AUDIT REPORT
ON
THE ACCOUNTS OF
PETROLEUM DIVISION
AND
OIL AND GAS REGULATORY AUTHORITY
AUDIT YEAR 2021-22

AUDITOR-GENERAL OF PAKISTAN

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ABBREVIATIONS AND ACRONYMS

AGP	Auditor-General of Pakistan	FTO	Federal Treasury Officer
APPM	Accounting Policies and Procedures Manual	FTTL	Fauji Trans Terminal Ltd.
BoD	Board of Directors	FY	Financial Year
BBL	Barrel	GD	Goods Declaration
BoM	Board of Management	GIDC	Gas Infrastructure Development Cess
CAO	Chief Accounts Officer	GDS	Gas Development Surcharge
CDC	Channel Development Cess	GHPL	Government Holdings Private Ltd.
CEO	Chief Executive Officer	GIC	Gas Internally Consumed
CGTO	Control Gas Theft Operations	GM	General Manager
CPRs	Challan Payment Receipts	GPA	Gas Price Agreement
CWIP	Capital Work in Progress	GPA	Gas Purchase Agreement
DES	Delivery Ex-ship	GoP	Government of Pakistan
DG (LGs)	Director General Liquified Gases	GPPs	Government Power Producers
DRM	Daily Review Meeting	GSA	Gas Sales Agreement
DoE	Department of Explosives	GSD	Gas Security Deposit
DU	Dispensing Unit	GSP	Geological Survey of Pakistan
DUC	Dispensing Unit Control	GSPA	Gas Sales and Purchase Agreement
E&P	Exploration & Production	GTA	Gas Transportation Agreement
ERR	Estimated Revenue Requirement	HDIP	Hydrocarbon Development Institute of Pakistan
EWT	Extended Well Testing	HoD	Head of Department
EOBI	Employees Old Age Benefits Institution	HOBC	High Octane Blending Component
FCF	Federal Consolidated Fund	HSD	High Speed Diesel
FDP	Field Development Plan	HSFO	High Sulphur Furnace Oil
FE	Foreign Exchange	HUBCO	Hub Power Company Ltd.
EPS	Earnings Per Share	IAS	International Accounting Standards
FRR	Final Revenue Requirement	ICB	International Competitive Bidding
FOTCO	Fauji Oil Terminal & Distribution Co. Ltd.	IFEM	Inland Freight Equalization Margin

IP Iran Pakistan
IPPs Independent Power Producers
ISGS Inter State Gas System
JJVL Jamshoro Joint Venture Limited
JV Joint Venture
KIBOR Karachi Interbank Offered Rate
KPD Kunnar-Passaki Deep
KPOGCL Khyber Pakhtunkhwa Oil & Gas Company Ltd.
KMI Key Monitoring Indicator
LAC Land Acquisition Collector
LCDCL Lakhra Coal Development Company Ltd.
LCIA London Court of International Arbitration
LD Liquidity Damages
LIBOR London Interbank Offered Rate
LNG Liquefied Natural Gas
LPG Liquefied Petroleum Gas
LPS Late Payment Surcharge
LSA LNG Service Agreement
LSFO Low Sulphur Furnace Oil
MCF Metric Cubic Feet
MFDAC Memorandum for Departmental Accounts Committee
MMBTU Million Metric British Thermal Unit
MMCF Million Metric Cubic Feet
MMT Million Metric Tons
MNCs Multinational Companies
MoE - PD Ministry of Energy-Petroleum Division
MOU Memorandum of Understanding
MPCL Mari Petroleum Company Ltd.
M.Tons Metric Tons
MTBF Medium-Term Budgetary Framework
NFC National Finance Commission
NICL National Insurance Company Ltd.
NLC National Logistics Cell
NRL National Refinery Ltd.
NVRO New Vision Retail Outlet
OCAC Oil Companies Advisory Council
OEM Original Equipment Manufacturer
OGDCL Oil and Gas Development Company Ltd.
OGRA Oil and Gas Regulatory Authority
OMCs Oil Marketing Companies
P&A Plugged and abandoned
PAC Public Accounts Committee

PAO	Principal Accounting Officer	SAP	System Application and Product
PBG	Performance Bank Guarantee	SBP	State Bank of Pakistan
PCA	Petroleum Concession Agreement	SCP	Supreme Court of Pakistan
PD	Petroleum Division	SECP	Securities and Exchange Commission of Pakistan
PGPCL	Pakistan Gas Port Consortium Ltd.	SKO	Superior Kerosene Oil
PLL	Pakistan LNG Ltd.	SNGPL	Sui Northern Gas Pipelines Ltd.
PLTL	Pakistan LNG Terminal Ltd.	SOPs	Standard Operating Procedures
PMG	Premium Motor Gasoline	SSGC	Sui Southern Gas Company
PMDC	Pakistan Mineral Development Corporation	SPA	Sale and Purchase Agreement
PO	Purchase Order	TA	Travelling Allowance
POL	Petroleum, Oil and Lubricant	TAPI	Turkmenistan Afghanistan Pakistan India Pipeline
PNR	Petroleum and Natural Resources	SEZ	Special Economic Zone
PPL	Pakistan Petroleum Ltd.	SGM	Senior General Manager
PPRA	Public Procurement Regulatory Authority	SML	Saindak Metals Ltd.
PPURA	Pakistan Petroleum Upstream Regulatory Authority	SMS	Service Meter Station
PQA	Port Qasim Authority	TCF	Trillion Cubic Feet
PRL	Pakistan Refinery Ltd.	T&D	Transmission and Distribution
PRM	Product Review Meetings	TBS	Town Border Stations
PSEs	Public Sector Enterprises	ToRs	Terms of References
PSDP	Public Sector Development Programme	UAE	United Arab Emirates
QG	QatarGas	UFG	Un-accounted For Gas
QP	Qatar Petroleum	WACOG	Weighted Average Cost of Gas
R&D	Research & Development	WHT	Withholding Tax
RLNG	Re-gasified Liquefied Natural Gas	WIO	Working Interest Owner
RoA	Return on Assets	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 of 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 compliance with authority audit on the accounts of Petroleum Division and Oil and Gas Regulatory Authority for the audit year 2021-22. The Director General Audit, Petroleum and Natural Resources, Lahore, conducted audit on a test check basis, with a view to report significant findings to the relevant stakeholders. Systemic issues of material nature which were noticed during the course of issue-based audit have also been made part of this report. 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 **Annexure-1** as MFDAC and will be pursued with the relevant Principal Accounting Officers of the Divisions at Departmental Accounts Committee level.

Thematic Audit - new concept, has been introduced and made part of this report at Chapter-4. It is an attempt to improve organization's performance through critically reviewing its business processes to identify those risks which are hindering it from achieving its intended objectives.

Audit findings indicate the need for adherence to the regularity framework besides instituting and strengthening internal controls to avoid recurrence of similar violations and irregularities.

This Report has been finalized in light of the discussions in the DAC meetings and written responses of the department / PSEs.

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-

Islamabad
Dated: February 24, 2022

(Muhammad Ajmal Gondal)
Auditor-General of Pakistan

EXECUTIVE SUMMARY

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

The audit was conducted utilizing 5,152 man days. The annual budget for the audit activities amounted to Rs 140.206 million during the financial year 2021-22. This report contains results of audit inspection and evaluation of financial performance of entities under the audit jurisdiction of this office for the financial year 2020-21.

a. Scope of Audit

This office is mandated to conduct audit of revenue and expenditure of Ministry of Energy (Petroleum Division), fourteen Public Sector Enterprises, Departments under this Ministry, one Public Sector Enterprise under Energy and Power Department, Government of Khyber Pakhtunkhwa and Oil and Gas Regulatory Authority under Cabinet Division. Total expenditure and Non-Tax Receipts of these formations were Rs 6,279.602 billion and Rs 555.684 billion respectively for the financial year 2020-21.

Audit coverage relating to expenditure for the current audit year comprises formations of Ministry of Energy (Petroleum Division), 8 Public Sector Enterprises / institutes and Oil and Gas Regulatory Authority under Cabinet Division having a total expenditure of Rs 6,110.284 billion for the financial year 2020-21 **(Annexure-2)**.

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 555.684 billion for the financial year 2020-21.

This audit report also includes audit observations relating to previous financial years from 2018 to onward in respect of GHPL.

Thematic Audit of LNG / RLNG Regime in Pakistan and Revamping of Mineral Sector - Pakistan Mineral Development Corporation have also been included in this audit report to identify areas effecting performance of these formations.

