the legal opinion to seek from legal wing of the company for verification of Audit.

Audit recommends to encash the performance bank guarantee besides recovering production losses and expenditure incurred on recurring performance test from the contractor as per agreement.

[DP No. 1097]

2.2.6.4 Loss due to non-recovery of LD charges and non-encashment of performance bond from JJVL – Rs 3,395.400 million

According to Clause 17 of agreement between M/s JJVL and OGDCL dated February 20, 2012, if JJVL failed to set up / deliver and operate the LPG / NGL extraction plant within the agreed time between the parties, then JJVL would be liable to pay liquidated damages to OGDCL at the rate of US\$ 130,000 per day till 100% operation of the plant. Further, as per Clause 16 of *ibid*, the company has sole and absolute right to encash the performance bond without any

prior notice to the contractor in the event of any breach, failure, non-compliance or delay in the performance of the contract.

During audit of OGDCL for the FY 2019-20, it was observed that OGDCL entered into an agreement with M/s JJVL on February 20, 2012 for extraction of LPG and NGL from KPD-TAY fields for 2 years. M/s JJVL started extraction of LPG and NGL from January 17, 2012 but the plant was shut down due to fire outbreak on November 26, 2012 and M/s JJVL served a force majeure notice to M/s OGDCL on the same day. The management did not contest the force majeure notice despite the fact that M/s JJVL restarted the plant on December 27, 2012, processing gas from Badin field of M/s UEPL only, without processing any gas from KPD-TAY. However, the management did not impose LD charges @ US\$ 13,000 per day from M/s JJVL for non-extraction of LPG. This resulted in loss of Rs 3,260.400 million (US\$ 54.340 million @ Rs 60 for 418 days) due to non-imposition of LD charges till the end of contract period i.e. February 19, 2014. The management also failed to encash the performance bond of the contractor amounting to Rs 135 million resulting in a cumulative loss of Rs 3,395.400 million.

Audit is of the view that weak contract management resulted in non-imposition of LD charges and non-encashment of performance bond causing a loss of Rs 3,395.400 million.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 28, 2020 stated that the contract between OGDCL and M/s JJVL was declared void ab initio after agreement between SSGC and M/s JJVL. Moreover, the case was already under investigation by NAB and officials were under trial.

The DAC in its meeting held on December 31, 2020 directed the management to provide the documents declaring the contract void ab initio.

Audit recommends to implement the decision of DAC besides providing documentary evidence of adjustment / recovery of claims / counter claims arising due to ab initio voidance of the contract.

[DP No. 1028]

2.2.6.5 Loss due to sale of off-spec gas from KPD field – Rs 2,849.825 million

According to Clause 14 of the term sheet signed between OGDCL and SSGC on February 22, 2013, a discount of two and half percent (2.5%) will be offered to the buyer on account of higher CO₂ (around 8%) in the gas stream. There was no formal agreement between OGDCL and SSGC for the sale of gas.

During audit of OGDCL for the FY 2019-20, it was observed that lease of KPD fields was granted to OGDCL in 2011-2012, but management did not initiate timely action for installation of LPG extraction plant. Consequently, OGDCL supplied off-spec gas to SSGC at the discount of 2.5% as per term sheet. The management made no effort to finalize GSA even after installation of KPD-TAY integrated development plant and continued to give discount to SSGC. This resulted in a loss of Rs 2,493.59 million on account of sale of off-spec gas. Moreover, due to sale of gas at discounted rate, the Sindh Government did not receive royalty amounting to Rs 356.228 million (Rs 2,493.59 million @ 12.5%). This resulted in cumulative loss of Rs 2,849.825 million.

Audit is of the view that negligence by the management resulted in sale of off-spec gas causing loss of Rs 2,849.825 million.

The matter was reported to the PAO / management in November, 2020. The management in its reply dated December 28, 2020 stated that the installation of KPD- TAY integrated development plant was delayed due to repeated delay in tendering process owing to litigation by contractors, court cases and change of project scheme. The reply is not tenable as even after installation of the plant, the management was still supplying the gas to SSGC at discounted rate.

The DAC in its meeting held on December 31, 2020 directed the management to expedite the signing of GSA with SSGC.

Audit recommends to justify sale of gas at discounted rate despite installation of KPD-TAY integrated development plant.

[DP No. 1229]

2.2.6.6 Irregular award of LPG recovery contract to M/s JJVL – Rs 1,341.117 million

According to Rule 10 of PPRA Rules, 2004, specifications shall allow the widest possible competition and shall not favour any single contractor or supplier nor put others at an advantage. Specifications shall be generic and shall not include references to brand names, model numbers, catalogue numbers or similar classifications. However, if the procuring agency is convinced that the use of or a reference to a brand name or a catalogue number is essential to complete an otherwise incomplete specification, such use or reference shall be qualified with the words “or equivalent”.

During audit of OGDCL for the FY 2019-20, it was observed that M/s JJVL submitted a proposal for processing of 140 MMSCFD of gas from KPD-TAY field at JJVL plant on July 28, 2011. The proposal, however, was rejected by the OGDCL BoD. M/s JJVL again requested OGDCL vide letter dated August 26, 2011 to reconsider its proposal with certain proposed ToRs. The management considered the proposal of M/s JJVL and floated the tender for LPG extraction on October 12, 2011. However, the TORs in the bidding documents were identical to the TORs submitted by M/s JJVL (**Annex-5**). Further, as per the bidding documents, OGDCL allowed only 2 months for installation of recovery plant, which usually took 24 months for installation and OGDCL itself, later, installed this plant in almost 4 years. Resultantly, only M/s JJVL applied for the contract and was awarded contract for LPG recovery amounting to Rs 1,341.117 million on February 20, 2012. Thus, tailored ToRs were formulated to ensure award of work to JJVL in violation of PP Rules. This resulted in irregular payment of Rs 1,341.117 million for extraction of LPG.

Audit is of the view that weak internal controls resulted in undue favour to M/s JJVL in irregular award of LPG extraction contract for Rs 1,341.117 million.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 28, 2020, stated that the said case was under NAB reference as well as under trial in the Accountability Court No. IV, Karachi.

The DAC in its meeting held on December 31, 2020 directed to place the matter before the PAC.

Audit recommends to implement the decision of DAC.

[DP No. 1045]

2.2.6.7 *Undue favour to the project management consultant – Rs 287.026 million*

According to Rule 48(3) of PP Rules, 2004, the committee (for redressal of grievances) shall investigate and decide upon the complaint within 15 days of the receipt of the complaint. According to 42(C) clause iv of ibid repeated orders, not exceed fifteen per cent of the original procurement, TORs No. 5, 6 and 7 for KPD-TAY Integrated Development Project Phase II, the consultant was responsible for commissioning, pre-commissioning and testing, and performance test run / acceptance of plant and take over. According to Section 9 of ibid, the consultant shall provide to the company a performance bond equivalent to 10% of contract value. According to Section 22 of, if the consultant fails to deliver any or all of the services / goods within the delivery schedule, the purchaser without prejudice to other remedies under the contract, deduct from the payment as liquidated damages, maximum 10 per cent of the contract value.

During audit of OGDCL, for the FY 2019-20, it was observed that;

- i. The management floated a tender for project management consultancy for KPD integrated development project Phase-II on November 15, 2011. Two out of five pre-qualified bidders submitted their bids and both the bidders i.e., M/s ZEL and M/s ENAR were found technically responsive. On January 20, 2012, M/s ENAR submitted a complaint against qualification of M/s ZEL to OGDCL Committee for Redressal of Grievances and Settlement of Disputes. The committee held the hearing on January 23, 2011. However, before the committee could submit its report, MD approved the award of work to M/s ZEL on January 16, 2011. This resulted in irregular award of contract amounting to Rs 168.050 million.

- ii. Later, M/s ZEL could not complete the contract on stipulated date. On June 13, 2016, the management extended the original scope of contract through an amendment and enhanced the man-hours from 21,500 to 87,600 i.e., additional 66,110 man-hours, an increase of almost 300%. Similarly, the contract amount was also enhanced from Rs 168.050 million to Rs 253.416 million i.e., Rs 85.366, an increase of almost 50% of the original contract price in violation of PP Rules. Hence, the extension in the consultancy charges of Rs 85.366 million was irregular.
- iii. M/s ZEL completed the project in March, 2017 after delay of almost 3 years. M/s ZEL was responsible for commissioning, pre-commissioning and performance test run but the KPD-TAY project was delayed and no performance test of installed equipment was carried out. The management, nevertheless, released the performance bank guarantee of Rs 16.805 million and did not impose the LD charges amounting to Rs 16.805 million. This resulted in a loss of Rs 33.61 million.

Audit is of the view that weak internal controls resulted in irregular award of the contract and subsequent extension amounting to Rs 253.416 million and loss of Rs 33.61 million on account of non-encashment of performance bond and liquidated damages.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 28, 2020 stated the MD approved only expenditure on January 16, 2012. The contract was actually awarded on February 09, 2012. Moreover, the consultancy contract with M/s ZEL was extended as the procurement contractors delayed the completion of work, hence, LD charges were imposed on the procurement contractors. The reply is not tenable as the MD granted approval for expenditure as well as award of contract on January 16, 2012. Further, as PMC, M/s ZEL was responsible for monitoring of installation, commissioning and PT. However, most of the contracts including EPCC contract were either delayed or their installation was defective for which the PMC must be held accountable.

DAC in its meeting held on December 31, 2020, directed the management to get the documents regarding award of work on February 09,

2012 verified from Audit within a week. DAC further directed to the management to conduct a fact-finding inquiry regarding award of contract and extension within two months. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP Nos. 1022, 1023, 1024 & 1042]

Receivables management

2.2.6.8 Non-recovery of debts from gas companies and refineries – Rs 169,110 million

As per Clause 6.04 of the GSPA, the buyer of gas shall pay within 30 days of invoice in the designated bank account share of each partner and in foreign exchange within 45 days from the date of receipt of invoice. Similarly, as per COSA, the refinery shall pay due amount within two months from the date of receipt of invoice from each partner of the producing field.

During audit of OGDCL for the FY 2019-20, it was observed that an amount of Rs 325,722 million was outstanding as on June 30, 2020 against gas companies, refineries and other customers. Out of this amount, Rs 169,110 million pertained to FY 2019-20. The delay in recovery ranged from 3 months to 1 year due to circular debt, gas and oil pricing issues and GIDC along with allied taxes etc. This resulted in non-recovery of trade debts from gas companies and refineries amounting to Rs 169,110 million.

Audit is of the view that poor receivables management resulted in non-recovery of outstanding amount of Rs 169,110 million.

The matter was reported to the PAO / management in November, 2020. The management in its reply dated December 28, 2020 stated that the increase in trade receivables was primarily due to circular debt as well as certain other issues. The reply is not tenable as the management made minimal effort for recovery of amount other than circular debt. Similarly, the management failed to pursue the circular debt issue with the concerned stakeholders.

The DAC in its meeting held on January 01, 2020 directed the

management to pursue the matter with Cabinet Committee constituted on the issue of circular debts through Petroleum Division.

Audit recommends to recover the outstanding amount at the earliest besides improving receivables management.

[DP No. 1002]

2.2.6.9 Inadmissible charging of signature bonus – Rs 4,599.915 million

According to Para 3.4 of LPG Policy 2016, subject to the policy guidelines of the Federal Government, the Oil and Gas Regulatory Authority will regulate and notify prices of indigenous LPG including production price, margins of marketing and distribution companies, and consumer prices. Further, according to Para 9.2 of OGRA's decision dated June 22, 2018, LPG producers, in public or private sector cannot charge signature bonus in compliance to LPG policy.

During audit of OGDCL, Islamabad for the FY 2019-20, it was observed that the management collected an amount of Rs 4,599.915 million pertaining to the period from 2016 to 2018 on account of signature bonus on sale of LPG. However, according to the LPG Policy, the management was not authorized to charge signature bonus from buyers of LPG. Hence, the amount of Rs 4,599.915 million charged by the management as signature bonus was inadmissible.

Audit is of the view that weak financial controls resulted in inadmissible charging of signature bonus amounting to Rs 4,599.915 million from buyers of LPG.

The matter was reported to the PAO / management in November, 2020. The management in its reply dated December 28, 2020 stated that the signature bonus was collected while allocating LPG quotas as per BOD decision dated August 22, 2007. The reply is not tenable as BOD decision taken in 2007 was not relevant after introduction of LPG Policy 2016, therefore, the management should had not collected signature bonus from the buyers of LPG.

The DAC in its meeting held on January 01, 2020 directed the Petroleum Division / DG (PC) to decide the issue in the light of LPG Policy, 2016 within two months.

Audit recommends that as the burden of charging of signature bonus had already been passed on to buyers of LPG therefore, the excess charged amount be deposited into government treasury.

[DP No. 1004]

HR / Employee related irregularities

2.2.6.10 Irregular appointment of ED (Petroserv)

According to OGDCL Employees (Service) Regulations, 1991, as amended by OGDCL Policy Department letter no. AAO102-28 dated March 05, 2019, the requirement for the post of ED (Petroserv) is MSc. Degree in Earth Science or related sciences with 18 years' experience in petroleum exploration and development industry including 12 years in senior management position. Similarly, the requirement for the post of GM (Drilling Services) is Engineering degree in Mechanical/Electrical/Petroleum with 16 years' experience including 10 years in executive position in drilling department.

During audit of OGDCL for the FY 2019-20, it was observed that the management floated an advertisement for the post of GM (Drilling Services), a position under ED (Petroserv), along with other posts including ED (Petroserv), in Business Recorder on February 24, 2019. The management, however, scrapped the recruitment process of GM (Drilling Services) as no candidate was considered eligible for the said position. Mr. Muhammad Aamir Salim was among the ineligible candidates who were not recommended by the Recruitment Committee due to irrelevant experience. Similarly, no candidate was selected for the post of ED (Petroserv). On June 30, 2019, the management again advertised for the post of ED (Petroserv) in newspaper 'Dawn'. The previous advertisement required 6 years senior management position experience for the position but no such condition was mentioned in the new advertisement. Mr. Muhammad Aamir Salim applied for the said post and was appointed as ED (Petroserv) on August 07, 2019. Thus, the candidate who could not qualify for the post of GM previously, was appointed as ED. This resulted in irregular appointment and payment of salary of Rs 13.488 million.

Audit is of the view that due to undue favour, a candidate who could not

qualify for the position of GM was appointed as ED (Petroserv). Therefore, the appointment as well as payment of salary of Rs 13.488 million was irregular.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 28, 2020 stated that entire process of recruitment of ED (Petroserv) was done through Board Secretariat. The reply is not tenable as instead of bringing a policy change in HR, only the criteria for appointment of ED (Petroserv) was changed to benefit a specific candidate.

The DAC in its meeting held on January 29, 2021 directed the management to share the copy of advertisement, working papers submitted to BoD and resolution of BoD for verification of Audit.

Audit recommends to implement the decision of DAC.

[DP No. 1096]

Corporate Social Responsibility

2.2.6.11 Sub-optimal utilization of PCA training fund – Rs 91.952 million

According to Training Guidelines issued from time to time, 50% of the training obligation shall be used for imparting training to the Pakistani national employees of the E&P companies, 25% will be utilized by the Ministry through DG (PC) on training of government officials and 25% will be utilized by the DG (PC) on the internship / scholarships of local inhabitants of the area of operations.

During audit of OGDCL, Islamabad for the FY 2019-20, it was observed that the management retained an amount of US\$ 584,754 under PCA training obligations for the period from July, 2019 to June, 2020. However, the management could only spend US\$ 27,466 during the year for the training of its employees, leaving balance of US\$ 557,288. The matter was also discussed in 95th meeting of Audit Committee of OGDCL BoD, held on February 25, 2020, where its members noted sub-optimal utilization of training fund in capacity building of its employees. This showed that management did not plan trainings adequately which resulted in non-utilization of funds amounting to Rs 91.952 million (US\$ 557,288 @ Rs 165).

Audit is of the view that poor planning resulted in sub-optimal utilization of PCA training fund of Rs 91.952 million.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 28, 2020 stated that no guidelines were issued by DG (PC) in the year 2009. However, due to unavoidable circumstances only US\$ 27,466 could be utilized during FY-2019-20. Audit contended that guidelines were issued by DG (PC) in 2000 as well as in 2009. According to these guidelines every operator was required to submit annual training program to DG (PC) in the month of January each year for approval and therefore, effective steps were required for utilization of training funds as per approved training programme.

The DAC in its meeting held on January 01, 2021 directed the management to seek clarification from DG (PC) regarding implementation of guidelines for utilization of training obligation 2009 in the light of audit observation to ensure utilization of training funds.

Audit recommends to timely utilize the training funds as per applicable guidelines.

[DP No. 1014]

Others

2.2.6.12 Loss due to non-extraction of LPG – Rs 49,959.360 million

According to Rule 5(5) of the Corporate Governance Rules, 2013, 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. According to Rule 5(5)(a) of *ibid*, 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.

During audit of OGDCL for the FY 2019-20, it was observed that OGDCL obtained leases over Pasakhi, Pasakhi North and Kunnar fields in 1990 and Kunnar Deep and Pasakhi Deep in 2005. However, the management failed to extract any hydrocarbons from the fields until 2011. The management floated

a tender for installation of LPG extraction plant in 2007 but later scrapped the tendering process. As an interim arrangement the management entered into an agreement with M/s JJVL for extraction of LPG for 2 years till 2014 but M/s JJVL stopped LPG extraction due to fire incident in November, 2012. Subsequently, OGDCL installed its own LPG extraction plant on the KPD-TAY field in 2017. This delayed installation of LPG extraction plant resulted in a loss of Rs 49,959.360 million (6 years x 350 days x 413 Mt per day less 34,644 Mt received from JJVL x Rs 60,000 per Mt).

Audit is of the view that negligence by the management resulted in delay in installation of LPG extraction plant causing loss of Rs 49,959.360 million.

The matter was reported to the PAO in December, 2020.

The DAC in its meeting held on February 11, 2021 directed the Petroleum Division to conduct a fact finding inquiry within three months.

Audit recommends to implement the decision of DAC.

[DP No. 1271]

2.2.6.13 Undue favour to the contractor in award of contract – Rs 1,721.839 million

According to Clause 1.6 of tendering documents, the selected bidders and its engineering staff shall meet all the requirement of Pakistan Engineering Council (PEC) Act, 1976, its by-laws and amendments with respect to registration as contractor CA (No limit) category and provide documents to this effect. As per Clause 30(1) of PPRA Rules, 2004, bids shall be evaluated in accordance with the evaluation criteria and other terms and conditions set forth in the prescribed bidding documents.

During audit of OGDCL for the FY 2019-20, it was observed that the management awarded a contract for supply/installation of flow lines & gas gathering facilities for KPD-TAY integrated Development Project Phase-II to M/s Pipe Link Construction Pvt. Ltd Karachi on April 17, 2015. The amount of the contract was Rs 1,721.839 million with completion period of six month. However, the award of work to the contractor was objected by M/s Al Shoumoukh International Services Ltd., another participant in the tender, on the

ground that the contractor did not submit certificate by PEC. The case was discussed in Bidder Grievance Review Committee (BGRC) on October 09, 2014 which questioned the tendering process and concluded that there were discrepancies in the procurement process. However, the management did not consider the decision of the BGRC and awarded the contract to M/s Pipe Link Construction Pvt Ltd. This resulted in irregular award of contract amounting to Rs 1,721.839 million.

Audit is of the view that undue favour by the management to the contractor resulted in irregular award of contract amounting to Rs 1,721.839 million.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 28, 2020, stated that M/s PCL had applied for the PEC no limit category at the time of bid submission which it subsequently acquired. The reply is not tenable as the bidder was required to submit the PEC no limit category certificate at the time of bid submission.

The DAC in its meeting held on December 31, 2020 directed the management to place the matter before the BoD in the light of audit observation.

Audit recommends to investigate the matter and take appropriate action for undue favour to the contractor besides improving managerial practices to avoid such instances in future.

[DP No. 1093]

2.2.6.14 *Loss due to rig stacking – Rs 1,507.466 million*

According to Rule 5(5) of the Corporate Governance Rules 2013, 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. As per Rule 5(5)(a) of *ibid*, 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.

During audit of OGDCL for the FY 2019-20, it was observed that the management released work over rig, K-750T from Paali Deep 01 on March 14, 2019. However, before assembling of the said rig for the next well, the management declared the rig as stacked. Upon further scrutiny, it was found that no inspection of the rigs was carried out since 2004 which rendered the rigs in dilapidated condition. The rigs were being maintained on minimum working condition by the rig staff through makeshift arrangement. The said rig was still stacked till the conclusion of the audit and the drilling operations were being carried out through third party contracts. Furthermore, the management failed to deploy HR attached to the said rig to another rig. This resulted in loss of Rs 1,507.466 million i.e. Rs 1,088.640 million [(US\$ 12,000 per Day x Rs 168) x (18 months)] due to rig stacking and Rs 418.826 million on HR cost.

Audit is of the view that poor asset management as well as HR management resulted in loss of Rs 1,507.466 million.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 28, 2020 stated that after completion of work-over job at Well Paali Deep-01, Rig K-750T was stacked on March 14, 2019 due to unavailability of work-over job. After completing Well Pasakhi-5, the rig was again stacked on September 11, 2019. Further, Technical Assessment Committee (TAC) constituted by Executive Committee of Board (EXCOM) observed in 2017 that the rig needed major repair.

The DAC in its meeting held on December 31, 2020 directed the Petroleum Division to conduct an inquiry in the matter within three months.

Audit recommends to implement the decision of DAC.

[DP No. 1039]

2.2.6.15 Loss due to sale of off-spec gas from Mela and Nashpa fields – Rs 1,275.69 million

According to term sheet between OGDCL and SNGPL for the sale of natural gas, OGDCL will allow SNGPL a discount of 10% on sale of off-spec gas. There was no formal GSA between OGDCL and SNGPL.

During audit of OGDCL for the FY 2019-20, it was observed that

OGDCL was supplying off-spec gas to SNGPL from Nashpa-Mela fields before installation of the LPG processing unit. However, even after installation of the said unit in February, 2018, the management failed to sign a GSA with SNGPL and continued supply of off-spec gas. Hence, during the period from August, 2019 to September, 2020, OGDCL allowed a discount of Rs 1,133.947 million to SNGPL on supply of gas. Moreover, the Khyber Pakhtunkhwa Government could not receive royalty amounting to Rs 141.743 million (Rs 1,133.947 @ 12.5%) due to sale of gas at lower price. This resulted in a loss of Rs 1,275.69 million (Rs 1,133.947 million + Rs 141.743 million).

Audit is of the view that negligence by the management resulted in a loss of Rs 1,275.69 million on account of sale of off-spec gas and royalty.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 28, 2020 stated that due to annual turnaround of Nashpa plant, off-spec gas was delivered to M/s SNGPL during the months of September, October and November, 2019. The reply is not tenable as the ATA was planned only for 3 months whereas the off-spec gas was being supplied till time of audit.

In DAC meeting held on December 31, 2020 management explained that no discount was applicable after the complete operation of Nashpa LPG Plant. DAC directed the management to get the stated stance verified from Audit within ten days. No further progress was reported till finalization of this report.

Audit recommends to finalize GSA with SNGP to avoid the recurring loss in shape of discount.

[DP No. 1158]

2.2.6.16 Irregular extension in directional / performance drilling contract – Rs 1,102.663 million

According to the contract between OGDCL and M/s Cougar Drilling Solutions Global DMCC (Pakistan) dated January 08, 2019, the duration of the contract was 1 year w.e.f. December 01. 2018.

During audit of OGDCL for the FY 2019-20, it was observed that the management hired directional/performance drilling services from M/s Cougar Drilling Solutions Global DMCC (Pakistan) under rate running contract for an estimated cost of US\$ 7.372 million. The duration of the contract was one year

w.e.f December 01, 2018. The contract expired on November 30, 2019 but the management continued taking services from the contractor. The management made first amendment in the contract on June 23, 2020 i.e., almost 7 months after expiry of the original contract, and enhanced the contract amount by US\$ 6.891 million (almost 93% of the original contract amount) and period till September 15, 2020. This resulted in irregular extension in expired contract to the tune of Rs 1,102.663 million (US\$ 6.891 million @ Rs 160).

Audit is of the view that poor contract management resulted in irregular extension in the contract for Rs 1,102.663 million.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 28, 2020 stated that the ex post facto approval for extensions of the contract was granted by the MD/CEO who was the competent authority in such cases. The reply is not tenable as the contract was extended after the expiry of the contract; hence, a new agreement was required to be signed.

The DAC in its meeting held on December 31, 2020 directed the management to seek clarification from Law Division and share it with Audit.

Audit recommends to implement the decision of DAC.

[DP No. 1135]

2.2.6.17 Loss due to standby rig – Rs 415.642 million

According to Rule 5(5) of the Corporate Governance Rules 2013, 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. According to Rule 5(5)(a) of *ibid*, 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.

During audit of OGDCL for the FY 2019-20, it was observed that the management released Rig N-6 from Nashpa-9 on July 23, 2019 and assigned it to Wali block. The civil work for deployment of the rig at Wali block, however,

was under process and did not complete until December 01, 2019. Instead of deploying the rig at some other site, the rig was kept idle for 131 days. This resulted in loss of Rs 415.643 million i.e., Rs 352 million for rig idle days (131 days x US\$ 16,000 per day x Rs 168) and Rs 62.643 million on HR attached to the rig.

Audit is of the view that poor planning by the management in deployment of rig resulted in loss of Rs 415.643 million.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 28, 2020 stated that the Wali well no. 1 was marked on September 15, 2019 and civil work was completed on October 14, 2019. However, due to law-and-order situation, the shifting of rig could only start on October 31, 2019. The reply is not tenable as the management released the rig on July 23, 2019 and remained idle due to non-completion of civil work.

The DAC in its meeting held on December 31, 2020 directed the management to justify the delay in deployment of rig along with documentary evidence.

Audit recommends to implement the decision of DAC besides fixing responsibility for the loss.

[DP No. 1027]

2.2.6.18 Loss due to non-imposition of LD charges – Rs 371.981 million

According to Clause 25.2 of the contract between OGDCL and M/s Shandong Kerui Petroleum Equipment Co. Ltd, if contractor fails to deliver any or all of the goods within the time period (s) specified in the contract, OGDCL shall without prejudice to other remedies under the contract, deduct from the contract price/Bank Guarantee as liquidated damages, a sum not more than 0.5% of the contract price per week or part thereof for first four weeks. 1.00% per week for next four weeks and 1.5% per week exceeding four weeks up to maximum extent of 5% of the contract.

During audit of OGDCL for the FY 2019-20, it was observed that the

management awarded contract for supply/installation of miscellaneous equipment and foundation of plant building at KPD-TAY to M/s Shandong Kerui Petroleum Equipment Co. Ltd, China on June 26, 2015. The total amount of the contract was US\$ 44.817 million and the date of completion was February 28, 2016. However, the management granted an extension on October 04, 2016 for up to seven and half month i.e., up to October 15, 2016 without imposition of LD charges in violation of above-mentioned clause. This resulted in a loss of Rs 371.981 million (5% of US\$ 44.817 million @ Rs 166).

Audit is of the view that poor financial management resulted in loss of Rs 371.981 million due to non-imposition of LD charges.

The matter was reported to the PAO / management in December, 2020.

In DAC meeting held on December 31, 2020, the management explained that it was addressing the issue of applicability of LD and counter claim of contractor. The outcome would be shared with Audit. DAC directed the management to expedite the matter and share the outcome with Audit.

Audit recommends to recover LD charges from the contractor besides improving financial management.

[DP No. 1150]

2.2.6.19 Non-deposit of withholding tax – Rs 200.521 million

According to Section 165 (2) of Income Tax Ordinance, 2001, as amended by Finance Act, 2011, every prescribed person collecting tax or deducting tax from payment shall furnish or e-file statement by the 15th day of the month following the month to which the withholding tax pertains.

During audit of OGDCL for the FY 2019-20, it was observed that management entered into a contract with M/s Jinzhou New JCM Machinery Manufacturer Co. Ltd on November 06, 2013 for US\$ 35.151 million. As a withholding agent, the management of OGDCL withheld an amount of US\$ 2.005 million i.e. 12.5% of the contract price. OGDCL was bound to deposit the withheld tax into the government treasury within 7 days of withholding the tax

amount. However, despite lapse of more than 3 years since the completion of the contract, the management failed to deposit the tax amount of Rs 200.521 million (US\$ 2.005 @ Rs 100).

Audit is of the view that poor financial management resulted in non-deposit of withholding tax amounting to Rs 200.521 million in government treasury.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 28, 2020 stated that the matter was sub-judice. The reply is not tenable as the management was required to deposit withholding tax in 2016 whereas the contractor filed suit in the court in 2018. Further, the management should have withheld / deposited tax against the payments made to the contractor from time to time.

In DAC meeting held on December 31, 2020, the management explained that 15 % of amount payable to the contractor was available with OGDCL. Further, the matter was sub-judice. DAC directed the management to provide the details of payment made and ensure deduction of withholding tax after the court decision.

Audit recommends to implement the decision of DAC besides providing evidence of tax withheld / deposited till date.

[DP No. 1025]

2.2.6.20 Irregular award of contract due to delay in finalization of tender – Rs 188.384 million

According to Rule 12(1) of PPRA 2004, procurements over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time.

During audit of OGDCL for the FY 2019-20, it was observed that the management issued an LOI to M/s Interman Trading FZE on July 16, 2014 for supply of equipment for US\$ 2.814 million. However, on November 12, 2014, Manager KPD-TAY informed that M/s Interman and its local agent M.K. International had been blacklisted by PPRA and the same was indicated on PPRA website as well. However, instead of cancelling LOI instantly and

awarding the contract to the second lowest bidder, the MD granted approval to award the work to M/s Shandong, the EPCC contractor for KPD-TAY in August 2015 for US\$ 1.856 million without tendering. Hence, delay in finalization of tender resulted in irregular award of work for Rs 188.384 million (US\$ 1.856 @ Rs 101.5).

Audit is of the view that weak procurement management led to delay in finalization of tender which resulted in irregular award of contract amounting to Rs 188.384 million.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated December 28, 2020, stated that SSGC blacklisted this company on November 10, 2014 and LOI was issued on July 16, 2014. Due to urgent requirement of the equipment, the OGDCL management decided to award work to EPCC contractor. The reply is not tenable as the contract should have been awarded to the second lowest bidder or after fresh tendering.

The DAC in its meeting held on December 31, 2020 directed the management to place the matter before the BoD in the light of audit observation.

Audit recommends to implement the decision of DAC.

[DP No. 1157]

2.2.6.21 Non-execution of rigs inspection since 2004

According to American Petroleum Institute standards, a detailed Cat-IV inspection of rig mast and substructure (which can be termed as chassis of the rig) is required after every 10 years or 3650 days of rig operation.

During audit of OGDCL for the FY 2019-20, it was observed that the management failed to carryout inspection of its rigs during the last 16 years. According to the inspection carried out in 2004, the rigs were in poor condition and were being maintained through makeshift arrangements. Similar issues were highlighted by an earlier inspection carried out in 2000. The report stated that there was “impressive lack of spare parts to maintain the equipment at an

acceptable functioning level”. This meant that there were persistent issues with the rigs. Consequently, the rigs were being run on makeshift arrangements and were in the danger of breaking down. Further, the company did not have any SoPs regarding rig maintenance.

Audit is of the view that the poor asset management resulted in poor maintenance of rigs which could affect profitability of the company.

The matter was reported to the PAO / management in November, 2020

In DAC meeting held on January 29, 2021, the management explained that inspection of rigs could not be carried out due to prevailing security situation. However, in the light of newly developed SOPs, rigs inspection would commence in February, 2021. DAC directed the management to share the SOPs with Audit. DAC further directed the management to probe the matter and fix responsibility for delay / not inspection.

Audit recommends to implement the decision of DAC.

[DP No. 1398]

2.3 Pakistan Petroleum Limited

2.3.1 Introduction

Pakistan Petroleum Limited (PPL) is one of the oldest exploration and production (E&P) companies in the country. The company was incorporated on June 05, 1950 after the promulgation of Pakistan Petroleum Production Rules, 1949. The principal activities of the company are exploration, development and production of Pakistan's natural reserves of oil and gas.

PPL is the second largest exploration and production company in Pakistan in terms of both production and reserves. PPL contributes around 26% of the country's total natural gas production besides producing crude oil/ Natural Gas Liquids (NGL) and Liquefied Petroleum Gas (LPG). Currently, the company's shareholding is divided between the Government, which owns about 68 percent shares of the company whereas PPL Employees Empowerment Trust has approximately 7 percent and private investor should nearly 25 percent shares. The company is also listed on Pakistan Stock Exchange.

2.3.2 Comments on Audited Accounts

The working results of the company for the financial year 2019-20 as compared to previous years are given below:

(Rs in million)

Heads	2019-20	% Inc/(Dec)	2018-19	% Inc/(Dec)	2017-18
Sales	157,999.49	(3.87)	164,366.02	29.81	126,621.24
Field Expenditure & Royalties	66,923.34	3.28	64,800.78	23.85	52,320.37
Operating Profit	91,076.15	(8.53)	99,565.24	34	74,300.86
Total Other Operating Expenses	5,865.95	(18.11)	7,163.60	33.36	5,371.62
Other Income	6,582.58	(58.02)	15,679.12	66.85	9,396.86
Profit before Taxation	69,642.61	(10.53)	77,836.78	22.35	63,618.93
Taxation	20,217.98	10.02	18,377.39	3.28	17,793.14
Profit after Taxation	49,424.63	(16.88)	59,459.39	29.75	45,825.78

- i. Sales revenue decreased to Rs 157,999.49 million during the year 2019-20 as compared to Rs 164,366.02 million in the previous year, registering a decrease of 3.87%. Reasons for decrease of Sales revenue may be elucidated with supporting documents.
- ii. Administrative expenses increased from Rs 2,405.425 million to Rs 3,086.077 million during the financial year 2019-20 as compared to previous year, registering an increase of 28.30%, although during COVID-19 pandemic, offices and other field activities were either suspended or continued at minimum level.
- iii. Finance cost increased from Rs 777.372 million to Rs 1,112.584 million during the financial year 2019-20 as compared to previous year, registering an increase by 43.13% which requires justification.
- iv. Operating profit decreased by 18.11% from Rs 99,565.24 million in 2018-19 to Rs 91,076.15 million during the year 2019-20. Efforts are required to be made to increase profitability of the company.
- v. Trade debts increased from Rs 227,382.001 million in 2018-19 (re-stated in annual account 2020 as Rs 227,630.133 million) to Rs 312,444.486 million during the year 2019-20, registering an increase of 37.41%. Increase in trade debts indicates unsatisfactory position with regard to recovery of outstanding dues. Necessary measures may be adopted to effect recovery of outstanding dues expeditiously.
- vi. Debtors turnover (days) reflected adverse position of 556 days in 2019-20 compared to 327 days in 2018-19 (re-stated as 402 days in annual accounts 2020). This was an unusual increase reflecting 229 days (70.03%) increase over the previous year. There was an overall increase of 393 days over the period of last five years. Concrete efforts might be made to improve debtor turnover ratio.
- vii. Crude oil transportation cost increased by 29.6% from Rs 913.234 million in the year 2018-19 to Rs 1,183.638 million during the year 2019-20 despite reduction in production of crude oil / NGL / condensate (PPL's share) by 12.37% from 5,868 thousand barrels in 2018-19 to

5,142 thousand barrels during the year 2019-20 and decrease in sales by 21.130% from Rs 50,822.737 million in the year 2018-19 to Rs 40,083.837 million during the year 2019-20. This needs to be clarified.

2.3.3 Classified Summary of Audit Observations

Audit observations amounting to Rs 338,168.213 million were raised in this report during the current audit of Pakistan Petroleum Limited. This amount also includes recoveries of Rs 284,607.800 million as pointed out by the Audit. Summary of the audit observations classified by nature is as follows:

2.3.4 Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Receivables management	284,531.000
B	Procurement related irregularities	7,940.351
C	Corporate Social Responsibility	1,267.072
D	Joint Venture	811.324
E	HR / Employees related irregularities	79.199
2	Others	43,539.267

2.3.5 Compliance of PAC Directives

Audit Year	Total directives	Compliance reported	Compliance awaited	%age of compliance
2009-10	2	2	-	100
2010-11	11	9	2	82
2011-12	7	7	-	100
2012-13	5	5	-	100
2013-14	10	6	4	60
2014-15	26	12	14	46
2015-16	14	6	08	43
2016-17	10	4	6	40
2018-19	02	0	02	-
2019-20	01	0	01	-
Total	88	51	37	58

The overall compliance of PAC directives needs to be improved further.

2.3.6 Audit Paras

Receivables management

2.3.6.1 Non-recovery of outstanding default amount - Rs 284,531 million

According to Clause 17.3.1 of GSA between PPL and SSGCL/SNGPL & Refineries and Clause 16.3.1 of GSA between PPL and GENCO, the buyer shall pay seller's monthly invoices within thirty days of receipt of monthly invoice and excise duties and sales tax, within ten days and fifteen days respectively. Further, according to Clause 17.3.3 of the GSAs ibid, in case of delay, late payment surcharge is to be calculated at the rate of six month's Pakistan Treasury Bill.

During audit of PPL for the FY 2019-20, it was observed that an amount of Rs 284,531 million was receivable from SNGPL, SSGC, GENCO-II, OGDCL, refineries etc. as on June 30, 2020. The delay in payment ranged from 2 years and above. Further, the management was also required to recover LPS on delayed payment under the relevant clauses of Gas Sale Agreements.

(Rs in million)

Sr. No.	Customer	Overdue			Total
		Over 2 years	1 to 2 years	Within 1 year	
1	GENCO-II	6,846	19,064	20,332	46,242
2	SSGC	28,928	20,772	41,217	90,917
3	SNGPL	41,803	47,005	51,266	140,074
4	OGDCL	0	0	40	40
5	ARL	895	161	3,507	4,563
6	PRL	0	0	849	849
7	NRL	11	78	308	397
8	PARCO	0	0	81	81
9	Others	0	0	212	212
10	Byco	1156	0	0	1,156
	Total	79,639	87,080	117,812	284,531

Audit is of the view that weak receivables management resulted in non-recovery of outstanding amount of Rs 284,531 million.

The matter was reported to the PAO / management in October, 2020.

In DAC meeting held on January 11, 2021, the management explained that partial amount had been recovered. DAC directed the management to get the recovered amount verified from Audit within two days and expedite the recovery of remaining amount.

In verification dated January 19, 2021, Audit verified recovery of Rs 13,097 million thus leaving an outstanding balance of Rs 271,434 million. No further progress was reported till finalization of this report.

Audit recommends to recover the outstanding amount at the earliest.

[DP Nos. 990, 991, 992 & 993]

Procurement related irregularities

2.3.6.2 Blockage of funds due to unnecessary purchase of inventory - Rs 4,860 million

As per Clause 7 of Procurement Manual of PPL, the procurement department maintains a stock level of optimum inventory of material at the location store for smooth operation activities.

During audit of PPL for FY 2019-20, it was observed that store / inventory increased from Rs 9,100 million in 2012-13 to Rs 21,700 million as on June 30, 2020. Further, it was revealed that the unreserved inventory of Rs 4,860 million pertaining to drilling material and well completion only was available in the stores. Management had procured such huge inventory without carrying out any assessment because this inventory was not purchased against any project. A team was constituted to determine which material could be written off by June 30, 2020. However, the report was not provided to Audit. Hence, unnecessary purchase of inventory resulted in blockage of funds amounting to Rs 4,860 million.

Audit is of the view that poor inventory controls resulted in unnecessary purchase of inventory and subsequent blockage of funds amounting to Rs 4,860 million.

The matter was reported to the PAO / management in October, 2020. The management in its reply dated December 24, 2020 stated that all procurement was made on need assessment basis. Audit required report of the team which was constituted to segregate the material.

The DAC in its meeting held on January 11, 2021 directed the management to provide ageing on the basis of date of purchase along with annual budget, procurement plan and consumption for last ten years.

Audit recommends to implement the decision of DAC.

[DP No. 980]

2.3.6.3 Irregular procurement without open competitive bidding - Rs 2,729.19 million

According to Rule 4 of PP Rules, 2004, procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of PPL for the FY 2019-20, it was observed that the management awarded an EPCC contract to M/s SPEC Energy for gas processing plant Gambat South field on April 9, 2016 with completion date of October 5, 2017. The contract was terminated on May 5, 2019 due to failure of contractor to complete the work. Subsequently, the management invited bids from 15 firms by invoking Rule 42(d)(iii) of PP Rules. The contract was bifurcated and awarded to M/s Petreco International (Middle East) Limited and M/s Dowell Schlumberger which were not included in the list of vendors from whom bids were invited. This resulted in irregular award of contracts for Rs 2,729.19 million.

Audit is of the view that poor procurement management resulted in irregular award of contracts for Rs 2,729.19 million.

The matter was reported to PAO / management in September, 2020. The management in its reply dated December 24, 2020 stated that due to termination

of EPCC contract with M/s Spec Energy, the management awarded work to the contractors under Rule 42 of PP Rules after negotiation. The reply is not tenable as the contracts were awarded to firms which were not included in the vendor list.

The DAC in its meeting held on January 11, 2021 directed the management to refer the case to PPRA for clarification that whether contract could be awarded to a vendor which was not part of bidding process.

Audit recommends to implement the decision of DAC.

[DP Nos. 984 & 986]

2.3.6.4 Irregular award of contracts to 2nd lowest bidders -Rs 244.338 million

According to Rule 4 of PP Rules, 2004, procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of PPL for the FY 2019-20, it was observed that the management made call out agreement with M/s Askari Guard Pvt. Ltd. (2nd lowest bidder) for provision of security for various PPL locations. The contract was awarded for a period of 3 years w.e.f October 01, 2017 at a cost of Rs 232.692 million on September 16, 2017. Similarly, the management awarded contract for courier services to M/s Halliburton Worldwide Ltd. the 2nd lowest bidder with the financial offer of Rs 11.646 million (US\$ 114,630 @ Rs 101.60) through a Call-Out Agreement on May 01, 2015. The contracts were awarded to 2nd lowest bidders after termination of contracts with the lowest bidders which was violation of PP Rules. This resulted in irregular award of contracts of Rs 244.338 million.

Audit is of the view that poor procurement management resulted in violation of PPRA Rules which led to irregular award of contract amounting to Rs 244.338 million.

The matter was reported to the PAO / management on October 14, 2020. The management in its reply dated October 21, 2020 stated that in both the cases the contracts were terminated on the request of lowest bidders which were, later on, awarded to the 2nd lowest bidders. The reply is not tenable because after termination of contracts, the management was required to award contract after fresh tendering under PP Rules.

The DAC in its meetings held on January 11 & 29, 2021 directed the management to seek clarification from PPRA regarding back up contracts in the light of audit observation. DAC further directed the management to provide terms and condition of ITB and back-up agreements along with encashment of performance guarantee from 1st contractor.

Audit recommends to implement the decision of DAC besides improving procurement management to avoid recurrence in future.

[DP Nos. 958 & 1227]

2.3.6.5 Irregular hiring of charter flights in violation of PPRA Rules – Rs 106.823 million

According to Rule 12 of Public Procurement Regulatory Authority Rules, 2004, all procurement opportunity over two million should be advertised on the Authority's website as well as in other print media or newspaper having wide circulation. The advertisement in the newspaper shall principally appear in at least two national dailies, one in English and other in Urdu. As per Rule 42 of *ibid*, a procuring agency shall only engage in direct contracting if only one manufacturer or supplier exists for the required procurement.

During audit of PPL for the FY 2019-20, it was observed that due to suspension of PIA commercial flights, the management hired services of M/s Aircraft Sales and Service Ltd. for movement of its staff. The management de-hired the services in March, 2016 after a belly landing incident. However, the management hired the services of M/s Eagle (Pvt.) Ltd. without open competition and any formal agreement. Further, approval for each trip was obtained separately from MD. The management booked 68 charter flights against payments of Rs 106.823 million from January, 2017 to July, 2018. This

resulted in irregular expenditure of Rs 106.823 million in violation of PPRA rules.

Audit is of the view that poor procurement management resulted in violation of PP Rules, hence, hiring of charter flights and payment of Rs 106.823 million was considered irregular.

The matter was reported to the PAO / management on October 14, 2020. The management in its reply dated October 21, 2020 stated that no contractual agreement was in place between PPL and Air Eagle and approval for every flight was sought from MD.

The DAC in its meeting held on January 11, 2021 directed the management to probe the matter for violation of PP Rules and place the findings before the BoD. No Further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 957]

Corporate Social Responsibility

2.3.6.6 Non-payment of outstanding obligation and non-observance of rules - Rs 1,240 million

DG (PC) vide letter No. Expl-8(4)(PPL-Kandhkot Additional)/2016 dated December 06, 2016, granted five years renewal of Kandhkot Additional lease to PPL and directed to execute renewal deed for incorporation of various financial obligations such as Production Bonus, Social Welfare, Rent and Training with effect from January 01, 2011 and payment and clearance thereof.

During audit of PPL for the FY 2019-20, it was observed that PPL obtained additional mining lease of Kandhkot block under Pakistan Petroleum (Production) Rules, 1949 for a period of 20 years w.e.f. January 24, 1981. Before expiry of lease, PPL applied for renewal of mining lease on December 30, 1999, but instead of renewal, DG (PC) directed PPL to apply for new lease under Pakistan Petroleum (E&P) Rules, 1986. Subsequently, DG (PC) granted D&P

lease on the said area for an initial term of five years with effect from January 24, 2001. On January 15, 2010, PPL applied for second five years renewal of lease which was granted by DG (PC) on April 10, 2012 subject to payment of financial obligations such as Production Bonus, Social Welfare, Rent and Training Fund in accordance with Pakistan Petroleum (E&P) Rules, 2001. However, the management failed to pay/clear the outstanding financial obligations despite lapse of ten years after the conditional renewal of lease. Hence, non-observance of rules resulted in non-payment of Rs 1,240 million on account of Production Bonus, lease rent, Training and Social Welfare Obligation.

Audit is of view that PPL's weak internal controls as well as weak regulatory oversight by DG (PC) resulted in non-payment of Rs 1,240 million.

The matter was reported to PAO / management on October, 15, 2020. The management in its reply dated October 21, 2020 stated that it had taken up the matter with the Regulator and made payment of Rs 431.929 million on account of Production Bonus and Social Welfare Obligation.

The DAC in its meeting held on January 11, 2021 directed the Petroleum Division (DG PC) to explain the rationale of changing the regime and calculations for the fiscal obligations.

Audit recommends to implement the decision of DAC.

[DP No. 965]

2.3.6.7 Non-observance of PCA obligations - Rs 27.072 million

According to Article 17 of PCA, the unspent training amount during a year, unless agreed otherwise, shall be deposited into a special account maintained for the purpose by the DG (PC).

During Audit of PPL for the FY 2019-20, it was observed that against total training obligation of Rs 80.309 million, the management utilized Rs 53.237 million during the year, leaving a balance of Rs 27.072 million. As per above mentioned rule, the unspent amount of training fund was required to

be deposited in the special account maintained for the purpose which was not done by the management. Thus the management failed to fulfil obligation under respective PCA.

Audit is of the view that weak internal controls resulted in non-observance of PCA obligations amounting to Rs 27.072 million

The matter was reported to the management in November, 2020. The management in its reply dated January 29, 2021 stated that there was an agreement between DG (PC) and PEPPCA for carrying forward of unspent training obligation to future years for its utilization.

The DAC in its meeting dated January 29, 2021 directed the management to pursue the case with DG (PC).

Audit recommends to implement the decision of DAC.

[DP No. 1194]

Joint Venture

2.3.6.8 Unjustified charging of indirect cost by MOL - Rs 811.324 million

Indirect charges as specified in Clause 3 of the accounting procedure read with Article-II (2) are those charges that the operator will incur certain expenses in the performance and discharge of its functions and duties. Such expenses relate to legal, treasury, tax (other than corporate income tax) employee relations, and all operating departments' having a general action in the operations of joint operations. The carrying out of such functions shall be compensated as a whole by overhead charges according to the percentages.

During audit of PPL for the FY 2018-19, it was observed that PPL was JV partner in TAL Block with MOL, OGDCL, GHPL and POL. MOL, being JV operator, claimed indirect charges of Rs 811.324 million (US\$ 7.654 million) for the period from 2015 to 2018 relating to its head office at Hungary. However, detailed working for charging the indirect charges was not provided by MOL while lodging the said claims. Hence, charging of extraordinary overheads in

addition to MOL's local office expenses which were already being paid by the JV partners was unjustified.

Audit is of the view that defective financial management by PPL resulted in unjustified charging of indirect cost by the JV operator amounting to Rs 811.324 million.

The matter was reported to the PAO / management in October, 2020. In reply the management explained that all PCAs including TAL allowed for cost charging. All indirect charges claimed by MOL during the said period were in line with the defined PCA mechanism and duly approved by all TAL JV partners.

The DAC in its meeting held on January 11, 2021 directed the management to seek clarification from Petroleum Division (DG PC) regarding the extent of foreign head office expenses and its impact on royalty. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 952]

HR / Employee related irregularities

2.3.6.9 Unjustified payment of salaries to OSD Officers - Rs 79.199 million

As per Clause 5 of the PPL Whistle Blowing Policy, the company encourages openness and will support any who raises genuine concerns in good faith under the policy even if they turn out to be mistaken. In the unlikely event that the identity of the complainant becomes known to his / her department, the Company would insurance that the complainant is not subject to any form of detrimental treatment, such treatment includes dismissal, disciplinary action, threats or other discriminatory actions connected with raising a complaint. Any manager or employee found to have so violated this policy, by causing or aiming to cause any unfavourable action against the complaint will be subject to disciplinary action in accordance of the guidelines issued by Board Audit Committee (BAC).

During audit of PPL for the FY 2019-20, it was observed that 05 employees of the company were posted as OSD on December 13, 2019 due to initiating malicious campaign against the senior management of the company, BoD, MoE and GoP by submitting false information to the Prime Minister and circulating the same on social media. These officers obtained stay orders from the Sindh High Court, however, the management could not get the stays vacated. All the officers were being paid their regular pay/allowances and other benefits without performing any duty till the close of audit. Resultantly, the said officers received an amount of Rs 79.199 million from December 19, 2019 to October 15, 2020 as pay / allowances and other additional benefits without performing any duty.

Audit is of the view that undue favour was granted to the officers in investigation of allegations against them which resulted in unjustified payment of salaries amounting to Rs 79.199 million.

The matter was reported to the PAO / management in October, 2020. In reply the management explained that as per directive of PPL Board, forensic audit was conducted; charge sheets were issued to all the accused and disciplinary proceedings were initiated to probe into the charges levelled against them. However, the accused filed suits in Sindh High Court which granted stay order to them. Case was being pursued to get the stay orders vacated. The next date of hearing was 14th January 2021.

The DAC in its meeting held on January 11, 2021 directed the management to pursue the court cases vigorously.

Audit recommends to implement the decision of DAC.

[DP No. 955]

Others

2.3.6.10 Illegal sale of gas without executing Gas Sale Agreement - Rs 31,492.264 million

Under Section 9.4(1) of Petroleum Exploration & Production Policy 2012, E&P companies operating in Pakistan will be allowed to contract with gas transmission and distribution companies and third parties, other than residential

and commercial consumers for the sale of their share of gas in Pakistan at negotiated prices in accordance with the applicable laws, rules and regulations.

During audit of PPL for the FY-2019-20, it was observed that the management sold 45,665,304 MMBTU gas valuing Rs 31,492.264 million to SSGC during March 2015 to June 2020 without executing any Gas Sale Agreement between the parties.

Audit is of the view that in absence of the Gas Sale Agreement, the entire sale of gas to SSGC amounting to Rs 31,492.264 million was irregular and unjustified.

The irregularity was pointed out to management in September, 2020. The management in its reply on September 30, 2020 stated that the initial agreement with SSGC had been forwarded to OGRA for approval.

The DAC in its meeting held on January 11, 2021 directed the Petroleum Division to devise effective mechanism for finalization of outstanding issue. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 987]

2.3.6.11 Loss of potential revenue due to less off take by GENCO-II – Rs 11,529.542 million

As per Clause 6.2 of the Gas Sales / Purchase Agreement dated October 23, 2017, annual contract quantity for the 1st twelve months period shall be 69,000 MMSCF and 73,000 MMSCF for next 3 years twelve months period each, provided however, that the rate of annual committed quantity after first three twelve months period for the remaining period will be reviewed and decided by the parties with the mutual consent keeping in view the Kandkot Gas field reserves behaviour study.

During audit of PPL for the FY 2019-20, it was observed that PPL was producing and supplying less quantity of gas to GENCO-II from Khandhkot than the quantity allocated by DG (Gas) due to less off-take by GENCO-II. PPL had

potential to enhance production but due to capacity constraint of GENCO-II, it only produced gas at the level matching the GENCO-II capacity. However, PPL could not get gas re-allocated by DG (Gas), although M/s Engro had showed its intention to buy the surplus gas. This resulted in loss of potential revenue of Rs 11,529.542 million from 2017 till October 08, 2020. Further, GENCO-II had also stopped the payment to PPL on the plea of force majeure.

Audit is of the view that improper pursuance for re-allocation of gas with the concerned quarter resulted in loss of Rs 11,529.542 million.

The matter was reported to the PAO / management on October 12, 2020. The management in its reply dated December 24, 2020 stated that the matter was being pursued at different fora.

The DAC in its meeting held on January 11, 2021 directed the management to take up the matter with Petroleum Division for early resolution of the issue.

Audit recommends Petroleum Division to allocate the surplus gas to willing buyers to avoid loss to PPL and to bring more gas into the system.

[DP No. 979]

2.3.6.12 Illegal sale of gas without executing Gas Sale Agreement - Rs 440.661 million

According to Section 9.4(1) of Petroleum Exploration and Production Policy, 2012, E&P companies operating in Pakistan will be allowed to contract with gas transmission and distribution companies and third parties, other than residential and commercial consumers for the sale of their share of gas in Pakistan at negotiated prices in accordance with the applicable laws, rules and regulations.

During audit of PPL for the FY 2019-20, it was observed that the management sold 744,432 MMBTU of gas to EGAS Pvt. Ltd. during October, 2017 to December, 2019 from its Gambat South field. However, the gas was sold without executing Gas Sale Agreement with the buyer. This resulted in illegal

sale of gas worth Rs 440.661 million.

Audit is of the view that weak internal controls resulted in illegal sale of gas of Rs 440.661 million without GSA.

The matter was reported to PAO / management in September, 2020. The management in its reply September 30, 2020 provided a copy of GSA with EGAS, but without any date of execution.

The DAC in its meeting held on January 11, 2021 directed the management to probe the matter and fix responsibility within one month.

Audit recommends to implement the decision of DAC.

[DP No. 988]

2.3.6.13 Non-settlement of outstanding insurance claims – Rs 76.80 million

According to Section 118(I) of the Insurance Ordinance, 2000 “it shall be implied term of every contract of Insurance that where payment on a policy issued by an insurer becomes due and the person entitled thereto has complied with all the requirements including the filing of complete papers, for claiming the payment, the Insurer shall, if he fails to make the payment within a period of ninety days from the date on which the payment becomes due or the date on which the claimant complies with the requirements, whichever is later, pay as liquidated damages.”

During audit of PPL for the year 2019-20, it was observed that certain damages occurred the equipment and installations at PPL fields. These damaged assets were insured with National Insurance Company Limited. Consequently, the management submitted loss claims amounting to Rs 76.80 million to NICL. However, despite lapse of considerable period of time, the insurance claim cases could not be settled.

Audit is of the view that weak follow up by the management resulted in non-settlement of insurance claims amounting to Rs 76.80 million.

The matter was reported to the management in November, 2020. The management in its reply dated January 27, 2021 stated that all required documents had been submitted to NICL for issuance of final settlement.

The DAC in its meeting dated January 29, 2021 directed the management to pursue the case with NICL for early settlement.

Audit recommends to implement the decision of DAC.

[DP No. 1226]

2.4 Pakistan State Oil Company Limited

2.4.1 Introduction

Pakistan State Oil Company Limited (PSO) is a public limited company incorporated under the Companies Ordinance, 1984 (now Companies Act, 2017) and is listed on Pakistan Stock Exchange. The principal activities of the company are procurement, storage, and marketing of petroleum products. It also blends and markets various kinds of lubricating oils.

2.4.2 Comments on Audited Accounts

The working results of the Company for the FY 2019-20 as compared with those of the previous years are given below:

(Rs in million)

Particulars	2019-20	% Inc/ (Dec)	2018-19	% Inc/ (Dec)	2017-18
Net Sales	1,121,16	(5.43)	1,185,48	11.44	1,063,744
Cost of Products Sold	1,114,24	(3.33)	1,152,67	12.55	1,024,107
Gross Profit/(Loss)	6,919	(78.91)	32,809	(17.22)	39,636
Marketing & Admin. Expenses	15,453	16.06	13,315	11.62	11,928
Other Expenses	88	(98.12)	4,683	40.46	3,334
Total Operating Expenses	15,541	(13.65)	17,998	17.92	15,263
Other Operating Income	10,385	(38.63)	16,922	125.72	7,497
Total Operating Profit/(Loss)	1,763	(94.44)	31,733	(0.43)	31,870
Financial Charges	15,393	54.63	9,955	94.32	5,123
Profit/(Loss) before share of associate	(13,083)	(39.93)	21,778	(18.58)	26,747
Share of Profit of associates	546	174.37	199	(51.82)	413
Profit/(Loss) before Taxation	(13,083)	(140.47)	21,977	(19.08)	27,160
Taxation	1,679	(75.56)	6,870	(41.28)	11,699
Profit/(Loss) after Taxation	(14,762)	(102.28)	15,107	(2.30)	15,461
Market Share	44.3%	4.48	42.4%	-	50%

(Source: Annual Audited Accounts)

- i. The net sales decreased from Rs 1,185,484 million during the FY 2018-19 to Rs 1,121,161 million during the FY 2019-20, registering decrease of 5.43%. Whereas, gross profit decreased by 78.9% and net profit by 102%. This needs justification. Moreover, the marketing & admin expenses increased by 16.06% in the FY 2019-20 as compared to previous year. Increase in marketing & administration expenses despite decrease in volume of sales which needs to be justified.
- ii. Finance cost increased to Rs 15,393 million during FY 2019-20 from Rs 9,955 million during FY 2018-19 registering an increase of 54.63 %. This shows that company relied on borrowed funds instead of improving recovery of receivables which were Rs 197,777 million on June 30, 2020. There is need to improve the recovery mechanism to eliminate reliance on borrowed funds.
- iii. Due to above, total operating profit dropped by Rs 1,763 million i.e. 94.44% in 2019-20 as compared to previous year Rs 31,733 million in 2018-19 which showed that company failed to control expenses which needs justification.
- iv. Moreover, profit for year 2018-19 of Rs 15,106,933 million was converted in loss of Rs 14,762,484 million for the year 2019-20 which showed that management failed to safeguard interest of the company. This needs justification.

2.4.3 Classified Summary of Audit Observations

Audit observations amounting to Rs 112,381.474 million were raised in this report during the current audit of PSO. This amount also includes recoveries of Rs 110,589.124 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

2.4.4 Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Receivables management	108,727.374
B	Procurement related irregularities	3,654.100
2	Others	-

2.4.5 Compliance of PAC Directives

Audit Year	No. of Directives	Compliance reported	Compliance not received	%age of compliance
1989-89	5	2	3	40
1993-94	7	4	3	57
1995-96	7	2	5	29
1996-97	6	5	1	83
1998-99	4	3	1	75
1999-00	7	5	2	71
2000-01	14	13	1	93
2002-03	6	3	3	50
2003-04	11	9	2	82
2004-05	8	6	2	75
2008-09	4	2	2	50
2009-10	1	0	1	-
2010-11	16	9	7	56
2013-14	20	5	15	25
2014-15	11	01	10	9
2016-17	19	9	10	47
2018-19	02	01	1	
Total	149	79	70	53

The overall compliance of PAC directives needs to be improved.

2.4.6 Audit Paras

Receivables management

2.4.6.1 Non-recovery of outstanding amount from buyers - Rs 186,241.309 million

As per terms of agreements executed between PSO and bulk buyers of petroleum products, buyers are liable to clear invoices within the prescribed

period and in the case of failure of making payment LPS will also be imposed at the rate of KIBOR plus 2% to 4%.

During audit of PSO for the FY 2019-20, it was observed that the management failed to recover receivables amounting to Rs 186,241.309 million from various defaulting customers like, PIA, GENCO, SNGPL, HUBCO, Pakistan Railways, Army, retail outlets and industrial units etc. over the years.

Audit is of the view that poor receivables management resulted in non-recovery of outstanding amount of Rs 186,241.309 million.

The matter was reported to the PAO / management on December 11, 2020.

In DAC meeting held on January 12, 2021, the management explained that out of Rs 186,241.309 million, Rs 80,012.794 million had been recovered while remaining amount of Rs 106,228.515 million was under recovery. An amount of Rs 80,012.794 million had been verified by Audit. DAC settled the para to the extent of amount recovered and verified. DAC further directed the management to pursue the matter with the Cabinet Committee on circular debt for recovery of balance amount of Rs 106,228.515 million.

Audit recommends to implement the decision of DAC.

[DP Nos. 882, 886, 1139, 1141, 1142, 1143 & 1147]

2.4.6.2 Non-settlement of IFEM claims of PSO – Rs 2,437 million

As per PSO letter dated June, 19, 2020 addressed to OGRA, the yearly difference between each OMC's noted and actual costs on transportation was to be settled by OGRA after completion of Inland Freight Equalization Margin audit.

During audit of PSO for the FYs 2019-20, it was observed that claims of Rs 2,437 million, on account of Inland Freight Equalization Margin (IFEM)

could not be got settled from OGRA due to non-conducting of IFEM audit since 2012.

Audit is of the view that non-pursuance of IFEM audit issue with OGRA led to non-settlement of IFEM claims amounting to Rs 2,437 million.

The matter was reported to the PAO / management on December 24, 2020. The management in its reply dated December 31, 2020 stated that non-settlement of IFEM since 2012 was an industry-wide issue. However, due to combined efforts of PSO and industry the TORs for audits of period FY 2012-2020 had been finalized by OGRA.

The DAC in its meeting held on January 12, 2021 directed the management to pursue the matter with OGRA.

Audit recommends the PAO to take up the matter with OGRA for early settlement of the IFEM claims and ensure conducting of IFEM audit on regular basis.

[DP No. 1189]

2.4.6.3 Inordinate delay due to non-settlement of insurance claims – Rs 61.864 million

According to Rule 53(xii) of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, the OMC obtain and maintain insurance cover against any accident causing loss of life and property.

During audit of PSO for the FY2019-20, it was observed that the management lodged 21 insurance claims for Rs 61.864 million with National Insurance Company Limited (NICL) during 2017 to 2020. These claims had to be finalized within a period of 90 days in accordance with the Insurance Ordinance, 2000. However, due to lukewarm pursuance of the cases, settlement of the same was awaited despite lapse of considerable period of time.

Audit is of the view that poor pursuance by the management resulted in inordinate delay in settlement of insurance claims of Rs 61.864 million.

The matter was reported to the PAO / management on December 18, 2020. The management in its reply dated December 31, 2020 stated that PSO was constantly following up cases with NICL for early resolution of claims. However, non-availability of financial authority at NICL and frequent changes at highest level resulted in substantial delay in claim settlement. The reply is not tenable as the claims were pending since 2017 and should have been settled till now.

The DAC in its meeting held on January 12, 2021 directed the management to pursue the matter for early settlement of claims.

Audit recommends to pursue the insurance claims for early settlement.

[DP No. 1148]

Procurement related irregularities

2.4.6.4 Inadmissible payment of port charges - Rs 1,861.750 million

According to LNG Sale and Purchase Agreement between PSO and M/s Guvnor International, port charges of up to US\$ 500,000 per vessel were to be borne by the suppliers and any excess was to be paid by the importer.

During audit of PSO for the FY 2019-20, it was observed that PSO signed a contract with Gunvor in January, 2016, for delivery of 54 LNG cargoes from March, 2016 to June, 2020. Under the contract, port charges up to US\$ 0.5 million per vessel were required to be borne by the seller and any excess payment was required to be paid by the importer, i.e., PSO. Hence, during the period from March, 2016 to June, 2020, port charges in excess of US\$ 0.5 million were provisionally claimed by the suppliers and reimbursed by PSO without confirming authenticity of the claims. As these payments were made by PSO on provisional basis, no effort was made to ascertain the final payment on the basis of final invoices. This resulted in inadmissible payment of Rs 1,861.750 million.

Audit is of the view that poor financial management resulted in admissible payment of Rs 1,861.750 million.

The matter was reported to the PAO / management on December 24, 2020. The management in its reply dated December 31, 2020 stated that the entire amount of US\$ 14.693 million had been adjusted after reconciliation for all 54 ships. Hence, no receivables on this account were outstanding.

The DAC in its meeting held on January 12, 2021 directed the management to provide date-wise reconciliation of invoices showing the adjustment for verification by Audit within a week and also share the finding of internal inquiry with Audit. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides taking steps to avoid inadmissible payments in future.

[DP No. 1245]

2.4.6.5 Loss due to payment of demurrages – Rs 1,792.350 million

According to Article VIII(ii) of General Terms and Conditions of agreement between PSO and Kuwait Petroleum Limited dated February 21, 2019, should the buyer fail to discharge the vessel within the lay time, the buyer shall pay demurrage to the seller, at the rate specified in the Agreement.

During audit of PSO for the FY 2019-20, it was observed that the management failed to properly plan the petroleum products shipments. Consequently, PSO had to pay demurrages amounting to Rs 1,792.35 million (US\$ 11.949 million @ Rs 150) on various consignments.

Audit is of the view that poor planning by the management resulted in payment of demurrages amounting to Rs 1,792.350 million.

The matter was reported to the PAO / management on December 11, 2020. The management in its reply dated December 31, 2020 stated that the main causes of demurrages was limited infrastructure at ports especially Port Qasim where there was a single jetty. The reply is not tenable as PSO should have planned imports keeping in view the limitations to avoid loss of precious foreign exchange.

The DAC in its meeting held on January 12, 2021 directed the management to resolve the issue in consultation with other stakeholders.

Audit recommends to implement the decision of DAC.

[DP No. 1140]

Others

2.4.6.6 Non-transferring of property in the name of PSO despite lapse of 45 years

According to Rules 5(5) of Corporate Governance Rules, 2013, 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 and honesty and relationship with the stakeholders, which entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage.

During audit of PSO for the FY 2019-20, it was observed that the company acquired 10 acres of land for construction of storage depot at Deh Miranpur Saidki, District Sukkur from Government of Sindh and took possession on August 23, 1975. Out of total agreed adhoc payment of Rs 100,000 @ Rs 10,000/acre, the management made payment of Rs 60,000 whereas remaining amount of Rs 40,000 was to be paid at the time of transfer of property. However, despite lapse of 45 years, management could neither finalize the rates with Sindh Government nor get the title transferred to PSO's name. This inefficiency by the management could end up in litigation and PSO might have to suffer substantial loss.

Audit is of the view that poor asset management and negligence resulted in non-transfer of title in PSO's name.

The matter was reported to the PAO / management on December 24, 2020. The management in its reply dated December 31, 2020 stated that PSO had been continuously pursuing the matter and the Legal Department was advised to engage services of legal counsel to pursue the matter. The reply is not

tenable as no concrete effort was made by the management to resolve the matter despite lapse of 45 years.

The DAC in its meeting held on January 12, 2021 directed the management to pursue the matter with Senior Member BOR for early transfer of property in the name of PSO.

Audit recommends to implement DAC directives.

[DP No. 1190]

2.5 Sui Northern Gas Pipelines Limited

2.5.1 Introduction

Sui Northern Gas Pipelines Limited (SNGPL) was incorporated as a private limited company in 1963. It was converted into a public limited company in January 1964 under the Companies Act 1913 (now Companies Act, 2017). The Company is listed in Pakistan Stock Exchange Limited. It is involved in the business of purchase, transmission, distribution and supply of natural gas. Shares directly held by GoP are 31.68%. However, direct and indirect shareholding of GoP is more than 58.14%. SNGPL is Pakistan's largest gas company serving more than 6.337 million consumers in northern and central Pakistan through an extensive network of pipeline (139,055 KMs) in Punjab, Khyber Pakhtunkhwa and Azad Jammu & Kashmir.

2.5.2 Comments on Audited Accounts

The working results of the Company for the years 2018-19 as compared to the previous years are tabulated below:

(Rs in million)

	2018-19	% Inc/ (Dec)	2017-18	% Inc/ (Dec)	2016-17
Gas Sales Volume (MMCF)	755,098	13	670,644	37	615,003
Gas sales value	684,626	53	446,766	40	319,696
Add/ (less) Differential margin	69,912	23	57,017	114	26,612
Net sales	754,538	50	503,782	45	346,308
Cost of gas sold	718,742	51	476,786	46	326,610
Gross profit	35,796	33	26,997	37	19,699
Other Income	18,512	31	14,159	29	10,993
Operating expenses	12,833	5	12,249	1	12,072
Expected Credit loss	1,506	1,506	-	-	-
Finance Cost	25,777	139	10,806	02	5,351
Other Charges	3,043	16	2,626	260	730
Profit (Loss) before taxation	11,149	(28)	15,475	23	12,539

Provision for Taxation	4,073	(6)	4,354	11	3,925
Profit (Loss) after taxation	7,076	(36)	11,121	29	8,615
Earnings per share (EPS)	11	(36)	18	29	14

(Source: Annual Audited Accounts)

- i. External auditors accorded a qualified opinion on the accounts of SNGPL for the year 2018-19. The reason for the qualification was non-application of International Financial Reporting Standards (IFRS) 15 “Revenue from Contracts with Customers” with effect from July 01, 2018 which would have increases contract liabilities, differential margin recoverable and income tax recoverable by Rs 6,835 million (July 01, 2018: Rs 7,419 million), Rs 1,225 million (July 01, 2018: Rs 1,808 million) and Rs 1,627 million (July 01, 2018: Rs 1,627 million) respectively, whereas, the un-appropriated profits and the deferred tax liability would have decreased by Rs 2,001 million (July 01, 2018: Rs 1,832 million) and Rs 1,982 million (July 01, 2018: Rs 2,152 million) respectively. Further, the profit for the year would have decreased by Rs 169 million. The financial impacts have been estimated assuming that a differential margin would be allowed under the regulatory tariff regime applicable to the Company. The reason for qualification needs justification and remedial action.
- ii. For the year ending on June 30, 2019, sales of the company increased to Rs 684,625.88 million from Rs 446,765.83 million. Gross profit surged to Rs 35,796 million from Rs 26,996.73 million. However, profit for the year reduced to Rs 7,075.83 million from Rs 11,121.47 million. Similarly earnings per share reduced to Rs. 11.16 from Rs 17.54. The decreasing trend in net profit and earnings per share needs justification.
- iii. During the FY 2018-19, the Company obtained short-term borrowing from commercial banks amounting to Rs 28.48 billion registering an increase of 615% from the FY 2017-18. The Company’s reliance on short term borrowings to meet its liquidity requirement needs justification.

- iv. As per Note 36 of Audited Financial Statements for the FY 2018-19, receivables on account of Interest / late payment from gas consumers surcharge stood at Rs 13,095.07 million (FY 2018-19 & 2017-18). Efforts need to be expedited for early resolution / recovery of LPS.
- v. Year on year pattern of deferred credit for work in progress under Government Grants / Consumer Contribution was observed. The deferred credit for the FYs 2018-19, 2017-18, 2016-17 and 2015-16 amounted to Rs 36,952.59 million, Rs 35,401.94 million, Rs 25,643.88 million and Rs 20,827 million respectively. It shows that funds for development works were not being utilised which needs justification.
- vi. OGRA allowed an addition in fixed assets aggregating to Rs 13,615 million (Rs 12,835 million for natural gas and Rs 781 million for RLNG) as per FRR 2018-19. The audited annual accounts showed an addition in fixed assets of Rs 23,093 million depicting an increase of Rs 9,478 million over the addition allowed by OGRA. It is misleading for stakeholders and needs justification and corrective action.
- vii. Operating fixed assets stood at Rs 204,750 million as on June 30, 2019 which required 100% stock check / verification by the Auditor / Finance Representative and Store Incharge. However, report for the physical verification of assets carried out on June 30, 2018 is still awaited which needs to be expedited. Future plan for conducting physical verification may be apprised as per requirements.
- viii. At the end of 2018-19, trade debts of the Company receivable from different stakeholders were Rs 157,573 million. Out of this an amount of Rs 95,645 million, which is 61 % of total outstanding trade debts, was unsecured. Year-wise analysis is needed to ascertain chances of recovery. Moreover, reasons of unsecured debts and high percentage of doubtful debts be explained.
- ix. Registering an increase of 138 % from FY 2017-18, finance cost increased to Rs 25,776.84 million from Rs 10,806.15 million in FY 2018-19. It shows that company relied on borrowed funds instead of improving recovery of receivables which were Rs 157,573 million on June 30, 2019.

The management is required to explain the efforts made so far to recover the receivable amount besides improving the recovery mechanism to eliminate reliance on borrowed funds.

- x. Trade and other payables increased by 62% to Rs 336,526 million in FY 2018-19 from Rs 207,456 million in FY 2017-18. It needs to be justified.
- xi. The receivable from and payable to government and certain government owned and other entities is as follows:

(Rs in million)

Sr. No.	Trade Debts Receivable	Amount
1	Government owned power generation companies, IPPs and SSGCL	93,892.862
2	Interest thereon due to delayed payments	17,482.640
3	Receivable from Government of Pakistan on account of differential margin/deferred account	203,153.310
Total		314,528.812
Trade and Other Payables		
1	PPL, SSGCL, OGDCL, PSO, PLL, GHPL	317,681.475
2	Interest thereon due to delayed payments	42,370.242
3	Interest on delayed payment of Gas Development Surcharge payable to Government	4,101.732
Total		364,153.449

The management is required to pursue the matter relating to recovery / payments of receivable from and payable to Government /certain Government owned entities or refer the matter to PD for adjustment / settlement among the PSEs under the jurisdiction of PD besides resolving the disputes among the PSEs.

2.5.3 Classified Summary of Audit Observations

Audit observations amounting to Rs 379,738.554 million were raised in this report during the current audit of SNGPL. This amount also includes recoveries of Rs 167,870.320 million as pointed out by the Audit. Summary of the audit observations classified by nature is as follows:

2.5.4 Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Non production of record (1 para)	-
2	Irregularities	-
A	UFG losses	12,868.774
B	Receivables management	220,521.106
C	Project management	66,274.920
D	Regulatory affairs	51,375.015
3	Value for money and service delivery issues	3,395.550
4	Others	25,303.189

2.5.5 Compliance of PAC Directives

Audit Year	Total Paras	Full compliance	Partial compliance	%age of compliance
1991-92	15	09	06	60
1992-93	16	15	01	94
1993-94	12	10	02	83
1995-96	10	08	02	80
1996-97	16	15	01	94
1998-99	10	09	01	90
2000-01	20	15	05	75
2001-02	09	06	03	67
2003-04	07	06	01	86
2006-07	12	10	02	83
2007-08	18	15	03	83
2008-09	22	20	02	91
2009-10	11	10	1	92
2010-11	55	35	20	64
2013-14	19	12	07	63
2014-15	10	0	10	
2016-17	41	30	11	73
2018-19	06	01	05	17
Total	309	226	83	73%

Overall compliance of PAC directives was not satisfactory which needs immediate attention of the Principal Accounting Officer.