In addition to this Compliance Audit Report, this office also conducted two Financial Attest Audits and one Special Audit. Report of this special audit is being published separately.

b. Recoveries at the Instance of Audit

As a result of audit, a recovery of Rs 331.154 billion has been pointed out in this report. Recovery effected from January to December, 2021 is Rs 36.750 billion which has been duly verified by Audit.

c. Audit Methodology

The audit exercise for the FY 2020-21 started with audit planning and updating 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. Accordingly, high risk areas of financial and managerial significance with reference to each entity were identified. Government regulations / BoD proceedings and other events related to the audited organizations were used as reference. Audit tools and procedures 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

This audit contributed towards improving financial transparency, internal controls and efficient project management in the auditee organizations through its findings. Management’s adherence to competitive procurement processes, transparent recruitments, effective fund utilization and better service delivery was reinforced and further strengthened on pointation of Audit. The following incidents may be quoted as audit impact:

- SNGPL charged WPPF of Rs 1,803 million and 10-C Bonus of Rs 768 million to end consumers through FRRs for the FYs 2016-17 and 2017-18 without making any payment to employees. The practice prevailed during the FYs 2018-19 and 2019-20. On pointation of Audit, SNGPL started payment of 10-C Bonus to its employees during the FY 2020-21 and created WPPF Trust in March, 2021 and deposited Rs 2,990 million up to June, 2021. [Para 2.5.4.15 & Para 2.5.4.19 of AR 208-19 and Para 2.5.6.49 of AR 2019-20]
- DG (Oil) did not reconcile the receipts relating to Development Surcharge on Petroleum / Petroleum Levy booked by AGPR which were being booked under wrong head B03041. On pointation of Audit, the receipts of Rs 10.476 billion in the current financial year have been booked under correct head of account C03901 [Para No. 1.2.1 Audit Report for the year 2020-21]

e. Comments on Internal Controls and Internal Audit Department

Internal controls in any organization comprise policies, procedures, rules, regulations, and monitoring mechanisms etc. These controls help in preventing fraud, waste, and enhance value for money, efficiency and transparency in the processes 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 respective management accordingly. Few of the instances are as follows:

- 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 relied only on the information provided by the companies relating to due receipts. In case of OGDCL, PSO, PPL, SNGPL, SSGC and PMDC, financial lapses were also noticed.
- Cases of internal controls failures were noticed in various procurements made by OGDCL and PPL. Recurrent violations of Public Procurement Rules leading to wastage of company's resources were observed.
- It was noticed that the project management was one of the weaker areas in E&P companies. For example, in case of OGDCL, PPL and SNGPL multiple

projects were either time and cost overrun or could not achieve their stated targets.

- OGRA failed to monitor development of storage facilities by the OMCs and could not make the OMCs to comply with its regulations. Ineffective regularity oversight of OGRA also resulted in shortage of petroleum products in the country during the months of April and May, 2020.
- It was noticed that audited annual accounts of 09 Public Sector Enterprises / Authority (6 pertaining to the financial year 2020-21 and 3 to the previous years) were not provided to Audit by the prescribed date i.e., December 31, 2021 **(Annexure-3)**.

f. Key Audit Findings

i. Non-production of record was reported in four cases;[1]
ii. Non-settlement of Petroleum Sector Circular Debt of Rs 1,270.162 billion; [2]
iii. Non-recovery of receivables by Public Sector Enterprises amounting to Rs 42,322.673 million; [3]
iv. Non-recovery of Non-Tax Receipts under different heads of accounts amounting to Rs 67,809.779 million; [4]
v. Loss due to UFG beyond permissible limit amounting to Rs 24,305.700 million;[5]
vi. Loss due to mismanagement in import of LNG cargoes amounting to Rs 10,275.039 million;[6]
vii. Less recovery of cost of LPG from Mirpur Khas Khipro (Niamat field) by Rs 3,021.90 million; [7]
viii. Non-settlement of gas measurement dispute between OGDCL and SSGC Rs 11,758 million;[8]

[1] Para 2.5.4.1, 2.6.4.1, 2.8.3.1 & 3.1.4.1
[2] Para 2.1.4.15
[3] Para 2.4.4.1, 2.5.4.13, 2.5.4.15, 2.5.4.17, 2.6.4.12, 2.6.4.13, 2.6.4.14 & 2.6.4.16
[4] Para 2.1.4.2, 2.1.4.3, 2.1.4.5, 2.1.4.6 & 2.1.4.7
[5] Para 2.5.4.2 & 2.6.4.2
[6] Para 2.7.4.1
[7] Para 2.8.1.4.16
[8] Para 2.2.4.11

ix. Non-deposit of unclaimed dividend in Government Account of Rs 1,694.393 million;[9]
x. Blockage of funds due to imprudent procurement of store items by OGDCL amounting to Rs 576.04 million; and[10]
xi. Non-realization of profit-sharing amount from the contractor by PMDC – Rs 495.278 million.[11]

g. Recommendations

i. Petroleum Division and Cabinet Division may take disciplinary action against the persons(s) responsible for non-production of record and ensure timely provision of record;
ii. Petroleum Division may take steps for early settlement of Circular Debt.
iii. The management of respective organizations must recover the outstanding dues from customers;
iv. Petroleum Division may take steps for early recovery of Non-Tax Receipts under different heads;
v. UFG reduction plan and Key Monitoring Indicators should be implemented by gas utility companies;
vi. Petroleum Division may streamline the procedures to manage process of import of LNG;
vii. The management may take corrective measures for optimum extraction of LPG;
viii. The Petroleum Division should resolve the dispute of gas measurement between OGDCL and SSGC besides finalization of GSA;
ix. The management should take action to deposit the unclaimed dividend in the Federal Government Account as per law;
x. The management may improve inter-departmental coordination in the company to overcome unnecessary procurement resulting in blockage of funds; and
xi. Management of PMDC should devise a plan to recover the profit-sharing amount.

[9] Para 2.2.4.24, 2.4.4.5 & 2.5.4.43
[10] Para 2.2.4.8
[11] Para 2.8.2.4.1

Sectoral Analysis

Ministry of Energy (Petroleum Division) administers Petroleum Sector under Rules of Business, 1973. It deals with policy formulation, legislation, planning regarding exploration, development and production, import and export of petroleum products, matters bearing international aspects and administration of the Petroleum Products and Natural Gas Ordinances, 1961 and 1967 respectively besides assisting Federal Government / Cabinet and its Committees in decision making. The sector holds a pre-eminent position in the economy of Pakistan due to the following salient reasons:

i. With a foreign direct investment of Rs 38,250.750 million (US$ 242.8 million) in FY 2020-21, the sector remained one of the leading sources of foreign direct investment.[12]

ii. The sector raised significant Non-Tax Revenue for the government amounting to Rs 555,684 million.[13]

iii. Net imports of crude oil, LNG and other petroleum products during the FY 2020-21 remained Rs 1,783,183 million (US$ 11,357.858 million).[14]

Achievement against Targets

Petroleum Division measures its performance in terms of budget, geological surveys, exploration, production and distribution of oil and gas and other energy resources. A review of achievement of targets set in Mid-term Budgetary Framework (MTBF) for FYs 2019-20 and 2020-21 is tabulated below:

Sr. No.	Item	Unit	2019-20			2020-21		
			Target	Actual	% Achie-vement	Target	Actual	% Achie-vement
1	**Domestic Production**							
1.1	Crude Oil	M. B	29.39	29.16	99	30.00	27.00	90
1.2	Gas	TCF	1.57	1.46	93	1.43	1.27	88
1.3	LPG	Tons	820,000	784,200	95	753,051	764,775	101

[12] Pakistan Investment Board Data 2020-21
[13] Petroleum Division Receipts
[14] Annual Analytical Report on External Trade Statistics of Pakistan FY 2020-21

2	**No. of Wells drilled**							
2.1	Exploratory	Nos.	52	19	36	44	13	29
2.2	Development	Nos.	40	28	70	36	15	41
3	**Gas Consumers Added**							
3.1	SNGPL	Nos.	305,450	305,450	100	405,450	262,206	64
3.2	SSGC	Nos.	120,098	124,695	104	125,245	70,687	56
4	**Gas Network Extension by Gas Companies**							
4.1	SNGPL	Kms	12,100	4,155	34	6,291	2,947	46
4.2	SSGC	Kms	1,498	850	56	1,206	593	49

(Source: Annual Plan 2020-21 and 2021-22 by Planning Commission)

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

Position of Oil and Gas Reserves

Oil

Domestic production remained 27 million barrels against target of 30 million barrels showing 90% achievement during FY 2020-21. According to Petroleum Division, out of total oil reserves of 1,234 million barrels, 985 million barrels have already been consumed thus leaving a balance of 249 million barrels of oil reserves in Pakistan.

Oil Reserves (Million US Barrels) as on 30th June, 2021

Province	Original Recoverable	Cumulative Production / Consumed	Balance Recoverable	% age
Baluchistan	1.84	0.24	1.60	0.64
KPK	264.83	170.59	94.24	37.84
Punjab	457.43	383.20	74.23	29.81
Sindh	509.58	430.60	78.98	31.71
Total	**1,233.68**	**984.63**	**249.05**	**100**

(Source: Data of Petroleum Division)

Gas

Pakistan has over 63 TCF reserves of natural gas, out of which around 42 TCF has already been consumed. As per Planning Commission, domestic production of gas during FY 2020-21 remained 1.27 TCF against the target of 1.43 TCF.

Gas Reserves (TCF) as on 30th June, 2021

Province	Original Recoverable	Cumulative Production / Consumed	Balance Recoverable	% age
Baluchistan	20.637	15.182	5.455	26.
KPK	2.932	1.746	1.186	5
Punjab	3.977	2.379	1.598	7
Sindh	35.765	23.053	12.712	60
Total	**63.311**	**42.36**	**20.951**	**100**

(Source: Petroleum Division)

Natural gas forms one of the major components of country's energy mix with 33% of indigenous gas, 10% of RLNG and 1% LPG. Incremental increase of 5% per year in the demand for natural gas has already exhausted the limited indigenous gas reserves with the passage of time. Rapid depletion of existing reserves with no substantial new discovery since 2001 is one of the main reasons for ever-widening gap in demand and supply of natural gas in the country. Indigenous production is 1.263 TCF per annum against demand of gas about 1.770 TCF[15] per annum in the country, thus, leaving a deficit of 0.507 TCF per annum. To make good of the total shortfall of 0.507 TCF (1,326 MMCFD), 0.382 TCF (8.1 million M. Tons) LNG is imported and injected in the system. Share of LNG in the natural gas supply has risen to 29% of the total supply of natural gas in the system. Currently, net shortfall of 0.125 TCF of gas is managed through curtailment / load management across different sectors of the economy.

Minerals

Production of main minerals i.e., salt and coal, was 1,351,003 Tons and 348,439 Tons respectively for the FY 2019-20[16], registering a decrease of 8% in salt and 36% in coal production. Reserves of 92 minerals have been found / identified in the country, out of which 50 are exploited on commercial basis. Major initiatives have been taken by the Petroleum Division for the uplift of mineral sector of Pakistan; Balochistan Minerals Exploration Company Limited was established as a joint venture with the Provincial Government in August, 2020 to promote large-scale mining in the Province of Balochistan. An investment facilitation project namely Establishment of National Minerals Data

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[15] Petroleum Industry Report – OGRA 2019-20
[16] PMDC Annual Report 2019-20

Center was launched at federal level through PSDP at cost of Rs 295 million to maintain data repository encompassing the available geo-technical data and administrative details about granted mineral licenses and the areas applied for mining concessions. PMDC remained plagued with administrative and structural issues.

Issues in Ministry of Energy (Petroleum Division)

Supply chain of Petroleum Sector is broadly divided into upstream, midstream and downstream segments. Upstream segment contains exploration activities which include conducting geological surveys and obtaining land rights and production activities with regard to both onshore and offshore drilling. Midstream activities include the storage, processing and transportation of petroleum products. These may include companies that specialize in operating tanker ships, pipelines or storage facilities. Downstream segment is closer to end users of petroleum products in the supply chain. Its operations involve converting oil and gas into the finished product. These include refining crude oil into gasoline, natural gas liquids, diesel and a variety of other petroleum products. Marketing and distribution of these products also fall under this category.

E&P Sector is regulated by more than one regulator. DG (PC) deals with E&P sector to formulate and implement the Petroleum Policies, E&P Rules and Petroleum Concession Agreements. Absence of an independent upstream regulator have resulted in in-ordinate delay in extension of leases, award / cancellation of blocks and allocations of oil and gas to buyers. Similarly, ineffective monitoring of production and sales, partial / non-implementation of Petroleum Policies, PCAs, Rules / Guidelines, Field Development Plans of E&P companies etc., can be cited as the reasons for non-allocations of crude oil and gas to refineries and Sui companies respectively and non-finalization of GSAs, GPAs and COSAs.

E&P Sector is confronted with multiple challenges that, inter-alia, include slow exploration and production of hydrocarbons. Adverse security conditions in the exploration areas cause extra cost, damage to assets and disruption of E&P activities. E&P variable costs of low and depleting reserves could not be rationalized over the years. Unconventional sources of energy such

as shale gas / oil and tight gas / oil have not been tapped due to extraordinary high cost and unavailability of service providers / technologies. Multiple projects of E&P companies were either delayed or could not achieve set targets of production. In some cases, production was stopped due to unsynchronized installation of storage facilities. Further, unnecessary / unjustified procurements caused blockage of funds which ultimately led to wasteful expenses.

GHPL was established to represent GoP as a Working Interest Owner in execution of Petroleum Concession Agreements for various exploration blocks with other E&P companies. Major purpose of establishment of GHPL was to safeguard the interests of GoP in various Joint Operations Agreements meant for exploration, development and production of hydrocarbons by sharing all revenues and expenses in proportion of respective shareholdings. GHPL has failed to receive due share of revenues from joint ventures despite incurring proportionate expenses.

Indigenous production of gas is rapidly decreasing. Supply of gas is insufficient against increasing demand of gas. During FY 2020-21, gap of 0.507 TCF per annum (1,326 MMCFD) between supply and demand was observed. To abridge the supply / demand gap of 0.507 TCF, 0.382 TCF (8.1 million M.Tons) of LNG was imported during the FY 202-21. Due to less import of LNG below the full capacity of terminals, i.e., 1,200 MMCFD which is extendable to further 150 MMCFD, there remained a net shortfall of 0.125 TCF (226 MMCFD).

This shortage of gas could have been mitigated by importing maximum quantity of LNG (up to 250 MMCFD). Owing to erratic demand of RLNG in the country, LNG procuring agencies i.e., PSO / PLL failed to match imports of LNG with demand, leaving the country to face acute gas shortage particularly in the winter season.

Gaps in the policy with regard to “Allocation of Indigenous Gas and RLNG” and prioritization of the consumers for sale of scarce indigenous gas has also left the gas companies unable to assess the RLNG import / demand in the country.

Unaccounted for Gas (UFG) has turned out to be a systemic issue that has caused huge losses to both Sui companies. UFG of more than 10% (up to 310 MMCFD) has not only worsened the gas crisis but also put extra burden of billions of rupees both on the government and the end consumers. Both gas

companies have failed to plug in the gaps in the system despite special enactments and spending huge funds on UFG control activities.

Duality of legal regimes for indigenous and RLNG for tariff / pricing mechanism is one of the many challenges facing by gas sector. Indigenous gas is dealt under OGRA Ordinance, 2002 and gas prices are fixed twice in a year whereas RLNG is treated as "Petroleum Product" under Petroleum Products Ordinance, 1961 and prices are issued on monthly basis. Further, transportation of RLNG is covered under OGRA Ordinance, 2002 for determination of transportation charges.

Due to weak contractual framework to govern whole supply chain of RLNG, disputes have arisen among the parties to agreements. Both the gas companies have raised claims of billions of rupees on account of cost of RLNG and re-gasification charges against each other. Similarly, PSO has claim of Rs 4,697 million on account of exchange loss against SSGC. OGRA has not been able to finalize provisional RLNG prices since July, 2017 due to non-resolution of RLNG related issues. Disputes regarding SSGC's claim of high UFG due to handling of RLNG volumes in its pipeline and cost of RLNG diverted to domestic sector by SNGPL during last three years have also not been resolved till the finalization of this report.[17]

Public Sector Enterprises i.e., OGDCL, PPL, PSO, SNGPL and SSGC, working under Petroleum Division, have found themselves into liquidity crunch due to non / short payment by power sector companies. Circular debt has risen to Rs 1,270.162 billion as on November 30, 2021. Further, the PSEs have been unable to recover outstanding amounts from other consumers. With stacking of receivables, coupled with ever increasing non-development expenditure, PSEs have been left with no choice but to go for commercial borrowing to fund their business operations, which in turn has further eroded the bottom line of their Profit and Loss statement. Due to non-availability of funds, E&P companies remained unable to accelerate exploration and production activities. Similarly, gas companies could not complete gas development schemes. SNGPL and SSGC could achieve only 34% and 56% of gas network expansion targets respectively during FY 2020-21.

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[17] Para 2.4.4.6

Oil sector is also facing problems in the face of dual powers of Oil Rules, 1971 and 2016 between DG (Oil) and OGRA. DG (Oil) convened monthly Product Review Meetings to assess demand of petroleum products and allocate local and import quotas to OMCs during the FY 2020-21 but both DG (Oil) and OGRA were found reluctant to ensure maintenance of minimum mandatory storage and stock of petroleum products. OGRA issued provisional licenses to small OMCs and found granting undue extensions despite the fact that companies could not complete their work programme for development of marketing infrastructure. Import quotas were also issued to some small OMCs which were implemented only to the benefits of the companies in favourable market conditions upsetting the demand and supply position.

Structural issues in the oil regime culminated in countrywide oil shortage in June, 2020. Issues such as lack of demarcation of legal powers, defective and ineffective punitive Clauses requiring meagre amount of penalties, non-development / non-maintenance of minimum mandatory storage and stock, Product Review Meetings (PRM) decisions without legal backing, sale of petroleum products / smuggled products by dabba stations / illegal petrol pumps, dumping / hoarding of petroleum products and misuse of IFEM due to absence of end-to-end automation and digitization of reporting of whole oil supply chain and its monitoring system by DG (Oil) / OGRA remained unresolved.

Port infrastructure for berthing of vessels and unloading of petroleum products and its transportation to interconnected storage facilities of OMCs is insufficient to cater for heavy imports. Facilities of three oil piers at Kamari and only one oil terminal at PQA will be insufficient after the White Oil Pipeline will be linked with FOTCO for both the Mogas and HSD. These port constraints will cause port congestion, disruption in supply chain and imposition of huge demurrages.

Necessary amendments relating to enhancement of penalty amount against major violations by licensees, submission of production programme by refineries and its approval by OGRA, implementation of approved production programme by refineries, prior approval of agreements relating to supply, purchase, sale and storage of any imported products by OGRA, seven-day prior notice for closure or stoppage of operation with reasons could not be finalized by the Petroleum Division in Oil Rules, 1971 and Oil Rules, 2016.

Petroleum Division and OGRA need to address the systemic issues to make PSEs robust, transparent, efficient and sustainable.

Chapter-1

Public Financial Management

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

Significant paras framed during financial attest audit of Non-Tax Receipts of Ministry of Energy (Petroleum Division) and Geological Survey of Pakistan for FY 2020-21 are as under:

1.1.1 Non-reporting of Royalty on Oil and Gas to Finance Division due to non-availability of challans – Rs 8,979.803 million

According to Para 7(1)(p) of Financial Management and Powers of Principal Accounting Officers Regulations, 2021, the Principal Accounting Officer shall be responsible to undertake reconciliation with accounting offices on monthly basis related to revenues and expenditure of the Division.

During financial attest audit of receipts administered by DG (PC), Islamabad for the FY 2020-21, it was observed that the DG (PC) did not carry out reconciliation on regular basis which resulted in the following discrepancies:

i. 130 challans relating to Royalty on Gas amounting to Rs 4,349.631 million were not found in the record files / Royalty Register maintained by DG (PC).

ii. 112 challans relating to Royalty on Oil amounting to Rs 4,630.172 million were not found in the record files / Royalty Register maintained by DG (PC).