2.5.6 Audit Paras

2.5.6.1 Non-Production of record

According to Section 14(2) of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001, the officer in-charge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete form as possible and with all reasonable expedition. Further, according to the Public Accounts Committee directives, issued vide OM No. F-10(1)/2000/2004-PAC dated June 3, 2004, all PAOs Ministry / Divisions to make available all information/record to Audit as and when required by them, otherwise disciplinary action will be initiated against person(s) responsible for the delay under Section 14(2) of the Auditor General's Ordinance No. XXIII of 2001.

During audit of SNGPL for the FY 2019-20, the auditable record / information was requisitioned such as trial balance, management accounts, financial statements along with necessary schedules for audit scrutiny but the same was not produced despite repeated verbal / written requests and visits (**Annex-6**).

Audit is of the view that non-production of record /information was violation of Section 14(2) of the Auditor General's Ordinance, 2001, and the directives of PAC and was tantamount to concealment of facts.

The matter was reported to the PAO / management in January, 2021. The management explained that the financial statements for the FY 2019-20 were not finalized. The reply is not tenable because the financial statements were required to be prepared within four months after the close of the FY and other supporting record i.e. trial balance and other schedules were finalized but not provided to Audit.

The DAC in its meeting held on November 23, 2020 directed the management to ensure the provision of record to Audit.

Audit recommends to fix responsibility for non-production of record besides provision of the same immediately.

[DP No. 898]

UFG Losses

2.5.6.2 Loss due to UFG beyond permissible limit – Rs 10,698 million

According to Clause 21.1 of the License of SNGPL issued by OGRA, the licensee shall take all possible steps to keep the UFG within acceptable limits. The Authority for this purpose, in consultation with the licensee and the experts, shall fix target of UFG for each financial year. Authority may fix UFG target separately for each regulated activity.

During audit of SNGPL, Lahore for the FY 2019-20, it was observed that OGRA allowed UFG losses @ 6.9238 % for the FY 2018-2019, whereas the company's UFG was recorded at 11.86% amounting to Rs 28,934 million. Out of this, OGRA allowed an amount of Rs 18,236 million i.e. 6.9238% for passing on to the consumers whereas remaining UFG losses of Rs 10,698 million were to be borne by the company.

Audit is of the view that ineffective implementation of UFG reduction plan and KMI(s) resulted in UFG losses of Rs 10,698 million, hence, reducing the profitability of the Company and dividend of the shareholders i.e. the federal government as a major shareholder.

The matter was reported to the PAO / management on December 24, 2020. The management in its reply dated January 13, 2021 stated that the volumetric loss of company had decreased from 52,576 MMCF during 2018-19 to 47,805 MMCF during 2019-20 showing reduction of 4,771 MMCF against a target of 6,840 MMCF approved by the ECC. However, the percentage of UFG increased upto 12.20%.

DAC in its meeting held on January 19, 2021 directed the management to reduce the UFG losses to bring it within the allowable limits of OGRA besides getting the stated facts verified from Audit.

Audit recommends to ensure effective implementation of UFG reduction plan and KMIs to bring UFG losses within allowable limit.

[DP No. 1404]

2.5.6.3 Loss due to non-pursuance of gas theft cases – Rs 2,170.774 million

As per Clause D-3 of “Procedure for dealing with the theft of gas cases” issued by OGRA vide letter No. OGRA-9(2)/2005 dated August 16, 2005, “in case of strong evidences leading to confirmation of the act of theft, the company will disconnect the gas supply of the consumer/ defaulter and will remove all devices which can facilitate the consumer/ defaulter in unlawful restoration of gas supply”. Further, according to Clause E of *ibid*, theft charges from non-consumers shall be determined as per procedure, and legal notice will be served to the defaulter for depositing the gas theft charges to the company.

During audit of SNGPL for the FY 2019-20, it was observed that an amount of Rs 1,236.494 million was involved in 1212 gas theft cases by consumers / non-consumers but the management failed to complete procedural formalities in these cases such as disconnection, assessment of gas charges, filing of recovery suits by Billing Department etc. within stipulated period. Further, the Detection and Evaluation Committee of Head Office considered 16 cases involving an amount of Rs 934.28 million and sent the same to respective regional offices for further processing / filing of recovery suits against the pilferers. However, the regional offices reported no progress in these cases. This resulted in loss of 2,170.774 million.

Audit is of the view that weak internal controls and failure of the management in pursuance of theft cases for recovery resulted in loss of Rs 2,170.774 million.

The matter was reported to the PAO / management in October and November, 2020. The management in its reply dated January 29, 2021 reported that out of 16 cases, 13 consumers already disconnected and recovery suits were filed / initiated whereas 2 consumers were in litigation and one consumer has already paid theft charges.

DAC in its meeting held on January 18, 19 and 29, 2021, directed the management to expedite the recovery proceedings from consumers and pursue the criminal proceedings against non-consumers.

Audit recommends to strengthen surveillance / vigilance to forestall the pilferage of gas besides implementation of the decision of DAC.

[DP Nos. 1409, 1410 & 1383]

Receivables management

2.5.6.4 Non-recovery of gas charges from active and disconnected consumers / defaulters – Rs 86,146.55 million

According to Clause 13.1 of Billing Manual of SNGPL, it will be the responsibility of GM (Billing) to ensure collection of company's gas bills in respect of all categories of consumers. Further, as per Clause 13.2 of *ibid*, just after the expiry of due date, a disconnection notice be served advising to pay gas dues within a week i.e., before last day of the month failing which their gas supply shall be disconnected immediately.

During audit of SNGPL for the FY 2019-20, it was observed that the management failed to recover outstanding gas charges of Rs 73,749.91 million from 3,936 active consumers. Further, the management did not retain sufficient security deposits of Rs 5,250.7 million covering the gas charges of anticipated consumption due to which outstanding amount could not be recovered from these consumers. Moreover, the management failed to recover decreed amount of gas charges amounting to Rs 781.42 million in 1,071 cases even after court orders in favour of the company. This resulted in non-recovery of amount aggregating to Rs 86,146.55 million. It is pertinent to mention here that the management did not have sufficient details of assets of those defaulters, hence, process for the attachment of assets could not be initiated.

Audit is of the view that due to negligence of the management, outstanding dues of Rs 86,146.55 million could not be recovered from the defaulters.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated January 13, 2021 stated that in the case of fertilizer sector, Rs 780 million had been recovered while the remaining amount was under litigation in different forums. Further, arrears against active industrial

consumers were piled up mainly due to litigation, tariff disputes, cost of service of RLNG and LPS etc.

DAC in its meeting held on January 18 and 19, 2020, directed the management to pursue the legal cases, resolve disputes with the consumers and expedite the recovery of remaining amount besides getting the recovered amount verified from Audit.

Audit recommends to implement the decision of DAC besides maintaining sufficient security deposits.

[Annex-7]

2.5.6.5 Non-recovery of outstanding gas charges from power sector consumers due to circular debt - Rs 54,532 million

According to Clause 3.13 & 3.14 of Billing Manual of SNGPL, timely / maximum recovery of gas dues shall be arranged from all categories of consumers. Special attention was to be paid to recover gas dues from big industrial and general industrial consumers which contribute the major share of sales revenue. Billing Department shall forward lists of industrial / bulk supply / special domestic defaulters to Distribution Department for disconnection purposes every month. As per Clause 3.17 of ibid, security from disconnected consumers (all categories) should be deposited before re-connecting their gas supply.

During audit of SNGPL for the FY 2019-20, it was observed that the management failed to recover outstanding amount of gas charges and LPS of Rs 35,663 million from the power sector companies due to circular debt. Further, disputed amounts of Rs 18,869 million on account of gas charges and LPS were booked as receivables which were under Arbitration / Courts of Law. This resulted in non-recovery of outstanding gas charges amounting Rs 54,532 million from consumers of Power Sector as detailed below:

(Rs in million)

Consumer Name	Principal		LPS / Interest		Total
	Arrears	Disputed	Arrears	Disputed	
Indigenous Gas Supplies	14,397	603	14,679	1580	31,259
RLNG Supplies	3,032	12,453	3,555	4,233	23,273
Total Gas Charges	17,429	13,056	18,234	5,813	54,532

Audit is of the view that the due to circular debt and non-finalization of gas supply agreements with power sector companies on 100% take or pay, huge outstanding amount of Rs 54,532 million could not be recovered.

The matter was reported to PAO / management on January 12, 2021. The management in its reply dated January 29, 2021 explained that an amount of Rs. 10,469 million was recovered. The remaining amount of Rs 25,194 million was under recovery and an amount of Rs 18,869 million was under dispute with consumers.

DAC in its meeting held on January 29, 2021 directed the management to expedite the recovery of outstanding amount and get the recovered amount verified from Audit. DAC further directed the management to provide the consumer-wise details of disputes with current status and pursue the cases for early resolution.

Audit recommends to implement the decision of DAC.

[DP No. 1435]

2.5.6.6 Non-implementation of policy guidelines for divergence of RLNG to domestic sector - Rs 54,530 million

As per para 6.2.6 & 6.2.7 of ERR for the FY 2019-20, OGRA directed SNGPL to seek the policy of the Federal Government for supply of gas to the consumers on sustainable basis due to increase in gas network against depleting indigenous sources.

During audit of SNGPL for the FY 2019-20, it was observed that ECC of the Cabinet issued policy guidelines on October 23, 2020, for making a segment in RLNG price for RLNG diverted to domestic consumers in winters. The recovery of price was to be decided by OGRA. Earlier, the company had sold RLNG having differential amount of Rs 54,530 million (difference between RLNG price and domestic tariff) through diversion to its domestic consumers during FY 2019-20. However, the management could not expedite the

implementation of the policy guidelines due to non-provision of exact volume of RLNG diverted to domestic consumers. This resulted in non-recovery of Rs 54,530 million.

Audit is of the view that due to systemic weakness, exact volume of RLNG could not be provided to OGRA, resultantly, recovery of Rs 54,530 million could not be made.

The matter was reported to the PAO / management on December 24, 2020. The management in its reply dated January 29, 2021 stated that the requisite guidelines have been issued by the Federal Government and OGRA had been directed to arrange recovery. The Company had taken up the matter with OGRA and a detailed meeting had recently been held with OGRA who indicated that the matter would be taken up shortly.

DAC in its meeting dated January 29, 2021 directed the management to pursue the matter with OGRA.

Audit recommends to ascertain the volume of diverted RLNG to domestic sector and take up the matter with OGRA for implementation of policy guidelines for early recovery of differential amount of RLNG.

[DP No. 1415]

2.5.6.7 Non-recovery of cost of RLNG from SSGC – Rs 21,807.515 million

According to Section 3 and 4(4) of Natural Gas Regulated Third Party Access (TPA) Rules, 2012 read with GTA executed between SNGPL and SSGC, transportation service consists of taking delivery of the gas available by a shipper at one or more entry points along the gas pipeline transportation system and delivering an equivalent quality of gas to shipper. Transporter shall arrange to deliver gas at exit point to shipper and shall provide facilities including measurement equipment at exit point.

During audit of SNGPL for FY 2019-20, it was observed that the management could not receive RLNG worth Rs 21,807.515 million from SSGC which was due under Gas Transportation Agreement (GTA). SSGC was retaining RLNG for sale in its franchise area without executing any agreement

with SNGPL or with the suppliers. SNGPL could not get the provisions of GTA implemented and the PAO / Regulator failed to resolve the dispute despite lapse of more than three years.

Audit is of the view that deficient execution of GTA and failure of the PAO / Regulator to resolve the dispute resulted in non-recovery of Rs 21,807.515 million.

The matter was reported to the PAO / management on December 24, 2020. The management in its reply dated January 29, 2021 explained that SNGPL and SSGCL recently initialled a draft agreement wherein SSGCL has agreed to clear the outstanding amount for the period from June, 2020 to December, 2020.

DAC in its meeting held on January 29, 2021 directed the management to submit a payment plan to Audit within a week.

Audit recommends to take up the matter with M/o Energy (Petroleum Division) to ensure early resolution of the dispute and recovery of RLNG cost from SSGC.

[DP No. 1411]

2.5.6.8 Accumulation of arrears due to delayed disconnection of meters - Rs 3,505.041 million

As per Clause 14 of the Billing Manual of SNGPL, gas supply of commercial and domestic defaulters is disconnected by billing department due to default in making payment. Disconnection should be made in descending order of arrears i.e., consumers having more arrears disconnected first. Preference should be given to those consumers whose arrears have exceeded or near to exceed their security deposit. Disconnection of habitual defaulters will be preferred. No due dates of defaulters be extended. Disconnection advice issued shall not be filed un-actioned.

During audit of SNGPL for FY-2019-20, it was observed that the management failed to disconnect the meter of 21,164 consumers timely who were defaulting on payments. These were not disconnected when arrears were within security limit. However, these were disconnected late for period ranging

from 3 years to 7 years, after huge arrears had accumulated. Further, as per company SOP, recovery suit could not be filed in cases below the threshold of Rs 40,000. Hence, this amount might either turn into bad debt or the management would have to pay additional amount to recover the arrears through contractors. This resulted in accumulation of huge arrears as detailed below:

(Rs in million)			
Sr. No.	Category	No. of consumer	Amount
1	OTD	363	3,005.04
2	Domestic	20,800	500.00
Total		21,163	3,505.04

Audit is of the view that weak monitoring resulted in delayed disconnection of meters resulting in accumulation of arrears of Rs 3,505.041 million.

The matter was reported to the PAO / management in November, 2020. The management explained that arrears against domestic consumers were piled up due to litigation.

The DAC in its meeting held on January 18 & 19, 2021 directed the management to provide the details of 500 cases with supporting documents within a week for verification of Audit. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides taking steps to recover the outstanding amount and ensuring compliance of company rules.

[DP Nos. 1168, 1169, 1180, 1182 & 1395]

Project management

2.5.6.9 Unjustified pendency in completion of gas schemes resulting in blockage of Government funds – Rs 32,402 million

According to Para 2(vi) of Revised Procedure for Operation of Assignment Accounts of Federal Government, the officers holding assignment accounts will ensure that no money is drawn from these accounts unless it is

required for immediate disbursement. Moneys will not be drawn for deposit into chest or any bank account. Further, as per para 13 of Guidelines for Implementation of Prime Minister's Global SDGs Achievement Programme, 2016, schemes identified for a specified financial year shall be completed within same year.

During audit of SNGPL for the FY 2019-20, it was observed that the management did not complete 100 development projects / schemes for gas supply under Government directives and 35 schemes under SDG Programme despite receipt of government funds of Rs 32,402 million. It was pertinent to mention that from FY 2015-16 onwards, pendency in utilization of government grants was constantly increasing (upto 60%) thus leading to accumulation of huge funds.

Audit is of the view that poor project management resulted in non-completion of schemes and blockage of government funds amounting to Rs 32,402 million depriving the government of utilization in other projects.

The matter was reported to the PAO / management on January 12, 2021. The management in its reply dated January 29, 2021 explained that the Company received Rs 17.7 billion in assignment accounts while only Rs 5.6 billion could be withdrawn and remaining Rs 12 billion were got lapsed. The projects (where funding were available) were being executed in phases. Audit contended that lapsed funds could not be released in forthcoming years and non-completion of development schemes and accumulation of Government funds including SDGs over the years was not justified.

DAC in its meeting held on January 29, 2021 directed the management to pursue the case through Petroleum Division for timely release of funds and release of lapsed funds and expedite the completion of schemes to reduce pendency of Government funds.

Audit recommends to implement the decision of DAC.

[DP No. 1438]

***2.5.6.10 Non-completion of development works within stipulated time -
Rs 28,393.60 million***

According to Para 3.2 of budget instruction for the FYs 2018-19 & 2019-20 for carrying out capital and revenue jobs, job holder (head of project / distribution department) will be responsible for timely completion of jobs within stipulated period specified in job approval document. Further, according to work orders issued by SNGPL to contractors, jobs for gas supplies to new localities were required to be completed within three months of issuance of pipe and jointing materials.

During audit of SNGPL for the FY 2019-20, it was observed that 574 development jobs amounting to Rs 28,393.60 million were started from the years 2016-17 to 2019-20 but could not be completed, despite issuance of material. However, the management could not take any penal action against the contractors because of absence of penal clauses in the bidding documents. As a result jobs valuing Rs 28,393.60 million were lying incomplete.

Audit is of the view that due to weak monitoring and project management, work orders could not be executed by the contractors and respective jobs remained incomplete.

The matter was reported to the PAO / management during December, 2020. The management stated that delay was due to multiple factors like non-receipt of NOC's from outer agencies, non-availability of TBS job numbers for commissioning of network and political rivalry / disputes in some localities.

The DAC in its meeting held on January 18 & 19, 2021 directed the management to expedite the completion of pending jobs.

Audit recommends to ensure expeditious completion of jobs besides taking action against the contractors who failed to complete the jobs.

[DP Nos. 891, 1313 & 1328]

2.5.6.11 Excess capitalization of jobs - Rs 2,088.97 million

According to IAS 16, the cost of an item of property, plant and equipment is recognized as an asset if, and only if; it is probable that future economic benefits associated with the item will flow to the entity; and the cost of the item can be measured reliably.

During audit of SNGPL for the FYs 2018-20, it was observed that in regional offices at Islamabad, Multan, Faisalabad and Project Department the following irregularities were observed in booking and capitalization of expenses incurred on different jobs:

(Rs in million)

Sr. No.	No of cases	Amount booked	Description of irregularity
1	32	74.93	Amount was booked on accrual basis on June, 30 2019 but no adjustments were made subsequently.
2	202	471.79	Expenses were booked after commissioning / completion of jobs.
3	6	551.65	Incomplete and non-operational pipelines were capitalized.
4	190	58.58	Excess material cost was booked and capitalized.
5	9	4.63	Un-justified expense were booked under miscellaneous head
6	66	190.55	Expenses were booked after commissioning / completion of jobs
7	27	736.77	No pipe laying work was carried in these jobs during the FY but huge amount was capitalized.
Total	532	2,088.97	

Audit is of the view that weak project management / accounting resulted in excess booking and capitalization to the tune of Rs 2,088.97 million. These irregularities would eventually result in excess guaranteed return on assets.

The matter was reported to the PAO / management during September & December, 2020. The management in its reply January 13, 2021 stated that 06 jobs had been capitalized on the basis of advice from Projects Department for partial commissioning of the network. Management also reported that 13 jobs of project department were commissioned in previous years but capitalized in current year whereas in other 14 jobs were commissioned and capitalized during 2019-20 in which pipe laying work was done in previous years. The reply is not

tenable because no specific reply of the cases pointed out was given in the light of IAS 16 and regarding booking of expenses after finalization of completion reports was due to non-automation of all steps in booking and preparation of completion reports. Further, booking of accruals were not adjusted in next year and delayed capitalization was not justified.

The DAC in its meeting held on November 23, 2020 and January 29, 2021 directed the management to get the record verified regarding flow of economic benefit to the end consumers on case to case basis besides ensuring timely booking of expenses and capitalization in orderly manner.

Audit recommends to implement decision of DAC besides taking corrective measures for reversal of over booking / capitalization.

[Annex-8]

2.5.6.12 Non-refund of savings to consumers in cost sharing jobs - Rs 1,302.29 million

According Para 9.2.2 of Accounting Manual of SNGPL, the duties and responsibilities of Area Accountant include arranging recovery / refund from/to consumers after completion of cost sharing jobs.

During audit of SNGPL for FY 2019-20, it was observed that the management did not refund the savings in 118 cases of cost sharing jobs to consumers. The estimated cost of jobs amounting to Rs 3,340.11 million was received from consumers. These jobs were completed with actual expenditure of Rs 2,037.29 million with saving of Rs 1,302.29 million which was not refunded to the consumers. Further, the total amount received from the consumers was capitalized without deduction of savings. This resulted in non-refund of savings and excess capitalization amounting to Rs 1,302.29 million.

Audit is of the view that due to weak financial control, savings were neither refunded to consumers nor included in other operating income for revenue requirement purpose.

The matter was reported to the PAO / management in September and December, 2020. The management stated that the company refunds the amount when the laid line pipe was less than the sanctioned line pipe / amount or it was not laid at all. The reply is not tenable because the company neither declared the savings as Other Income in the FRR / ERR of respective years nor it was refunded to the consumers rather it was amortized over 16 years.

The DAC in its meeting held on January 18 & 19, 2021 directed the management to get the stated stance regarding sanctioned vs actual pipeline verified from Audit within a week. No further progress was reported till finalization of this report.

Audit recommends to refund the savings to the consumers or declare it Other Income in revenue requirement of the respective year.

[DP Nos. 894, 1162 & 1320]

2.5.6.13 Non-recovery of excess cost from consumers in cases of cost sharing jobs - Rs 1,064.72 million

According to Para 9.2.2 of Accounting Manual of SNGPL, the duties and responsibilities of area accountant includes arranging recovery from consumers after completion of cost sharing jobs.

During audit of SNGPL for the FYs 2018-20, it was observed that the management failed to recover excess cost from consumers in 106 cost sharing job. These jobs having approved budget of Rs 5,313.45 million were completed by incurring expenditure of Rs 6,378.16 million with excess expenditure of Rs 1,064.72 million. The excess cost was required to be recovered from consumers which was not done. This resulted in non-recovery of excess cost amounting to Rs 1,064.72 million from the consumers.

Audit is of the view that weak project / financial management resulted in non-recovery of excess cost amounting to Rs 1,064.72 million from consumers.

The matter was reported to the PAO / management in December, 2020.

The DAC in its meeting held on January 18 & 19, 2021 directed the management to expedite the recovery of excess cost from consumers.

Audit recommends to implement the decision of DAC.

[DP Nos. 897, 901, 1166, 1321, 1322 & 1428]

2.5.6.14 Non-mutation of land in favour of company – Rs 743.227 million

According to Clause 3.2.1 of Project Manual of SNGPL, award is announced by the land acquisition collector, a copy of which is sent to SNGPL for getting the amount adjusted against advance of relevant line. After receiving award from acquisition collector, mutation in favour of company shall be carried out.

During audit of SNGPL for the FYs 2018-20, it was observed that the management issued advances of Rs 696.017 million to LAC Punjab, KPK and Sindh for purchase of land but failed to complete the process of mutation of land in favour of the company. This resulted in non-mutation of land and non-adjustment of advances of Rs 696.017 million. Further, management failed to recover advances of Rs 32.83 million from Land Acquisition Collector against adjustment of surplus amount. Moreover, Rs 14.38 million was issued for registration / mutation of land to 20 employees which were not adjusted.

Audit is of the view that due to slackness on the part of management advances were neither adjusted nor mutated in favour of company.

The matter was reported to the PAO / management in September and December, 2020. The management in its reply stated that mutations of land amounting to Rs 322.443 million had been done and Rs 32 million had also been adjusted.

The DAC in its meeting held on November 23, 2020 directed the management to expedite the mutation of land. DAC further directed the management to provide the documentary evidence of Rs 14.83 million for verification to Audit and expedite the recovery of remaining amount of Rs 2.3 million.

Audit recommends to ensure adjustment of advances besides completing the process of mutation of land in favour of company.

[DP Nos. 895, 902 & 1323]

2.5.6.15 Unjustified expenditure incurred against jobs without laying any pipeline - Rs 280.113 million

As per Section 8.4.2 of Accounts Manual, Engineer Incharge Construction (EIC) is the administrative head of the construction site and all expenses incurred at camp site are approved by EIC.

During audit of SNGPL for FY 2019-20, it was observed that in 43 jobs expenditure of Rs 280.113 million was incurred / booked against causal labour, allocation of administrative overheads, stores & spares consumed, construction plant & equipment operation etc. However, no pipe laying work was conducted in these jobs. This resulted in unjustified expenditure of Rs 280.113 million.

Audit is of the view that the weak financial controls resulted in justified incurrence / booking of expenditure of Rs 280.113 million.

The matter was reported to the PAO / management on December 30, 2020. The management in its reply dated January 29, 2021 explained that seven jobs had been commissioned and remaining jobs were in process. The reply is not tenable because incurrence of expense under the heads i.e. casual labour (Rs 9.574 million), stores & spares (Rs 45.65 million), construction plant & equipment (Rs 13.16 million), repair & maintenance (Rs 22.99 million), fuel of vehicles (Rs 5.36 million) and allocation of overheads including depreciation (Rs 152 million) etc. without executing any pipe laying work was not justified.

DAC in its meeting held on January 29, 2021 directed the management to provide job wise justification of incurrence of expenses within a week. No further progress was reported till finalization of this report.

Audit recommends to justify the incurrence of expenses in the absence of any pipe laying work besides taking remedial measures.

[DP No. 1414]

Regulatory affairs

2.5.6.16 Overstatement of differential margin receivable from the FG – Rs 18,868 million

According to Section 225 of the Company's Act, 2017, the financial statements shall give a true and fair view of the state of affairs of the company, comply with the financial reporting standards notified by the SECP. Further, according to Section 8 of OGRA Ordinance, 2002 read with Rule 18 of NGT Rules, 2002, the Authority shall determine yearly revenue requirement of the licensees for natural gas engaged in transmission, distribution and the sale of natural gas to a retail consumer.

During audit of SNGPL for the FY 2019-20, it was observed that in the audited Annual Accounts for the FY 2018-19, the company recognized revenue of Rs 63,848 million on account of differential margin receivable from the FG against indigenous gas. Out of this amount, Rs 18,868 million were booked on account of expenses (like LPS payable to E&P companies – Rs 17,877 million, sabotage volume –Rs 170 million and other T&D cost –Rs 821 million) which were disallowed by OGRA. However, these expenses neither formed part of final revenue requirement of SNGPL nor were declared as receivable from the Federal Government by OGRA. This resulted in overstatement of revenue on account of differential margin by Rs 18,868 million thus showing profit of Rs 7,075.834 million in company accounts and subsequently dividend of Rs 1,808 million to the shareholders.

Audit is of the view that weak financial controls resulted in overstatement of differential margin amounting to Rs 18,868 million.

The matter was reported to the PAO / management on January 12, 2021. The management in its reply dated January 29, 2021 explained that a review petition was filed with OGRA.

DAC in its meeting held on January 18-19, 2021 directed the management to share the decision of OGRA for verification within three days.

Audit verified that the Authority decided the review petition filed by the Company on 26.01.2021 by maintaining its earlier decision. Hence, the Company showed profit on overstated differential margin.

Audit recommends to probe into the matter besides taking remedial measures for rectification.

[DP No. 1430]

2.5.6.17 Reduction in sales volume due to “Unrecovered pilferage volume reversed” – Rs 17,990.737 million

According to Rule 17(c) of NGT Rules read with Section 8(1&2) of the OGRA Ordinance, 2002, “tariff should include a mechanism to allow licensees a benefit from and penalties for failure to achieve, benchmarks set by the Authority through yardstick regulation for inter-alia and without limiting the generality of such regulation, capacity utilization, operation and maintenance cost and unaccounted for gas (UFG)”.

During audit of SNGPL for the FY 2019-20, it was observed that the management deducted huge volume of gas on account of “unrecovered pilferage volume reversed” from the sales volume in UFG sheet. This deduction was made without giving any justification or reference to the booking of pilferage volume and its inclusion in sales. This deduction decreased the sales revenue to the tune of Rs 17,990.737 million during the FYs 2017-18 and 2018-19 causing excess determination of revenue requirements and fixation of gas prices on higher side. It is pertinent to mention that the issue also prevailed in the previous years as well.

Audit is of the view that weak internal controls resulted in reduction in sales volume, hence, UFG was increased and sales revenue decreased which not only decreased the profit of the company but also increased the revenue requirement and gas prices.

The matter was reported to PAO / management on January 12, 2021. The management in its reply dated January 29, 2021 stated that sales volume of the company was recorded as per OGRA determinations. The reply is not tenable because sales volume was reduced which not only increased the revenue requirement but also aggravated the UFG losses.

The DAC in its meeting held on January 18 & 19, 2021 directed the management to share accounting and billing record relating to booking of

pilferage volume as sales / receivable which was reversed / deducted from sales for last three years to Audit.

Audit recommends to implement the decision of DAC besides taking remedial measures.

[DP Nos. 1431 & 1432]

2.5.6.18 Unjustified charging of indigenous gas volume on account of energy equivalence from consumers - Rs 11,668.665 million

According to ECC decision dated February 10, 2016, RLNG pricing will be ring fenced and all directly attributable costs will be charged / recovered from the RLNG consumers without affecting the consumers relying on domestically produced gas.

During audit of SNGPL for the FY 2019-20, it was observed that as per ERR 2019-20, the management sold indigenous gas volume of 16,470 MMCF to RLNG consumer on account of energy equivalence due to difference in BTU (calorific value). RLNG BTU value (1025 to 1075) is higher than that of indigenous gas (925 to 970). Due to the comingling of RLNG and indigenous gas, transported through same pipeline, the BTU value of RLNG was reduced. To accommodate the decrease in calorific value, extra indigenous gas was required to be sold. However, the cost of extra indigenous gas supplied to RLNG consumers was charged to indigenous gas consumers by including the same in the cost of gas without giving any other relief on this account in revenue requirement. This resulted in non-recovery of indigenous gas valuing Rs 11,668.665 million (at average prescribed price) from RLNG consumers.

Audit is of the view that due to non-compliance of ECC decision, this extra volume of indigenous gas sold to RLNG consumers was not accounted for separately and the extra burden was passed on to indigenous gas consumers.

The matter was reported to the PAO / management on January 12, 2021. The management stated that due to comingling, RLNG segment contributed towards improving the GCV of the system gas consumers while the system gas segment compensated the RLNG segment by providing the energy equivalence

volume. The reply is not tenable because indigenous gas available for sale was reduced but cost of gas was not reduced, hence effected the indigenous gas consumers in violation of ECC decision.

The DAC in its meeting held on January 18 & 19, 2021 directed the management to provide the reconciliation of RLNG and indigenous gas purchased and sold in MMBTU to justify energy equivalence volume.

Audit recommends to take up the matter with OGRA for making recovery from RLNG consumers and giving equivalent relief to indigenous gas consumers.

[DP No. 1437]

2.5.6.19 Excess expenditure under various heads – Rs 1,694 million

According to Rule 17(h) of NGT Rules read with Section 8(1&2) of the OGRA Ordinance, 2002, tariff should generally be determined taking into account a rate of return as provided in the license, a prudent operation and maintenance costs, depreciation, government levies and if applicable financial charges and cost of natural gas.

During audit of SNGPL for the FY 2019-20, it was observed that OGRA vide Para 10.1.9 of FRR 2018-19 approved certain amounts under different heads. However, the management of SNGPL incurred excess expenditure than allowed by OGRA. This resulted in unjustified expenditure of Rs 901 million as detailed below:

(Rs in million)

Head of account	Actual Expense	Budget	Approved	Excess
Repair & Maintenance	1,353	1215	1150	203
Fuel & Power	429	285	398	31
Rent Rates Electricity	703	572	500	203
Transport	1,008	810	942	66
Legal & Professional charges	292	190	184	108
Advertisement	246	180	208	38
Staff Training & Recurring exp.	21	12	12	9

Cost of Gas Blown off	161	0	0	161
Sports Cell, Annual Sports	142	99	99	43
Other Expenses	182	141	143	39
Total	4,537	3,504	3,636	901

Furthermore, OGRA vide Paras 8.1.96 & 8.1.97 of ERR 2019-20 allowed security expenses of Rs 1,000 million against the claimed amount of Rs 1,793 million by SNGPL and directed SNGPL to rationalize the security expenses keeping in view the overall improved security position in the country. This resulted in excess expenditure of Rs 1,694 million.

Audit is of the view that weak financial controls resulted in excess expenditure of Rs 1,694 million. Along with UFGs, such expenses would further erode the profit / dividend of the shareholders

The matter was reported to the PAO / management on January 12, 2021. The management in its reply dated January 13, 2021 stated that the expenditure incurred was in line with parameters, hence, a review petition had been filed with OGRA. A parallel effort was being made at MoE (PD) level to rationalize T&D cost by allocating relevant portion to RLNG sales price.

The DAC in its meeting held on January 18 & 19, 2021 directed the management to pursue the matter with Petroleum Division (DG Gas) to seek policy guidelines for allocation of T&D cost to RLNG business and pursue the review petition with OGRA.

Audit recommends to rationalize the expense under above mentioned heads of accounts besides implementation of the decision of DAC.

[DP No. 1412]

2.5.6.20 Non-deposit of left over amount of WPPF to government exchequer- Rs 814.494 million

According to Article 270 AA(7) of the Constitution of Pakistan, all taxes and fees levied under any law in force immediately before the commencement of the Constitution (Eighteenth Amendment) Act, 2010, shall continue to be levied until they are varied or abolished by an Act of the appropriate legislature.

During audit of SNGPL for the FY 2018-19, it was observed that the company allocated Rs 814.494 million on account of WPPF for the FY 2017-18 as required under Companies Profit Workers Participation Act, 1968. However, no payment was made to government exchequer on the plea that after promulgation of 18th amendment, the Act ibid stood repealed. The payments would be made after legislation on labour laws by the provinces. Audit contended that WPPF was payable by virtue of the provisions of the Constitution and should have been deposited to the federal government until promulgation of suitable legislation by the Punjab government. This resulted in non-deposit of left-over amount of Rs 814.494 million to the government exchequer in violation of the Constitution. It is pertinent to mention that no provision for interest on delayed payment was created in these financial statements.

Audit is of the view that poor financial management resulted in non-deposit of WPPF of Rs 814.494 million to the Federal Government.

The matter was reported to the PAO / management in November, 2019. The management in its reply dated January 13, 2021 stated that the matter was sub-judice in Supreme Court. Moreover, company had contacted Lahore High Court to seek clarification from regarding payment of left-over amount on account of WPPF to FG. The reply is not tenable as non-deposit of WPPF is in violation of the Constitution. Moreover, other public sector companies i.e. OGDCL, PSO had been depositing the amount of WPPF every year in compliance of above-mentioned provisions of the Constitution.

The DAC in its meeting held on November 23, 2020 directed the management to expedite the case as per law by taking up the matter with Lahore High Court for seeking clarification.

Audit recommends to take up matter with concerned quarters for early resolution besides distribution of amount to stakeholders.

[DP No. 888]

2.5.6.21 Excess revenue requirement due to less recognition of other income on account of urgent fee – Rs 339.119 million

According to Para 1.4.4 & 1.4.5 of Tariff Regime for Regulated Natural Gas Sector in Pakistan, all revenues directly generated in carrying out the licensed regulated activities other than sale of natural gas shall be treated as operating income. Further, according to Clause 4.16(vi) of Revenue Recognition Policy, income on the urgent fee is recognized when the connection is installed.

During audit of SNGPL for the FY 2019-20, it was observed that the management installed 74,354 meters on urgent fee basis and received an amount of Rs 1,858.850 million on this account. This amount was required to be taken as Other Income in revenue requirement. However, the management recognized only Rs 1,519.731 million in respect of 60,789 meters. Hence, the management short-recognized revenue by Rs 339.119 million. This resulted in excess revenue requirements to extent of Rs 339.119 million in ERR 2019-20.

Audit is of the view that weak financial controls resulted in excess revenue requirement to the tune of Rs 399.119 million.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated January 29, 2021 till the financial year 2017-18 company recognized revenue on receipt basis whereas IFRS 15 was applicable from July 01, 2018. As per the requirements of IFRS 15 receipt against urgent fees was deferred as contract liability and is recognized as income when performance obligation is satisfied i.e on the installation of meter. The reply is not tenable because the Company had installed more meters on urgent fee than reflected in annual accounts.

DAC in its meeting held on January 29, 2021 directed the management to get the stated facts verified from Audit within week. No further progress was reported till finalization of this report.

Audit recommends to justify the matter besides taking remedial action for reversal of excess revenue requirement.

[DP No. 1336]

Value for money and service delivery issues

2.5.6.22 Non-transparent provision of gas connections and inefficiencies in service delivery – Rs 3,395.550 million

According to Clause 7(b) and 35 of Performance and Service Standard issued vide SRO 396(1)/2019 dated February 27, 2019, the company shall provide a link on its website to the applicants enabling them to find out the status as well as merit No. of their applications. According to Clause 26.12 of Sales Manual of SNGPL, OGRA approved the policy of gas connections on urgent fast track basis in February, 2014. The application for domestic gas connection should be 6 months old. Connection should be installed within 03 months from the date of payment of urgent fee bill.

During audit of SNGPL for the FY 2019-20, it was observed that management failed to install meters despite receipt of fee / urgent fee of Rs 3,305.550 million from the applicants. A few illustrative cases are given below:

(Rs in million)

Sr. No.	Cases	Subject/Discrepancies	Amount	DP No.
1	2,398,338	Non-provision of gas connections to applicant despite falling on merit list	-	1334
2	764	Non-action against responsible for non-installation of fast track connection within stipulated time period	19.010	1335
3		Non-transparency in provision of Gas Connection	987.92	1391
4	25177	Non/late installation of meters after receiving urgent fees	629.425	1396
5	1156	Non-issuance of regret/inability letter to provide the service.	28.900	1397
6	19	Non/late finalization of process for provision of RLNG to private housing society	93.385	1330
7	289	Non-taking action in case of complaint of Wafaqi Mohtasib	1,636.910	1332
8	25	Gas pipe line network laid by SNGPL in un-approved/illegal societies	-	1333
		Total	3,395.55	

Audit is of the view that negligence of the management resulted in non-compliance to Performance and Service Standards and grievances of general public could not be redressed.

The matter was reported to the PAO / management in December, 2020.

The DAC in its meeting held on January 18 & 19, 2021 directed the management to provide case to case justification for verification of Audit within a week. DAC further directed the management to provide the fact-finding report on laying of gas pipeline network in unapproved / illegal societies. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides ensuring compliance to Performance and Service Standards.

[Annex as above]

2.5.6.23 Non-completion of augmentation / bifurcation of gas network to enhance gas pressure

According to Regulation 3&4(25) of SRO 396(I)/2019 dated February 27, 2019, all such licenses, carrying out regulated activity of transmission, distribution and sale of natural gas, shall comply with the Performance and Service Standards prescribed in these regulations which entails at Sr. No 25 that the Company shall maintain adequate pressure in transmission pipelines and distribution networks and upgrade system where necessary to ensure supply of contractual volume to its consumers at pressure agreed with them in their relevant agreements.

During audit of SNGPL for the FY 2019-20, it was observed that severe low pressure of natural gas was prevailing in cities like Lahore, Faisalabad, Rawalpindi, Islamabad, Lodhran, Bahawalpur and Multan etc. for several years. However, despite protest by the consumers, the management failed to address the issue. In 513th BoD meeting dated October 31, 2018, the management got approval of BoD for “Augmentation / Bifurcation of gas network in Lahore City, Bahawalpur / Lodhran and Gujrat only” for obtaining budgetary approval from OGRA. Subsequently, the management got approval for Rs 6,009 million from OGRA in February, 2019. However, the approved projects could not be completed and no significant progress was reported despite lapse of almost two years.

Audit is of the view that due to poor planning, the approved projects were

delayed. Hence, problems of end consumers regarding low pressure or non-availability of gas in winter season could not be addressed.

The matter was reported to the PAO / management on January 12, 2021. The management in its reply dated January 29, 2021 reported that the augmentation work is being carried out to address the low pressure of gas in in the city of Lahore, Gujrat and Lodhran.

DAC in its meeting held on January 29, 2021 directed the management to share the job wise progress report within three days and expedite the completion of jobs to address the issue of low pressure. No further progress was reported till finalization of this report.

Audit recommends to share present status of the approved projects besides taking remedial measures for provision of gas supply as per Performance and Service Standards to end consumers.

[DP No. 1436]

Others

2.5.6.24 Pendency of legal cases due to weak pursuance by Law Department – Rs 23,640.91 million

According to Section 19.2 of Billing Manual, Regional Law Officer and / or concerned departmental executive / official will attend Gas Utility / High Court on advice from Company counsel / Regional Law officer for evidence and presenting company's viewpoint effectively and try to save company's interests as far as possible. Further, as per Section 19.9 of the manual *ibid*, Regional Law Officer will arrange / maintain complete history and update of legal cases pending or decided by Courts of Law.

During audit of SNGPL for the FY 2019-20, it was observed that 932 cases involving an amount of Rs 23,640.91 million were pending in various courts of law 2002-03. In other 338 cases involving Rs 240.285 million, the management could not furnish detailed documents for attachment of assets to courts timely. Many of these cases were sine-de-adjourned since period ranging from 240 days to 481 days due to non-provision of documents as detailed in

Annex-9. Further, the management framed faulty SoPs whereby period of about two years was spent for filing of recovery suits within organization. The period of about 18 months was allowed to Billing and Sale section for preparation of cases. In 14 illustrative cases involving amount of Rs 403.577 million, Billing & Sale section submitted documents to the Law department after lapse of period 25 to 29 months.

Audit is of the view that weak pursuance by the management and faulty SoPs for filing recovery suit resulted in huge pendency of cases involving recovery of Rs 23,640.91 million.

The matter was reported to the PAO / management in December, 2020. The management in its reply dated January 15, 2021 stated that a number of steps were being taken to trace the assets of defaulting consumers including but not limited to engagement of asset tracing firm, sharing of information with Credit Information Bureau of SBP and actions as per Gas Act, 2016. The reply is not tenable because the management did not pursue the court cases especially relating to sales / income tax vigorously and more than two and a half year has been lapsed in taking the above-mentioned steps like hiring of asset tracing firms.

The DAC in its meeting held on January 18 & 19, 2021 directed the management to arrange the provision of documents of attachable properties to courts for early recoveries and pursue the court cases vigorously besides revisiting the faulty / lengthy SOP for filing of recovery suits.

Audit recommends to provide updated status of legal cases / recovery suits with aging, details of last hearings / proceedings / next hearings besides pursuing the court cases vigorously.

[DP Nos. 1183, 1317, 1356, 1390 & 1408]

2.5.6.25 Excess claim of finance cost than actually paid on cash security relating to industrial and commercial consumers – Rs 965.211 million

According to Para 6.9 of Sales Manuals, 2% rate of return per annum shall be paid on the cash deposited for security against meter installation by industrial and commercial consumers.

During audit of SNGPL for the financial year 2019-20, it was observed that SNGPL was paying return @ 2% per annum to industrial and commercial consumers on account of their cash security deposit. But contrary to this annual account for FY 2018-19 shows that SNGPL management charged finance cost of Rs 1,024.395 million relating to interest paid on cash security of Rs 25,673.715 million deposited by industrial and commercial consumers. The finance cost charged was @ 4% of security deposit, whereas interest was actually paid @ 2% to industrial and commercial consumer. This resulted in excess claims of finance cost of Rs 965.211, thereby increasing to overall cost.

Audit is of the view that due to weak financial control resulted in excess finance cost was claimed than actual interest paid by company to consumers.

The matter was reported to the PAO / management in December, 2020.

The DAC in its meeting held on January 18 & 19, 2021 directed the management to provide the approval of BoD. DAC also directed the management to update the Manual in the light of decision of BoD.

Audit recommends justifying the matter besides taking remedial action for reversal of excess finance cost.

[DP No. 1357]

2.5.6.26 Unjustified payment of overtime beyond 25% limit - Rs 562.05 million

According to Para 1.14(13) of Admin Manual of SNGPL, all Heads/Regional Heads, Incharge of Transmission offices, Workshops etc. shall ensure that in no way, the annual expense against overtime payments exceed the budgetary limit of 25%. For this purpose, all concerned are required to put in place a system requiring all staff reporting to them to complete their official work during notified timings and also that duties are assigned to them in a manner that all members of staff are fully occupied during working hours so as to eliminate possibility of performance of work slipping over into extra time.

During audit of SNGPL for FY 2019-20, it was observed that the management allowed overtime upto 99% of the basic pay and made excess payment of Rs 562.05 million above permissible limit. The reasons for payment

of overtime however, were not recorded which rendered these payment unjustified. Further, management had granted overtime to 24 employees with payment ranging from 128% to 151% of their basic pay. Most of the vehicles' out time were noticed from 10 am to 12 pm on different days of different months.

Audit is of the view that negligence and inefficiency on the part of management resulted in irregular payment of overtime and loss to the company.

The matter was reported to the PAO / management in September, 2019.

The DAC in its meeting held on January 18 & 19, 2021 directed the management to provide documentary justification for payment of overtime in excess of 25% on case to case basis.

Audit recommends to implement the decision of DAC.

[DP Nos. 892, 1385 & 1413]

2.5.6.27 Wasteful expenditure on account of law charges for cases in which amount had already been recovered - Rs 135.018 million

According to Para 4(d) of Law Manual of SNGPL, on receipt of relevant documents of disconnected/defaulted consumers from Sales and Billing Sections of the Regional Offices, detailed scrutiny of the documents is carried out by the Regional Law Officers in collaboration with (regional recovery committee). The defective/incomplete documents of defaulted disconnected consumers are returned to Regional Sales/Billing Sections for their rectification.

During audit of SNGPL for FY 2019-20, it was observed that management incurred expenditure of Rs 135.018 million on filing legal cases against consumers. These consumers, however, had already paid the defaulted amount but lack of coordination between Billing Department and Legal Department led to filing of cases against these consumers. All these cases were later withdrawn by the company upon realization of their fault. This resulted in wasteful expenditure of Rs 135.018 million.

Audit is of the view that lack of coordination between different departments of the company resulted in wasteful expenditure of Rs 135.018 million.

The matter was reported to the PAO / management in December, 2020.

The DAC in its meeting held on January 18 & 19, 2021 directed the management to get the position relating to actual recovery effected after filing of recovery cases in OTD cases verified from Audit.

Audit recommends to implement the decision of DAC.

[DP No. 1181]

2.6 Sui Southern Gas Company Limited

2.6.1 Introduction

Sui Southern Gas Company Limited (SSGC) is a public limited company incorporated in Pakistan and is listed in Pakistan Stock Exchange. Direct and indirect shareholding of GoP in the company is more than 59.74%.

The main activity of the company is transmission and distribution of natural gas in Sindh and Balochistan. The company is also engaged in certain activities related to the gas business including manufacturing and sale of gas meters, construction contracts for laying of pipelines and transportation of RLNG to SNGPL. SSGC is serving more than 3.070 million consumers in Sindh and Balochistan through an extensive network of pipeline (46,209 KMs). However, the company is facing with the problems of low profitability due to high UFG losses. The company is facing the problems of low profitability due to high UFG losses and failed to finalize its accounts for the FYs 2018-19 and 2019-20 to resolve its issues with the OGRA leading to non-determination of its revenue requirements for the aforesaid financial years.

2.6.2 Comments on Audited Accounts

The audited accounts for the FYs 2018-19 & 2019-20 were not finalized. The working results of the company for the financial year 2017-18 (consolidated) as compared to the previous years are tabulated below:

(Rs in million)

	2017-18	% Inc. / (Dec.)	2016-17	% Inc. / (Dec.)	2015-16
Net Sales	177,404.42	13.23	156,673.00	13.03	138,616.10
Cost of Sales	187,195.88	18.84	157,524.02	(3.62)	163,440.13
Gross profit / (loss)	(9,791.46)	(10.51)	(850.75)	96.57	(24,824.03)
Transmission and Distribution Cost	18,731.61	11.143	16,853.61	4.32	16,155
Administrative and Selling Expenses	4,577.29	3.794	4,409.98	12.44	3,922.00
Other Operating Expenses	5,513.07	66.90	3,303.25	40.56	2,350.10
Other Operating Income	10,791.00	64.50	6,559.59	140.48	2,727.68
Operating profit / (loss)	(5,691.71)	(0.098)	(2,004.39)	(92.93)	(28,368.46)

Other non-operating income	3,399.31	(52.69)	7,185.01	(69.24)	23,354.69
Finance Cost	5,065.11	199.00	1,694	(35.32)	2,618.87
Profit / (loss) before taxation	(10,756.81)	(2.086)	3,485.88	145.67	(7,632.64)
Taxation	4,047.72	101.27	2,011.09	13.51	1,771.75
Profit / (loss) after taxation	(14,804.53)	(9.04)	1,474.79	125.16	(5,860.88)

(Source: Annual Audited Accounts)

- i. Other operating expenses during the year under review increased to Rs 5,513.074 million as compared to Rs 3,303.25 million in 2016-17 registering an increase of 40.55%. This showed that operating cost increased drastically and the management failed to control other operating expenses which needed justification.
- ii. In Note 31 relating to Other Receivables, it was observed that there was an increase in receivables to Rs 149,295.566 million in 2017-18 as compared to Rs 77,318.693 million in 2016-17 registering an increase of 66.90%. This needed to be justified besides taking action for early recovery of receivables.
- iii. The External Auditor had expressed qualified opinion in audit report for the financial year ended June 30, 2018 for amount due from K-Electric Limited (KE) and Pakistan Steel Mills (PSML) and Habibullah Costal Power Company (Private) Limited (HCPCL) and late payment surcharge (LPS) receivable from SNGPL and WAPDA. As disclosed in notes of trade debts 27.1 and 27.2 the consolidated financial statements, trade debts include receivables of Rs 31,948 million as at June 30, 2018 (2017: Rs 32,378 million) from KE and Rs 22,924 million (2017: Rs 22,310 million from PSML respectively. PSML's financial position is adverse, and it has no capacity to repay its obligations on its own. Whereas dispute regarding receivables of Rs 3,787.690 million from HCPCL in FY 2017-18 is still unresolved. As disclosed in note 30, interest accrued includes interest receivable of Rs 6,416 million in 2017-18 (2017 Rs 5,855.468 million) from SNGPL and Rs 3,421 million in 2017-18 (2017 Rs 3,231.947) million from WAPDA. The positions needed justification for non-recovery of outstanding amount from the defaulters.

- iv. Trade Debts of the company stood at Rs 91,608.250 million during the year 2017-18 (Note 27), out of which an amount of Rs 24,178.091 million was secured while remaining huge amount of Rs 67,430.159 million was unsecured. In absence of security against unsecured amount, chances of recovery become doubtful. Efforts may be made to recover the unsecured amount at the earliest besides making this amount as secured, according to the company policy.
- v. As per Note 40 relating to Finance Cost, SSGC had to bear high financial charges amounting to Rs 5,065.105 million in 2017-18 (2016-17 Rs 1694.734 million) showing an increase of 198.87% due to slow pace of recovery from the defaulters which needs improvement.
- viii. During the period under review, the company recorded a net loss after tax of Rs 14,848.526 million in 2017-18 whereas profit after tax of Rs 1,474.795 million was reported in 2016-17, resulting in negative earnings per share of Rs 16.81 which needs justification.

2.6.3 Classified Summary of Audit Observations

Audit observations amounting to Rs 127,155.489 million were raised in this report during the current audit of SSGC. This amount also includes recoveries of Rs 54,289.910 million as pointed out by Audit. Summary of the audit observations classified by nature is as follows:

2.6.4 Overview of Audit Observations

(Rs in million)		
Sr. No.	Classification	Amount
1	Non production of record (Ipara)	-
2	Irregularities	-
A	UFG losses	23,412.321
B	Receivables management	29,442.643
C	RLNG issues	24,506.854
D	Project management	1,500.000
3	Others	48,293.671

2.6.5 Compliance of PAC Directives

Audit Year	No. of directives	Compliance reported	Compliance awaited	%age of compliance
1992-93	10	9	1	90
1994-95	2	1	1	50
2000-01	5	4	1	80
2002-03	8	7	1	88
2003-04	8	6	2	75
2006-07	13	10	3	77
2007-08	11	10	1	91
2010-11	27	23	4	85
2013-14	24	5	19	21
2014-15	05	0	05	0
2016-17	16	05	11	31
2018-19	05	1	04	20
Total	134	81	53	60

The overall compliance of PAC directives needs improvement.

2.6.6 Audit Paras

2.6.6.1 Non-Production of record

According to Section 14(2) of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001, the officer in-charge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete form as possible and with all reasonable expedition. Further, according to the Public Accounts Committee directives, issued vide OM No. F-10(1)/2000/2004-PAC dated June 3, 2004, all PAOs Ministry / Divisions to make available all information/record to Audit as and when required by them, otherwise disciplinary action will be initiated against person(s) responsible for the delay under Section 14(2) of the Auditor General's Ordinance No. XXIII of 2001.

During audit of SSGC for the FY 2019-20, the management did not provide record requisitioned by audit despite repeated verbal / written requests and reminders as detailed at **Annex-10**.

Audit is of the view that non-production of record was violation of Section 14(2) of the Auditor General's Ordinance, 2001 and the directives of PAC.

The matter was reported to the PAO / management in June, 2020. The management in its reply dated January 27, 2021 stated that most of the record was provided. The remaining record was in different format which would be provided in due course of time.

The DAC in its meeting held on January 28, 2021 directed the management to provide the relevant record for scrutiny of Audit within three days. DAC further directed the management to avoid such situation in future.

Audit recommends to implement the decision of DAC besides fixing responsibility.

[DP Nos. 1202, 1265 & 1341]

UFG Losses

2.6.6.2 Loss on account of UFG – Rs 22,254 million

According to Clause 21.1 of the license issued to SSGC by OGRA, the licensee shall take all possible steps to keep the UFG within acceptable limits. The Authority, for this purpose in consultation with licensee and experts, shall fix target of UFG for each financial year. Further, according to Clause 21.3, if the licensee fails to meet the UFG target, the loss on that account shall be borne by the licensee and shall not form part of its total revenue requirements. Further, according to SSGCL manual, the gas in distribution system was measured at sales meter station (SMS) and then was transferred to town border stations (TBSs) from where the gas was provided to end consumers (consumer meter stations-CMS). Reconciliation at each stage was required, to know the actual point of leakages / misuse / loss of gas.

During audit of SSGC for the FY 2019-20, it was observed that as per OGRA decision dated February 27, 2019, UFG losses @ 6.9% were provisionally allowed to SSGC for the FY 2019-20, whereas UFG recorded by

the company during the same period was 16.94%. Hence, out of total UFG amounting to Rs 37,534 million, an amount of Rs 15,279 million was allowed by OGRA for passing onto the consumers whereas the remaining loss was to be borne by the company. Further, management failed to control UFG due to loose control over in respect of 06 Sales Metering Stations, Belpat, Mach, Quetta / Rakhshan Spezend, D.M. Jamali, Khairpur and Ghotki where UFG reported 56.64%, 55.78%, 48.63%, 36.45%, 26.93% and 22.39% respectively. This resulted in loss on account of UFG of Rs 22,254 million as detailed below:

(Rs in million)

Region	Purchase (MMCF)	Sale (MMCF)	Actual UFG (MMCF)	UFG %	Net UFG (MMCF)	Net UFG Loss
Balochistan	41,514	17,725	23,789	57.30	20,925	10,860
Interior Sind	76,500	64,954	11,546	15.09	6,269	3,254
Karachi	296,521	260,383	36,138	12.19	15,684	8,140
Total	414,535	343,062	71,473	84.58	42,878	22,254

Audit is of the view that ineffective implementation of UFG reduction plan and KMI(s) resulted in UFG losses of Rs 22,254 million.

The matter was reported to the PAO / management in October, 2020. The management in its reply dated January 27, 2021 stated that UFG had reduced considerably due to various steps taken by SSGC.

The DAC in its meeting held on January 28, 2021, directed the management to take concrete measures to reduce the UFG losses to bring them within the allowable limits of OGRA besides considering the bifurcation of gas network and to submit the report to Audit within three months.

Audit recommends to ensure effective implementation of UFG reduction plan and KMIs to minimize UFG losses besides implementation of the decision of DAC.

[DP Nos. 1240, 1266 & 1270]

2.6.6.3 Loss of gas due to delay in completion of rehabilitation / reinforcement schemes - Rs 817.908 million

According to Clause 21.1 of the License issued by OGRA for transmission, distribution and sale of natural gas granted to SSGC, the licensee shall take all possible steps to keep the UFG within acceptable limits.

During audit of SSGC for the FY 2019-20, it was observed that the management planned to replace pipelines in various areas of Karachi to control leakages of gas. However, the rehabilitation / reinforcement schemes either remained incomplete or were completed after delay ranging from one to five years. This resulted in loss of 2,352,799 MMCF of gas amounting to Rs 817.908 million.

Audit is of the view that poor project management resulted in delay in completion of rehabilitation / reinforcement schemes causing loss of Rs 817.908 million on account of UFG.

The matter was reported to the PAO / management in September, 2020. The management in its reply dated January 27, 2021 stated that the actual completion time was one year and not 6 months however, service installation and meter shifting work was also in process.

The DAC in its meeting held on January 28, 2021, directed the management to devise a mechanism for timely execution of work and provide approved copy of SOPs for award of ditching and backfilling work to builders / contractors. DAC further directed the management to blacklist the defaulting contractors besides probing the matter to ascertain the inordinate delay on case to case basis.

Audit recommends to implement the decision of DAC.

[Annex-11]

2.6.6.4 Loss due to gas theft by registered / non-registered consumers – Rs 340.413 million

According to Paras 462D and 462E of Chapter XVII-A of Gazette of Pakistan, dated December 02, 2011, tampering with gas meters by consumers, whether to commit theft of gas or for the purpose of unauthorized distribution or supply of gas shall be punished with imprisonment for a term which may extend to six months or fine which may extend to one hundred thousand rupees or both and in case of industrial and commercial consumers, imprisonment which may extend to ten years but shall not be less than five years or fine which may extend to five million rupees or both.

During audit of SSGC for the FY 2019-20, it was observed that the management detected 134,220 cases of gas theft amounting to Rs 164.925 million by registered consumers and 9,263 cases of gas theft amounting to Rs 175.488 million by un-registered domestic consumers. However, the management neither registered any FIR nor recovery suits were filed in Gas Utility Courts against the pilferers. Similarly, 133,750 PUG meters were replaced by Customer Relation Department but no action was taken by the management against consumers for meter tampering. This resulted in loss of Rs 340.413 million to the company due to gas theft.

Audit is of the view that weak internal controls resulted in loss of Rs 340.413 million due to theft of gas.

The matter was reported to the PAO / management in October 2020. The management in its reply dated January 27, 2021 stated that claims of 41 cases amounting to Rs 11.901 million were accepted whereas 31 cases involving an amount of Rs 19.889 were pending in courts. The management further explained concerns about non-registration of FIRs in respect of unregistered gas consumers. Moreover, consumption pattern of all replaced meters were auto compared on monthly basis and PUG claims were raised.

The DAC in its meeting held on January 28, 2021, directed the management to get the recovered amount verified by Audit, expedite the recovery of balance amount, pursue the court cases vigorously and reconcile the data with Audit. DAC further, directed the management to take up the matter

with IG Sindh regarding non-lodging of FIRs by the Police and devise a mechanism for lodging of FIRs against non-consumers in the Police Station of SSGCL and to provide 100 cases of each region for verification of action taken by the management against PUG meters.

Audit recommends to implement the decision of DAC.

[DP Nos. 1264, 1267, 1268, 1269 & 1347]

Receivables management

2.6.6.5 *Non-recovery of trade debt receivables from power sector customers - Rs 28,019.150 million*

According to Para 4.4.1 of Natural Gas Consumer Service Manual, 2011 read with Para 4.4.7 of ibid and Para 9.04(b) of Procedure of SSGC, the supply is disconnected if the customer commits a default in the payment of two consecutive monthly bills. As per SSGC Recovery Policies / Procedures, disconnection gets due when age of debt exceeds 90 days and amount is more than Rs 3,000.

During audit of SSGC for the FY 2019-20, it was observed that an amount of Rs 28,019.150 million was lying outstanding against various customers as on June 30, 2020. The detail is as under:

(Rs in million)				
Sr. No.	Unit	Region	Name of Company	Outstanding as June 30, 2020
1	A	Karachi	Pakistan Steel	24,331.957
			K.E	36.519
			K.E. RLNG	3.100
			DHA Cogen	3,084.781
			FFC (Fertilizer & Power)	557.137
2	B	Interior Sindh	Wapda	4.026
3			Nooriabad Power	0.722
4	C	Quetta	Wapda	0.216
5			Coastal Power	0.692
Total:				28,019.150

Audit is of the view that weak receivables management resulted in non-recovery of outstanding dues amounting to Rs 28,019.150 million

The matter was reported to the PAO / management in October 2020. The management in its reply dated January 27, 2021 stated that Rs 18.6 million and Rs 557 million had been recovered from Pakistan Steel Mills and FFC and was verified by Audit. Recovery suit in respect of DHA Cogen was pending.

The DAC in its meeting held on January 28, 2021, directed the management to expedite the recovery of balance amount and pursue the court case vigorously in respect of DHA Cogen. DAC further directed the management to expedite the recovery of the remaining cases.

Audit recommends to implement the decision of DAC.

[DP Nos. 1257 & 1258]

2.6.6.6 Non-recovery of outstanding gas charges from defaulters – Rs 1,423.493 million

According to Paras 4.4.1 and 4.4.7 of Natural Gas Consumer Service Manual, 2011 read with Para 9.04(b) of Procedure of SSGC, the supply is disconnected if the customer commits a default in the payment of two consecutive monthly bills or where outstanding amount is not secured by the Gas Security Deposit (GSD) or surpass the GSD amount. Further, according to SSGC Recovery Policies / Procedures, disconnection gets due when age of debt exceeds 90 days and amount is more than Rs 3,000.

During audit of SSGC for the FY 2019-20, it was observed that the management failed to recover outstanding gas charges of Rs 1423.493 million from 2,409 customers/defaulters. Further, the management did not retain sufficient security deposits covering the gas charges of anticipated consumption which prevented recovery of outstanding amount. Resultantly, an amount of Rs 1,423.493 million was recoverable from these customers.

Audit is of the view that weak internal controls resulted in non-recovery of outstanding amount of Rs 1,423.493 million from customers / defaulters.

The matter was reported to the PAO / management in October, 2020. The management in its reply dated January 27, 2021 stated that an amount of

Rs 186.641 million had been recovered out of which Rs 60.578 million were verified by Audit. The management further explained that three cases involving Rs 81.022 million were fixed for hearing in court on January 28-30, 2021.

The DAC in its meeting held on January 28, 2021, directed the management to get the recovered amount verified from Audit and expedite the recovery of balance amount. DAC further, directed the management to pursue the court cases vigorously and update Audit.

Audit recommends to implement the decision of DAC.

[Annex-12]

RLNG related issues

2.6.6.7 Non-recovery of terminal charges, cost of supply of gas and LSA margin from SNGPL - Rs 24,506.854 million

According to Clause 16 of Gas Transportation Agreement (GTA) between SSGCL and SNGPL, SNGPL shall pay each tariff invoice to SSGC by the 7th day following receipt of the tariff invoice. If the full amount of any undisputed tariff invoice is not paid when due, SNGPL shall pay a delayed payment charge to SSGC at the rate of 1 month KIBOR plus 2%.

During audit of SSGC for the FY 2019-20, it was observed that management failed to recover an amount of Rs 24,506.854 million (pertaining to FY 2019-20) from SNGPL on account of terminal charges, regasification charges, cost of supply of gas and LNG Sale Agreement margin. The issue was unresolved since 2017. The detail is as below:

(Rs in million)

Particulars	Invoice amount	Total payments	Total receivable
Terminal charges	18,127.178	157.072	17,970.106
Cost of supply	5,684.340	127.175	5,557.165
LSA margin	1,012.331	32.747	979.583
Total	24,823.849	316.994	24,506.854

Audit is of the view that poor receivable management resulted in non-recovery of outstanding dues of Rs 24,506.854 million from SNGPL.

The matter was reported to the PAO / management in October 2020. The management in its reply dated January 27, 2021 stated that a meeting was conducted at SSGCL Head Office with SNGPL management and Petroleum Division to resolve the issue pointed out by the Audit.

The DAC in its meeting held on January 28, 2021, directed the management to take up the matter with Petroleum Division (DG Gas) for early resolution and update Audit within one week. DAC further directed the management to reconcile the receivables / payables with SNGPL.

Audit recommends to implement the decision of DAC besides improving receivables management.

[DP No. 1251]

Project management

2.6.6.8 Non-Finalization of capital work in progress – Rs 1,500 million

According to minutes of the 106th meeting of the Board Audit Committee held on December 13, 2019, the Board Audit Committee gave deadline to the management to complete the Old CWIP (Capital Work in Progress) outstanding up to 2009-2010 by March 2020.

During audit of SSGC for the FY 2019-20, it was observed that management could not finalize capital work in progress pending since FY 2009-2010. Out of CWIP amounting to Rs 5,000 million, the management could only complete jobs of Rs 3,500 million. This resulted in non-finalization of CWIP amounting to Rs 1,500 million since 2009-2010.

Audit is of the view that weak project management resulted in non-finalization of CWIP amounting to Rs 1,500 million.

The matter was reported to the PAO / management in November 2020. The management in its reply dated January 27, 2021 did not submit proper justification.

The DAC in its meeting held on January 28, 2021, directed the management to provide detailed justification for non-finalization of capital work along with supporting documents for verification by Audit. DAC further directed the management to expedite the finalization of capital work in progress.

Audit recommends to implement the decision of DAC besides taking steps for early completion of jobs and improving project management.

[DP No. 1363]

Others

2.6.6.9 Short supply of natural gas to SNGPL in swapping arrangement – Rs 35,176.833 million

According to Section 3 & 4(4) of Natural Gas Regulated Third Party Access (TPA) Rules, 2012 read with GTA executed between SNGPL and SSGC, transportation service consists of taking delivery of the gas available by a shipper at one or more entry points along the gas pipeline transportation system and delivering an equivalent quality of gas to shipper. Transporter shall arrange to deliver gas at exit point to shipper and shall provide facilities including measurement equipment at exit point.

During audit of SSGC for the FY 2019-20, it was observed that SSGC had swapping arrangement with SNGPL. As per the arrangement, received RLNG from M/s EETL and supplied SNGPL natural gas in return of RLNG. However, SSGC transferred less natural gas against RLNG to SNGPL during 2015-16 to 2017-18. Hence, there was short supply of 27,059,103 MMBTU of gas amounting to Rs 35,176.833 million (27,059,103 MMBTU @ RLNG average price Rs 1300 per MMBTU).

Audit is of the view that non-resolution of RLNG related issues resulted in short supply of natural gas amounting to Rs 35,176.833 million.

The matter was reported to the PAO / management in November, 2020. The management in its reply dated January 27, 2021 stated that this was the energy imbalance caused due to High GCV of RLNG. The matter was being

taken up with ECC and an agreement with SNGPL was initialled for energy imbalance from June, 2020. The subject issue was also included in the TORs of consultant to be hired by OGRA.

The DAC in its meeting held on January 28, 2021 directed the management to pursue the matter with the relevant forum for early resolution.

Audit recommends to take steps for resolution of the matter besides implementation of the decision of DAC.

[DP No. 1360]

2.6.6.10 Unnecessary procurement due to non-utilization of inventory - Rs 12,405.899 million

According to Para 5.8 of Stock Classification and Levels SOPs, it will be the responsibility of the Store Officer / Senior Store Officer to obtain annually in March every year, a computerized statement of the items not consumed during the last 12 months or where consumption is below the expected level, and to approach the consumer department for revision of stock quantities wherever necessary.

During audit of SSGC for the FY-2019-20, it was observed that certain inventory items valuing Rs 12,405.899 million had been lying unutilized for a period ranging from 3 years to 20 years. This showed that the management had made unnecessary procurements which resulted in subsequent blockage of funds due to surplus/unutilized inventory of Rs 12,405.899 million.

Audit is of the view that poor inventory management resulted in surplus inventory causing blockage of funds of Rs 12,405.899 million.

The matter was reported to PAO / management in October, 2020. The management in its reply dated January 27, 2021 stated that items were not dormant and would be required any time.

The DAC in its meeting held on January 28, 2021 directed the management to provide ageing of the unutilized inventory and dispose of surplus

items besides ascertaining reasons for non-utilization of inventory and share the outcomes with Audit within one month.

Audit recommends to implement the decision of DAC besides improving inventory management.

[DP Nos. 1338, 1353, 1377, 1379 & 1403]

2.6.6.11 Loss due to rejection of meters – Rs 442.506 million

According to Section 4.1 of Meter Manufacturing Plant of SSGCL (Quality Control Section) dated January 11, 2019, in-charge (QC) is responsible to decide the acceptance/rejection of lot on the basis of the lot inspection reports and counter inspection of all the non-confirming parts of the sample and their functional behaviour using acceptance quality level (AQL) for each meter parts as described in sample criteria. When required In-charge (QC) discusses with In-charge (MMP) before deciding a lot for its acceptance or rejection, then the In-charge (STR) is informed about the decision of the lot through the delivery advice having the remarks for acceptance/rejection with the reasons and the sample is returned to store.

During audit of SSGC for the FY2019-20, it was observed that annual calibration report of gas meters manufactured showed that 54,528 out of 273,769 G-4 meters and 39,073 out of 232,718 G-16 meters were rejected during inspection. The rejection rate was 19.91% for G-4 and 16.79% for G-16 which reflected defective production processes. This resulted in loss of Rs 442.506 million.

Audit is of the view that weak supervisory controls resulted in rejection of defective meters amounting to Rs 442.506 million.

The matter was reported to the PAO / management in September 2020. The management in its reply dated January 27, 2021 stated that no additional cost was incurred for re-work of meter.

The DAC in its meeting held on January 28, 2021 directed the management to conduct a fact finding inquiry to ascertain reasons for rejection of G-4 and G-16 meters and share the outcomes with Audit within one month.

Audit recommends to implement the decision of DAC.

[DP Nos. 1234 & 1239]

2.6.6.12 Unjustified payment of overtime to the employees - Rs 268.433 million

According to Clause 5(i) of Corporate Governance Rules, 2013, the Directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with sense of objective judgment and in the best interest of the company. This provision shall apply to all Directors, including ex officio directors.

During audit of SSGC for the FY2019-20, it was observed that management paid overtime to the employees without circular / schedule of overtime and fixation of targets. Further, overtime was paid for the period when the meter production plant was shut and offices were closed due to COVID-19. This resulted in unjustified payment of Rs 268.433 million to the employees on account of overtime.

Audit is of the view that weak internal controls resulted in unjustified payment of overtime amounting to Rs 268.433 million.

The matter was reported to the PAO / management in September, 2020. The management in its reply dated January 27, 2021 stated that the amount of overtime did not pertain to the production closure period. The reply is not tenable as the management did not provide any documentary evidence in support of its stance. Further, no justification of overtime payment in other cases was provided.

The DAC in its meeting held on January 28, 2021, directed the management to provide documentary justification for payment of overtime on case to case basis.

Audit recommends to implement the decision of DAC.

[DP Nos. 1231, 1232, 1342, 1355 & 1402]

2.7 Pakistan LNG Limited (PLL)

2.7.1 Introduction

Pakistan LNG Limited (PLL) was incorporated in Pakistan as a public company on December 11, 2015 under the Companies Ordinance, 1984 (now Companies Act, 2017). The principle activity of the company is to import, transport, market and distribute Liquefied Natural Gas (LNG). The company started its commercial operations on January 04, 2018. The company is wholly owned by Government Holdings (Private) Limited. The company has awarded contract to M/s Gunvor and M/s ENI SPI (the sellers) for purchase and import of one (01) LNG cargo per month from each seller for a period of five years and fifteen years respectively.

2.7.2 Comments on Audited Accounts

The financial results of the company for the year 2018-19 as compared to the previous years are tabulated below:

(Rs in million)

Particulars	2018-19	% Inc / (Dec)	2017-18
Revenue	179,477.667	143.73	73,638.109
Cost of Sales	173,419.392	146.15	70,451.764
Gross Profit	6,058.275	90	3,186.345
Administrative Expenses	179.693	19	150.578
Other Income	393.516	217	124.222
Exchange Loss	3,595.795	368	768.760
Finance Cost	924.746	84	503.084
Profit / (Loss) before Tax	1,751.556	(7)	1,888.145
Taxation	1,891.865	121	857.115
Profit / (Loss) after Tax	140.309	(86)	1,031.030

(Source: Annual Audited Accounts)

- i. The sales of the company increased by 143% and cost of sales increased by 146%. This shows an increasing trend in cost of sales vis-à-vis sales. It needs to be justified.
- ii. While making payment for cost of LNG, the company ignored the prescribed cap of US\$ 500,000. Excess payment of port charges was neither

lodged with the suppliers nor booked as receivables in final accounts which needs to be justified.

- iii. In FY 2018-19, exchange rate differences between the issuance of invoice and date of payment led to a loss of Rs. 3,595.795 million. No tangible efforts were made to recover the loss. It needs to be justified.
- iv. The finance cost increased by 84% in 2018-19 as compared to FY 2017-18 which needs justification.
- v. Profit before tax is decreased by 7% in FY 2018-19 as compared to FY 2017-18 which needs to be justified.
- vi. Debt-equity ratio of the company is 55. Higher ratio indicates that company relied on external financing for operations. Therefore, company is at higher risk which needs to be justified.

2.7.3 Classified Summary of Audit Observations

Audit observations amounting to Rs 50,423.699 million were raised in this report during the current audit of PLL. This amount also includes recoveries of Rs 34,008.684 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

2.7.4 Overview of Audit Observations

(Rs in million)		
Sr. No.	Classification	Amount
1	Reported cases of fraud, embezzlement and misappropriation	1.703
2	Irregularities	-
A	Contract / Project management	20,426.525
B	Receivables management	10,584.527
C	Procurement related irregularities	10,706.417
3	Others	8,704.527

2.7.5 Audit Paras

Reported cases of fraud, embezzlement and misappropriation

2.7.5.1 Doubtful / irregular payments to different customers in two different bank accounts - Rs 3.876 million

PLL entered into an agreement with M/s East West Consultant International Ltd (EWCI Ltd), on January 13, 2017 for US\$ 193,855. The agreement was valid up to June 30, 2017 extendable on mutual consent. The agreement was extended for one year after 11 months from May 16, 2018 in the name of M/s FGE which was the parent company of M/s EWCI Ltd.

During audit of PLL for the FYs 2018-20, it was observed that the management entered into an agreement and extended its agreement for one year (after 11 months from May 16, 2018 for US\$ 10,000) with M/s FGE instead of M/s EWCI which was the original party to the contract. The management issued bank advice of US\$ 13,010 on April 18, 2018 to MCB Bank in favor of M/s FGE Ltd under the beneficiary account No. 451-906-629-1 against commercial consultancy services. Subsequently, PLL management paid another claim of US\$ 10,198 on November 22, 2018 against invoice No. LTD/A-103/18 dated October 02, 2018 in the name of M/s FGE having beneficiary name M/s KPAI GNADOU C/O Facts Global Energy Ltd and having bank account No. 36167121 for the payment of commercial consultancy services for US\$ 10,198. This resulted in doubtful payment of US\$ 23,208 (equivalent to Rs 3.876 million).

Audit is of view that poor contract management and weak internal controls resulted in extension of contract with M/s FGE instead of M/s EWCI Ltd. and payment to beneficiaries which were not party to the original contract. Hence, international payment of Rs 3.876 million was considered doubtful / irregular by Audit.

The matter was reported to the PAO / management on October 23, 2020. The management in its reply dated November 27, 2020 stated that payment of US\$ 13,010 was made to the same organization against a revised invoice. Further, the second payment amounting to US\$ 10,198 was made erroneously to a bank account after hacking of PLLs email communication, which resulted in

hackers obtaining confidential email communications, related to payment against an FGE invoice and intercepted that communication.

The DAC in its meeting held on December 01, 2020 directed the management to probe the matter within one month. DAC settled the para to the extent of US\$ 13,010. No further progress was reported till finalization of this report.

Audit recommends to investigate the matter and fix responsibility for this doubtful payment besides devising a policy to improve contract management and internal controls.