The above challans were neither reconciled by the department with AGPR nor reported to Finance Division which showed weakness of internal controls.

Audit is of the view that negligence of management resulted in non-reporting of receipts to Finance Division and non-availability of challans amounting to Rs 8,979.803 million.

The matter was reported to the management on September 21, 2021. The management in its reply dated November 23, 2021 stated that an amount of

Rs 10,369.63 million had been reported to Finance Division after finalization of reconciliation from AGPR, Islamabad and Karachi. Audit contends that reconciliation of revenue figures with AGPR was not carried out throughout the financial year.

The DAC in its meeting held on December 08, 2021 directed the management to provide the relevant record for verification of Audit. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[ML-04]

1.1.2 Misclassification due to incorrect-adjustment of receipts relating to previous financial year – Rs 2,186.648 million

According to Para 7(1)(p) of Financial Management and Powers of Principal Accounting Officers Regulations, 2021, the Principal Accounting Officer shall be responsible to undertake reconciliation with Accounting Offices on monthly basis related to revenues and expenditure of the Division.

During financial attest audit of receipts administered by DG (PC), Islamabad for the FY 2020-21, it was observed that an amount of Rs 2,186.648 million relating to receipts of previous financial year was adjusted incorrectly from different heads to Royalty on Oil and Gas to current financial year as detailed below:

(Rs in million)

Sr. No.	Head of Account Booked in Previous FY 2019-20	Transferred to Head of Account in Current FY	Document No. (Current FY)	Amount
1	C03905-Royalty on Oil	C03906-Royalty on Gas	100015578	2,334.113
2	C03906-Royalty on Gas	C03905-Royalty on Oil	100015579	(151.585)
3	C02906-Registration and other Fees from Pakistanis	C03906-Royalty on Gas	100016549	1.988
4	C03506-Industrial Safety - Explosives Department	C03905-Royalty on Oil	100016548	0.057
5	C03805-Rent, Rates & Taxes	C03905-Royalty on Oil	100016551	2.075
			Total	**2,186.648**

Audit is of the view that weak internal controls resulted in booking of receipts under incorrect heads and against wrong period, amounting to Rs 2,186.648 million.

The matter was reported to the management on September 21, 2021. The management in its reply dated November 23, 2021 stated that these amounts were misclassified by FTO in FY 2019-20 and the FTO office issued correction memo to AGPR. However, AGPR inadvertently adjusted these amounts in FY 2020-21. The reply is not tenable as the issue was pointed out on August 24, 2021 i.e., well before the finalization of the accounts but the management failed to rectify the issue of misclassification in time.

The DAC in its meeting held on December 08, 2021 directed the management to pursue the case with AGPR / CGA / Finance Division for necessary rectification of figures. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[ML-01]

1.1.3 Misclassification of Petroleum Levy as Federal Excise Duty – Rs 753.768 million

According to Article 170(1) of the Constitution of Islamic Republic of Pakistan, 1973, the accounts of the Federation and of the provinces shall be kept in such form and in accordance with such principles and methods as the Auditor-General may, with the approval of the President, prescribe. According to Finance Division (Budget Wing), Islamabad OM F.No. A(20)/NTR-2020-1610 dated November 24, 2020, Petroleum Levy was required to be deposited into non-tax revenue head of account C-03901-Petroleum Levy.

During the financial attest audit of receipts administered by DG (Oil), Islamabad for the FY 2020-21, it was observed that an amount of Rs 753.768 million of Petroleum Levy for the month of May, 2021 was deposited by M/s Pakistan Refinery Limited vide CPR No. FE-20210615-0101-1314237 dated June 15, 2021 into Government account under the head of account ‘B-02485-Federal Excise Duty’ instead of depositing the same in the relevant head of account i.e., ‘C-03901-Petroleum Levy’. This led to disclosure of inflated figures of B-02485-Federal Excise Duty and understatement of Petroleum Levy in the financial statements of Federal Government by Rs 753.768 million.

Audit is of the view that weak internal controls resulted in misclassification of receipts of Petroleum Levy which was not included in

divisible pool of taxes under NFC Award, 2010 whereas Federal Excise Duty is a part of divisible pool tax. This inflated the divisible pool for distribution of revenues between Federal Government and Provinces.

The matter was reported to the management on September 21, 2021. The management in its reply dated November 23, 2021 stated that matter for rectification of CPR was taken up with FBR. FBR had intimated that rectification at this stage was not admissible. Audit is of the view that this incorrect inclusion of Petroleum Levy amount in divisible pool taxes needs adjustment in next year.

The DAC in its meeting held on December 08, 2021 directed the management to take up the matter with Finance Division for regularization of misclassification and corresponding adjustment in divisible pool of taxes. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[ML-11]

1.1.4 Un-accounted for receipts relating to Royalty on Oil and Gas and Rent received from E&P companies – Rs 674.321 million

According to Para 7(1)(p) of Financial Management and Powers of Principal Accounting Officers Regulations, 2021, the Principal Accounting Officer shall be responsible to undertake reconciliation with Accounting Offices on monthly basis related to revenues and expenditure of the Division.

During financial attest audit of receipts administered by DG (PC), Islamabad for the FY 2020-21, it was observed that:

i. 51 challans relating to Royalty on Gas amounting to Rs 458.443 million were available as per record files / Royalty Register maintained by DG (PC) but the same were not accounted for by AGPR;

ii. 28 challans relating to Royalty on Oil amounting to Rs 179.683 million were available as per record files / Royalty Register maintained by DG (PC) but the same were not accounted for by AGPR; and

iii. 20 challans relating to Rent received from E&P companies amounting to Rs 36.195 million were available as per record maintained by DG (PC) but the same were not accounted for by AGPR.

This resulted in non-accountal / non-disclosure of receipts aggregating to Rs 674.321 million in financial statements of Federal Government. It also showed that effective reconciliation was not carried out by the PAO.

Audit is of the view that weak internal controls resulted in un-accounted for receipts in financial statements.

The matter was reported to the management on September 21, 2021. The management in its reply dated November 23, 2021 stated that credit verification from FTO after booking of revenue figures by FTO / AGPR would be provided to Audit for verification.

The DAC in its meeting held on December 08, 2021 directed the management to provide the verified challans within two weeks. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[ML-05]

1.1.5 Non-existence of system for assessing the due receipts and non-availability of source documents

According to Para 7(1)(p) of Financial Management and Powers of Principal Accounting Officers Regulations, 2021, the principal accounting officer shall be responsible to undertake reconciliation with accounting offices on monthly basis related to revenues and expenditure of the division.

During financial attest audit of receipts administered by DG (Oil), Islamabad for the FY 2020-21, it was observed that there was no mechanism available in the Ministry for assessment and collection of receipts. The department relied only on the information provided by the concerned companies i.e., challans / CPRs. Further, receipts of Petroleum Levy were reconciled by DG (Oil) at Lahore and Karachi which covered 20% of the total Petroleum Levy while for the remaining levy, reconciliation was carried out by FBR (RTO) Islamabad and Customs Houses at Karachi, Hyderabad and Quetta but the source documents i.e., challans, CPRs or GDs were not available with the department. Out of total source / primary documents of Petroleum Levy covering Rs 424 billion, documents covering only Rs 173 billion were available with the department. The department considered only those receipts which were reflected in those challans and did not evaluate the due receipts of the department.

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 the deposit of due amounts.

The matter was reported to the management on September 21, 2021. The management in its reply dated November 23, 2021 stated that FBR and Customs Authorities collected the receipts and reconciled with AGPR. The final figures of receipts were also reconciled with the AGPR by DG (Oil). Audit contended that reconciliation exercise was not based on source documents.

The DAC in its meeting held on December 08, 2021 directed the management to develop a mechanism for assessing the due receipts and ensure availability of source documents. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[ML-8]

Chapter-2

Ministry of Energy (Petroleum Division)

2.1 Petroleum Division

2.1.1(A) Introduction

The Ministry of Energy was created in August, 2017 after merging 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 the Government of Pakistan through DG (PC), DG (Oil), DG (Gas) and DG (LGs). DG (PC) deals with receipts of Royalty on Oil and Gas, Rent of Lease / License area, Marine Research Fee and Production Bonus etc. DG (Oil) deals with Petroleum Levy, Discount retained on local crude oil price and Windfall Levy on crude oil. 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 the 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 so that the geological resources could be best exploited and utilized. Department of Explosive is an attached department of the Ministry which implements the enactments and policies of the Government. It is technical-cum-administrative department and its main objective is to enhance the public safety within the licensed premises. Hydrocarbon Development Institute of Pakistan - an autonomous Research and Development organization under the Petroleum Division – is responsible for testing of petroleum products and inspection of CNGs Stations.

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

(Rs in million)

Sr. No.	Description	No. of Entities	Audited	Expenditure audited FY 2020-21	Revenue / Receipts audited FY 2020-21
1	Ministry of Energy (Petroleum Division)	4	2	1,212.253	556,345.543
2	Autonomous Bodies / PSEs etc., under the PAO	14	8	3,142,251.516	3,132,325.109

(Detail is at Annexure-2)

(B) Comments on Budget and Accounts

A comparison of revised estimates and actual receipts of the Ministry for the FY 2020-21 is tabulated as follows:

(Rs in million)

Nature of Receipts	Original Target 2020-21	Revised Target 2020-21	Collection 2020-21	Difference from Revised Target	
				Absolute	Percentage
1	2	3	4	5 (4-3)	6
Petroleum Levy	450,000	500,000	424,856	-75,144	-15
Gas Development Surcharge	10,000	27,000	22,523	-4,477	-17
Royalty on Oil	23,000	26,000	22,406	-3,594	-14
Royalty on Gas	53,812	57,000	48,511	-8,489	-15
Discount Retained on Local Crude Oil	17,000	16,000	10,332	-5,668	-35
Windfall Levy	8,000	6,000	3,028	-2,972	-50
Gas Infrastructure Development Cess	15,000	25,000	19,439	-5,561	-22
Petroleum Levy on LPG	5,516	4,772	3,556	-1,216	-25
Others	500	500	1,033	533	107
Total	**582,828**	**662,272**	**555,684**	**-106,588**	**-16**

(Source: Explanatory Memorandum of Federal Receipts 2021-2022 and Financial Statements of Federal Government for FY 2020-21)

The Ministry collected receipts of Rs 555,684 million during the FY 2020-21 against revised estimates of Rs 662,272 million. It showed overall less collection of Rs 106,588 million (-16%) as compared with the revised estimates of the receipts. There was less collection in all heads of receipts except others as compared with the revised estimates.