[DP No. 933]

Contract / Project management

2.7.5.2 Non recovery of losses / damages from PLTL since 2018 -Rs 14,594 million

According to Clause 8.1 of Terminal Use and Regasification Agreement (TURA), save to the extent permitted by this Agreement, the scheduled commercial start date shall not be later than the June 30, 2017. Further, as per Clause 8.8 of OSA shall be deemed to have been incorporated here mutatis mutandis and shall be subject to the provisions of Clause 39.2.2 wherein the amounts for which a Party may be liable pursuant to any provision of this agreement which expressly provides for the payment of liquidated damages or a liquidated sum shall not exceed in aggregate US\$ 50,000,000 ("LDs Cap"). Further, the PLTL vide its letter No. PLTL-2017/PLL/1264 dated November 10, 2017 got confirmed the arrangement of commissioning of cargo with the consent that it would bear all cost associated with commissioning of the Terminal.

During audit of PLL for the FY 2018-20, it was observed that PLL management claimed that it had suffered revenue loss due to delay in completion of project, losses due to leakage / vantage of LNG, deferment of cargoes, devaluation of deferred cargoes and demurrage charges etc. The total claim of US\$ 87,390,647 (equivalent to Rs 14,594 million) was lodged by PLL on PLTL but it was never pursued for recovery since 2018 till time of audit.

Audit is of view that poor financial management resulted in non-recovery of losses and causing delay in payment since 2018 to date.

The matter was reported to the PAO / management on October 19, 2020. The management in its reply dated November 27, 2020 stated that PLL duly communicated its demand for damages to PLTL along with detailed summary of damages and evidences related to the actual damages incurred. No further progress was reported till finalization of this report.

The DAC in its meeting held on December 01, 2020 directed the management to pursue the case with PLTL vigorously.

Audit recommends to pursue the recovery from PLTL.

[DP No. 920]

2.7.5.3 *Loss due to non-finalization of Gas Sale and Purchase Agreement (GSPA) and change in delivery window –Rs 3,475.895 million*

According to Section 5.1 of the initialled GSPA,2017 b/w SNGPL and PLL, the Annual Delivery Plan (ADP) equivalent to the Firm Gas Allocation shall, in addition to other requirements of this agreement, be prepared by the buyer in consultation with the seller taking account of, inter alia, the requirements of the Government Power Projects, other Power Projects, scheduled LNG imports, available re-gasification terminal capacity, shipping schedule, SSGC's pipeline transport capacity etc. and which shall be finalized one hundred five (105) days prior to the start of each year (broken-down into monthly and weekly delivery schedules).

During audit of PLL for FYs 2018-20, it was observed that as per initialled GSPA, SNGPL raised demand 105 days in advance and PLL raised tender according to the demand but got final re-confirmation from SNGPL before issuance of confirmation notices of supplies of LNG to the supplier. However, in certain cases, SNGPL reduced the demand of gas after short listing of the LNG supplier by PLL. Resultantly, PLL management had to reschedule the delivery of shipments from one window to the other and had to bear extra payment of US\$ 28,197,826 (equivalent to Rs 3,475.895 million). PLL had to pay the extra cost of LNG due to change in Brent rates in addition to exchange

loss due to change in parity of US\$ to Rupee when supply was shifted from 1st agreed window to the other window. Due to non-existence of GSPA, SNGPL was not taking LNG as per raised demand hence, it resulted in loss of Rs 3,475.895 million for PLL.

Audit is of the view that non-finalization of GSPA resulted in supply of LNG to SNGPL without any firm commitment and obtaining of SBLC against committed quantity of LNG. Hence, loss of Rs 3,475.895 million was caused to PLL.

The matter was reported to the PAO / management on October 23, 2020. The management in its reply dated November 27, 2020 stated that cargo was rescheduled due to sudden decrease in SNGPL's demand.

The DAC in its meeting held on December 01, 2020 directed the Petroleum Division to finalize the GSPA with SNGPL and make the measures for firming of demand by SNGPL.

Audit recommends to implement the decision of DAC.

[DP No. 931]

2.7.5.4 Irregular reimbursement of other charges to LNG sellers – Rs 2,231 million

As per Para 18 of Confirmation Notice for LNG (Delivered Ex-Ship) Cargo, anything additional to the port charges will be treated separately and will be to seller's account. For the avoidance of doubt, port charges shall not include any additional charges or expenditure that may become payable by the seller in connection with the use of discharge port or receiving facilities including for additional tugs, pilotages, towage, escort or watch vessel immigration and custom clearance and any surcharges shall be to the seller's account and shall not be reimbursed by buyer". The same definition was inserted in clause 1.1 of the Master Sale Purchase Agreement (MSPA).

During audit of PLL for the FYs 2018-20, it was observed that M/s PQA, Karachi was charging US\$ 630,189 per call on average basis which included berth age, pilotage, pilotage attendance, standby tug charges, escorting, mooring

boat, penalties on account of different violations of PQA instructions / guidelines and standards, channel development charges, pipeline charges, and sales tax. It is pertinent to mention that only pilotage plus towage were allowed as per definition of port charges which must be within the maximum benchmark of US\$ 500,000 per call. However, PLL management reimbursed US\$ 13.279 million for 102 consignments over and above the maximum benchmark of US\$ 500,000 per call. This resulted in excessive reimbursement of US\$ 13.279 million equivalent to Rs 2,230.918 million (US\$ 13,279,274 for 102 calls x Rs 168 exchange rate) to the sellers making LNG more expensive for the end users.

Audit is of the view that non-compliance of MSPA resulted in irregular reimbursement of other charges of Rs 2,230.918 million to LNG sellers.

The matter was reported to the PAO on October 23, 2020. The management in its reply dated November 27, 2020 stated that PLL is pursuing the matter with all LNG suppliers for reconciliation and related port charges adjustments. Further, the management explained that the Inquiry Committee had already been constituted by the Petroleum Division on the issue.

The DAC in its meeting held on December 01, 2020 directed the management to share the findings of inquiry committee with Audit besides recovery of amount.

Audit recommends to recover the amount besides fixing responsibility for the lapse.

[DP No. 937]

2.7.5.5 Excess payment of port charges - Rs 125.630 million

According to SRO 70(KE)/2010 dated June 17, 2010 of Ministry of Maritime Affairs (Port Qasim Authority) amended from time to time, port charges shall be collected at the prescribed rates.

During audit of PLL for the FYs 2018-20, it was observed that PLL paid port charges on provisional basis at the discharge port as per Master Sale Purchase Agreement (MSPA) which were later on to be adjusted against the actual port charges claims lodged by the PQA from time to time. Further, it was observed that PLL made payment of provisional port charges against invoice of

the seller but it was not adjusted later on against the actual claims lodged by PQA resulting in excess payment of US\$ 912,214 (equivalent to Rs 125.630 million) from December, 2017 to June 30, 2020.

Audit is of view that weak managerial controls resulted in excess payment of port charges of Rs 125.630 million as actual bill of port charges was less than the provisional assessment of port charges.

The matter was reported to the PAO / management on October 23, 2020. The management in its reply dated November 27, 2020 stated that PLL was in the process of final adjustments with respective suppliers. Further, management explained that the inquiry committee had already been constituted by the Petroleum Division on the issue.

The DAC in its meeting held on December 01, 2020 directed the management to share the findings of Inquiry Committee with Audit besides recovery of amount.

Audit recommends to recover the amount along with mark-up besides fixing responsibility for the lapse.

[DP No. 927]

Receivables management

2.7.5.6 Non recovery of interest/ LPS by PLL on delayed payments from SNGPL – Rs 5,928.611 million

According Section 9.5 of the Gas Sale and Purchase Agreement (GSPA), if payment of any bill rendered by the seller to buyer is not made by the due date, a late payment surcharge calculated at the delayed payment rate shall be applicable on any outstanding amount (one month Kibor plus two percent per annum, calculated for the actual number of days which the relevant amount remains unpaid on the basis of 365 days).

During audit of PLL for the FY 2018-20, it was observed that PLL received late payments of invoices raised to SNGPL on account of sale of RLNG; however, no interest was claimed thereon as per clause referred to above.

Thus, PLL suffered a loss of Rs 5,928,610,967 from July 01, 2017 to June 30, 2020 on account of non-realization of interest.

Audit is of view that due to poor financial management, PLL did not claim interest on late payments amounting to Rs. 5,928.611 million as per clause of initialled GSA which caused loss to the company.

The matter was reported to the PAO / management on October 19, 2020. The management in its reply dated November 27, 2020 stated that PLL was pursuing the issue with SNGPL and other stakeholders for recovery of LPS.

The DAC in its meeting held on December 01, 2020 directed the Petroleum Division to place the matter before the Committee of Cabinet constituted on Circular Debt issue.

Audit recommends to recover the late payment surcharge from SNGPL besides improving financial management.

[DP No. 921]

2.7.5.7 Exchange loss due to non-finalization of Gas Sales and Purchase Agreement (GSPA) – Rs 4,655.916 million

According to Clause 5(1) & (5) of Corporate Governance Rules, 2013, the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company. Further, as per para 9.3 of article IX of Gas Sale and Purchase Agreement (GSPA), the buyer shall pay all bills, inclusive of sales tax and all duty and levies pertaining to gas consumption in terms of section 9.1 within 5 days from the day of issuance or receipt whichever is later of the bill (the “due date”).

During audit of PLL for the FYs 2018-20, it was observed that timely payments were not being received by PLL from SNGPL due to delayed payments made by IPPs on account of sale of RLNG as there was no Gas Sales and Purchase Agreement (GSPA) among the parties. It was noticed that due to delayed payments by SNGPL, PLL had to suffer exchange loss of Rs 4655.916 million. Moreover, outstanding dues of SNGPL with PLL were Rs 30,237.797

million as on September 01, 2020 which related to the period from June 24, 2020 to onward.

Audit is of the view that non-finalization of GSPA and weak receivable management resulted in exchange loss and delay in payment of dues from SNGPL.

The matter was reported to the PAO / management on October 23, 2020. The management in its reply dated November 27, 2020 stated that PLL, vide numerous letters had requested OGRA to allow exchange loss to be passed on through the RLNG price.

The DAC in its meeting held on December 01, 2020 directed the Petroleum Division to resolve the issue in consultation with Cabinet Division.

Audit recommends to resolve the issue in consultation with Cabinet Division.

[DP No. 930]

Procurement related irregularities

2.7.5.8 Loss due to poor planning for import of LNG cargoes - Rs 7,732.697 million

According to Rule 5 of Corporate Governance Rules, 2013, the Board shall establish a system of sound internal controls to ensure compliance with the fundamental principles of probity, propriety, objectivity, integrity and honesty so that company assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage.

During audit of PLL for the FYs 2018-20, it was observed that the management opened tenders of spot cargo in November, 2020 for month of December, 2020 and awarded contracts @ US\$ 6.78 per MMBTU. It was pertinent to mention that the LNG prices were US\$ 4.38 per MMBTU in June for the December supply but LNG spot cargoes were not purchased to get the benefit of lower prices. The management failed to keep in view the historical consumption trend in winter season as well as price trend in international market as the LNG prices were constantly increasing from July to October, 2020. Hence, due to poor planning and decision making tenders for the import of LNG

were issued with delay and contracts were awarded at higher rates. This resulted in loss of Rs 7,732.697 million.

Audit is of view that poor planning of the management resulted in purchase of LNG cargoes at higher rates causing loss of Rs 7,732.697 million to the national exchequer.

The matter was reported to the PAO / management on January 04, 2021.

DAC in its meeting held on January 19, 2021, the management explained that the procurement of LNG was dependent on the certainty of demand from SNGPL and the matter of demand was beyond the control of PLL. DAC directed the Petroleum Division to devise a comprehensive mechanism for obtaining firm demand from all the stakeholders well in time for orderly procurement of LNG. Power Division may also be consulted and share the report with Audit. The bottlenecks confronted during spot LNG procurement may also be resolved.

Audit recommends to investigate the matter and fix responsibility.

[DP No. 1311]

2.7.5.9 Loss due to mismanagement in import of LNG cargoes - Rs 1,659.744 million

According to Clause 5 of Corporate Governance Rules, 2013, the Board shall establish a system of sound internal controls to ensure compliance with the fundamental principles of probity, propriety, objectivity, integrity and honesty so that company assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage.

During audit of PLL for the FYs 2018-20, it was observed that the management opened tenders for import of LNG spot cargoes in July and August, 2020 for delivery in the month of August, 2020 and made the contracts @ US\$ 2.23 & US\$ 2.29 per MMBTU. The management also opened tenders in August, 2020 (for delivery in August) and September, 2020 (for delivery in September) and awarded contracts @ US\$ 3.63 & US\$ 4.65 per MMBTU respectively. The management should have tendered all the cargoes for August and September delivery in July to get the benefit of lower rates. However, due to mismanagement and unnecessary delay in tendering, the contracts were awarded

at higher rates. This resulted in loss of Rs 1,659.744 million to the national exchequer.

Audit is of view that mismanagement in the import of LNG and poor decision making resulted in purchase of LNG cargoes at higher rates causing loss of Rs 1,659.744 million.

The matter was reported to the PAO / management on January 04, 2021.

DAC in its meeting held on January 19, 2021, the management explained that the procurement of LNG was dependent on the certainty of demand from SNGPL and the matter of demand was beyond the control of PLL. DAC directed the Petroleum Division to devise a comprehensive mechanism for obtaining firm demand from all the stakeholders well in time for orderly procurement of LNG. Power Division may also be consulted and share the report with Audit. The bottlenecks confronted during spot LNG procurement may also be resolved. No progress was reported till finalization of Audit Report.

Audit recommends to investigate the matter and fix responsibility.

[DP No. 1310]

2.7.5.10 Poor planning for import of LNG cargoes resulting in high prices and gas shortage - Rs 1,313.976 million

According to Rule 5 of Corporate Governance Rules, 2013, the Board shall establish a system of sound internal controls to ensure compliance with the fundamental principles of probity, propriety, objectivity, integrity and honesty so that company assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage.

During audit of PLL for the FYs 2018-20, it was observed that the management floated tenders for six cargoes for delivery during January 8, 2021 to February 1, 2021, against a demand raised by SNGPL vide letter dated October 26, 2020. The tenders were opened on December 10, 2020 in which no supplier bid were received for the first three slots between January, 8 and January, 18 and for the three slots between January 20, 2021 to February 1, 2021. Lowest bids were received from Qatar Gas with potentially very unviable prices. The management again issued tenders for unfilled spots by invoking emergency clause of PP Rules but bids of record high prices were received. It

was pertinent to mention that PLL had also imported its one term cargo of January, 2021 in September, 2020. Thus, despite timely receiving of demand from SNGPL and advanced import of one term cargo of January, the management failed to issue tenders well in time due to which delivery window was reduced. Hence, the country ended up paying high price of LNG and unfilled slots would also aggravate the gas shortage. This resulted in loss of Rs 1,313.976 million. Moreover, the existing supplies to the power sector would have to be diverted to domestic consumers and the power plants would have to be run on costlier furnace oil.

Audit is of the view that poor planning for procurement of spot LNG cargoes resulted in high prices of LNG and gas shortages. The management also failed to keep in view the historical consumption trend in winter season as well as price trend in international market.

The matter was reported to the PAO / management on January 04, 2021.

DAC in its meeting held on January 19, 2021, the management explained that the procurement of LNG was dependent on the certainty of demand from SNGPL and the matter of demand was beyond the control of PLL. DAC directed the Petroleum Division to devise a comprehensive mechanism for obtaining firm demand from all the stakeholders well in time for orderly procurement of LNG. Power Division may also be consulted and share the report with Audit. The bottlenecks confronted during spot LNG procurement may also be resolved.

Audit recommends to investigate the matter and fix responsibility.

[DP No. 1309]

Others

2.7.5.11 Unjustified / Excess payment of port charges -Rs 8,704.527 million

According to SRO 70(KE)/2010 dated June 17, 2010 of Ministry of Maritime Affairs (Port Qasim Authority) amended from time to time, port charges shall be collected at the prescribed rates. Further, the Cabinet decided vide case No. 373/23/2018 dated May 29, 2018 that Petroleum Division may

bring a summary for the ECC of the Cabinet for further reduction in the Pilotage fee for LNG specified by the Port Qasim Authority.

PSO while delivering a presentation to National Assembly Standing Committee on Port and Shipping highlighted the port charges across the region as follows:

Name of Port	Country	Charges (US\$) per LNG vessel
Hazira	India	122,000
Mina Al Ahmadi	Kuwait	14,000
RasLaffan	Qatar	114,752
Jabel Ali	UAE	70,000

During audit of PLL for the FYs 2018-20, it was observed that M/s Port Qasim Authority (PQA), Karachi was charging US\$ 625,761 per call on average basis including US\$ 100,000 per call on account of Channel Development Cess (CDC) which was much higher as compared to port of RasLaffan Qatar which was charging only US\$ 114,752 per call. Thus, PQA was charging an excessive payment of US\$ 511,009 per call and had charged total US\$ 52.123 million on all 102 consignments arrived at port from November, 2017 to June 29, 2020 (equivalent to Rs 8,704.527 million) (US\$ 511,009 per call x 102 shipments x Rs 167 exchange rate). However, no serious efforts were made by PLL to get the port charges reduced for benefit of end consumer except a letter addressed to DG LGs vide letter No. PLL/DG(LGs)2018/06/22 dated June 22, 2018 for reduction in port charges.

Audit is of the view that weak internal controls resulted in excessive port charges being paid to Port Qasim by PLL. Hence, the payment of Rs 8,039.81 million was unjustified.

The matter was reported to the PAO / management on October 23, 2020. The management in its reply dated November 27, 2020 stated that Port charges charged by PQA to the LNG supplier were beyond PLL's control, as LNG supplier was bound to pay port charges in order for the LNG vessel to be cleared for berthing by the PQA.

The DAC in its meeting held on December 01, 2020 directed the Petroleum Division to take up the matter with M/o Maritime for rationalization of port charges.

Audit recommends to take up the matter with PQA for review of port charges to bring it at comparable level with other ports operating in nearby countries.

[DP Nos. 936 & 938]

2.8 Pakistan LNG Terminal Limited (PLTL)

2.8.1 Introduction

Pakistan LNG Terminals Limited (the Company) was incorporated in Pakistan as a public company on December 11, 2015 under the Companies Ordinance, 1984 (now Companies Act, 2017). The principle activity of the Company is to manage the handling, re-gasification, storage, treatment, transportation and processing of Liquefied Natural Gas (LNG), Re-gasified Liquefied Natural Gas (RLNG), Liquefied Petroleum Gas (LPG) and Natural Gas (NGL). The Company's registered office is located at 5th floor, Petroleum House, Sector G-5, Islamabad, Pakistan. The company started its commercial operations on January 04, 2018. The Company is wholly owned by Government Holdings (Private) Limited (GHPL).

2.8.2 Comments on Audited Accounts

The financial results of the company for the year 2018-19 as compared to the previous years are tabulated below:

(Rs in million)

Particulars	2018-19	% Inc / (Dec)	2017-18
Revenue	2,156.301	140	5,067.003
Cost of Services	11,673.968	138.61	4,892.557
Gross Profit	482.333	176	174.446
Administrative Expenses	108.924	(43)	191.548
Other Income	28.948	967	2.714
Exchange Gain / (Loss)	21.941	221	6.831
Finance Cost	19.775	70	11.610
Profit / (Loss) before Tax	404.523	2,211	(19.167)
Taxation	149.868	337	(63.338)
Profit / (Loss) after Tax	254.655	409	(82.505)

(Source: Annual Audited Accounts)

- i. As compared to FY 2017-18, finance cost increased by 70% in 2018-19 which needs justification.

- ii. Trade and other payables increased to Rs. 1441.817 million in FY 2018-19 from Rs. 1084.799 million in FY 2017-18 which needs to be justified.
- iii. The management neither lodged the claims of LPS to PLL nor booked same in final accounts which need to be justified.
- iv. Debt-equity ratio of the company is 90. Higher ratio indicates that company relied on external financing for operations. Therefore, company is at higher risk which needs to be justified.

2.8.3 Classified Summary of Audit Observations

Audit observations amounting to Rs 38,905.397 million were raised in this report during the current audit of PLTL. This amount also includes recoveries of Rs 24,793.602 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

2.8.4 Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Contract / Project management	38,605.933
B	Receivable management	71.669
C	HR / Employee related irregularities	39.856
2	Others	187.939

2.8.5 Audit Paras

Contract / Project management

2.8.5.1 Non-lodging of claim of PLL and non- pursuance of LD claims from M/s PGPCL - Rs 23,041.933 million

As per Clause 8.8.2 of the Operation and Service Agreement (OSA) dated July 01, 2016, between Pakistan LNG Terminal Ltd (PLTL) (the customer) and M/s Pakistan Gasport Consortium Ltd. (PGPC) - (the Operator), in consideration of its acceptance of the postponed scheduled commercial start date the customer shall be entitled to recover from the operator liquidated damages at the rate of US\$ 0.2 million per day during the period commencing from the day immediately

after the original scheduled commercial start date until the new scheduled commercial start date. Again, as per Clause 8.8.3 of *ibid*, in the event that the acceptance tests are not completed by the new scheduled commercial start date for reasons other than force majeure or a customer delay, the customer shall be entitled to recover from the operator liquidated charges @ US\$0.3 million per day during the period commencing the day immediately after scheduled commercial start date until the commercial start date.

During audit of PLTL for the FYs 2018-20, it was observed that:

- i. The PLL management claimed that it had suffered revenue loss, due to delay of 187 days (w.e.f July 1, 2017 to January 3, 2018) in completion of project, losses due to leakage / vantage of LNG, deferment of cargoes, devaluation of deferred cargoes and demurrage charges etc. The total claim of US\$ 87.391 million (equivalent to Rs 14,594.238 million) was lodged by PLL on PLTL but it was never pursued for recovery since, 2018 onward. PLTL management should have lodged the same claim plus other deviations with M/s PGPC who failed to complete the project within the scheduled time.
- ii. The PLTL management lodged claims of LD charges and damages for US\$ 50.585 million in 2017-18 due to operator failed to complete LNG structure till Scheduled Commercial Start Date i.e June 30, 2017 and due to non-clearance of FSRU from Customs authority etc. but failed to recover the same. Resultantly, the operator availed the opportunity and filed a request for arbitration and counter-claim in London Court of International Arbitration (LICA) on January 29, 2020 which was accepted on May 06, 2020 and was pending for final decision till time of audit. Further, no action was taken to encash the performance guarantee of US\$ 10 million which was available with PLTL.

Audit is of the view that weak supervisory controls resulted in non-lodging of claims on M/s PGCL and undue favor was also granted to M/s PGPC as the claim could have been either adjusted against the performance guarantee or against PGPC monthly claims for re-gasification charges.

The matter was reported to the PAO / management on October 23, 2020. The management in its reply dated November 12, 2020 stated that PLTL could lodge a claim on PGPCL under OSA. Further, LD could not be set aside against performance bond under OSA. However, the matter was referred to International Arbitration in accordance with OSA.

The DAC in its meeting held on November 20, 2020 directed the management to place the matter to BoD in the light of audit observation for consideration and share the outcome with Audit within a month. DAC further directed to pursue the claim lodged on PGPCL. No further progress was reported till finalization of this report.

Audit recommends to review the agreement clauses to safeguard the interest of Company in future besides implementation of DAC directives.

[DP Nos. 940 & 941]

2.8.5.2 Loss due to under-utilization of terminal capacity - Rs 11,364 million

As per bid evaluation report of M/s PGPC, the bidder submitted the re-gasification charges @ US\$ 0.4177 per MMBTU which include (capacity charges, utilization and flexibility charges). As a result of bid evaluation and on the recommendation of M/s Galway (the consultant), the Operation and Service agreement (OSA) dated July 01, 2016 b/w M/s Pakistan LNG Terminal Ltd (PLTL) (the Customer) and M/s Pakistan Gasport Consortium Ltd. (PGPC)(the Operator) was finalized.

During audit of PLTL for the FYs 2018-20, it was observed that the management paid US\$209.953 million to M/s PGPC on account of capacity charges, utilization fee and flexibility charges of RLNG from January, 2018 to June 30, 2020 for re-gasification of 328,048,809 MMBTU of RLNG. The rate of levelized terminal charges worked out to be US\$0.4177 per MMBTU if it had operated at full capacity of 600 MMCFD, but due to under-utilization of the terminal, the actual levelized charges paid were @ US\$ 0.6400 per MMBTU. These were US\$ 0.6400 per MMBTU due to under-utilization of capacity of the terminal. Thus, M/s PLTL paid extra terminal charges by US\$0.22 (0.64-0.4177)

per MMBTU resulting in extra payments of US\$ 72.927 million (Rs 11,364 million) due to under-utilization of the terminal capacity.

Audit is of the view that weak managerial controls resulted in payment of extra levelized terminal charges which could have been avoided if the management of PLTL and MOE-PD had made optimum use of the terminal. The terminal could have been offered to private sector to utilize its full capacity but no arrangement in this regard was made. This resulted in extra charges of Rs 11,364 million.

The matter was reported to the PAO / management on October 19, 2020. The management in its reply dated November 12, 2020 stated that ECC in its decision dated July 28, 2020 approved the concept of auctioning of un-utilized Capacity of Terminal and allowed PLL to auction this capacity to Private Parties.

The DAC in its meeting held on November 20, 2020 directed the Petroleum Division to devise a policy for optimum utilization of LNG Terminals / infrastructure with the consultation of all stakeholders. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 908]

2.8.5.3 Inadequate Operator's guarantee due to lack of credit worthiness - Rs 2,520 million

As per clause 29.4 of the Operation and Service agreement (OSA) dated July 01, 2016 signed b/w PLTL (the Customer) and M/s Pakistan Gasport Consortium Ltd. (PGPC) - (the Operator), if the customer has reasonable grounds for insecurity regarding performance of any obligation under the operator's guarantee by the operator guarantor, the customer may demand adequate assurance of performance from the operator. The guarantee would be inadequate if the guarantor failed to maintain specified credit rating of A+/A- (A+/A-1) or otherwise the occurrence of material change in his credit worthiness.

During audit of PLTL for FYs 2018-20, it was observed that M/s JJVL, being major shareholder in M/s PGPC (Operator), submitted guarantee of US\$ 15 million (equivalent to Rs 2,520 million) in March 2015 / January 2016 as Operator's guarantor. Previously, Supreme Court of Pakistan (SCP) in its judgment dated December 4, 2013 against petition No. 5/2011 cancelled the implementation agreement between JJVL and SSGC and directed SSGC to immediately take over the possession of the LPG extraction Plant. The facts were not kept in view while finalizing technical evaluation of M/s PGPC. Subsequently, credit worthiness of M/s JJVL also decreased due to Sindh High Court's judgment dated December 12, 2016 in suit No. 1216 of 2016. Consequently, PLTL issued notice to PGPC to furnish new guarantee, but it failed to do so. The termination notice under OSA was issued by PLTL to PGPC to exercise its right under the OSA to acquire its assets at fair market value. However, PGPC obtained status quo from Islamabad High Court on January 22, 2020 and also filed a request for arbitration in the London Court of International Arbitration on April 03, 2020 which was still pending till time of audit. This resulted in continuation of LNG Terminal-2 operations in the absence of any adequate operator guarantee.

Audit is of the view that weak supervisory controls resulted in defective technical evaluation and failure to obtain adequate performance guarantee.

The matter was reported to the PAO / management on October 23, 2020. The management in its reply dated November 12, 2020 stated that at the time of award in June 2016, ECC approved award of Project to PGPC and directed that JJVL legal status be sought from Ministry of Law and Justice, who confirmed that contract be awarded. JJVL (Operator Guarantor) of PGPC maintained its Credit Rating till September 2018 when its credit rating got suspended. This eventually led to the termination of the agreement between PLTL and PGPC.

The DAC in its meeting held on November 20, 2020 directed the Petroleum Division to inquire the matter in the light of Audit Observation and share the results thereof with Audit.

Audit recommends to investigate defective technical evaluation and continuation of terminal operations in the absence of any adequate operator guarantee.

[DP No. 944]

2.8.5.4 Non-encashment of guarantee of operator - Rs 1,680 million

Pakistan LNG Terminals Limited (PLTL) and Pakistan Gas Port Consortium Limited (PGPCL) signed an Operation and Services Agreement (OSA) on 1st July 2016. Under the OSA, the PGPCL was required to provide Adequate Assurance of Performance to the Customer by means of:

- i. A standby irrevocable letter of credit in an amount equal to US\$ 10 million, or
- ii. A security interest in an asset having a value of at least US\$ 15 million, or
- iii. A guarantee from an entity with a corporate credit rating which is no less than the operator guarantor specified credit rating or other person reasonably acceptable to the customer, the operator may provide either (i), (ii) or (iii) at the time of providing such Adequate Assurance of Performance

During audit of PLTL for FYs 2018-20 it was observed that management of PLTL opted for option 3 stated above and provided a guarantee through Jamshoro Joint Venture Limited (JJVL which was a subsidiary of PGPCL). In 2018, JJVL's guarantee was suspended on account of litigation and as such PGPCL was required to provide fresh Adequate Assurance of Performance through any of the above options. Due to the failure of PGPCL to provide fresh Adequate Assurance of Performance, PLTL deemed this a termination event under clause 35 of the OSA and served termination notice to the Operator under clause 5 of Schedule 1 of the Fixed Assets Option Agreement. It would also be worth mentioning here that M/s PGPC had also provided a performance guarantee for US\$ 10 million (equivalent to Rs 1,680 million) which could have been forfeited in case of non-performing of any obligation under the operation agreement but no action was taken by PLTL management which resulted in non-encashment of guarantee of operator of Rs. 1,680 million.

Audit is of the view that due to weak financial controls, the operator was granted undue favour by non-initiating any step to forfeit or encash the guarantee of US\$ 10 million equivalent to Rs 1,680 million which needed to be justified.

The matter was reported to the PAO / management on October 19, 2020. The management in its reply dated November 12, 2020 stated that performance

bond (US\$10 million) and Operator Guarantee (Adequate Assurance of Performance) are jointly required for the performance of Operator. PLTL had in accordance with OSA had terminated the Contract for non-provision of Adequate Assurance of Performance. The matter of termination is in London Court of International Arbitration.

The DAC in its meeting held on November 20, 2020 directed the management to pursue the International Arbitration case and review the agreement clauses to safeguard the interest of Company in future.

Audit recommends to implement the decision of DAC.

[DP No. 909]

2.8.5.5 Delay in acquisition of fixed assets of the operator due to inadequate guarantee and termination of OSA

According to Clause 2(5) of Schedule-1 of the Fixed Assets Option Agreement, PLTL had the right to purchase the fixed assets of the operator at a price equivalent to the Net Book Value (NBV) of the fixed assets as a result of termination event under clause 35 of the Operation and Service Agreement (OSA) and having served termination notice to the operator.

During audit of PLTL for the FYs 2018-20, it was observed that M/s PGPCCL was required to provide adequate assurance of performance to the customer by means of a guarantee from an entity with a corporate credit rating of not less than the a Pakistan Credit Rating Agency (PACRA)-long term (LT) rating of at least A+ and short term (ST) rating of at least A-1. The operator guarantee provided by M/s PGPCCL was downgraded due to court decision in JJVL vs SSGC case. The management of PLTL deemed it a termination event under clause 35 of the OSA and served termination notice to the operator under clause 5 of Schedule-1 of the Fixed Assets Option Agreement. Resultantly, PLTL had the right to purchase the assets of the Operator at a price equivalent to the Net Book Value (NBV) of the assets. The net book value was evaluated by M/s E&Y as Rs 13,091 million as on June 30, 2020 in their final report dated 19 March, 2020. Accordingly, PLTL approached GHPL for financial support but

GHPL did not agree and recommended PLTL to arrange finance from GIDC. However, no progress was noticed in this regard.

Audit is of the view that laxity of the management in arranging funds resulted in delay in acquisition of fixed assets despite lapse of considerable time. Hence, PGPCL was operating the Floating Storage and Re-gasification unit (FSRU) without any operator guarantee.

The matter was reported to the PAO / management on October 23, 2020. The management in its reply dated November 12, 2020 stated that the Board of PLTL had recommended the purchase of asset of operator to GHPL. GHPL Board after due deliberation sought GoP direction for Project Funding through its letter dated 27th March 2020 to MoE. The matter was referred to ECC by the MoE and decision was awaited.

The DAC in its meeting held on November 20, 2020 directed the Petroleum Division to make necessary liquidity arrangement for acquisition of fixed assets of the M/S PGPCL at the earliest. DAC further directed the management to actively pursue the case in LCIA and share the outcome with Audit.

Audit recommends to implement the decision of DAC.

[DP No. 943]

2.8.5.6 Non-compliance of LNG policy / SIGTTO guidelines by PGPCL

According to Para 4.1(a) of LNG Policy 2011, the LNG terminal will be constructed based on technical standards as prescribed by OGRA from time to time, in consultation and approval of Department of Explosives, including internationally acceptable industry technical standards as stipulated in Appendix-1. Further, as per bench mark of Appendix – Site Selection and Design for LNG Port and Jetties – SIGTTO channels width should be about five times the width of the ships similarly the turning areas should have minimum diameter of two to three times to width of the ship.

During audit of PLTL for FYs 2018-20, it was observed that dredging of the jetty berthing basin and turning circles was not done according to LNG policy and benchmark specified above. The issue regarding berthing basin width was also discussed in meetings held on February 26 & 27, 2019 at Qatar Gas Office in Doha, Qatar which was attended by PQA, PSO, PLTL, PGPCL and QG. PQA expressed its reservation that the berthing basin width at PGPCL terminal did not fulfil SIGTTO guidelines requirements which they recommended during the simulation runs conducted by SiPort, Spain. This resulted in less dredging and non-implementation of standards as per SIGTTO guidelines in violation of LNG policy 2011.

Audit is of the view that negligence and weak supervisory controls resulted in non-compliance of LNG policy and resultantly berthing basin would not be able to accommodate the Q-Flex LNG ships.

The matter was reported to the PAO / management on October 23, 2020. The management in its reply dated November 12, 2020 stated that OGRA being competent authority issued license to PGPCL on 3rd April 2018, therefore the non-compliance by PGPCL, should be taken up with OGRA. Compliance of dredging requirement at port Qasim Basin is the responsibility of PQA, which manages the Port. PQA had already taken up the matter with PGPCL.

The DAC in its meeting held on November 20, 2020 directed the management to pursue the matter with M/S PGPCL to make the turning basin as per SIGTTO guidelines and update Audit.

Audit recommends to implement the decision of DAC.

[DP No. 942]

Receivables management

2.8.5.7 Non realization of interest by PLTL on late payments from PLL- Rs 71.669 million

As per Clause 28.2.4 of Terminal Use and Regasification Agreement (TURA), any amount payable under an invoice is not paid on or before the

invoice due date, the paying Party shall pay interest, before and after judgment, at the default interest rate, on the unpaid amount from the invoice due date until the day on which the payment is made as before judgment (and nothing in this clause 28 shall be construed as permitting late payment of an invoice). Further, as per clause 28.2.5, interest payable under this clause 28 shall accrue on a daily basis and on the basis of three hundred and sixty-five (365) days in a year and shall be calculated and compounded monthly.

During audit of PLTL for the FYs 2018-2020, it was observed that PLTL received late payments of invoices raised to PLL on account of capacity charges, utility charges and management fee (margin fee), however, no interest was calculated / claimed thereon as per clauses referred to above. Thus, PLTL suffered a loss of Rs 71.669 million on account of non –realization of interest on late payment.

Audit is of view that due to poor financial management, PLTL did not claim interest on late payments as per clause of TURA which cause loss to the company.

The matter was reported to the PAO / management on October 19, 2020. The management in its reply dated November 12, 2020 stated that PLTL had billed on account of Late Payment Surcharge to PLL vide letters dated September 17, 2019 and November 16, 2020.

The DAC in its meeting held on November 20, 2020 directed the Management to pursue the recovery from PLL.

Audit recommends to pursue the recovery from PLL.

[DP No. 910]

HR / Employee related irregularities

2.8.5.8 Undue favor of financial benefit by granting higher basic pay on new appointments – Rs 39.856 million

As per appointment letters of the contract employees, they were not entitled to any facility mentioned in appointment letter. Further, according to

reference approval granted by Board of Directors in the 2nd BoD meeting held on January 15, 2016, regarding PLTL service structure and pay scale in the Annexure-II, salaries are to be offered within pay scale.

During audit of PLTL for the FY 2019-20, it was observed that management appointed 10 officers on contract basis for three years likely to be extended on the basis of their performance. As per pay scale the said employees were to be offered basic pay of the relevant scale plus allowances as per pay package of the company. The management ignored the approved pay scale and offered higher initial basic pays on fresh appointments and also allowed annual increment causing extra payments amounting to Rs 39.856 million from 2016-17 to 2019-20. Had lump sum package been offered in the appointment letter, salaries of the officers would have remained fixed during entire contract period

Audit is of view that weak internal controls resulted in grant of undue favour to the newly appointed employees. Hence, the financial benefit of Rs 39.856 million was considered irregular.

The matter was reported to the PAO / management on October 19, 2020. The management in its reply dated November 12, 2020 stated that MD / CEO is a competent Authority and can approve the salaries within the approved pay grade as per the approved HR Service Rules.

The DAC in its meeting held on November 20, 2020 directed the management to justify the rationale of granting higher pay fixation on case to case basis.

Audit recommends to implement the decision of DAC.

[DP No. 911]

Others

2.8.5.9 Less-charging of sales tax on management fee – Rs 187.939 million

According to Section 3(1) of Islamabad Capital Territory (Tax on Services) Ordinance, 2001, there shall be charged, levied and paid a tax known as sales tax at rates specified in column (4) of the Schedule to this Ordinance, of

the value of the taxable services rendered or provided in the Islamabad Capital Territory.

During audit of PLTL for the FY 2019-20, it was observed that PLTL raised invoices of management fee (margin fee) by charging the Sindh Sales Tax on services @ 13%. As per rules referred above, PLTL had to raise the ICT sales tax invoices by charging the sales tax on services @ 16% and to deposit into account of Islamabad Capital Territory (Tax on services) as the services were provided to PLL in the Islamabad Capital Territory and were to be charged accordingly. This resulted in non-payment of sales tax @ 16% of ICT (Tax on Services), Islamabad amounting to Rs 187.939 million from December, 2017 to June, 2020.