A comparison of actual receipts between the FYs 2019-20 and 2020-21 is tabulated as follows:

(Rs in million)

Nature of Receipts	Collection		Difference	
	FY 2020-21	FY 2019-20	Absolute	Percentage
1	2	3	4 (2-3)	5
Petroleum Levy	424,856	303,461	121,395	40
Gas Development Surcharge	22,523	13,966	8,557	61
Royalty on Oil	22,406	28,393	-5,987	-21
Royalty on Gas	48,511	50,981	-2,470	-5
Discount Retained on Local Crude Oil Price	10,332	13,456	-3,124	-23
Windfall levy	3,028	5,175	-2,147	-41
Gas Infrastructure Development Cess	19,439	9,346	10,093	108
Petroleum Levy on LPG	3,556	3,247	309	10
Others	1,033	547	486	89
Total	**555,684**	**428,571**	**127,112**	**30**

(Source: Financial Statements of the Federal Government for the FYs 2019-20 and 2020-21)

The table shows increase in overall collection of Rs 127,112 million (30%) in receipts administered by the Petroleum Division during the FY 2020-21 as compared with receipts during FY 2019-20. However, Windfall Levy, Discount Retained on Local Crude Oil Price and Royalty on Oil have witnessed a decrease of 21%, 23% and 41% respectively.

2.1.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 401,404.126 million were raised in this report during the current audit of Ministry of Energy (Petroleum Division). This also includes recoverable amount of Rs 68,371.286 million as pointed out by Audit. Summary of the audit observations classified by nature is as follows:

Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Assessment and Realization of GIDC and GDS	389,652.233
B	Assessment and Realization of Petroleum Levy	428.601
C	Assessment and Realization of Royalties on Crude Oil and Gas	10,877.600
2	Others	445.692

2.1.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	% 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	28	21	07	75
2011-12	27	12	15	44
2012-13	30	10	20	33
2013-14	38	17	21	45
2014-15	24	9	15	38
2015-16	33	7	26	21
2016-17	26	1	25	4
2017-18	30	05	25	17
2018-19	05	01	04	20
2019-20	-	-	-	No PAC
2020-21	-	-	-	No PAC
Total	**325**	**134**	**191**	**41**

The table shows lacklustre compliance of PAC directives in recent years. The Division, therefore, needs to take the issue of non-compliance of PAC directives seriously to improve the current position.

2.1.4 Audit Paras

DG (Gas)

Assessment and Realization of GIDC and GDS

2.1.4.1 Non-utilization of Gas Infrastructure Development Cess - Rs 322,308.775 million

According to Section 4(1) of the Gas Infrastructure Development Cess Act, 2015, the Cess shall be utilized by the Federal Government for or in connection with infrastructure development of Iran-Pakistan Pipeline Project (IP), Turkmenistan-Afghanistan-Pakistan-India (TAPI) Pipeline Project, LNG or other ancillary projects. Further, the Honourable Supreme Court of Pakistan, in its judgment dated August 13, 2020, restrained the Federal Government from charging Cess until the Cess already collected and accrued till July 31, 2020 was expended on the projects listed in Section 4 of the GIDC Act, 2015. The apex court further directed the Federal Government to take all steps to commence work on the laying of the North-South, TAPI and IP pipelines within six months.

During audit of DG (Gas), Islamabad for the FY 2020-21, it was observed that DG (Gas) collected GIDC amounting to Rs 325,127.433 million up to June 30, 2021. Out of total collections, the Government could only utilize an amount of Rs 2,818.658 million on development of gas infrastructure. This resulted in non-utilization of Rs 322,308.775 million as detailed below:

(Rs in million)

Sr. No.	Name of Company	Amount of GIDC recovered since inception of GIDC
1	SSGC	63,635.645
2	SNGPL	97,392.908
3	MPCL	115,613.994
4	PPL	17,614.735
5	OGDCL	30,870.151
	Total	**325,127.433**
	Utilized amount of GIDC	2,818.658
	Unutilized balance amount of GIDC	**322,308.775**

Audit is of the view that poor project management resulted in non-utilization of GIDC amounting to Rs 322,308.775 million.

The matter was reported to the management in August, 2021. The management in its reply dated September 8, 2021 stated that ISGS had obtained

approval of pipeline route of North-South Pipeline project from Ministry of Defence and first technical session was held in August, 2021. Further, TAPI host Government Agreement was currently being negotiated, approval for early works (Heads of Terms) was in process and draft MOU on Land Acquisition Service Agreement was under review. Moreover, Ministry of Energy (Petroleum Division) had also sought views of Ministry of Foreign Affairs on the resumption of engagement for Iran Pakistan Gas Pipeline Project vide letter dated February 12, 2021 but the response was awaited. The reply of the management is not tenable because Honourable Supreme Court of Pakistan directed the Federal Government to take all steps for laying of the North-South, TAPI and IP pipelines within six months but no progress was made by the Federal Government so far.

The DAC in its meeting held on December 8, 2021 directed the Petroleum Division / DG (Gas) to expedite the utilization of GIDC. No further progress was reported till finalization of this report.

Audit recommends to ensure utilization of GIDC on the development of gas infrastructure projects.

[DP No. 1445]

2.1.4.2 Delayed / Non-realization of Gas Development Surcharge (GDS) – Rs 42,959.382 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. 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.

During audit of DG (Gas), Islamabad for the FY 2020-21, it was observed that DG (Gas) did not realize GDS amounting to Rs 42,959.382 million from various companies in respect of gas sold to fertilizer / power companies and other consumers as detailed below:

(Rs in million)

Sr. No.	Name of Company	Outstanding Amount
1	PPL	18,530.958
2	MPCL	12,821.758
3	SSGC	11,606.666
	Total	**42,959.382**

Further, no time limit had been prescribed for companies to pay the GDS collected from consumer. This had given leeway to companies to withheld GDS.

Audit is of the view that weak monitoring by DG (Gas) and gaps in Rules resulted in non-realization of GDS amounting to Rs 42,959.382 million in time.

The matter was reported to the management in August, 2021. The management in its reply dated September 8, 2021 stated that cases of PPL and MPCL pertained to circular debt and the matter was being pursued vigorously. In case of SSGC, GDS payable was adjusted against the negative GDS. However, to cater for negative GDS, amendments in the Ordinance were drafted and sent to Law Division for vetting. The reply is not tenable because GDS, being a provincial receipt, had no connection with circular debt issue and its retention by the companies was not justified.

The DAC in its meeting held on December 8, 2021 directed the management to expedite the recovery and to finalize the amendments in GDS Ordinance within three months. No further progress was reported till finalization of this report.

Audit recommends expeditious recovery of outstanding amount on priority basis besides finalization of amendments in the GDS Ordinance to fix the legal gap.

[DP No. 1444]

2.1.4.3 Non-realization of Gas Infrastructure Development Cess – Rs 2,127.294 million and mark-up on late payment – Rs 11,574.272 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 provided in second Schedule to this Act. Further, Honourable Supreme Court of Pakistan, in its judgment dated August 13, 2020, restrained the Federal Government from charging the Cess

w.e.f August 01, 2020 and directed that all arrears of "Cess" that became due up to July 31, 2020 and had not been recovered so far would be recovered from their consumers by the companies responsible under GIDC Act, 2015 in twenty-four equal monthly instalments starting from August 01, 2020 without component of late payment surcharge. The late payment surcharge would only become payable for the delays that may occur in the payment of any of the twenty-four instalments. Further, according to Section 3(3) of the Gas Infrastructure Development Cess Act, 2015, markup at the rate of four percent above three months KIBOR prescribed by the Federal Government shall be payable by the gas consumer or the company on any amount due under sub-Section (1), if the said amount is not paid by the said gas consumer or by the said company respectively within the prescribed time.

During audit of DG (Gas), Islamabad for the FY 2020-21, it was observed that an amount of Rs 2,127.294 million was not recovered from various companies for the month of July, 2020. This resulted in non-realization of GIDC amounting to Rs 2,127.294 million. Further, as per direction of the apex court, an amount of Rs 227,038 million on account of GIDC was recoverable in eleven instalments up to June 30, 2021. However, DG (Gas) could only recover Rs 18,569 million till June 30, 2021, leaving a balance of Rs 208,469 million. Mark-up of Rs 11,574.272 million on delayed / non-payment of instalments was also not recovered. This resulted in non-realization of mark-up amounting to Rs 11,574.272 million. The details of outstanding amount of GIDC of Rs 2,127.294 million for the month of July, 2020 and markup on late payment of GIDC of Rs 11,574.272 million are as under:

Outstanding amount of GIDC for the month of July, 2020

(Rs in million)

Sr. No.	Name of Company	Outstanding amount of GIDC for the month of July, 2020
1	SNGPL	1,023.532
2	OGDCL	474.157
3	PPL	314.059
4	MPCL	285.024
5	SSGC	30.522
	Total	**2,127.294**

Non-realization of markup on late payment of GIDC

(Rs in million)

Sr. No.	Name of Company	Outstanding markup on late payment of GIDC from August, 2020 to June, 2021
1	OGDCL	5.674
2	SNGPL	3,513.603
3	SSGC	4,597.694
4	MPCL	3,132.692
5	PPL	324.609
	Total	**11,574.272**

Audit is of the view that weak supervisory controls by DG (Gas) resulted in non-realization of GIDC and mark-up on late payment of GIDC aggregating to Rs 13,701.566 million.

The matter was reported to the management in August, 2021. The department in its reply dated September 8, 2021 stated that some consumers had filed petitions in the High Courts and got stay orders on recovery / billing, therefore, GIDC and markup thereof could not be recovered. Moreover, another application seeking clarification of recovery in 48 instalments from defaulting consumers was pending in the Supreme Court of Pakistan.

The DAC in its meeting held on December 8, 2021 directed the management to pursue the court cases vigorously besides provision of details of court cases for verification of Audit.

Audit recommends recovery of the outstanding amount of GIDC along with mark-up / late payment surcharge, pursue the court cases vigorously besides provision of detail of court cases to Audit.

[DP No. 1446]

2.1.4.4 Inadmissible adjustment of Gas Development Surcharge - Rs 10,682.51 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 DG (Gas), Islamabad for the FY 2020-21, it was observed that DG (Gas) did not recover Gas Development Surcharge amounting

to Rs 2,644.216 million and Rs 8,038.294 million from M/s MPCL and SNGPL respectively. The shortfall in payment of GDS occurred due to inadmissible adjustments of negative GDS against GDS payable. However, no such adjustment was allowed under the GDS Ordinance yet this practice was allowed year after year.

Audit is of the view that weak regulatory oversight by DG (Gas) resulted in inadmissible adjustment of GDS amounting to Rs 10,682.51 million.

The matter was reported to the management in August, 2021. The management in its reply dated September 8, 2021 stated that amendments in the Ordinance to cater for negative GDS and adjustment on account of difference of sales price and prescribed price had been sent to Law Division for vetting. The reply is not tenable because no such adjustment is admissible under the enactment in vogue.

The DAC in its meeting held on December 8, 2021 directed the management to expedite the amendments in GDS Ordinance within three months in the light of PAC Directives.

Audit recommends to expedite the amendment in GDS Ordinance besides stopping this practice forthwith.

[DP No. 1443]

DG (Oil)

Assessment and Realization of Petroleum Levy

2.1.4.5 Short-realization of Petroleum Levy due to application of incorrect rate – Rs 417.669 million

According to Section 3 of Petroleum Products (Development Surcharge) Ordinance, 1961, read with Section 3A(2)(b), every company, refinery and licensee is obliged to pay a Petroleum Levy to the Federal Government at prescribed rates in the same manner as an import duty is payable under the Customs Act, 1969. According to Section 30(b) of the Customs Act, 1969, in the case of goods cleared from a warehouse under Section 104, the rate of duty applicable shall be the rate of duty on the date on which a bill of entry or goods declaration for clearance of such goods is manifested. If the duty is not paid within seven days of the goods declaration being manifested, the rate of duty applicable shall be the rate of duty on the date on which the duty is actually paid.

During audit of DG (Oil), Islamabad for the FY 2020-21, it was observed that M/s Hascol Petroleum Ltd. paid Petroleum Levy on imported MS and HSD after seven days of filing the GD. Further, M/s Hascol paid the Petroleum Levy at the rate prevailing on the date of filing of GDs instead of the rate applicable on the date of payment. Similarly, 04 other OMCs i.e., PSO, APL, GO and Exceed Petroleum got the POL products cleared on payment of Petroleum Levy on the rates prevailing prior to GDs' filing which was contradictory to Section 30(b) of the Ordinance and the Act ibid. This resulted in short-realization of Petroleum Levy of Rs 417.669 million.

Audit is of the view that weak monitoring by DG (Oil) resulted in short-realization of Petroleum Levy of Rs 417.669 million.

The matter was reported to the management in September, 2020. The management in its reply explained that Rs 14.33 million had been recovered and verified by Audit. Further, FBR vide its letter C.No.1(6)L&P/2008 dated May 19, 2015 did not agree with the opinion of Ministry of Law where in it was stated that applicable date for rate of Petroleum Levy would be date of physical removal of the products and not the date of filing of Ex-Bond GD under Customs Act, 1969. Audit also holds that the clarification issued by the Ministry of Law was clearly in contradiction to Section 3A(2)(b) of Petroleum Products (Development Surcharge) Ordinance, 1961 and Section 30(b) of Customs Act, 1969 which require application of Petroleum Levy rate of ex-bond GD filling date. Therefore, removal of POL products from warehouse before GD filling and payment of Government dues was against the Law.

The DAC in its meeting held on December 8, 2021 directed the DG (Oil) to share copy of reference sent to Law Division regarding relevant date for Petroleum Levy rate. No further progress was report till finalization of this report.

Audit recommends recovery of outstanding amount on account of Petroleum Levy under the law.

[DP Nos. 1454, 1455, 1457, 1461 &1462]

2.1.4.6 Short payment of Petroleum Levy due to application of incorrect rates - Rs 10.932 million

As per orders of Honourable Sindh High Court dated October 29, 2021, the Petroleum Levy is to be charged and paid on the basis of Notification issued

by the Ministry of Petroleum, Government of Pakistan from time to time and its applicability and determination has no nexus with filing of GD (except the mode and manners of its collection and payment) if any, or for that matter with fixation of rate of Customs Duty pursuant to filing of Goods Declaration under Section 30 of Customs Act, 1969. The Petroleum Levy is to be charged / levied and paid at the rate(s) as notified under the Petroleum Products Ordinance 1961 and as prevalent at the time of actual payment of the same along with Customs Duty. Further, according to Section 30(b) of Customs Act, 1969, in the case of goods cleared from a warehouse under Section 104, the rate of duty applicable shall be the rate of duty on the date on which a bill of entry or goods declaration for clearance of such goods is manifested. If the duty is not paid within seven days of the goods declaration being manifested, the rate of duty applicable shall be the rate of duty on the date on which the duty is actually paid.

During audit of DG (Oil), Islamabad for the FY 2020-21, it was observed that in 10 cases, 03 OMCs namely Hascol Petroleum, Askar Oil Services, and Quality-1 Petroleum paid Petroleum Levy on imported HSD after seven days of filling of GDs and at the rates applicable on day of filing of GDs instead of rates prevailing on the date of payment which resulted in short payment of Petroleum Levy. In 07 out of 10 cases, date of payment was during March and April, 2021 i.e., Petroleum Levy was payable on the date of payment in the light of Court's orders but was paid considering removal of products from bonded warehouse, resulting in short payment of Rs 2.157 million. In remaining 03 cases, Petroleum Levy was paid after 05 and 08 months of GD filing resulting in short payment of Rs 7.975 million and Rs 0.8 million respectively. This resulted in short payment of Petroleum Levy of Rs 10.932 million.

Audit is of the view that weak monitoring by DG (Oil) resulted in short payment of Petroleum Levy of Rs 10.932 million.

The matter was reported to the management in September, 2021. The management in its reply stated that Rs 0.80 million were under recovery while in remaining cases response was awaited from OMCs.

The DAC in its meeting held on December 8, 2021 directed the management to expedite the recovery of Petroleum Levy. No further progress was reported till finalization of this report.

Audit recommends recovery of outstanding amount on account of Petroleum Levy besides improving the effectiveness of monitoring.

[DP Nos. 1458 &1460]

DG (PC)

Assessment and Realization of Royalty on Crude Oil and Gas

2.1.4.7 Non-realization of Royalty and fine on late payment of Royalty Rs 10,720.23 million

According to the Regulation of Mines and Oil fields and Mineral Development (Government Control) Act, 1948 read with Rules 28, 36, 68 (a), 35 and 38 of Pakistan Petroleum (Exploration and Production) Rules, 1949, 1986, 2001 and 2009, 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, 10 days and 45 days respectively of the expiry of the calendar month in question. However, according to Rule 38(3) of Pakistan Petroleum (Exploration & Production) Rules, 2009, a fine at the rate of LIBOR plus 2% shall be imposed if Royalty is not paid within 45 days of the end of the month of production.

During audit of DG (PC), Islamabad for the FY 2020-21, it was observed that DG (PC) did not recover Royalty on Oil and Gas from nine E&P companies in 40 fields. This resulted in non-realization of Royalty amounting to Rs 10,719.516 million. Further, M/s Spud Energy defaulted on account of payments of Royalty pertaining to previous year but DG (PC) did not initiate any action except issuing a letter for realization of Royalty. In another case, DG (PC) did not recover fine on late payment of Royalty on Oil and Gas from GHPL in Gambat South Block under E&P Rules, 2009. This resulted in non-realization of Royalty and subsequent fine amounting to Rs 0.672 million.

Audit is of the view that weak monitoring and non-compliance of Rules resulted in non-realization of Royalty and fine on late payment of Royalty amounting to Rs 10,720.23 million.

The matter was reported to the management in August, 2021. The management in its reply dated November 23, 2021 explained that an amount of Rs 1,748 million had been recovered whereas Rs 165 million were not due.

The DAC in its meeting held on December 8, 2021 directed the management to provide the credit verification of recovered amount of Rs 1,748 million and settled the para to the extent of Rs 165 million as not due besides recovery of the balance amount. No further progress was reported till finalization of this report.