Audit is of the view that poor financial management resulted in charging and depositing of the Sindh sales tax on services @ 13%. Hence, sales tax of Rs 187.939 million could not be charged.

The matter was reported to the PAO / management on October 19, 2020. The management in its reply dated November 12, 2020 stated that PLTL provides LNG re-gasification services in Sindh. As per Clause 3.1(b) Sindh Sales Tax on Services Act 2011 Services provided in geographical boundary of Province of Sindh is subject to Sindh Sales Tax.

The DAC in its meeting held on November 20, 2020 directed the management to seek clarification from FBR in the light of Audit observation.

Audit recommends to implement the decision of DAC.

[DP No. 919]

2.9 Other Organizations

2.9.1 Introduction

This chapter includes comments on audited accounts in respect of Government Holdings (Private) Limited (GHPL) and Pakistan Mineral Development Corporation (Pvt.) Limited (PMDC).

2.9.2 Comments on Audited Accounts

(a) Government Holdings (Private) Limited (GHPL)

Government Holding (Private) Limited was incorporated in Pakistan as a private limited company on January 15, 2000 under the Companies Ordinance, 1984 (Now Companies Act 2017). The Company's registered office is situated at 5th Floor Petroleum House Ataturk Block, Islamabad.

The company is fully owned and controlled by Federal Government through Ministry of Petroleum and Natural Resources. The main objectives of the company are:

- i. Acquire shares of the Companies or interest of Government of Pakistan (GOP) in the existing and new oil and gas Joint Ventures, either by payment or by issuance of shares, credited as fully paid, or other securities, as the Company may think fit and to hold and enjoy all interests, rights, contracts and privileges vested in or connected with, the title of such shares, and
- ii. Takeover, acquire, renew, utilize and hold any exploration prospecting development and production concessions of whatever nature or otherwise acquire any estate or interest, develop resource of work, dispose of or otherwise turn to account land or sea beds in any part of the world containing or thought to contain petroleum or any other oil in any form, and to search for or participate in the exploration for petroleum or in any other oil in any form, asphalt, bitumen or similar substances or natural gas or any substance used or which may be capable of use and to organize, equip and employ expeditions, experts and wells and other undertakings for the extraction of any of the aforesaid substances.

- iii. The Company has 99.83 % shareholding in the Inter State Gas System (the subsidiary) under share subscription agreement and 100% shareholding in Pakistan LNG Limited (PLL) & Pakistan LNG Terminal Limited (PLTL).

The working results of the company for the year 2017-18 as compared to previous years are as under:

(Rs in million)

	2019-20	% Inc/ (Dec)	2018-19	% Inc/ (Dec)	2017-18
Sales Net	71,520.123	(8)	77,609.565	25	61,915.84
Cost of Sales					
Royalty	(8058.828)	(4)	(8,408.430)	21	6,925.81
Operating exp & others	(13,985.289)	46	(9,564.425)	(69)	31,030.39
Gross Profit	49,476.006	(17)	59,636.710	39	42,937.74
Other income	4,670.233	44	3,240.092	40	2,321.61
Exploration and prospecting expenditure	598.307	11	539.401	(50)	1,087.25
General and administrative expenses	536.555	52	352.960	35	262.02
Other expenses	1,705.208	(76)	7,207.739	359	1,570.14
Operating Profit	51,306.170	(6)	54,776.702	29	42,339.93
Finance Cost	528.377	56	338.550	42	238.31
Profit before Taxation	50,777.794	(7)	54,438.152	29	42,101.62
Taxation	17,634.037	(11)	19,876.685	37	14,557.78
Profit after taxation	33,143.755	(4)	34561.467	25	27,543.84

(source: Annual Audited Accounts)

- i. During FY 2020, sales of GHPL declined to Rs 71,520.123 million from Rs 77,609.564 million in FY 2019 (8.51% decline). Similarly, earnings per share declined by 6.11% i.e., from Rs 16.84 to Rs 15.87. Reasons for decline in sales and earnings per share need to be shared with the audit.
- ii. On the other hand, in FY 2020 operating expenses of the company witnessed an increase of 31.61% i.e from Rs 9,564.425 million to Rs 13,985.289 million. The matter needs to be justified by the company.
- iii. Similarly, general and administrative expenses also increased significantly by 34.21 %, i.e. from Rs 536.554 million to Rs 352.959 million. Complete detail along-with breakup of payments may be justified.
- iv. Trade debts registered an increase of 78% i.e., from Rs 58,041 million to Rs 103,293 million. Out of this cumulative amount, an amount of

Rs 92,783 million was overdue at June 30, 2020. The management stated that payments on account of these balances is slow due to the prevailing circular debt issue. However, an aggregate provision of Rs 4,605 million against said long outstanding debts has been made. Details of and reasons for such a huge increase in the debts should be shared with Audit. Moreover, a comprehensive plan for settlement of debts should be prepared by the company.

(b) Pakistan Mineral Development Corporation Private Limited (PMDC)

The working results of the Corporation for the FY 2019-20 as compared to the previous years are tabulated as follows:

	(Rs in million)				
	2019-20	% Inc/ (Dec)	2018-19	% Inc/ (Dec)	2017-18
Sales	2,552.36	4.92	2,432.62	(6.70)	2,607.37
Cost of sales	1,865.56	5.81	1,763.15	(3.48)	1,826.79
Gross profit	686.83	2.59	669.47	(14.24)	780.59
Operating Expenses					
Admn. Expenses	449.00	(1.88)	457.58	5.61	433.27
Distribution expenses	149.72	1.93	146.88	5.87	138.73
Total expenses	598.72	(0.95)	604.46	5.67	572.02
Operating profit	88.11	35.53	65.01	(68.83)	208.57
Other income	292.40	(27.71)	404.47	117.00	186.39
Share of Profit from Associates	4.13	235.77	1.23		
Other expense	19.23	(75.81)	79.48	4.25	19.75
Net profit before tax	365.41	(6.60)	391.23	4.27	375.21
Provision for	82.06	(15.53)	97.15	53.77	63.18
Net profit after	283.343	(3.65)	294.07	(5.76)	312.03

(Source: Annual Audited Accounts)

- i. In 2019-20, sales of the corporation increased by 4.92% whereas cost of sales increased by 5.81%. Management needs to optimise its revenue streams to reduce an increasing pattern of cost of sales.
- ii. Other Income of the Corporation decreased by 27.71% from Rs 404.47 million in 2018-19 to Rs 292.40 million in 2019-20. The management is

required to justify reasons behind the decrease in Other Income.

- iii. The current ratio of the company is 3.32, which indicates that management is not efficiently using its resources or its short term financing facilities. Reasons for which may be justified with audit.
- iv. The Chartered Accountant expressed partial qualified opinion. The management is requested to justify the mater.

Chapter - 3

Cabinet Division

3.1 Oil and Gas Regulatory Authority

3.1.1 Introduction

Oil and Gas Regulatory Authority Ordinance was promulgated in 2002 which replaced Natural Gas Regulatory Authority Ordinance, 2000. The Ordinance provided for the establishment of Oil and Gas Regulatory Authority (OGRA) with the objective to foster competition, increase private investment and ownership in the midstream (storage & carrying) and downstream (storage & distribution) petroleum and gas industry of Pakistan, protect the public interest while respecting individual rights and to provide effective and efficient regulations for related matters. The Authority comprises of Chairman / Chairperson and three Members viz; Member (Gas), Member (Finance) and Member (Oil). They can serve for maximum two terms subject to retirement on attaining the age of 65 years. The Authority has the exclusive power to grant licenses for regulated activities with regard to Natural Gas, Compressed Natural Gas (CNG), Liquefied Petroleum Gas (LPG), Liquefied Natural Gas (LNG) and Oil sectors.

3.1.2 Comments on Audited Accounts

The Authority did not provide its financial statements for the FY 2019-20.

3.1.3 Audit Profile of OGRA

Audit profile of OGRA under Cabinet Division is under:

(Rs in million)

Sr. No.	Description	Total No.	Audited	Expenditure audited FY 2019-20	Revenue / Receipts audited FY 2019-20
1	Cabinet Division (OGRA)	1	1	1,001.462	1,595.397

3.1.4 Classified Summary of Audit Observations

Audit observations amounting to Rs 3,477.126 million were raised in this report during the current audit of OGRA. This amount also includes recoveries of Rs 1,280.741 million as pointed out by Audit. Summary of the audit observations classified by nature is as under:

3.1.5 Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Non production of record (1 para)	-
2	Irregularities	-
A	Defective financial management	2,596.551
B	Violation of rules / regulations	880.575

3.1.6 Compliance of PAC Directives

Audit Year	No. of Paras	Full Compliance	Partial Compliance	%age of compliance
2006-07	05	04	01	80
2009-10	01	0	01	-
2010-11	08	0	08	-
2013-14	16	03	13	19
2014-15	12	06	6	
2016-17	02	01	01	50
2017-18	22	10	12	45
2018-19	01	0	01	-
Total	67	24	43	36

The overall compliance of the PAC directives was very poor and required immediate attention of PAO.

3.1.7 Audit Paras

3.1.7.1 *Non-Production of record relating to regulatory functions*

According to Section 14(2) of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001, the officer in-charge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete form as

possible and with all reasonable expedition. Further, as per PAC directives dated August 10, 2020 forwarded vide NA Secretariat (PAC wing) office memo No. F.1(6)/2018-19/2019-PAC dated August 14, 2020 “the jurisdiction of the AGP and consequential oversight jurisdiction of the Parliament cannot be restricted to accounts only by excluding the performances of the authorities or bodies established by, or under the control of, the Federal Government particularly, when impacting the public interest and involving finances: accordingly, in response no one could substantiate to convince the PAC to exclude the performance audit jurisdiction of the AGP relating to public interest and involving finances.”

During audit of OGRA for the FY 2019-20, the Authority did not provide record relating to regulatory functions requisitioned vide letter No. 04-FATVI/01-2020 / Requisition No. 02 / Misc. dated September 01, 2020 followed by reminders to Authority as well as Cabinet Division (**Annex-13**).

Audit is of the view that non-production of record and refusal to provide the record resulted in violation of the Auditor General’s Ordinance, 2001 and the directives of PAC. This attitude of the authority was tantamount to concealment of facts due to which rationale / working behind its decisions could not be reviewed.

The matter was reported to the PAO in January, 2021.

In DAC meeting held on January 25, 2021, OGRA stated that prima facie the question regarding the record pertaining to the regulatory decisions did not arise since each and every regulatory decision was always public and available on OGRA’s website. Further, the Cabinet Division had recently taken up the matter with the Attorney General of Pakistan. DAC decided that further action would be initiated on receipt of advice from the Attorney General of Pakistan.

Audit recommends to produce the requisite auditable record besides fixing responsibility for the lapse.

[DP No. 1427]

Defective financial management

3.1.7.2 Irregular investment of surplus receipts in Treasury Bills - Rs 1,567.604 million

According to Section 17 of OGRA Ordinance, 2002 as amended vide Finance Act, 2012, all surplus of receipts over the actual expenditure in a year, after payment of tax, shall be remitted to the Federal Consolidated Funds.

During audit of OGRA for the FY 2019-20, it was observed that the Authority invested Rs 1,567.604 million in Treasury Bills on the plea that the investment was made prior to promulgation of Finance Act, 2012 instead of depositing it into the FCF. Though the Finance Act, 2012 was silent about previous savings, but Authority did not seek any clarification from the Finance Division.

Audit is of the view that poor financial management resulted in irregular investment of surplus receipts amounting to Rs 1,567.604 million.

The matter was reported to the Authority in September, 2020 and PAO in January, 2021.

In DAC meeting held on January 25, 2021, OGRA stated that the reported amount pertained to the period from 2002 to 2012 and before enactment of Finance Act, 2012. DAC directed OGRA to seek advice of Finance Division through Cabinet Division about the fate of surplus funds pertaining to the period 2002- 2012 prior to enactment of Finance Act, 2012.

Audit recommends to implement the decision of DAC.

[DP No. 1276]

3.1.7.3 Non-deposit of surplus of receipts over expenditure and fines & penalties to the Federal Consolidated Fund - Rs 538.781 million

As per Section 17, of the OGRA Ordinance, 2002, “all surplus of receipts over the actual expenditure in a year, after payment of tax, shall be remitted to

the Federal Consolidated Funds and any deficit from the actual expenditure shall be made up by the Federal Government”.

During audit of OGRA for the FY 2019-20, it was observed that the Authority did not deposit Rs 483.546 million of surplus of receipts over expenditure as on June 30, 2020. Similarly, fines and penalties amounting to Rs 55.235 million were also not deposited in the Federal Consolidated Fund. This resulted in to non-deposit of surplus of receipts over expenditure and fines & penalties to the Federal Consolidated Fund of Rs 538.781 million.

Audit is of the view that weak financial controls resulted in violation of OGRA Ordinance. Hence, surplus receipts of Rs 538.781 million were not deposited in Federal Consolidated Fund.

The matter was reported to the Authority in September, 2020 and PAO in January, 2021.

In DAC meeting held on January 25, 2021, OGRA stated that as soon as the annual audit of OGRA for FY 2019-20 is completed, the surplus funds would be deposited into FCF. DAC directed OGRA to ensure deposit of surplus funds into FCF preferably by 2nd week of February, 2021 and expedite the decision on reviews on penalties and fine so these could be deposited at the earliest.

Audit recommends to implement the decision of DAC.

[DP No. 1273]

3.1.7.4 Non-realization of annual turnover fee on Transportation Charges and sale of RLNG by SNGPL / SSGC - Rs 490.166 million

According to Rule 29 of Natural Gas Regularity Authority (Licensing) Rules, 2002 read with schedule-II (b), a licensee shall be required to pay the fee for the grant, renewal, modification, execution, assignment, review, or re-issuance of a license specified in the Schedule-II to these rules @ 0.5% of annual turnover and thereafter yearly, in advance.

During audit of OGRA for the FY 2019-20, it was observed that the Authority did not recover annual turnover fee of Rs 153.696 million (calculated on net turnover after deduction of cost of LNG) on sale of RLNG by gas companies. Moreover, SNGPL and SSGC also received transportation charges

on transportation of RLNG and were liable to the payment of annual turnover fee of Rs 336.47 million (being a regulated activity) which was not recovered. This resulted in non-realization of annual turnover fee amounting to Rs 490.166 million for the FYs 2015-16 to 2018-19.

Audit is of the view that weak internal controls resulted in non-realization of annual turnover fee of Rs 490.166 million.

The matter was reported to the Authority in September, 2020 and PAO in January, 2021.

In DAC meeting held January 25, 2021 OGRA stated that an amount of Rs 179 million was recovered on account of turnover fee from SNGPL. Audit contended that transportation income was not included in the turnover income of the company. DAC directed OGRA to provide breakup / components of RLNG sales and cost of purchase included by OGRA to work out the turnover of RLNG.

Audit recommends to recover balance amount of turnover fee from the concerned companies expeditiously.

[DP No. 1292]

Violation of rules / regulations

3.1.7.5 Non-realization of annual inspection fee from operational CNG Stations and non-finalization of 6,153 provisional CNG licenses – Rs 362.650 million

According to Rule 7 read with Rule 16 of CNG Rules (P&M) 1992, a license granted under these rules shall be initially valid for a period up to two years during which period the licensee shall execute the works in pursuance of rule 10 (execution of works after commencement of license). On completion of works, satisfactory to the Authority, the period of license shall be extended up to a maximum period of fifteen years. As per Rule 7(1) of CNG Rules 1992, Authority carried out Annual inspection of its all operational CNG stations from third party inspectors. OGRA charged Rs 50,000 from each station as annual inspection fee out of which 50% was remitted to 3rd party inspectors and remaining was retained by the organization itself to meet its operational needs.

During audit of OGRA for FY the 2019-20, it was observed that as per list available on OGRA website, there were 3,330 operational CNG stations and total revenue required to be collected from these stations was Rs 166.5 million but Authority collected only Rs 109 million and thus, there was a shortfall of Rs 55.00 million. Further, the Authority neither made any Annual Inspection Plan for CNG stations nor any mechanism could be put in place to check the status of CNG stations whether operating or non-operating so that fate of non-operational CNG stations could be decided. Moreover, Authority granted provisional licenses to 6,153 CNG stations for establishment of CNG stations across the country but failed to finalize these provisional licenses since 2003. These provisional licenses were neither cancelled nor changed to permanent marketing licenses after 3rd party inspection. This resulted in loss of revenue on account of license / renewal fee of Rs 307.650 million and continuation of sale of CNG without valid license since 2003.

Audit is of the view that weak supervisory controls resulted in violation of rules and hence, provisional licenses were not finalized since 2003 and exact revenue accrued on inspection of CNG stations could not be determined resultantly recovery proceedings could not be initiated.

The matter was reported to the Authority in September, 2020 and PAO in January, 2021.

In DAC meeting held on January 25, 2021, OGRA stated that 2,595 CNG stations were operational out of total 3501. The amount due from operational CNG stations was Rs. 129.75 million which had been fully recovered. Audit contended that OGRA issued 6,153 provisional CNG licenses since 2003 but fate of these provisional licenses could not be finalized as yet. DAC directed OGRA to carry out a special exercise to determine exact number of functional / operational CNG stations by obtaining the list of operational CNG stations from SNGPL / SSGC.

Audit recommends to implement the decision of DAC.

[DP No. 1297]

3.1.7.6 Unauthorized expansion of retail outlets and non-imposition / recovery of penalty / further penalty - Rs 361.10 million

According to Rule 37 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, every oil marketing company shall maintain such minimum stocks of petroleum products as the Federal Government may, from time to time, by order in writing specify. Further, according to Rule 69 of Rules ibid, a person who contravenes any provision of the ordinance, these rules terms and conditions of the license or decision of the Authority shall be punishable with fine which may be extended to ten million rupees and in case of a continuing contravention with further fine which may to one million rupees for every day during which such contravention continues.

During audit of OGRA for the FY 2019-20, it was observed that OMCs expanded their retail network without developing commensurate minimum storage capacity as envisaged in Rules and conditions of license. OGRA imposed penalties of Rs 118 million on 12 OMCs which could not be recovered. Further, the Authority did not impose further penalty of Rs 143 million on PSO despite its continued default. Authority imposed further penalty of Rs 31.5 million on HPL but failed to recover it. Moreover, MPPL and APL established 133 unauthorized retail outlets in Punjab, KPK and Balochistan without developing commensurate mandatory storage facilities, but the Authority did not initiate punitive action against these OMCs and hence penalty of Rs 66.5 million was not imposed. This resulted in non-recovery of imposed penalties of Rs 292.50 million and non-imposition of penalties of Rs 66.5 million, aggregating to Rs 361.10 million.

Audit is of the view that weak regularity enforcement resulted in unauthorized extension of retail network by the OMCs and non-recovery / non-imposition of penalties of Rs 361.10 million.

The matter was reported to the Authority in September, 2020 and PAO in January, 2021.

In DAC meeting held on January 25, 2021 OGRA stated that the OMCs filed suits in the courts of law and obtained stay orders. DAC directed OGRA to furnish present status of each court case, hold internal dedicated meetings

with departmental legal advisors to take up the matter for early hearings and make a reference to Petroleum Division regarding PSO which had challenged the action of OGRA before Court.

Audit recommends to implement the decision of DAC besides pursuing the court cases for early recovery from the concerned OMCs.

[DP No. 1277]

3.1.7.7 Non-imposition of penalties on illegal sale of petroleum products by OMCs to retail outlets of PSO / TPPL - Rs 90 million

According to Rule 38 read with Rule 69 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, every oil marketing company shall supply the petroleum products to its retail outlets and its authorized agent, dealer or bulk consumer having licensed premises for storage of the petroleum products. Further, a person who contravenes any provision of the ordinance, these rules terms and conditions of the license or decision of the Authority shall be punishable with fine which may be extended to ten million rupees. As para 4(vi) of Special Report No. 4/2017 of Standing Committee on PNR, “OGRA should ensure that OMC’s are not involved in giving their products to other OMC’s petrol pumps. Proper tracking system can point out where the tanker decanted. Heavy fine should be imposed in case of violation”.

During audit of OGRA for the FY 2019-20, it was observed that PSO cancelled franchise agreements of 89 petrol pumps due to sale of products of other OMCs and an illegal petrol pump was being run by using Total Parco’s name and logo without entering into valid franchise agreement. The retail outlets received supplies of petroleum products from other OMCs without any franchise agreements with them. However, OGRA was unable to take cognizance of the matter due to absence of proper tracking system to point out the exact location of decanting by the tankers. Resultantly, no punitive action could be initiated by OGRA against the OMCs for imposition of fine and penalties of Rs 90 million.

Audit is of the view that weak regularity enforcement and poor operational oversight resulted in unauthorized decanting by OMCs’ containers.

The matter was reported to the Authority in September / October, 2020 and PAO in January, 2021.

In DAC meeting held on January 25, 2021, OGRA stated that the matter eventually pertains to various administrative offices like Deputy Commissioners and Department of Explosive. Furthermore, the subject matter pertained to the commercial venture of the OMCs. DAC directed OGRA to highlight the matter before Petroleum Division for appropriate action.

Audit recommends OGRA to ensure imposition / recovery of fines and penalties besides developing a central container tracking system to detect unauthorized decanting by the OMC besides developing liaison with the district authorities to address the issue on regular basis.

[DP No. 1279]

3.1.7.8 *Non-recovery of penalties imposed on account of less filling, over charging and less quality - Rs 66.825 million*

According to Rule 63 read with Rule 69 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, no person shall either himself or through any other person including an agent or dealer sell or offer for sale or otherwise dispose of any adulterated or substandard petroleum product except to the persons, for the purposes and on the condition, as approved by Authority.

During audit of OGRA for the FY 2019-20, it was observed that the petroleum products of three OMCs at Bulk Storage Facilities of Shikarpur and Daulatpur were found not in conformity with quality standards notified by the FG and Authority imposed penalties of Rs 26.5 million could not be recovered. Further, in 49 cases, Authority received complaints of less filling, overcharging and substandard quality by retail outlets of various OMCs and imposed fines of Rs 40.325 million were imposed but could not be recovered.

Audit is of the view that weak internal controls resulted in non-recovery of fines / penalties of Rs 66.825 million.

The matter was reported to the Authority in September / October, 2020 and PAO in January, 2021.

In DAC meeting held on January 25, 2021, OGRA stated that the OMCs had filed writ petitions in IHC and cases were still subjudice. DAC directed OGRA to furnish latest status and breakup of court cases. DAC further directed to hold an in-house meeting to frame redressal mechanism and enforcement strategy in the matter.

Audit recommends to recover the penalties besides implementing the decision of DAC.

[DP No. 1278]

3.1.7.9 Poor enforcement by OGRA resulting in artificial shortage of oil

According to Rule 37 read with Rule 69 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, every oil marketing company shall maintain such minimum stocks of petroleum products as the Federal Government may, from time to time, by order in writing specify. Further, according to Clause (x), (xiii) & (ix) of Rule 53 of ibid and license conditions of OMCs, all licensees, in relation to their regulated activity, shall not to abandon any regulated activity, as a part or whole, resulting into discontinuation of supply of petroleum products or its sale in any area without the prior written consent of the Authority, maintain planned programme for maintenance and obtain prior approval of the Authority for temporary closure of any operation of the regulated activity and maintain minimum stocks of crude oil or petroleum products as directed by the Authority.

During audit of OGRA for FY the 2019-20, it was observed that Authority failed to fulfil the requirement of developing minimum 20 days storage capacity and to ensure uninterrupted supply of oil by OMCs as per rules and conditions of licenses issued to OMCs which resulted in discontinuity of regulated activity and artificial shortage of oil in June, 2020 on the plea that imports of petroleum products were banned by PD. Further, punitive action was not taken against all the OMCs on the pretext of ease of doing business. A total penalty of Rs 40 million was imposed only on 6 OMCs while no penalty was imposed on M/s Askar, BPPL, BE Energy, Zoom, ZMOPL, Fuelers and Quality 1 Petroleum Ltd etc. for discontinuing supply and hoarding of petroleum products during June, 2020. OGRA also failed to invoke clauses of Rule 69 for

imposition of further penalty despite continued default in maintaining 20 days minimum storage capacity on all OMCs besides penalty imposed on 06 OMCs was not aligned with the principle of proportionality because these OMCs created artificial shortage, earned undue profits and affected the whole country adversely.

Audit is of the view that poor enforcement of relevant rules and lack of monitoring of license conditions resulted in maintenance of low stocks and hoarding of petroleum products by OMCs and hence, oil shortage was created.

The matter was reported to the Authority in October, 2020 and PAO in January, 2021. OGRA in its reply dated January 22, 2021 stated that storage capacity of the country is sufficient to cater for minimum stocks of 20 days. At present about 746,000 Mt (34-days requirement) for petrol besides 1,083,000 Mt (50-days requirement) for diesel had been developed. The reply is not tenable as OGRA could not succeed in ensuring development of minimum mandatory back up storage which was evident from imposition of penalties on OMCs by OGRA. Further, compliance of other conditions of license i.e. continuance of regulated activity by OMCs could not be ensured.

The DAC in its meeting held on January 25, 2021 noted that matter had already been taken up by "Inquiry Commission". DAC, therefore, directed OGRA to furnish detailed report on the recommendations of said Inquiry Commission to Petroleum Division for prudent remedial action in public interest. After submission of the report, DAC decided to hold a special meeting with Audit on the issue.

Audit recommends to explain the reasons of poor enforcement and monitoring, take remedial measures, impose fine and penalties on all OMCs involved in discontinuity / reduction of supply and hoarding of petroleum products keeping in view the principle of proportionality and recover the same expeditiously.

[DP No. 1288]

3.1.7.10 Non-renewal of 22 old storage facilities of PSO and non-completion of 10 new storage facilities by PSO

According to Rule 37 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, every oil marketing company shall maintain such minimum stocks of petroleum products as the Federal Government may, from time to time, by order in writing specify. Further, according to Rule 36(2&3) of *ibid*, licences to existing oil marketing companies shall be granted by the Authority on the terms and conditions applicable to them on the date of the commencement of the Ordinance, provided that if the existing oil marketing company fails to establish or maintain the terms and conditions of the marketing of petroleum products, the Authority may take further action in accordance with these rules.

During audit of OGRA for the FY 2019-20, it was observed that the Authority did not take cognizance of matter of renewal of 22 old bulk oil depots / storage facilities of PSO established 24 years to 55 years earlier. The Authority, since its inception, took no action for inspection to certify the technical and safety standards of these 22 old bulk oil depots. Even at the time of granting license to PSO under Oil Rules, 2016, the matter was not taken up with PSO for third party inspections and obtaining of required NOCs from other authorities. Moreover, PSO also started construction of 10 Bulk Oil Depots / Oil Storage Facilities in May, 2018 which were not completed despite lapse of more than two years.

Audit is of the view that weak monitoring and operational oversight resulted in non-compliance with rules and license conditions.

The matter was reported to the Authority in October, 2020 and PAO in January, 2021.

In DAC meeting held on January 25, 2021, OGRA stated that renewal of license in respect of PSO was done on May 14, 2019 under Rule 36 of Oil Rules, 2016 as an existing OMC. DAC directed OGRA to seek report from PSO regarding completion of 10 new storage facilities and share it with Cabinet Division and Audit within one month. DAC further directed OGRA to carry out

technical inspection of all old oil storages to ascertain observance of technical standards and report in this regard be furnished to Cabinet Division and Audit.

Audit recommends to implement the decision of DAC besides expeditious completion of new storage facilities.

[DP Nos. 1280 & 1281]

3.1.7.11 Illegal establishment of retail outlets of M/s AOSPL and M/s GOPL

According to Rule 34 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, the Authority shall initially issue a licence for a period of three years during which the marketing infrastructure i.e. storages, retail outlets and filling stations etc., as given in the work programme, shall be completed in accordance with the laid down technical standards.

During audit of OGRA for the FY 2019-20, it was observed that the provisional license was issued to M/s Askar Oil Services Private Limited (AOSPL) for three years in 2005 on the basis of committed work plan. Due to deficient market infrastructure, the Authority suspended the license of M/s AOSPL in Sindh and Balochistan in March, 2018 and carried out third party inspections which revealed that retail outlets were being operated in Sindh and Balochistan without having valid dealership agreements, explosive licenses and NOCs from Government departments. Similarly, M/s Gas & Oil Petroleum Ltd. (GOPL) also expanded its retail network un-authorizedly throughout the country without seeking NOC from respective departments but OGRA failed to take any action.

Audit is of the view that weak operational oversight and enforcement by OGRA resulted in expansion of retail network by OMCs without seeking necessary permissions / NOCs and non-fulfilment of work commitments.

The matter was reported to the Authority in October, 2020 and PAO in January, 2021.

In DAC meeting held on January 25, 2021, OGRA stated that marketing activities of M/s AOSPL were suspended in Sindh and Baluchistan, However,

OMC filed a petition in LHC and a stay order in this regard was still in force. DAC directed OGRA to furnish update status of court case besides pursuing it vigorously.

Audit recommends to implement the decision of DAC.

[DP No. 1286]

3.1.7.12 Irregular establishment of joint storage facilities by OMCs and inordinate delay in decision by OGRA

According to Rule 30(1) of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, the Authority may grant license for the construction or operation of a new oil storage facility subject to such terms and conditions as may be specified therein if it is satisfied that the applicant is in possession of the site and has obtained NOC of the concerned departments, the applicant has adequate financing capacity or has arranged adequate financing facility to construct or operate an oil storage facility and the applicant has submitted an affidavit from each and all of its Directors to the effect that he is not disqualified or ineligible to become or remain a Director of the company under the provisions of the Ordinance, 1984 (XLVII of 1984).

During audit of OGRA for the FY 2019-20, it was observed that the Authority issued permissions / licenses to Byco & Jinn Petroleum in January, 2017 and PSO & APL in October, 2018 for development and operation of JV storage facilities. Further, HPL was operating two storage facilities namely Hascol Terminal Ltd. and second with FWO at Thallian. Moreover, Askar Oil Services had undertaken JV storage facilities with MPPL, Allied Petroleum Pvt. Ltd (APPL), Petro well Oil Pvt. Ltd and OTO Pakistan Pvt. Ltd on October 14, 2019 despite the fact that licenses of three OMCs except MPPL had been cancelled. In all these cases, the Authority accorded approvals / licenses for establishment / operation of joint storage facilities which were not covered under Oil Rules, 2016 and are irregular. Moreover, storage facilities should be constructed on site / property owned by the OMC exclusively besides fulfilling the other requirements. Hence, the establishment of joint storage facilities was considered irregular.

Moreover, requests of JV storage facilities of MPPL and Taj Gasoline Pvt. Ltd with other OMCs were pending for approval with the Authority since April, 2019 and March, 2020 respectively.

Audit is of the view that weak regulatory oversight resulted in irregular establishment of joint storage facilities in violation of rules.

The matter was reported to the Authority in September / October, 2020 and PAO in January, 2021.

The DAC in its meeting held on January 25, 2021 directed OGRA to expedite the resolution of the issue.

Audit recommends to implement the decision of DAC.

[DP No. 1306]

3.1.7.13 Non-determination of final revenue requirements of SSGC for the FYs 2017-18 to 2019-20 and of SNGPL 2019-20 by OGRA

According to Rules 4 to 18 of the Oil & Gas Regulatory Authority Rules, 2002, the process of determination of Total Revenue Requirement of a gas company shall start from first day of December and finish by 17th-June of the year when OGRA shall advise the Federal Government the prescribed price that shall apply to consumers for natural gas. Further, according to Rule 15 of Natural Gas Tariff Rules, 2002, the Authority shall decide a petition filed under these rules within five and a half months of the date of filing of the petition provided that the Authority may, only for causes beyond its control, extend the aforesaid five and one half months period by a further period of one month.

During audit of OGRA for the FY 2019-20, it was observed that OGRA failed to finalize the determination of total revenue requirements of SSGCL for the FYs 2017-18 to 2019-20. Similarly, FRR of SNGPL for the FY 2019-20 and review petition against FRR 2018-19 were not determined by the Authority. This resulted in non-determination of prescribed price by OGRA and subsequent advice to the Government for fixing sales prices, thus GDS / differential margin payable / receivable to Federal Government by the companies could not be determined.

Audit is of the view that lack of decision making by the Authority resulted in non-determination of total revenue requirements of the companies.

The matter was reported to the Authority in October, 2020 and PAO in January, 2021.

In DAC meeting held on January 25, 2021, OGRA stated that SSGCL submitted late petition which was pre-requisite for determination of final revenue requirement. Further, the final revenue requirement for FY 2017-18 had been finalized. DAC directed OGRA to resolve the left-over matter and finalize the FRR 2018-19 within one month.

Audit recommended to implement the decision of DAC.

[DP No. 1426]

3.1.7.14 Non-determination of final RLNG prices by OGRA since 2017 causing running of entire RLNG supply chain on provisional basis

MPNR (Policy Wing) vide letter No. NG(II)-16(I)/15-RLNG-IPP-Vol-II dated June 23, 2015 conveyed the decision of ECC to OGRA / Gas Utilities / PSO for implementation that the RLNG price will be determined on similar lines as that of Petroleum Products Pricing. Further, ECC decision in case No. ECC-07/11/2015 dated June 06, 2015 conveyed to OGRA as policy guidelines under Section 21 of the OGRA Ordinance, 2002 comprising of components of RLNG Price.

During audit of OGRA for the FY 2019-20, a scrutiny of RLNG prices determined by OGRA showed that the Authority notified provisional RLNG prices under Petroleum Products (Petroleum Levy) Ordinance, 1961 in line with other petroleum products since October, 2015 and notified final prices of RLNG till April, 2017. OGRA did not finalize the aforesaid provisional prices despite lapse of more than 03 years. Entire supply chain of RLNG was being run on provisional basis as follows:

- i) RLNG supply chain is being governed under two different set of legal regimes i.e. pricing under Petroleum Products Ordinance, 1961 and its subsequent cost of supply to end consumers through gas companies is determined under OGRA Ordinance, 2002;

- ii) Unresolved disputes on account of swapped volume of RLNG between SSGC and SNGPL resulting in withholding of huge amounts against each other which requires reconciliation by third party;
- iii) SSGC claiming higher UFG losses due to handling of huge volumes of RLNG and its swapping with SNGPL despite its RLNG pipeline being operational since September, 2018;
- iv) Ring fencing of RLNG only allowed incremental cost to form part of RLNG price whereas gas companies are demanding for allocation of T&D cost to RLNG business on proportionate basis;
- v) Figures of SSGC transportation charges included by SNGPL were also provisional due to non-finalization of SSGC revenue requirements; and
- vi) Non-settlement of deferral account set for the adjustment of RLNG divergence or other outstanding matters by OGRA.

Audit is of the view that lack of decision making on regulatory issues by OGRA resulted in accumulation of huge RLNG related arrears among PSEs working under the regulator.

The matter was reported to the Authority in October, 2020 and PAO in January, 2021.

In DAC meeting held on January 25, 2021, OGRA stated that it had already issued actual RLNG prices till June, 2017. However, the same was held up thereafter mainly because of court case. OGRA further elaborated that pricing of RLNG shall be determined as soon as the matter is decided by the court. Audit contended that only matter relating to cost of supply of SNGPL was subjudice whereas other matters were pending on the part of either OGRA or Petroleum Division. DAC directed OGRA to refer the case to Petroleum Division for early disposal of pricing issue of RLNG.

Audit recommends to implement the decision of DAC besides resolving the pending issues on the part of OGRA expeditiously.

[DP No. 1304]

3.1.7.15 Non-monitoring of work programmes of OMCs by OGRA resulting in non-completion of 17 storage facilities

According to Rule 30(3) of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, Authority may grant license for the construction or operation of a new oil storage facility subject to such terms and conditions as may be specified therein if it is satisfied that the applicant is in possession of the site and has obtained NOC of the concerned Environmental Protection Agency, District Government or the Local Government whichever is applicable, and Ministry of Defence.

During audit of OGRA for the FY 2019-20, it was observed that the Authority granted permission to four OMCs i.e My Petroleum Ltd. (MPPL), BYCO Petroleum Ltd, Attock Petroleum Limited and Exceed Petroleum Pvt. Ltd. for development of storage facilities. However, it failed to devise a monitoring mechanism to ensure completion of storage facilities by OMCs as per their committed work programmes which resulted in slow progress towards development of storage facilities. Further, MPPL and EPPL started construction of storage facilities after obtaining conditional NOCs from Government departments but compliance of conditions was not ensured whereas Byco did not obtain NOCs from Government departments for its 02 storage facilities.

Audit is of the view that poor regulatory oversight resulted in non-compliance with the requirements and non-completions of storage facilities as per committed work programme.

The matter was reported to the Authority in September / October, 2020 and PAO in January, 2021.

In DAC meeting held on January 25, 2021, OGRA stated that Show Cause notice was issued to My Petroleum Ltd (MPPL) on 07.02.2020 and penalty of Rs 2 million was imposed. The construction facility was near completion. Further, M/s Byco Petroleum Ltd had made compliance in one storage facility whereas in other case, compliance was pending and as per TPI report, 70% storage capacity of Exceed Petroleum Pvt. Ltd. (EPPL) at Sahiwal had been completed. DAC directed OGRA to appraise Audit and Cabinet

Division about latest status of the completion of required storage facilities and ensure 100% compliance.

Audit recommends to implement the decision of DAC.

[DP Nos. 1283 & 1284]

3.1.7.16 Ineffective liaison with district authorities resulting in illegal sale of petroleum products by dabba stations / mini petrol pumps in shops

According to Rule 33 read with Rule 2 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, no person shall undertake the marketing of petroleum products without obtaining a license from the Authority. As per Rule 38 read with Clause (xxiii) of Rule 2 of ibid and OGRA's Technical Standards for the Petroleum Industry (Retail Outlets) vide SRO 623(I)/2009 dated July 02, 2009, every oil marketing company shall supply the petroleum products to its retail outlets and its authorized agent, dealer or bulk consumer having licensed premises for storage of the petroleum products.

During audit of OGRA for the FY 2019-20, it was observed that the Authority could not frame an effective enforcement mechanism to eradicate illegal activity of selling petroleum products by dabba stations in bottles from drums and mini petrol pumps opened in shops / public markets throughout the country. However, at these illegal mini petrol pumps dispensing machines had been installed without any safety measures.

Audit is of the view that ineffective monitoring and lack of liaison with Provincial / District Authorities by OGRA resulted in illegal sale of substandard products and posed serious safety hazards to the public life and property.

The matter was reported to the Authority in September, 2020 and PAO in January, 2021.

In DAC meeting held on January 25, 2021, OGRA stated that matter came under the domain of District Government and department of Explosive. DAC directed OGRA to take up the matter with Petroleum Division for remedial action by the District Government and other relevant quarters. A report in this regard may be furnished to Cabinet Division and Audit.

Audit recommends to improve enforcement mechanism to keep liaison with Provincial / District Authorities to eradicate illegal sale of petroleum products besides implementing the decision of DAC.

[DP No. 1289]

3.1.7.17 Non-finalization of provisional licenses of OMCs by giving repeated extensions over a period of 5 to 15 years by OGRA

According to Rule 35 (2) of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, the Authority after examining the application made under rule 34 shall initially issue a license for a period of three years during which the marketing infrastructure i.e storages, retail outlets as given in the work programme shall be completed in accordance with the laid down technical standards. In case of failure to complete the aforesaid marketing infrastructure within the stipulated period of provisional license, the Authority may refuse the extensions of the license.

During audit of OGRA for the FY 2019-20, it was observed that OGRA granted provisional license to 03 OMCs namely Askar Oil Services Pvt. Ltd (AOSPL) in 2005, Zoom Petroleum Pvt. Ltd (ZPPL) in 2010 and Zoom Marketing Oil Pvt. Ltd (ZMOPL) in 2015. The Authority extended these provisional licenses repeatedly during a period ranging from 5 years to 15 years despite non-fulfilment of committed work programme.

Audit is of the view that weak regulatory oversight by OGRA resulted in grant of provisional licenses despite non-fulfilment of committed work programme.

The matter was reported to the Authority in October, 2020 and PAO in January, 2021.

The DAC in its meeting held on January 25, 2021 noted that matter had already been take-up by “Inquiry Commission”. DAC directed OGRA to furnish detailed report on the recommendations of said Inquiry Commission to Petroleum Division for prudent remedial action in public interest. After submission of the report, DAC decided to hold a special meeting on it.

Audit recommends to justify grant of provisional licenses despite non-fulfilment of committed work programme by OMCs and ensure issuance of permanent licenses to OMCs upon satisfactory completion of market infrastructure besides improving monitoring mechanism.

[DP No. 1303]

3.1.7.18 Non-follow up of Authority's directives issued to SNGPL

According to Rule 6 (g, o & p) of OGRA Ordinance, 2002, OGRA shall promote effective competition and efficiency in the activities within its jurisdiction, safeguard the public interest, including national security interest, of Pakistan in relation to regulated activities. Further, according to Rule 17(c) read with Rule 20 of NGT Rules, 2002, tariff should include a mechanism to allow licensees a benefit from and penalties for failure to achieve, benchmarks set by the Authority through yardstick regulation for inter-alia and without limiting the generality of such regulation, capacity utilization operation and maintenance costs and unaccounted for natural gas.

During audit of OGRA for the FY 2018-19, a scrutiny of Final / Estimated Revenue Requirements of SNGPL determined during previous years showed that Authority issued certain directives to gas utility company relating to rationalization of HR cost, control over UFG losses and its monitoring, finalization of provisional figures of WPPF, review of depreciation rates keeping in view useful life of fixed assets and rationalization of various expenses including security expenses etc (**Annex-14**). But the Authority did not formulate any monitoring mechanism to ensure the compliance of its directives on regular basis.

Audit is of the view that due to absence of any in-built monitoring mechanism, the aforementioned directives of the Authority could not be implemented despite lapse of considerable period.

The matter was reported to the Authority in December, 2020 and PAO in January, 2021.

In DAC meeting held on January 25, 2021, OGRA agreed that SNGPL was not complying with its directives. DAC directed OGRA to take up the matter with Petroleum Division with request to place the matter before SNGPL Board.

Audit recommends to implement the decision of DAC besides compliance of OGRA's directives.

[DP No. 1307]

3.1.7.19 Unjustified extension in provisional license of AOSPL despite non-completion of storage facilities

According to Rule 34 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, the Authority shall initially issue a licence for a period of three years during which the marketing infrastructure i.e. storages, retail outlets and filling stations etc., as given in the work programme, shall be completed in accordance with the laid down technical standards. In case of failure to complete the aforesaid marketing infrastructure within the stipulated period of provisional licence, the Authority may refuse the extension of the licence or, depending on the nature of non-compliance and subject to penalties under the Ordinance and the rules, may grant extension on such terms and conditions and for such period as deemed appropriate.

During audit of OGRA for the FY 2019-20, it was observed that OGRA granted provisional marketing license to Askar Oil Services Pvt. Limited for three years subject to certain terms and conditions on July 04, 2005. The provisional license of AOSPL was extended twice upto December, 2017 and then upto December, 2018 subject to completion of 04 storage facilities at Habibabad (Kasur), Sahiwal, Khanpur (Sheikhupura) and TaruJabba (KPK) within the extended time which could not be completed till now. Further, requisite NOCs from Government were still awaited.

Audit is of the view that weak operational oversight by OGRA resulted in extension of provisional license of OMC despite non-fulfilment of its work commitments which was unjustified.

The matter was reported to the Authority in October, 2020 and PAO in January, 2021.

In DAC meeting held on January 25, 2021, OGRA stated that a Show Cause Notice was issued on June 03, 2019 to M/s Askar Oil against which the OMC approached the Court of Law and the matter was subjudice. DAC directed OGRA to get the Court case expedited.

Audit recommends to implement the decision of DAC besides streamlining the process of issuance of licenses to OMCs.

[DP No. 1282]

3.1.7.20 Operation of technically non-compliant oil transportation Pipeline by PSO / SPL causing non-uplifting of petroleum products from ARL

According to Rule 53 (viii&x) of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, all licensees, in relation to their regulated activity, shall carry out regulated activity in accordance with the technical standards applicable to the midstream and downstream petroleum industry. Further, according to Rule 22 read with Rule 26 of Rules ibid, all persons lawfully carrying on the operation of pipelines immediately before the commencement of the Ordinance shall apply for the grant of licenses. Upon the making of applications to the Authority for the grant of licenses, such persons shall be granted licenses by the Authority on the terms and conditions applicable to them on the date of the commencement of the Ordinance.

During audit of OGRA for the FY 2019-20, it was observed that PSO and Shell Pakistan Ltd (SPL) were operating a pipeline for transportation of oil from ARL for which no license under Rules 22 read with Rule 26 of Oil Rules, 2016 was issued by OGRA. Further, no third party certification was conducted to ensure that the pipeline was compliant with technical standards of OGRA. Resultantly, the pipeline operation was suspended in November / December, 2019 after identification of three critical defect points concerned with Health, Safety, Security and Environment (HSSE) and compliance exposure. Due to suspension of PSO/SPL pipeline, disposal of Petrol, HSD and JP-I from ARL was mostly discontinued.

Audit is of view that due to weak regulatory oversight neither license for Oil Transportation Pipeline was issued to PSO / SPL under rules nor any 3rd party inspection was carried out to ensure its compliance with technical standards.

The matter was reported to the Authority in October, 2020 and PAO in January, 2021.

In DAC meeting held on January 25, 2021, OGRA stated that NHA had not yet issued NOC to PSO to shift pipeline in Sihala and pipeline was still not operational. Audit contended that a separate license for operation of pipeline was required to be considered at the time of issuing OMC license in May, 2019 after proper validation of technical standards. DAC directed OGRA to ascertain facts of the case from PSO and direct the OMC to get the issue resolved for early operation of pipeline as per law.

Audit recommends to justify the non-issuance of license for pipeline and not carrying out 3rd party inspection besides issuing separate license for carrying out operation of pipeline.

[DP No. 1298]

3.1.7.21 Non-implementation of ECC decision regarding Marketing of Diesel Oil conforming to Euro-IV & Euro-V Specifications

ECC vide case No. 91/18/2017 dated 29th August 2017 approved the summary regarding Marketing of Diesel Oil conforming to Euro-IV & Euro-V Specifications under deregulated environment and approved the proposals contained in Para-4 of the summary subject to the conditions that Government of Pakistan (GoP) would intervene through OGRA in a situation where Oil Marketing Companies (OMCs) and dealers would violate the policy framework. Moreover, no financial obligation would be placed on GoP while introducing the new grade specified import and marketing of the subject diesel oil in the country.

During audit of OGRA for the FY 2019-20, it was observed that above-mentioned ECC decision was not implemented because refineries were still producing diesel oil conforming to Euro-II specifications and OMCs were also not marketing the diesel oil conforming to Euro-IV & Euro-V specifications till close of FY 2019-20. Similarly, petrol was being produced and marketed by OMCs conforming to the RON 87 instead of RON 92 and above. OGRA in

collaboration with PD remained unable to enforce the marketing of diesel oil conforming to the prescribed specifications.

Audit is of the view that inaction on the part of OGRA resulted in non-implementation of decision of ECC.

The matter was reported to the Authority in October, 2020 and PAO in January, 2021. OGRA in its reply dated January 22, 2021 stated that ECC decision had been implemented as the refineries had started production of EURO-V compliant petroleum products.

The DAC in its meeting held on January 25, 2021 directed OGRA to provide HDIP report showing quality of petroleum products produced by the refineries.

Audit recommends to implement the decision of DAC.

[DP No. 1294]

3.1.7.22 Irregular installation of composite retail outlets of OMCs selling both CNG and petroleum products

According to the Rule 11 of CNG Rules, 1992, a licensee shall not make any alteration in, addition to, or extension of, his works as given in his plan and approved by the Authority, unless such alteration, addition or extension is authorized by the Authority.

During audit of OGRA for the FY 2019-20, it was observed that 1,163 composite retail outlets were selling CNG as well as petroleum products in all over the country. Apparently, the dealers / retail outlet owners obtained licenses of CNG stations under CNG Rules, 1992 from the Authority and also obtained franchise agreements from OMCs under Oil Rules, 2016 or 1971 (which were applicable). However, both the CNG and Oil Rules have no provision for selling / marketing of both the CNG and petroleum products at the same premises. But OGRA neither ensured compliance with technical and safety standards applicable to CNG stations and petrol pumps / retail outlets nor took up the matter with the Department of Explosives to see whether NOC for composite retail outlet was issued or not. Further, OGRA decisions dated February 23, 2018 and February 14, 2019 for regularizations of unauthorized operations / addition of CNG stations at petrol pumps needed approval of Federal Government as

required vide Section 41 of OGRA Ordinance, 2002 as same were not made part of Regulations under Section 42 of Ordinance *ibid*.

Audit is of the view that weak regulatory oversight by the Authority resulted in continued operation of unauthorized composite retail outlets.

The matter was reported to the Authority in October, 2020 and PAO in January, 2021. OGRA in its reply dated January 22, 2021 explained that matter pertained to provincial / district authorities.

The DAC in its meeting held on January 25, 2021 directed OGRA to provide data / record relating to addition of petrol pumps in CNG stations relating to 25 composite retail outlets from each district.

Audit recommends to implement the decision of DAC besides ensuring provision of NOC from Department of Explosives by all composite retail outlets.

[DP No. 1305]

3.1.7.23 Delay in cancellation of CNG marketing license of Mehar Filling CNG station for selling flare gas through mobile container system

According to Rule 3 of CNG Rules, 1992, no person or corporation shall, without first obtaining a license from the Authority, undertake, or cause to be undertaken under any agreement, the operation or construction of works connected with compression of natural gas for the purpose of storing, filling or distribution of CNG. Further, according to the Rule 8 of CNG, 1992, the authority may cancel/withdraw the marketing license of instant CNG station and power conferred under section 22 of OGRA ordinance, 2001.

During audit of OGRA for the FY 2019-20, it was observed that the Authority granted marketing license of CNG to M/s Mehar Filling Station on September 07, 2010 which was valid upto April 18, 2020. On receipt of a complaint by Shell for selling of sub-standard gas under its brand, OGRA conducted a surprised inspection of the CNG station on October 30, 2019 and found illegal sale of flare gas. Furthermore, HDIP also visited the CNG station for inspection and reported that CNG installation of the licensee was not in compliance with CNG Rules, 1992 and Standard Code of Practices. However, no further action was taken by OGRA on this continued gross violation of law which could result in severe security hazard for the general public.

Audit is of the view that weak enforcement and gross negligence on the part of OGRA resulted in the continued operation of the CNG station in violation of relevant rules.

The matter was reported to the Authority in October, 2020 and PAO in January, 2021. OGRA explained that on account of un-authorized sale of flare gas, the license of M/s Mehar about CNG was cancelled / withdrawn on November 06, 2019. However, said OMC approached IHC and the matter was subjudice.

The DAC in its meeting held on January 25, 2021 directed OGRA to furnish latest status of court case besides pursuing the case vigorously.

Audit recommends to pursue the court case besides improving enforcement of Rules.

[DP No. 1290]

MFDAC PARAS

The Director General Audit, Petroleum and Natural Resources, Lahore on behalf of the Auditor-General of Pakistan, conducted the audit of the accounts of Ministry of Energy (Petroleum Division), all the organizations under this Ministry and OGRA for the year 2019-20.

As a result of audit conducted during 2019-20, various types of financial irregularities and losses of public money etc., were detected and reported to the Ministry / Divisions and organizations concerned. The important irregularities/ losses and malpractices pertaining to various organizations have been printed in this report, while irregularities / losses not considered worth reporting to the PAC as listed below were left for Departmental Accounts Committees. The same will be discussed with the respective Secretaries to the Ministry / Divisions by the Director General Audit, Petroleum and Natural Resources, Lahore.

(Rs in million)

Sr. No.	DP No.	Formation	Description	Amount
1	1116	DG (Special Projects)	Non-implementation of Cabinet / ECC decisions regarding rationalization of excessive return of LNG Terminal Company	-
2	1117	DG (Special Projects)	Non-implementation of Cabinet decision regarding revamping of PMDC	-
3	1118	DG (Special Projects)	Non-implementation of ECC decision regarding allocation of gas from Jhal Magsi field for power generation	-
4	1120	DG (Special Projects)	Non-implementation of ECC decision regarding abeyance of WACOG	-
5	1121	DG (Special Projects)	Non-implementation of Cabinet decision regarding Shale Gas Frame work	-
6	1122	DG (Special Projects)	Non-implementation of ECC decision regarding LNG and review of PSO margin & SSGC / SNGPL administrative margins	-
7	1123	DG (Special Projects)	Non-implementation of ECC decision regarding exorbitant increase in LPG price	-

8	1124	DG (Special Projects)	Non-implementation of CCoE decision regarding inflated gas bills, theft of gas and curtailment of UFG loss	-
9	1127	DG (Special Projects)	Non-implementation of ECC decision regarding review of the OMCs and dealers' margins on petroleum products	-
10	1128	DG (Special Projects)	Non-implementation of ECC decision regarding LPG Air Mix Projects	-
11	1154	DG (Special Projects)	Insufficient pursuance by the Petroleum Division resulting in non-implementation of the decisions taken by the various Committees of Cabinet	-
12	1173	DG (Gas) / PPL	Non-realization of Gas Infrastructure Development Cess (GIDC)	3,308.826
13	1174	DG (Gas) / PPL	Non-realization of Gas Development Surcharge (GDS)	18,350.128
14	1315	DG (Gas) / SNGPL	Inadmissible benefit of 50% waiver of GIDC amount to CNG consumer	129.818
15	1318	DG Gas / SNGPL	Inadmissible 50% waiver of GIDC amount to CNG consumers	480.619
16	1057	DG (Oil)	Short payment of Windfall Levy and Royalty due to reduction in the invoice prices	160.976
17	1108	DG (Oil)	Non-production of record	-
18	1109	DG (Oil)	Non-realization of government revenue under pricing formula	1,716.000
19	1110	DG (Oil)	Submission of incomplete information through monthly returns by the Refineries & Oil Marketing Companies	-
20	1111	DG (Oil)	Non-realization of LPS on delayed payment of Petroleum Levy	41.560
21	1129	DG (Oil)	Working of PSE's personnel at the Directorate General of Oil Islamabad	-
22	1131	DG (Oil)	Outstanding payment of PMG-RON differential amount	148.664
23	1188	DG (Oil)	Short deposit of Petroleum Levy on POL products by	9.103
24	1442	DG (Oil)	Non-payment of GIDC	1,299.626
25	1070	DG (PC)	Improper Implementation of Concession	-

			Management System	
26	1071	DG (PC)	Inadmissible utilization of training fund	1.350
27	1075	DG (PC)	Short-realization of royalty on LPG	14.581
28	1077	DG (PC)	Non-realization of royalty on free of cost gas supply to locality	13.168
29	1365	GSP Quetta	Defective calculation and late deposit of income tax	-
30	1366	GSP Quetta	Non-adjustment of contingent advance paid to officers/officials	3.636
31	1367	GSP Quetta	Non-recovery / non-adjustment of TA advance disbursed to employees	0.758
32	1371	GSP Quetta	Non-recovery of TA advances given to GSP employees	0.240
33	1046	HDIP	Loss due to sale of less gas at CNG stations than purchased	13.753
34	1048	HDIP	Loss of revenue due to non-establishment of LPG Cylinders Testing Lab	
35	1049	HDIP	Non-recovery of outstanding dues from blending and reclamation plant	32.575
36	1050	HDIP	Non-recovery of testing fees from OMCs	14.132
37	1051	HDIP	Non-deduction of withholding sales tax on purchase of goods	1.875
38	1052	HDIP	Splitting of procurements to avoid open competition	1.873
39	1053	HDIP	Poor performance in the area of research and development	-
40	1054	HDIP	Irregular appointment and extension in services of consultants	3.300
41	1055	HDIP	Over-payment due to illegal fixation of pay package of Director General	3.692
42	997	OGDCL	Excess expenditure due to non-finalization of tender	1.822
43	999	OGDCL	Non-payment of Royalty on signature bonus on sale of LPG	31.090
44	1000	OGDCL	Irregular renovation / revamping of OGDCL head office from CSR funds	4.860
45	1001	OGDCL	Undue favour to the contractor in award of	1.200

			work	
46	1007	OGDCL	Irregular procurement of capital items due to non-approval from competent authority	361.506
47	1008	OGDCL	Loss due to poor procurement management and less production	9.299
48	1009	OGDCL	Unjustified award of contract for water supply through bowsers	41.759
49	1010	OGDCL	Un-justified delay in procurement of indented items	-
50	1011	OGDCL	Wasteful expenditure due to non-utilization of dispensary	9.802
51	1012	OGDCL	Unjustified payment of rent for de-hired land	3.006
52	1015	OGDCL	Inadmissible payment of field related allowances	12.886
53	1016	OGDCL	Non-settlement of insurance claims	13.619
54	1017	OGDCL	Recurring loss due to unjustified retention of land of abandoned fields	15.797
55	1020	OGDCL	Extra cost on drilling due to poor planning	-
56	1021	OGDCL	Loss due to sale of off-spec gas Tando Allah Yar fields	3,833.300
57	1026	OGDCL	Loss due to curtailment of production	505.000
58	1029	OGDCL	Non/ short payment of Social Welfare Obligation on Gurgalot license	5.040
59	1030	OGDCL	Unjustified extensions of in-house pharmacy contract in violation of PPRA Rules	-
60	1032	OGDCL	Illegal sale of natural gas to CNG stations	819.358
61	1034	OGDCL	Unjustified purchase of chemicals despite their availability in store	34.406
62	1035	OGDCL	Recurring avoidable expense on hiring the services of Mud Chemical Engineering Services.	304.165
63	1036	OGDCL	Irregular award of contracts due to pre-qualification of contractors	695.079
64	1037	OGDCL	Non-deduction of income tax on sale of vehicles to the employees	2.343
65	1038	OGDCL	Irregular appointment of Senior Procurement Officer	15.810

66	1041	OGDCL	Unjustified purchase of hot oil due to negligence of contractor	196.744
67	1042	OGDCL	Loss due to non-imposition of LD charges	16.805
68	1043	OGDCL	Unjustified expenditure on security deployment for seismic parties	1,537.561
69	1085	OGDCL	Loss of production due to delay in delivery of jet pumps	5.010
70	1086	OGDCL	Poor data acquisition due to non-availability of technical staff	-
71	1088	OGDCL	Unjustified appointment of General Manager on deputation	2.569
72	1090	OGDCL	Decline in in-house seismic data acquisition	-
73	1091	OGDCL	Inefficient HR management resulting in outsourcing of Mud Engineering Services	-
74	1094	OGDCL	Extra cost due to hiring of Chillers	25.049
75	1095	OGDCL	Poor data acquisition due to defective equipment	-
76	1099	OGDCL	Loss due poor planning and monitoring of Pasakhi Well	312.042
77	1100	OGDCL	Lack of monitoring mechanism on Mud Services hired from third party	-
78	1101	OGDCL	Loss due to flawed TORs for Mud Chemicals and Engineering Services	138.453
79	1102	OGDCL	Extra cost due to out-sourcing of seismic data acquisition	4,866.918
80	1103	OGDCL	Non- Resolution of dispute regarding yield difference	15.500
81	1104	OGDCL	Non-recovery of late payment surcharge due to delayed receipt of cash calls from JV partners	783.105
82	1105	OGDCL	Non-recovery of outstanding balances from various JV Partners	6,503.695
83	1106	OGDCL	Non-recovery of outstanding amount along with late payment surcharge	31.994
84	1107	OGDCL	Non-payment of royalty on petroleum produced	681.332
85	1132	OGDCL	Blockage of funds due to non-disposal of written off inventory	336.810

86	1133	OGDCL	Non-finalization of joint ventures accounts	-
87	1134	OGDCL	Blockage of funds due to unnecessary purchase of inventory	891.075
88	1136	OGDCL	Loss due to sale of off-spec gas due to leakage of Hot Oil	196.618
89	1137	OGDCL	Non-existence of Manuals/SOP for Seismic Department	-
90	1149	OGDCL	Unjustified hiring of vehicles	63.504
91	1151	OGDCL	Loss due non-recovery of condensate	16.466
92	1152	OGDCL	Loss of Government revenue due to selling of off-spec volume gas	44.212
93	1228	OGDCL	Sale of natural gas below OGRA notified price	432.235
94	1368	OGDCL	Loss due to unjustified filing of petition	197.059
95	1369	OGDCL	Poor planning by management resulted in irregular extension in contracts	-
96	1370	OGDCL	Irregular procurement of hardware for advanced seismic data processing	87.099
97	1287	OGRA	Unjustified decision to issue permanent marketing license to Hascol Petroleum Limited without completion of storage development	-
98	1291	OGRA	Illegal selling of oil products by nine filling stations despite cancellation of retail franchise agreement with Shell Pakistan Limited	-
99	1295	OGRA	Non-implementation of CCoE / ECC decision regarding amendment in OGRA Ordinance, 2002	-
100	1299	OGRA	Non-Compliance of conditions imposed by Ministry of Energy / Defence, Environmental Protection Department for oil storage facilities by APL	-
101	1300	OGRA	Undue profiteering by OMCs through excess claim of road transportation charges in respect of IFEM	-
102	1302	OGRA	Non-compliance for oil tanker manufacturing for use of Oil transportation	-
103	1308	OGRA	Non-review of depreciation rates based on precise economic useful life of its assets of SNGPL since inception of OGRA Ordinance and NGT Rules, 2002	-

104	1425	OGRA	Deficient evaluation of petitions of SNGPL resulting in excess determination of Guaranteed Rate of Return	2,381.660
105	922	PLL	Unjustified payment of conveyance allowance	11.185
106	923	PLL	Short deduction of withholding tax from employees due to non-inclusion of POL reimbursement	2.830
107	924	PLL	Overpayment of salaries due to application of excess rate of increment than approved by BoD	2.344
108	925	PLL	Non-appointment of Company Secretary and Chief Internal Auditor	-
109	926	PLL	Overpayment of salaries due to application of excess rate of CPI	2.016
110	928	PLL	Unjustified payment of additional charge allowance to executives-	21.970
111	929	PLL	Inadmissible grant of performance based increment	7.906
112	932	PLL	Excess payment of pilotage fee to PQA	149.475
113	934	PLL	Irregular extension of contract in violation of PPRA Rules	3.851
114	939	PLL	Unjustified final settlement due to non-termination of services of Ex-MD	12.140
115	912	PLTL	Irregular award of contract for Retainage Audit	4.543
116	913	PLTL	Irregular extension in contract of Executive Secretary	3.567
117	914	PLTL	Short deduction of withholding tax from employees due to non-inclusion of POL reimbursement	1.262
118	915	PLTL	Irregular re-imbursement of foreign medical charges	1.167
119	916	PLTL	Unjustified payment of Conveyance Allowance	7.949
120	917	PLTL	Irregular appointment of Manager (Legal & Contract)	13.748
121	918	PLTL	Unjustified payment of additional charge allowance to executives	8.506
122	945	PLTL	Irregular expense on repair & maintenance of HAVC system at Petroleum House	12.732

123	947	PPL	Irregular award of Haulage Contracts	9,128.220
124	948	PPL	Wrong classification of inventory	-
125	950	PPL	Irregular award contract to the 2nd lowest bidder	69.712
126	951	PPL	Award of contract at higher amount than offered by the bidder	176.312
127	953	PPL	Revenue loss due to delay in installation of power plant	6,912.000
128	956	PPL	Loss due to non-encashment of performance guarantee	1,043.748
129	961	PPL	Recurring loss due to higher transportation cost	624.535
130	962	PPL	Dam water contamination due to oil spillage at Adhi field	-
131	963	PPL	Loss due to non-encashment of bid bond	1.232
132	964	PPL	Excess payment of salary and benefits	0.520
133	966	PPL	Loss due to non-encashment of bid money	26.611
134	968	PPL	Irregular expenditure on lease of land	3.090
135	969	PPL	Non-provision of record relating to drilling	4,912.720
136	970	PPL	Loss due to Cost / time overrun and mishandling of decanting facility project	32.037
137	971	PPL	Inadmissible payment of Dearness Allowance	3.246
138	972	PPL	Short deduction of withholding tax from salaries	14.958
139	974	PPL	Unjustified payment of additional charge allowance	1.543
140	975	PPL	Loss due to flaring of gas from Kabir well, Gambat South	317.589
141	977	PPL	Cost / time over runs due to delay in development of Nokundi Iron Ore Deposits since 2016 to onward	-
142	978	PPL	Loss due to without GSA and suspension of production	750.022
143	982	PPL	Migration of gas from Gambat and Latif fields	-
144	983	PPL	Non-production of record	-
145	989	PPL	Non-fulfilment of work obligations as per PCA in Jungshahi Block	391.545

146	994	PPL	Piling up of huge obsolete/slow moving store items	1,330.963
147	1171	PPL	Loss due to payment of demurrages	3.895
148	1172	PPL	Irregular utilization of CSR funds	16.660
149	1175	PPL	Loss of interest income due to deposit of CSR funds in current account	11.033
150	1176	PPL	Non-transparency in utilization of CSR funds due to non-receipts of vouched account	108.368
151	1177	PPL	Irregular award of contract for Seismic Data Processing	41.440
152	1179	PPL	Non-utilization of Corporate Social Responsibility (CSR) Fund	85.810
153	1192	PPL	Loss of interest income due to late deposit of funds into Joint Account	6.228
154	1193	PPL	Irregular release of advance for reconditioning of road	50.000
155	1195	PPL	Non-recovery of outstanding cash calls from J.V partner	43.597
156	1223	PPL	Irregular promotion of 36 employees	-
157	1224	PPL	Supply of un-limited free gas facility to the residents of Sui Town	-
158	1225	PPL	Non-appointment of permanent Chief Finance Officer (CFO)	-
159	1249	PPL	Loss of government revenue due to shortfall of Barite	33.990
160	878	PSO	Illegal use of PSO logo and installed machinery	-
161	880	PSO	Non-recovery of Late Payment Surcharge (LPS) from IPPs	5,741.532
162	881	PSO	Loss due to late delivery of stores by the PSO	10.284
163	883	PSO	Non-recovery of distribution margin from the outlets on excess sales than procured POL products from the PSO	30.588
164	884	PSO	Non-reconciliation of physical stock of POL products with book stock at the outlets of PSO	291.044
165	885	PSO	Doubtful payment by PSO to its dealers for "disputed items"	21.978
166	887	PSO	Ban on NOCs by OGRA for new retail outlets	-

			due to non-enhancement of storage capacity	
167	1155	PSO	Non-compliance of the Public Accounts Committee (PAC) Directives	-
168	1191	PSO	Loss due to imposition of penalty by OGRA on retail outlets	9.250
169	1244	PSO	Loss due non-encashment of bid security	14.219
170	1248	PSO	Exchange loss due to late payment of loans	41,431.000
171	1417	PSO	Unjustified appointment against vacant posts on acting charge basis	-
172	1418	PSO	Un-authorized payment of Corporate Bonus to the employees	166.451
173	1419	PSO	Irregular procurement of Tax consultancy services by splitting of contract in violation of PPRA Rules	4.431
174	1420	PSO	Unjustified award of perks and privileges to the Chairman Board of Management (BoM)	4.400
175	1421	PSO	Irregular appointment of a Chartered Accountant firm as External Auditors	-
176	1423	PSO	Irrational increase in expenses of Board of Management	-
177	1358	SML	Wasteful expenditure after expiration of lease	42.500
178	1359	SML	Unauthorized payment of consultancy charges	1.681
179	889	SNGPL	Unjustified expenditure on "Recovery through Contractor, Annual Sports, Sports Cell and Sundries"	158.000
180	890	SNGPL	Wasteful expenditure on training cost included in Purchase Order which was subsequently cancelled by the Company	1.085
181	896	SNGPL	Inadmissible charging/booking of expense to SDGs jobs-	667.326
182	899	SNGPL	Over-estimation of Government funded jobs in order to avail maximum government funds and non-surrendering of savings	1,376.430
183	905	SNGPL	Unjustified payment of cost of land in respect of "Shamlot Land	2.465
184	906	SNGPL	Irregularity in utilization of company vehicles and purchase of luxury vehicles	75.868
185	1164	SNGPL	Loss of gas due to installation of	4.829

			undocumented meters	
186	1167	SNGPL	Irregular payment to student meter readers	64.446
187	1170	SNGPL	Undue benefit to the employees in grant of free gas facility	31.311
188	1184	SNGPL	Increase in UFG losses despite expense on UFG reduction plan	-
189	1185	SNGPL	Over estimation and non-surrendering in GOP funded jobs	542.790
190	1186	SNGPL	Undue benefit to the employees in grant of free gas facility	38.158
191	1187	SNGPL	Increase in UFG losses despite expense on UFG reduction plan	-
192	1312	SNGPL	Irregular inclusion of store material for RLNG based network in operating fixed assets.	36.451
193	1319	SNGPL	Irregular expenditure on Account of POL	47.369
194	1325	SNGPL	Excess Guaranteed return due to irregular inclusion of RLNG assets in operating fixes assets.	1.966
195	1327	SNGPL	Over-estimation in order to avail maximum Government funds	6,070.704
196	1329	SNGPL	Discriminatory policy regarding payment of interest on Cash security deposited by consumers	1,741.763
197	1384	SNGPL	Non/delayed payment of withheld provincial sales tax and non-withholding of sales tax on services	165.747
198	1386	SNGPL	Increase in UFG due to loose control over sales meter stations (SMS)	2,280.897
199	1388	SNGPL	Non-initiation of action against persons involved in theft cases and non-recovery of theft charges	321.621
200	1389	SNGPL	Excess meter drawn for new connection than actually installed	93.045
201	1392	SNGPL	Un-justified posting /transfer due to non-observance of rotation	7.070
202	1393	SNGPL	Non-fulfilment of OGRA technical and performance standard	39.320
203	1394	SNGPL	Excessive payment to contractors on account of	557.502

			brick laying over plastic Pipe	
204	1429	SNGPL	Irregular increase in 10-C Bonus while finalising CBA agreement	293.956
205	1433	SNGPL	Unjustified capitalization of HR Cost and its inclusion in HR Cost Benchmark	6,663.000
206	1434	SNGPL	Difference in sale and receipt of RLNG volume	10,552.000
207	1439	SNGPL	Unjustified incidence passed on to end consumers on account of WPPF	614.747
208	1196	SSGC	Non-imposition of LD charges	5.647
209	1197	SSGC	Non-recovery of liquidated damages charges	2.449
210	1198	SSGC	Irregular award of contract after negotiation with the 2nd lowest bidder	9.724
211	1199	SSGC	Irregular expenditure on repair & maintenance of allotted accommodation	5.039
212	1200	SSGC	Short recovery of allocation charges from non-operational executives	10.631
213	1205	SSGC	Unauthorized delivery of RLNG to Industrial Customers	-
214	1211	SSGC	Unjustified payment of water tanker expenses	2.064
215	1212	SSGC	Loss incurred due to detention charges claimed by PNSC	16.882
216	1213	SSGC	Irregular payment to PPL after expiry of the contract	11.468
217	1215	SSGC	Loss due to non-imposition of Liquidated Damages	3.683
218	1216	SSGC	Non-recovery of sales receivables of gas meter	264.424
219	1219	SSGC	Re-connection of domestic meters without recovery of outstanding dues	0.224
220	1235	SSGC	Non-disposal of un-serviceable/rejected stock pertaining to G-4 meters	2.049
221	1236	SSGC	Non-disposal of un-serviceable/rejected store stock pertaining to G-16 meters	2.236
222	1237	SSGC	Non-adjustment of advance payment of withholding Tax	8.065
223	1238	SSGC	Non-Surrendering of saving in time	100.000
224	1252	SSGC	Non-termination of contract due to non-	6.380

			completion of work within stipulated time	
225	1253	SSGC	Direct procurement of Turbine Oil from M/s Shell	9.648
226	1259	SSGC	Accumulation of late payment surcharge on outstanding gas charges	93,180.000
227	1262	SSGC	Non-receipts of inventory from borrowing companies	3.480
228	1339	SSGC	Non-recovery of advance withholding tax paid to FBR	398.159
229	1340	SSGC	Non-recovery of liquidated damage charges	29.429
230	1351	SSGC	Non-Disposal of retired vehicles.	9.996
231	1354	SSGC	Unauthorized expenditure due to lack of approval of competent authority.	4.649
232	1361	SSGC	Irregular award of contract for supply of water	206.000
233	1362	SSGC	Wasteful expenditure due to non-implementation of ERP System	80.000
234	1364	SSGC	Loss of gas due to non-rectification of underground leakages	-
235	1373	SSGC	Loss of gas due to non-rectification of leakages	-
236	1374	SSGC	Loss of gas due to non-implementation of KMIs	-
237	1378	SSGC	Non-reconciliation of store items	73.049
238	1380	SSGC	Unauthorized retention of withholding tax liability	331.124
239	1381	SSGC	Unjustified Re-connection of commercial meters without recovery of outstanding amount	23.905
240	1382	SSGC	Unjustified Re-connection of commercial meters without recovery of outstanding amount	6.038
241	1400	SSGC	Non-Disposal of un-serviceable/rejected store stock	478.043
242	1441	SSGC	Unjustified cost incurred on repair and maintenance on Turbo compressors	632.500

Non-Submission of Audited Accounts

Annual audited accounts of Public Sector Enterprises for the year 2019-20 were to be provided to the Directorates General Audit, Petroleum and Natural Resources, Lahore by Dec 31, 2020. Despite repeated requests, the organizations (listed below) did not provide their annual audited accounts for the year 2019-20 or for the previous years by the prescribed date. While non-submission of audited accounts needs to be explained, efforts need to be made to finalize and provide the accounts immediately.

Sr. No.	Name of Ministry / Division/Organization	Year of Accounts
Ministry of Petroleum & Natural Resources		
1	SNGPL	2019-20
2	SSGC	2018-19 & 2019-20
3	LCDCCL	2018-19 & 2019-20
4	PLTL	2019-20
5	PLL	2019-20
6	ISGS	2019-20
7	OGRA	2019-20
8	KPOGCL	2019-20

Annex-3

Audit profile of Ministry of Energy (Petroleum Division)

(Rs in million)

Sr. No.	Description	Total Nos.	Audited	Expenditure involved FY 2019-20	Revenue / Receipts involved FY 2019-20
1	Ministry of Energy (Petroleum Division) / Bodies			-	428,575.313
(i)	GSP			581.563	0
(ii)	HDIP(expenditure & receipts)			1,232.956	0
	Audited MoEPD / Bodies	1	1	1,814.519	428,575.313
	Unaudited MoEPD	-	-	337.725	-
2	Audited Autonomous Bodies / PSEs etc. under the PAO				
(iii)	OGDCL			219,447.603	310,585.507
(iv)	PPL			139,278.661	211,974.141
(v)	PSO			1,133,282.643	1,312,791.156
(vi)	SNGPL			817,433.806	773,050.499
(vii)	SSGCL			219,360.520	198,016.750
(viii)	PLTL			11,955.721	13,843.599
(ix)	PLL			180,011.871	201,408.503
		9	9	2,720,770.825	3,021,670.155
3	Un-Audited Autonomous Bodies / PSEs etc. under the PAO				
(x)	GHPL			51,747.437	85,658.708
(xi)	ISGS			546.815	35.913
(xii)	LCDCL			142.983	149.239
(xiii)	PMDC			2,617.272	3,077.968
(xiv)	SML			1,065.042	2,399.217
(xv)	KPOGCL			335.766	91.170
(xvi)	Mari			66,818.280	132,161.318
(xvii)	PARCO			0	0
		8	8	123,273.595	223,573.533
	Profile of autonomous Bodies / PSEs etc. under the PAO	17	-	2,844,044.420	3,245,243.688

*Audit of ISGS,LCDCL,PMDC,SML, MARI, PARCO, KPOOGCL and expenditure audit of MoE(PD) was not conducted. Further audit of GHPL could not be conducted due to pandemic of COVID-19. PARCO refused to get audited and audited accounts were not available.