Audit recommends to recover the Royalty and fine besides improving monitoring to avoid such instances in future.

[DP No. 1448]

2.1.4.8 Non / short-deposit of Social Welfare Obligation - Rs 68.898 million

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 the concerned DCOs / DCs and will deposit the Social Welfare Contribution within one month of signing of PCA and subsequently by 31st January each year.

During audit of DG (PC), Islamabad for the FY 2020-21, it was observed that DG (PC) failed to monitor seven E&P companies who did not deposit or short deposit Social Welfare Obligation in respect of 30 blocks. This resulted in non / short-realization of Social Welfare Obligation amounting to Rs 68.898 million (US$ 418,073 @ Rs 164.80) (**Annexure-4**).

Audit is of the view that ineffective monitoring by DG (PC) resulted in non / short-deposit of Social Welfare Obligations amounting to Rs 68.898 million.

The matter was reported to the management in August, 2021. The management in its reply dated November 23, 2021 stated that an amount of Rs 28.45 million had been recovered whereas recovery of balance amount was in process.

The DAC in its meeting held on December 8, 2021 directed the management to provide the bank statement showing deposit of amount and its conversion into US$ for verification of Audit besides pursuance of recovery of the balance amount. No further progress was reported till finalization of this report.

Audit recommends recovery of the Social Welfare Obligation besides improving monitoring system.

[DP No. 1447]

2.1.4.9 Blockage of Government revenue due to non-realization of License and Lease Rent from E&P companies and non-renewal of License / Lease – Rs 46.917 million

According to Pakistan Petroleum (Exploration and Production) Rules 1986, 2001, 2009 & 2013, the licensee shall pay to the Government annually an advance Rent, at rates prescribed therein. Further, according to Pakistan Petroleum (Exploration and Production) Rules 1949, 1986 & 2001, the Government may renew the lease for a period, not exceeding periods that was prescribed in rules, if commercial production is continuing at the time of the application.

During audit of DG (PC), Islamabad for the FY 2020-21, it was observed that in 18 licenses and 04 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 38.182 million. Further, DG (PC) did not renew the lease / licenses of 22 fields, where the commercial production had already been started. This resulted in blockage of Government revenue of Rs 8.735 million.

Audit is of the view that weak monitoring by the DG (PC) resulted in non-realization of Rent and blockage of Government revenue of Rs 46.917 million.

The matter was reported to the management in August, 2021. The management in its reply dated November 23, 2021 explained that an amount of Rs 2.19 million had been recovered and recovery of the balance amount was being pursued.

The DAC in its meeting held on December 8, 2021 directed the management to provide the credit verification of the recovered amount to Audit for verification besides recovery of balance amount. No further progress was reported till finalization of this report.

Audit recommends recovery of License and Lease Rent besides improving monitoring system.

[DP No. 1449]

2.1.4.10 Loss due to unauthorized extension and waiver of Lease Extension Bonus – Rs 41.555 million

According to Rule 35 of Pakistan Petroleum (Exploration and Production) Rules, 2013, after the expiry of a lease period, the Authority may renew or re-grant, as the case may be, the lease for up to a further five years, provided the lease holder agrees, at least one year prior to the expiry of the lease period, to pay 15% of wellhead value of petroleum produced to the Federal Government. Further, according to Rule 69(2) of Pakistan Petroleum (Exploration and Production) Rules, 1986, when a lease has expired or has been surrendered wholly or partly, or the use of installations and facilities has come to an end, the Government has the right to take over the permanent installations including related equipment in the lease area which are necessary for the production of petroleum. This also comprises pipeline transportation and related facilities installed by the holder to secure shipment of Petroleum.

During audit of DG (PC), Islamabad for the FY 2020-21, it was observed that DG (PC) allowed PPL to retain the Mazrani field after the expiry of the lease and waived off the 15% of the value of the petroleum produced and saved on the ground that the field was not economically viable for production at the current gas price. DG (PC) extended the favour by invoking the Section 5 of the Regulation of Mines and Oil fields and Mineral Development (Government Control) Act, 1948. Audit holds that extension in the lease period beyond its prescribed limit and waving off the lease extension bonus was not allowed under the Rule ibid. Further, unauthorised waiver off Lease Extension Bonus of Rs 41.555 million by the DG (PC) from Mazrani field was prejudice to the interests of the respective Provincial Governments.

Audit is of the view that DG (PC) waived off Lease Extension Bonus of Rs 41.555 million without any authority.

The matter was reported to the management in August, 2021. The management in its reply dated November 23, 2021 explained that the DG (PC) had delegated power to get the lease extended on quarterly basis and the field was not commercially viable due to which it was decided to waive off the Lease Extension Bonus. The reply is not tenable as under prevalent rules, extension for lease was required to be submitted one year prior to the expiry to the lease agreement. If, at all, the subject field was not commercially and technically

viable, there was no point to award extension of the subject lease on quarterly basis on more than one occasion.

The DAC in its meeting held on December 8, 2021 directed the management to get the relevant record verified from Audit within 15 days. No further progress was reported till finalization of this report.

Audit recommends to justify the undue grant of extension and initiate action for recovery of lease extension bonus.

[DP No. 1453]

2.1.4.11 Un-authorized production from Fateh Shah North Field

According to Rule 32 of Pakistan Petroleum (Exploration and Production) Rules 1986, upon application from the holder, the Government may renew the lease for a period, not exceeding five years, if commercial production is continuing at the time of the application. Further, according to Rule 69(2) of Pakistan Petroleum (Exploration and Production) Rules, 1986, when a lease has expired or has been surrendered wholly or partly, or the use of installations and facilities has come to an end, the Government has the right to take over the permanent installations including related equipment in the lease area which are necessary for the production of Petroleum. This also comprises pipeline transportation and related facilities installed by the holder to secure shipment of Petroleum.

During audit of DG (PC), Islamabad for the FY 2020-21, it was observed that DG (PC) withheld extension of Fateh Shah North block despite the fact that the field had reserves of 1 BCF, as submitted by M/s UEPL vide letter dated June 14, 2018. Earlier M/s UEPL applied for the extension of Development and Production lease of Fateh Shah North on January 27, 2015. Subsequently, reminders dated December 17, 2018 and March 19, 2020 along with a forward plan were also submitted but request for extension was not processed despite lapse of a period of seven years without recording any reason. In-decision with regard to request of the E&P company resulted in un-authorized production from the field. DG (PC) neither renewed the lease nor took over the expired lease under the Rules. This resulted in un-authorized production from the lease area.

Audit is of the view that negligence and in-decision of DG (PC) resulted in loss to Government due to non-taking over the permanent installations and un-authorized production from the lease.

The matter was reported to the management in August, 2021. The management in its reply dated November 23, 2021 explained that the subject field was under review in the office of DG (PC). The reply of the management is not tannable as DG (PC) has not been able to decide the subject matter of extension of development and production lease after lapse of seven years.

The DAC in its meeting held on December 8, 2021 directed the management to get the field reviewed at the earliest and share the outcomes with Audit. DAC further directed to get the obligations paid by the Operator verified from Audit within 15 days. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1451]

Others

Department of Explosives

2.1.4.12 Non-recovery of outstanding annual renewal difference of fee from M/s Wah Nobel - Rs 441 million

Ministry of Industries & Production revised rates of fee for manufacture and use of Ammonium Nitrate Fuel Oil Mixture vide U.O. No. 7(9)/98-Dev.II dated May 08, 2000.

During audit of DG, Department of Explosives, Islamabad for the FY 2020-21, it was observed that the department did not recover the difference of annual renewal fee amounting to Rs 441 million from M/s Wah Nobel for the period from 2000 to 2011. This resulted in non-recovery of annual renewal fee amounting to Rs 441 million as detailed below:

Sr. No.	Description	Amount
1	Quantity manufactured of ANFO	4000 M/T = 4,000,000 Kg
2	Fee on First 10,000 Kg	Rs 10,000
3	Additional each 10,000 Kg	Rs 50,000
4	Additional quantity	4,000,000 -10,000 = 3,990,000
5	Additional fee	399*50,000 =19,950,000

6	Total fee for ANFO	Rs 10,000 + 19,950,000 = Rs 20,050,000
7	Number of default years (2000 to 2011)	11
	Total fee payable	**11* 20,050,000*2 = Rs 441,100,000**

Audit is of view that weak internal controls resulted in non-recovery of annual renewal fee amounting to Rs 441 million.

The matter was reported to the management in October, 2021. The management in its reply dated January 15, 2022 stated that the matter was taken up with Petroleum Division with the request to take decision on recovery of outstanding amount.

The DAC in its meeting held on January 21, 2022 directed the department to take appropriate action under Rules. DAC further directed to conduct inquiry at Ministry level, fix responsibility against the officials at fault and submit a report within one month.

Audit recommends to implement the decision of DAC.

[DP No. 1699]

2.1.4.13 Non-realization of annual renewal fee from OMCs on expired licenses - Rs 4.692 million

According to Rule 119 of Petroleum Rules 1937, a license may be renewed by the authority empowered to grant such a license, provided that a license which was granted by the Chief Inspector may be renewed without alteration by an Inspector or Explosives duly authorized by the Chief Inspector on his behalf. The same fee shall be charged for the renewal of license as for the grant thereof, provided that if the application for renewal is not received within the time specified in sub-Rule (2), the license shall be renewed only, on payment of double the fee ordinarily payable for the license.

During audit of DG, Department of Explosives, Islamabad for FY 2020-21, it was observed that the department did not pursue renewal of licenses which were expired since the period ranging from 1 to 26 years. The department neither took any action to cancel the licenses nor provided the updated status of outlets to Audit. This resulted in non-realization of annual renewal fee from four OMCs amounting to Rs 4.692 million.