Audit profile of OGRA under Cabinet Division

(Rs in million)

Sr. No.	Description	Total Nos.	Audited	Expenditure audited FY 2019-20	Revenue audited FY 2019-20
1	OGRA	1	1	1,001.462	1,595.397

Annex-4

(Para 2.1.7.18)

(i) Under finalization / execution of GSA

Sr. No.	Gas Field	Operator	Status/date of submission to OGRA/Petroleum
1	Gambat South Gas Field-GSPA	PPL	Gambat South GSPA is under SSGC BOD Approval
2	Kirthar Commercial GSPA	POGC	Draft Kirthar Commercial GSPA received from UEPL on October 06,2020 for SSGC review/Comments
3	Tando Allah Yar (TAY) term sheet	OGDCL	Under SSGC BOD Approval
4	Sui-GSPA	PPL	PPL to revert with requisite documents for extension
5	Kumar Pasaki Deep Gas Field-GSPA	OGDCL	Status of KPD GSPA communicated to MOE vide letter Ref. ASGM(Coord) F-28/2020/10640 dated 03/07/20
6	Mehar Gas Field Term Sheet	UEPL	Approved by OGRA (vide letter Ref: OGRA-9-1(362)/2014-GSPA-Mehar/OMVL November 11.2015) however, pending on issue of foreign Arbitration which has to be changed to Local Arbitration. The matter has also been communicated to MOE vide letter Ref.GM(P&D)/F-3/4791 dated December 19, 2019
7	Sofiya Gas Field (Letter Agreement to Mehar Term Sheet)	UEPL	Approved by OGRA (vide letter Ref: OGRA-9-1(362)/2014-GSA dated March 6, 2019) The matter of finalization of LA to Mehar Term Sheet has also been communicated to MOE vide letter Ref.GM(P&D)/F-3/4791 dated December 19, 2019
8	Bitrism Gas Field Letter Agreement	OGDCL	Under SSGC BOD Approval
9	Chhutto Gas Field Term sheet	OGDCL	Has been approved by OGRA (vide letter Ref: OGRA-9-1(506)/2020 dated August 18, 2020 with OGDCL for signing
10	Nur Bagla Gas Field GSPA	OGDCL	Under deliberation, status communicated to MOE vide letter Ref. ASGM(Coord) F-28/2020/10640 dated 03/07/20
11	Jakhro Gas Field Term sheet	OGDCL	Under deliberation, status communicated to MOE vide letter Ref. ASGM(Coord) F-28/2020/10640 dated 03/07/20
12	NIM Gas Field GSPA	OGDCL	Under deliberation, status communicated to MOE vide letter Ref. ASGM(Coord) F-28/2020/10640 dated 03/07/20
13	Dachrapur Gas	OGDCL	Under deliberation, status communicated to

	Field Term sheet		MOE vide letter Ref. ASGM(Coord) F-28/2020/10640 dated 03/07/20
14	Latif Gas Field GSPA	UEPL	Deliberated to be started with UEPL
15	Mitha Gas Field-EWT Letter Agreement	UEPL	Revised draft to be received from UEPL
16	Aqeeq Gas Field-Term Sheet	MPCL	MPCL to revert with Ministry of Energy issued Gas Allocation letter for Aqeeq Gas field
17	Badin-IV south-GSPA	PEL	Under SSGC BOD Approval
18	Unarpur (Kotri North Block) EWT letter Agreement	UEPL	Submitted to OGRA for Approval on June 01,2020
19	Bitro-EWT letter Agreement	UEPL	Under SSGC BOD Approval
20	Thal block-Term sheet	OGDCL	Under deliberation with OGDCL
21	Term Sheet for Sujjal EWT-GSPA	MPCL	Forwarded to OGRA for Approval on August 17,2012
22	Term Sheet for Sujjal EWT-GSPA	MPCL	Farwarded to OGRA for Approval on April 14, 2016
23	Hala block (Admn and Admn west & Fazl) GSPAs	PPL	Draft GSPAs received by PPL on September 24, 2020
24	Daru	OGDCL	OGDCL to revert with their stance pending since September 08, 20

(ii) Under Finalization Gas Sales Agreement

Sr. No.	Gas Fields	Operator	Title/ Comments
1	Kandhkot	PPL	GSPA for Kandhkot Gas Field. Draft agreed with PPL however GENCO (Guddu TPS) is reluctant to execute back-to-back agreement.
2	Jhandial	POL	EWT GSPA for Jhandial Field
3	Nashpa	OGDCL	Gas Sales and Purchase Agreement (Commercial)
4	Mela		Gas Sales and Purchase Agreement (Commercial)
5	Soghri		Gas Sales and Purchase Agreement (Commercial)
6	Dhok Hussain		Term sheet for Dhok Hussain Field
7	Togh		Term sheet for Togh Field
8	Dhodhak		1st Supplemental Agreement to Dhodhak GSA

9	Dakhni		Supplemental Agreement to Dakhni GSPA
10	Qadirpur (Raw Gas)		GSPA for Supply of Raw Gas (For onward supply LPL)
11	Manzalai	MOL	Term Sheet for Gas Sales & Purchase Agreement (Commercial)
12	Makori		
13	Mamikhel		
14	Maramzai		
15	Makori East		
16	Makori Deep		
17	Tolanj X1		
18	Tolanj West		
19	Mardankhel		
20	Badar	PEL	Supplemental Agreement to Badar GSPA, PEL is reluctant to extend Agreement due to pricing issue with GoP
21	Hassan		
22	Mari Engro	MPCL	Extension of Novationn Agreement
23	Koonj		Koonj GSPA
24	Kalabagh 1-A		Term Sheet for Kalabagh GSPA

Annex-5

(Para 2.2.6.6)

Irregular award of LPG recovery contract to M/s JJVL

Sr. No.	JJVL proposal	OGDCL tender condition
1	<p>Metering and Oversight Gas to be metered at the inlet and outlet points designated by JJVL at its plant, JJVL will welcome posting of an OGDCL official at the JJVL plant to coordinate and sign off on product</p>	<p>Metering and Oversight The plant to have facilities for metering the gas at the inlet and outlet of the plant. OGDCL may post an official at the plant to coordinate witness the gas measurement and signing off and fee</p>
2	<p>Description of Gas Co² content should not be more than 8% H²O content 7 Lbs/MMSCFD maximum</p>	<p>Description of Gas Co² content should not be more than 8% H²O content 7 Lbs/MMSCFD maximum</p>
3	<p>Gas Processing JJVL to process a maximum of 142 MMCFD OGDCL gas at its existing facilities JJVL shall guarantee a minimum propane recovery of 94%</p>	<p>Gas Processing The plant shall be capable of processing 100-150 MMCFD gas LPG and NGL extraction with maximum propane recovery</p>
4	<p>LPG / NGL Delivery OGDCL shall be responsible for taking delivery of the LPG and NGL produced from the OGDCL gas through its own arrangements</p>	<p>LPG / NGL Delivery OGDCL shall be responsible for taking deliveries of the LPG and NGL produced from the OGDCL gas through its own arrangements</p>
5	<p>Term the arrangement with JJVL shall be for a period of two years and can be extended subject to mutual agreement</p>	<p>Term Processing arrangement will be for a period of two years</p>

Annex-6

(Para 2.5.6.1)

Non-production of record of SNGPL

Sr. No.	Req. No.	S.# of Req.	Description of Record / information
1.	01	16	Category-wise detailed schedules of Addition / Deletions in Assets (RLNG related and others) as on June 30, 2019 and 2020
2.	01	32	Details of payment made to NHA / Railway along with necessary particulars for the year 2016-17 to 2019-20
3.	01	59	Project / NA- wise details of funds released by the government and withdrawn from Assignment Account for FY 2019-20
4.	01	60	Project / National Assembly (NA) wise list of funds / receipts un-utilized under government grants upto June 30, 2020
5.	01	63	List of jobs completed and in progress as on June 30, 2020
6.	01	64	Job wise details of cost of material issued, contract payments & construction cost over heads booked on the jobs completed & in progress
7.	01	65	Details of revalidated jobs from 2017-18 to 2019-20
8.	01	69	T&D cost especially HR Cost capitalized and allocated to all type of projects during the year 2018-19& 2019-20 (LNG, GOP funded cost sharing basis and distribution development)
9.	01	70	Detail of cost allocation of overheads (job wise) to all type of projects during the year 2018-19 & 2019-20
10.	01	94	Details of projects (GOP funded, cost sharing basis) started, completed and in progress during the FY 2018-19 & 2019-20
11.	1- project	14	Copies of FPC, PPC, all work orders issued, details of man hours approved / booked in r/o of each job of each project
12.	-do	15	Details of Imprest Payments along with supporting vouchers and drill downs / ledgers / cash books
13.	-do-	4	Files/record showing correspondence in respect of jobs which could not be completed due to pending NOC with other department (only list was provided)
14.	-do-	5	Achievement of targets with breakup on given format
15.	Req. No. 03 dated	1	Copies of monthly activity report of Coating Plant and Manga Workshop
16.	11.06.20	5	Land acquisition status (as on 30.06.2019) in respect of pipe lines given in (list enclosed-II)
17.		4	Land acquisition status (as on 30.06.2019) in respect of pipe lines given in (list enclosed-II)
18.	Req. No. 05 Dated 24.11.20	-	Detail relating to 50% refund/rebate granted to CNG consumers who enters into agreement with SNGPL Under GIDC (Amendment Act, 2018 and paid 50% of GIDC amount in two instalment

[DP No. 898]

Annex-7**(Para 2.5.6.4)****Non-recovery of gas charges from active and disconnected consumers / defaulters**

(Rs in million)

Sr. No.	DP No.	Description	Amount	No. of cases
1	1159	Failure to update the security shortfall domestic consumers since last 7 years	576.91	192,524
2	1160	Security short fall of consumers amounting	1,259.96	402
3	1161	Non-recovery of gas charges from active consumers	11,710.22	1,124
4	1165	Non-recovery of gas charges from active consumers	42,518.337	1,740
5	1314	Failure to update security of domestic consumers since last 7 years	2,898.954	1,099,329
6	1405	Non-recovery of gas charges decreed in favour of the company	781.420	1071
7	1407	Non-recovery of gas charges from active consumers / defaulters	25,885.870	1072
8	1406	Security shortfall against gas consumers	514.880	211
		Total:	86,146.55	1,297,473

Annex-8**(Para 2.5.6.11)****Excess capitalization of jobs**

(Rs in million)

Sr. No.	DP No.	Description	Amount	No. of cases
1	893	Un-justified expenditure under “Miscellaneous head”	4.63	9
2	900	Wrong capitalization of incomplete jobs and non-preparation of job completion report	551.65	6
3	907	Un-justified overbooking of expense thereby surrendering of less saving	74.93	32
4	1163	Un-justified overbooking of material cost	9.31	6
5	1326	Un-justified excess use material for coating and wrapping on MS pipe having similar dia	49.269	184
6	1387	Un-justified overbooking of material cost	471.789	202
7	1440	Unjustified booking of expenses after commissioning / completion of jobs	190.550	66
8	1416	Unjustified capitalization of jobs	736.774	27
		Total:	2,088.97	532

Annex-9**(Para 2.5.6.24)****Pendency of legal cases due to weak pursuance by Law
Department**

(Amount in Rs)

Sr. No.	Consumer ID	Title of cases SNGPL Vs	Disputed amount	Delay in days
1	5247392451	Mushtaq Ahmad Khan	128,100	481
2	1564833000	Manzoor Ahmed Najam	56,970	481
3	9322370000	Arshad Mehmood	132,829	481
4	2899571307	Abdullah Khan	45,580	481
5	3477833000	Raja Muhammad Yaqoob	91,210	481
6	3172260000	Sqib Habib	46,181	481
7	59487530004	A Q Khan Research Lab	102,650	480
8	10390330008	Director Municipal Admin	479,750	480
9	1955745818	Sonet Gul	51,103	479
10	6540143000	Raja Ashfaq	110,003	478
11	71212430004	Ashiq Hussain	143,327	478
12	62359600004	Kamran Arshad	977,780	478
13	8715552479	Ejaz Ahmed	118,090	477
14	44772430003	Muhammad Aslam	816,271	474
15	9356233000	Syed Qurban Ali Shah	530,002	474
16	30735988047	Javed Nadeem Akram	942,381	474
17	61033330004	Major Bahadar Shah	323,920	474
18	4341003705	Akhter Ali	-	474
19	98445330008	Talat Jabeen	53,680	474
20	51424330002	Zarin Rashid	55,720	474
21	10007104283	Zulfiqar Ali	58,144	474
22	95282338474	Fawad Ahmed	66,372	474
23	3107743000	Roniq Ali	404,861	454
24	2733514707	Muhammad Javed	61,059	415
25	7381133000	Basharat Ahmad	-	408
26	3222663000	Mohammad Siddique	86,931	405
27	4851463000	Ashan Khan	49,132	405
28	8125533000	Manzoor Ellahi Paracha	43,486	405
29	5769563000	Allah Bakhsh	49,380	405

30	8541491045	Naseem Khan	106,854	405
31	8069671416	Ghulam Safdar	186,774	405
32	35660068525	Mohammad Ishtiaq Qureshi	44,670	401
33	9844533000	Talat Jabeen	53,680	401
34	5142433000	Zarin Rashid	55,720	401
35	1000710428	Zulfiqar Ali	58,144	401
36	9528233847	Fawad Ahmed	66,372	401
37	62359600004	Kamran Arshad	977,780	396
38	71212430004	Ashiq Hussain	143,327	396
39	6540143000	Raja Ashfaq	-	396
40	1955745818	Sonet Gul	-	396
41	4537263000	Superintendent Of Police	331,775	389
42	7793363000	Khan Mohammad Afzal Khan	48,154	389
43	30652330009	Raja Liaqat Ali	141,010	380
44	97622330005	Nadeem Bashir	861,570	380
45	1649143000	M Farooq	592,120	380
46	25007330001	M Saeed	178,970	380
47	60472630007	M/S Gas Syndicate Ii	30,071,138	377
48	6991233000	Haji Abdul Karim Dhedhi	48,156	369
49	27053330000	Gm Dossul Co.	122,299	369
50	44760430007	Ch Nazar Muhammad	112,247	369
51	3877233000	Nazir Khan	40,510	369
52	3186368150	Masjid Al Khizar Quarter 1	89,375	363
53	2139633000	Zohr Nawaz	48,204	363
54	9273833000	Rehmat Ullah	62,549	363
55	2841533000	Mohd Nizar	79,798	363
56	3844333000	Rao Abdul Jalil	105,605	363
57	2866046402	Mohammad Imtiaz	62,912	362
58	7031933000	Wazir Hussain	67,771	362
59	7728223905	Muhammad Tariq	71,726	362
60	410333000	Malik Daud Akhtar	137,733	362
61	3138833000	Ch M Nawaz	180,823	362
62	85100800003	Najam Un Nisa	43,464	362
63	68492430001	Mohammad Sher	42,260	362
64	44881700007	Muhammad Nawaz	49,705	362
65	51726377925	Babar Shehzad	42,310	362
66	7913133000	Zeeshan Zia	242,876	362

67	2496833000	Musarat Yar Khan	52,442	361
68	3641533000	Saifuddin	180,149	361
69	4258333000	Xen Central E/M Div	56,188	361
70	97251330003	Tahmina Malik	124,462	361
71	881330005	Shaukat Mirza	288,681	361
72	56413330004	Sardar Mohammad Ibrahim	111,646	361
73	6512463000	The Principal Donald	58,186	356
74	3764281057	Abdul Malik	46,596	356
75	4460663000	Nisar Ahmed	56,400	356
76	8764699510	M Raffique	49,535	356
77	4272839017	Muhammad Sajid	53,720	356
78	8618463000	Abdul Aziz	66,265	356
79	1581646907	Muhammad Aslam	88,361	356
80	48118513240	Muhammad Iltaf Khan	70,573	356
81	9297933439	Alwahid Cng	-	355
82	13582430005	Malik Muhammad Iqbal	111,320	347
83	98571255755	Mushtaq Khan	120,695	342
84	19517026332	Imdad Ullah Khan	233,220	342
85	6139330002	M/S Foundation Engnr Ltd	270,637	342
86	481133000	Aziz-Ur-Rehman	224,070	342
87	2944909662	M Zameer	54,132	341
88	17841330008	Dg National Institute	198,358	341
89	4382133000	Malik Ahmad Hassan	70,900	341
90	6828581553	Mr Abdul Qayyum	95,220	341
91	87332806618	Muhammad Aaraz Abbasi	470,730	341
92	8337433000	Talib Hussain Khokhar	113,016	340
93	1100533000	Executive Officer	45,767	340
94	2708233000	Naheed Shabbir	155,085	340
95	6871333000	Abdul Hakeem	78,689	340
96	5654887013	Bakht Taj	53,416	340
97	3395533000	M/S Minaina (Pvt) Ltd	56,321	340
98	9330243000	Ghulam Dastagir Khan	88,525	340
99	8986333000	Sh Abdul Hameed	160,004	340
100	9064950810	Muhammad Nadeem	1,140,110	340
101	25438755552	Fayyaz Ahmed	707,920	340
102	1123133000	Mudasir Iqbal	111,853	338
103	9369033000	Embassy Of China	488,974	338

104	847463068	M Ali Raza	76,655	338
105	90524860070	Naveed Ahmed	419,724	338
106	5160633000	Ishtiaq Ali	87,964	338
107	83001430004	Muhammad Fayyaz	83,390	337
108	99504262538	Musa Khan	87,730	335
109	7599752652	Commanding Officer	56,389	335
110	5111763000	Muhammad Ejaz	45,025	335
111	8262042867	Mst. Sanobar Shaheen	74,851	335
112	6777463000	Mursaleem	159,712	335
113	4250241726	Muhammad Niaz	57,638	335
114	2335723551	Umar Salim	58,828	335
115	4318463000	Zaheer Hassan Farooqi	14,824	335
116	2328563000	Qaisar Jameel Shah	41,213	335
117	9557563000	Ch.Muhammad Ansar	293,280	335
118	2089036772	Abdul Waheed	55,900	335
119	4203663000	Shaad Muhammad	146,345	335
120	8771822630	Ali Afsar	74,074	335
121	6108563000	Muhammad Bahadur	82,667	335
122	9615420179	Doraan Khan	86,790	335
123	3844333000	Rao Abdul Jalil	105,605	331
124	2841533000	Muhammad Nazir	79,798	331
125	9273833000	Rehmat Ullah	62,549	331
126	2139633000	Zohr Nawaz	48,204	331
127	6991233000	Haji Abdul Karim Dhedhi	48,156	331
128	3186368150	Masjid Al Khizar Quarter 1	89,375	331
129	83490330004	Green 4 C N G Station	45,488,012	331
130	2449033000	M/S Capri C N G Station	8,713,406	331
131	78390331110	M/S Green Fuel Cng Station	16,845,774	331
132	3138833000	Ch M Nawaz	180,823	328
133	410333000	Malik Daud Akhtar	137,733	328
134	51726377925	Babar Shehzad	42,310	328
135	44881700007	Muhammad Nawaz	49,705	328
136	68492430001	Mohammad Sher	42,260	328
137	85100800003	Najam Un Nisa	43,464	328
138	7728223905	Muhammad Tariq	71,726	328
139	2866046402	Mohammad Imtiaz	62,912	328
140	7031933000	Wazir Hussain	67,771	328

141	7913133000	Zeeshan Zia Vs Sngpl	242,876	328
142	6736563000	Maj Zulfikar Ahmed	345,906	325
143	3877233000	Nazir Khan	61,142	324
144	2703363000	General Secretary	122,671	318
145	7832293783	Ajab Khan	52,404	313
146	8587463000	Muhammad Ibrahim	63,017	313
147	1037797898	Muhammad Fayyaz	57,268	313
148	98571255755	Mushtaq Khan	120,695	312
149	19517026332	Imdad Ullah Khan	233,220	312
150	25438755552	Fayyaz Ahmed	707,920	310
151	5160633000	Ishtiaq Ali	87,964	307
152	90524860070	Naveed Ahmed	419,724	307
153	9369033000	Embassy Of China	488,974	307
154	847463068	Muhammad Ali Raza	76,655	307
155	1123133000	Mudasir Iqbal	111,853	307
156	7186233000	Naheed Shabbir	74,899	307
157	9450733000	Munawar Sultana	351,333	307
158	883333000	Ch. Bashir Ahmed	1,804,630	298
159	6266049377	Nasir Mehmood	284,537	293
160	5336563000	Sub Ali Asghar	43,050	293
161	5059033000	Pasban Enterprises CNG	4,767,122	293
162	10590330006	Kohistan Filling	25,498,690	292
163	6247670000	Abdul Shakoor (1st Suit)	836,640	289
164	8247670000	Abdul Shakoor (2nd Suit)	580,140	289
165	3949033000	Malik Musarrat Hussain	1,887,992	286
166	591222344	Dy. Direcor Art & Craft	118,020	286
167	13392330000	Badar Munir	1,509,980	284
168	9341333000	Mohammad Lateef	154,318	284
169	9568043000	Bismillah Masjid	326,374	283
170	5229841339	Saeed Ahmed	944,405	283
171	9933133000	Abdul Rehman	5,797,645	283
172	3138043000	Farhat Sohial	757,253	283
173	1730702687	Aneeb Ali	296,234	283
174	4052318800	Muhammad Iqbal	46,240	283
175	4295143000	Muhammad Saeed	249,356	283
176	3543736694	Mohammad Akhtar	233,847	283
177	63133000	Muhammad Zaheer	995,041	283

178	7688043000	Muhammad Anwar Khan	1,387,318	283
179	77827312867	Iftikhar Ahmad	68,316	283
180	99814467090	Kamal Ahmad Khan	87,081	283
181	35272002631	Munawar Khan	88,495	283
182	29180430000	Muhammad Niaz Abbasi	100,671	283
183	14686793317	Altaf Hussain	223,398	283
184	15663690129	Malik Mohammad Amjad	484,548	283
185	8353753000	Malik Sultan Mehmood	41,501	283
186	3446253000	Ramzan	63,890	282
187	3814253000	Mohammad Din	87,000	282
188	4794253000	Malik Taj Muhammad	138,750	281
189	6835965150	Muhammad Rafique	83,910	281
190	30702330009	Latif Masih	69,303	279
191	39117630002	Habib Ullah Khan	96,850	275
192	6538563000	Nasreen Kausar	200,930	275
193	10067841212	Wazeer Muhammad	700,910	275
194	5638233000	Nafees Sultana	251,610	274
195	47307095308	Muhammadi Masjid C/o Mulazim Hussain Jafari	214,581	273
196	5770333000	Mashkooor Ahmed Khan	196,789	272
197	6799652767	Muhammad Idrees	73,437	272
198	2181580387	Lala Rukh Hayat	87,131	272
199	9450733000	Munawar Sultana	351,333	269
200	7186233000	Naheed Shabbir	74,899	269
201	94690330009	M/S Hashmat Khan Sons	5,086,230	269
202	2942133000	Dy Director Elec Div-I	41,154	268
203	2808233000	Azmat Bibi	41,287	268
204	9406094919	Mosam Khan	56,754	268
205	5099432707	Bawar Khan	42,973	268
206	7216574895	Shoukat Mehmood	44,367	268
207	3997360838	Asif Saleem	204,164	268
208	39167651130	Mubeen (Bismillah Hotel)	752,290	265
209	8483363000	For Commanding Officer	617,482	262
210	7336004000	Fazal Karim	60,280	257
211	82476700008	Abdul Shakoor	580,140	257
212	62476700000	Abdul Shakoor	836,640	257
213	9568043000	Bismillah Masjid	326,374	251
214	1730702687	Aneeb Ali	296,234	251

215	47307095308	Muhammadi Masjid C/o Mulazim Hussain Jafari	214,581	251
216	14686793317	Altaf Hussain	223,398	251
217	15663690129	Malik Mohammad Amjad	484,548	251
218	8353753000	Malik Sultan Mehmood	41,501	251
219	7688043000	Muhammad Anwar Khan	1,387,318	251
220	29180430000	Muhammad Niaz Abbasi	100,671	251
221	99814467090	Kamal Ahmad Khan	87,081	251
222	35272002631	Munawar Khan	88,495	251
223	77827312867	Iftikhar Ahmed	68,316	251
224	561576346	Raja Foods	140,802	251
225	30702330009	Latif Masih	69,303	248
226	3597405632	Hotel Star Food	174,603	247
227	9005663000	Zaheer Khan	93,785	241
228	20472630001	Crystal Line Cng	445,701	241
229	3764281057	Abdul Malik	46,596	240
230	1581646907	Muhammad Aslam	88,361	240
231	4460663000	Nisar Ahmed	56,400	240
232	8764699510	M Raffique	49,535	240
233	6512463000	The Principal Donald	58,186	240
234	8618463000	Abdul Aziz	66,265	240
235	4272839017	Muhammad Sajid	53,716	240
236	48118513240	Muhammad Iltaf Khan	70,573	240

Annex-10**(Para 2.6.6.1)****Non-production of record of SSGC**

Sr. No.	Req. No.	Date of requisition	Sr. No. of Req.	Requisite Record
1	20	03.06.2020	5	Detail of theft identified cases
2	25	10.06.2020	1	Detail of sales of RLNG to industrial and commercial consumers
3	25	10.06.2020	2	Copy of authorization/letter for sales of RLNG
4	25	10.06.2020	3	Detail of UFG relating to RLNG
5	3	02.03.2020	7	UFG detail as on 30.06.2018
6	25	10.06.2020	3	Detail of UFG relating to RLNG
7	42	22.09.2020	26	Detail of recoveries from the declared bad debt if any.
8	42	22.09.2020	27	Total amount of outstanding receivables converted into bad debts and written off during the FY 2017-18, 2018-19 & 2019-20.
9	42	22.09.2020	37	Details of computation of WACOG, if any and cost of gas purchased for the purpose of ERR and FRR;
10	46	28.09.2020	-	The internal Fact Finding Report dated 05.08.2019 captioned "Malfunctioning of Compressors at HQ-2" may please be provided to Audit without any further delay along with the following information for audit scrutiny and many email were sent to provide breakup of expenditure incurred on 6 compressors.
11	53	26.10.2020	-	Documents / record in respect of SSGCL relating to Gas Development Surcharges (GDS) for the FY 2019-20 on the given format
12	2	07.09.2020	-	List of cases initiated in the Honourable, High Court/Supreme Court or other any court of law during the year

13	04	07.09.2020	-	Stock taking reports, Physical verification reports of stores, stock and fixed assets, Internal Audit Report & Detail list of lots of un-serviceable stocks quantity, weight & value involved pending for auction
14	6	21.09.2020	-	13 files of Procurement along with monthly detail amount involving Rs. 130,665,906.

Annex-11
(Para 2.6.6.3)

**Loss of gas due to inordinate delay in completion of
rehabilitation / reinforcement schemes**

(Rs in million)

Sr. No.	DP No.	Rehabilitation Scheme	Loss of Gas MMCF/year	Amount of loss	Delay in completion
1	1208	Saeedabad Baldia Town, Karachi	1,754.13	591.143	05 years
2	1206	Muhammad Nagar Sector 11/A, Orangi Town	95.922	32.324	02 years
3	1207	Different area of Karachi	27.084	6.084	03 years
4	1209	Gazdarabad, Ranchoreline, Karachi	26.117	8.80	01 year
5	1243	Sukkur	80.613	42.112	01 year
6	1345	Hyderabad	62.182	23.892	03 years
7	1203	Liaquatabad, Karachi	36.832	12.412	01 year
8	1204	Sector 4-B, Surjani Town, Karachi	54.387	18.327	01 year
9	1242	Dharki	215.532	82.814	2 years
10	1372	Islamia Colony, Muhammad Pur, Qasba Town, Karachi	-	-	05 years
11	1399	Azizabad, TandoQaisar and Qalandarabad in Hyderabad region	-	-	01-02 years
12	1401	Memon Hospital, Hyderabad	-	-	05 years
		Total	2,352.799	817.908	

Annex-12**(Para 2.6.6.6)****Non-recovery of outstanding amount from customer / defaulters**

(Rs in million)

Sr. No.	DP No.	Subject	No. of cases	Amount
1	1217	Non-recovery of outstanding amount from bulk consumers – Rs5.734 million	30	5.734
2	1218	Non-recovery of outstanding amount from industrial customers- Rs 1.759 million	4	1.759
3	1214	Non-recovery of outstanding amount from domestic consumers	492	86.985
4	1241	Non-recovery of outstanding amount from defaulters	86	4.672
5	1255	Non-recovery of outstanding dues from domestic defaulters	152	244.187
6	1256	Non-recovery of outstanding dues from government defaulters	14	133.172
7	1254	Non recovery of dues from various CNG customers		279.000
8	1348	Non-recovery of outstanding amount from domestic defaulters	20	19.280
9	1344	Non-recovery of outstanding amount from defaulter captive power customers	2	126.806
10	1349	Non-recovery of outstanding amount from Government (bulk) customers	36	10.147
11	1350	Non-recovery of outstanding amount from industrial customer	1	10.509
12	1352	Non-recovery of outstanding amount from defaulters of Domestic (Bulk) Customers	13	9.272
13	1260	Non-completion of meter locking activity and non-recovery of dues	500	161.188
14	1261	Non-completion of meters removal activity and non-recovery of dues	338	122.391
15	1376	Non-recovery of adjudged amount	3	81.022
16	1346	Non-recovery of outstanding amount from commercial defaulters	378	59.643
17	1230	Non-recovery due to non-disconnection of defaulting consumers	340	67.726
		Total:	2,409	1,423.493

Annex-13
(Para 3.1.7.1)

Non-production of record of OGRA

Sr. No.	Details of requisite record
1	Details of steps taken Promote and enforce compliance by licensees with the conditions of licenses regarding storage of petroleum products by OMCs
2	Case files showing working for Tariff determination (Final / Estimated Revenue Requirements) for regulated activities pertaining to Natural Gas of the Licensees for the FYs 2017-18, 2018-19 and 2019-20;
3	Details of remedial measures taken to address the reservations of interveners raised during public hearings for determinations of FRRs / ERRs of gas companies;
4	Details of performance and service standard specified by the Authority and mechanism for monitoring the compliance thereof by licensees;
5	Details regarding enforcement of standards and specifications (Showing current status and actions taken by the Authority) for refined oil products by OMCs / Refineries as notified by the Federal Govt.;
6	Details regarding administering, enforcing and certifying standards and other condition for undertaking any regulated activity Oil and Gas etc.;
7	Details of steps taken to promote effective competition and efficiency in the activities within its jurisdiction especially gas sector;
8	Details of steps taken to promote and ensure the observance of best practices in the transmission distribution processioning, refining, marketing, storage of petroleum and transportation of petroleum by pipeline;
9	Details of pending complaints and other claims against licensees for contravention of the provisions of this Ordinance, rules or regulation;
10	Prescribe fines for contravention of the provisions of this Ordinance, rules, regulations and terms and conditions of a license or a decision of the Authority;
11	Details showing steps taken for administering or establishing prices, for those categories of petroleum for which the Federal Government establishes prices;
12	Detail working of determination of rate of return under WACC for gas companies for natural gas and RLNG by giving their asset base, data used for determining market rate of return etc., under new Tariff Regime, 2018 under Rule 6(2)(t);
13	Establishment and maintenance of the strategic petroleum storage under Rule 21 (2)(e) of OGRA Ordinance, 2002;
14	Details of inspection and audit conducted by the Authority of regulated activities;
15	Recoveries made under Rule 26 due to damages caused to the facility, plant or equipment and material employed in any regulated activity on a reference by the licensees;
16	Recovery under Rule 27 of the value of petroleum stolen by any person;
17	Details of offences committed by companies, etc. under Rule 28 and action taken by the Authority; and
18	Under Rule 34, Technical standards of material, equipment and other resources prescribed by the Authority in consultation with interested parties.
19	Files of fine and penalties outstanding, review and appeal of OMCs, LMCs, LPG,

	RLNG and CNG, including the files fine and penalties imposed during shortage of oil products
20	Hiring of third party inspectors files
21	Details of non-determination of well head prices
22	Detail case file including therein working /calculation of well head price along with copy of the notification

Annex-14

(Para 3.1.7.18)

Non-follow up of Authority's directives issued to SNGPL

Sr. No.	Year	Para No.	Details of Directives	Remarks
1.	FRR 2017-18 (Sep. 20, 2017)	10.1.6	Rationalization of HR Cost To rationalize the pay and perks of the entire cadre on the justifiable basis and the salaries of executive must not be enhanced until the subordinate judicious is met.	No compliance has been reported by SNGPL since 2017 till date.
	FRR 2018-19 (July 07, 2020)	10.1.6	HR cost to be rationalized under all heads i.e. club membership / subscription, tea / coffee, long service award, Hajj expenses etc.	
	ERR 2019-20 (May 17, 2019)	8.1.7 to 8.1.11	The Authority further directs the SNGPL to place matter with all OGRA views before BoD relating to micromanagement of HR cost and SNGPL management has not fairly distributed the funds. The salaries and perks of the top tiers have only been increased which consequently squeezed the funds for others particularly for the subordinate staff for information / decision. In case any further amount is required under HR cost it may be met through the approval of the BoD from the petitioner profit.	
2.	ERR 2020-21 (July 13, 2020)	7.22 to 7.30 & 7.31 and 15.1 (vii)	To review its HR cost structure including perks, wide pay scales, & other medical, club membership and car/petrol policies and bring it down to a reasonable level so that the same can be comparable with other similar public sector organizations involved in the business of transmission & distribution of power sector. Moreover, FG latest policy i.e. Management Position Scales Policy 2020 is relevant and referred which clearly states MP scales be used as benchmark for determination of terms & conditions for hiring of skilled /	

			<p>qualified professional from open market. Accordingly, the same revision by the petitioner in respect of pay scales & rest of policies shall be considered by Authority.</p> <p>In case petitioner still intends to continue its current policies and salaries including perks, its financial impact may be met from shareholders' profit.</p> <p>The Authority, through this Order, also refers the matter in respect of revision of salary scale & other policies, to the FG to review these matters through its Directors present in Company's Board, so that FG's kitty being a major shareholder also not affected by such Authority's decision.</p>	
3	FRR 2014-15 (Nov. 27, 2015)	8.2.15(f)	<p>UFG losses due to theft by Non-Consumers</p> <p>A Third Party Audit of non-consumers cases / purging shall also be undertaken by the petitioner in consultation / co-ordination with OGRA and the volumes allowed shall be adjusted accordingly.</p>	No third party audit as directed by Authority has since been got conducted by SNGPL since Nov. 2015
4.	FRR 2015-16 (Nov. 25, 2016)	9.2.5 (ii)	<p>UFG losses due to Law & Order situation</p> <p>SNGPL is directed to establish its legal and proper pipeline network in the area and replace illegal network in Law and Order affected areas to avoid loss of precious gas as it is a national loss. The petitioner is also directed to pursue the case with Federal Government / Provincial Government regarding funding of the project to curb this menace.</p>	Legal network is still in process despite lapse of four years
5.	ERR 2017-18 (Sep. 20, 2017)	Para 8.2.5	<p>UFG as per new study</p> <p>It is mandatory for the gas companies to submit an annual report regarding quantification of the components of UFG.</p>	The requisite information is necessary for calculation UFG as per new study

6.	FRR 2017-18 (Sep. 20, 2017)	9.2.5	Implementation of KMIs to reduce UFG To comply with metering related KMIs specifically w.r.t. KMI no 1 to 3 for better visibility and targeted efforts to reduce UFG	No compliance has been reported in FRR 2018-19 finalized in July, 2020
		9.2.6	To install check meters in large load areas and customers for better reconciliation. Break down of UFG component for its qualification for the purpose of multiplying factor and reiterated at Para 8.2.4 and 8.2.5 of DERR FY 2017-18	
7.	ERR 2018-19, (June 21 2018), ERR 2019-20 (May 17, 2019) &ERR 2020-21 (July 13, 2020)	9.6.3, 9.8.4 & 15 (1) (iii) respect ively	Monitoring of UFG To submit in tabulated form the reduction in UFG in each region vis a vis expenditure incurred compared with allowed by the OGRA at the time of FRR.	No such information has been furnished as evident from FRR 2018-19 finalized in July, 2020
8.	ERR 2018-19 (June 21 2018), 2019-20 (May 17, 2019) & 2020-21 (July 13, 2020)	9.6.12, 9.8.12 & 15.1(vi)) respect ively	Useful lives of fixed assets and Depreciation To submit the concrete proposals, within one month of the issuance of this Order, to revise / review the existing depreciation rate based on the precise economic life of the different regulated assets in order to bring the uniformity across the sector as per provision of the tariff regime in place.	
9.	FRR 2017-18 (Sep. 20, 2017)	10.4.2 & 10.4.3	Finalization of WPPF amount Authority provisionally determined WPPF amount of Rs 729 million which to be finalized at the time of completion of statutory accounts. Accordingly, any adjustment if required on this account shall be made part of upcoming determination	No final position reflected in upcoming determinations
	ERR 2019-20	8.2	Provisional determination of WPPF amount of Rs 729 million at the level of FRR 2017-18	
10.	ERR 2019-20 (May 17, 2019)	8.1.96 & 8.1.97	Rationalization of Security Expenses The OGRA directed SNGPL to submit the detail security plan and deployment of the security personnel across its area of operation within	No such position relating to security expenses reflected in

		<p>one month of issuance of this determination.</p> <p>Authority notes that overall security situation of the country has improved considerably compared to previous years. Perhaps it is time for the utility company to rationalize its security requirements. Accordingly the prudent and justified expenses shall form part of revenue requirement for the said year.</p>	<p>FRR 2018-19 finalized in July, 2020.</p>
--	--	---	---