Audit is of view that weak internal controls resulted in non-recovery of annual renewal fee of Rs 4.692 million.

The matter was reported to the management in October, 2021. The management in its reply dated January 15, 2022 stated that fresh license in lieu of expired license was granted with two times the fee ordinarily payable.

The DAC in its meeting held on January 21, 2022 directed the department to get the stated stance verified from Audit within one month.

Audit recommends to recover the outstanding amount.

[DP No. 1701]

2.1.4.14 Irregular issuance of license to M/s Fauji Trans Terminal Limited

According to Rule 64(2)(a) of Petroleum Rules, 1937, tanks, other than fuel tanks on vehicles, containing dangerous petroleum shall not be filled or discharged within 100 feet of any fire, furnace or artificial light capable of igniting inflammable vapor. Further, according to Condition 8(a) and (b) of license in Form "L" of Petroleum Rules, 1937, a distance of not less than 100 feet shall be kept clear between a storage tank and any other storage tank; between storage tank and storage or filling shed, the distance being measured between the nearest points of the perimeters of the storage tanks or storage or filling sheds, as the case may be and a distance of not less than 150 feet shall be kept clear between any storage tank or storage or filling shed and nay protected work.

During audit of DG, Department of Explosives, Islamabad for the FY 2020-21, it was observed that M/s Fauji Trans Terminal Limited (FTTL) was granted license in "Form L" on September 05, 2019 for installation / construction of six above ground storage tanks. The terminal was constructed in contravention of the approved plan i.e., constructed at distances which was less than the distances approved and double storey building was also found constructed in violation of the license condition. In this regard, an inquiry committee inspected the premises on February 27, 2021 and proposed penalty of Rs 1.00 million along with revision of layout plan. Inquiry committee proposed penalty on the licensee but no official / officials was held responsible for issuance of the illegal license.

Audit is of the view that weak internal controls resulted in illegal violation of ToRs of license issued to M/s FTTL.

The matter was reported to the management in October, 2021. The management in its reply dated January 15, 2022 stated that the license in Form "L" was granted to M/s FTTL by Mr. Raj Kumar (Ex-Assistant Director) by mis-reporting the actual safety distance of premises other than approved plan.

The DAC in its meeting held on January 21, 2022 directed the management to implement the recommendation of inquiry committee regarding revocation of license of M/s FTTL.

Audit recommends to explain reasons for illegal issuance of license besides fixing the responsibility on the persons at fault.

[DP No. 1700]

2.1.4.15 Non-settlement of Petroleum Sector circular debt

Circular debt occurs when one entity is facing problems in its cash inflows - holds back payments to its suppliers and creditors. Problems in the cash inflow of one entity cascade down to other segments of the payment chain. The petroleum sector circular debt has risen to Rs 1,270,162 million as on November 30, 2021 as summarized below:

Petroleum Sector circular debt

(Rs in million)

Description	Amount
Circular debt as on November 30, 2021	
Cost of gas payable to E&P companies by gas companies	720,071
Late Payment Surcharge as on November 30, 2021	218,608
Cost of RLNG payable to PSO and PLL	278,862
Oil related circular debt including LPS	52,621
Total	**1,270,162**

(Source: MoE/PD and PSEs, Major components of debt are at Annexure-5)

Power Sector circular debt and unpaid Government subsidies for residential and export-oriented consumers have resulted in whooping receivables on account of cost of gas and oil on the balance sheets of E&P companies, mainly the OGDCL, PPL and MPCL as detailed below:

Indigenous gas related circular debt

(Rs in million)

Gas companies	OGDCL	PPL	MPCL	Total
SSGC	153,903	112,920	-	266,823
SNGPL	143,184	154,839	-	298,023
Direct Sales to IPPs	70,851	72,408	11,966	155,225

Total-Principal	367,938	340,167	11,966	720,071
LPS	107,981	93,518	17,109	218,608
Total	**475,919**	**433,685**	**29,075**	**938,679**

(Source: MoE/PD and PSEs)

Oil related circular debt

(Rs in million)

Companies	OGDCL	PPL	Total
Refineries	11,171	6,145	17,316
LPS	28,791	6,514	35,305
Total	**39,962**	**12,659**	**52,621**

(Source: MoE/PD and PSEs)

Accumulation of huge receivables and resultant liquidity crunch across the up, mid and down streams of the industry is the main reason for hampering / stopping the exploration, production and development activities.

(i) Non-settlement of RLNG related circular debt

Non-resolution of RLNG related issues by OGRA has caused accumulation of RLNG related circular debt as detailed in the below table:

(Rs in million)

Description	PSO	PLL	Total
Cost of RLNG	112,598	132,639	245,237
LPS	23,846	4,464	28,310
Exchange Loss	4,697	618	5,315
Total	**141,141**	**137,721**	**278,862**

Following are the other gas sector issues (including RLNG) that has contributed to the accumulation of circular debt:

i. Non-recovery of outstanding amounts by the Sui companies from the active and disconnected consumers;
ii. Ever increasing litigation involving huge Government revenue;
iii. Outstanding amount on account of Uniform Gas Price from SNGPL;
iv. RLNG transportation disputes between SNGPL and SSGC; and
v. Non-recovery of cost of RLNG diverted to Domestic Sector.

(ii) Recommendations

Federal Government and Ministry of Energy (Petroleum Division) should address the following issues to lessen the burden of circular debt:

i. Settlement of Power Sector circular debt which was also contributing to increase in gas related circular debt;

ii. Budgeting the subsidies to exporters and fertilizers sectors;
iii. Expedite the recovery of outstanding amounts from consumers;
iv. Take up the matter relating to sub-judice cases through the Attorney General of Pakistan with judicial administration for early disposal of cases involving huge Government receivables;
v. Recovery of cost of diversion of RLNG to gas companies; and
vi. Resolution of the disputes among the SNGPL and SSGC with regard to Indigenous Gas and RLNG.

2.2 Oil and Gas Development Company Limited

2.2.1 (A) 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 engaged in exploration and development of oil and gas resources, production and sale of oil and gas and related activities. OGDCL is registered with Pakistan Stock Exchange and London Stock Exchange. GoP holds 74.97% of the paid-up capital of the company as on June 30, 2021.

(B) Comments on Company Performance

Exploration, Production and Financial performance of the OGDCL during FY 2020-21 is given below:

i. Drilling and Exploration Activities

Name of Activity	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exploration Licenses	66	58	51	49	51	59
Development & Production Lease	69	69	72	79	76	77
2D Seismic Survey - Line KM	5,336	4,034	2,073	1,324	3,407	2,539
3D Seismic Survey - Line KM	3,459	1,153	792	620	-	600
Total Seismic Survey	**8,795**	**5,187**	**2,865**	**1,944**	**3,407**	**3,139**
Well Drilled (Exploratory / Appraisal, Development	26	22	20	16	25	20
Cost of Dry & Abandoned Well (Rs in million)	4,910	4,027	10,086	6,092	10,026	8,373
Prospecting Expense	9,639	9,242	6,104	6,408	8,187	8,994
Exploration and Prospecting Expenditure (Rs in million)	**14,548**	**13,269**	**16,190**	**12,499**	**18,213**	**17,366**
Cost (Rs million) Per Line KM	1.10	1.78	2.13	3.30	2.40	2.87

ii. Financial Performance

		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Quantity Sold							
Crude Oil	'000' barrels	14,461	15,744	14,867	14,555	12,919	13,230
Gas	MMCF	386,637	383,692	373,192	370,217	326,879	317,443
LPG	Tons	125,241	164,407	250,984	294,167	269,806	293,310
Sulphur	Tons	15,800	23,800	24,800	20,900	19,000	24,000
Financial Results		(Rs in billion)					
Net Sales		162.87	171.83	205.34	261.48	232.93	239.10
Other Revenues		16.89	17.85	19.08	37.15	39.88	20.27
Profit before Taxation		80.51	89.14	112.63	176.60	144.36	128.99
Profit for the Year		59.97	63.80	78.74	118.39	100.94	91.53

Production and volumetric sales of hydrocarbons remained stagnant during the period whereas sales revenue has increased due to positive effect of foreign exchange because crude oil prices are linked to a basket of Middle East crude oil prices (Brent in US Dollars).

Delay in completion of ongoing development projects, declining exploration, creaming out of major fields, leads inventory (unexplored) in portfolio and low off-takes of permeate (off-specs) gas by IPPs from gas fields were few of the many challenges company was facing during the period.

2.2.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 124,323.684 million were raised during the current audit of OGDCL. This also includes recoverable amount of Rs 110,828.680 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Project Management	4,950.458
B	HR / Employees Related Irregularities	78.080
C	Procurement Related Issues	4,689.689
D	Receivables Management	107,777.644
2	Others	6,827.813

2.2.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	% 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	18	03	86
2011-12	26	09	17	35
2012-13	33	16	17	48
2013-14	25	11	14	44
2014-15	53	21	32	40
2015-16	33	23	10	70
2016-17	40	33	07	82
2018-19	37	04	33	11
2019-20	01	0	01	0
Total	**473**	**290**	**183**	**61**

Overall compliance of PAC directives remained un-satisfactory.

2.2.4 Audit Paras

Project Management

2.2.4.1 Loss due to non-rationalization of operational expenditure at Dhodak field - Rs 4,679 million

According to Rule 5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, 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. The principle shall be adhered to especially with respect to handling of public funds, assets, resources and confidential information by directors, executives and employees and in claiming of expenses.

During audit of OGDCL for the FY 2020-21, it was observed that production from Dhodak field declined to 25 BBL/day during 2020-2021 after peak production of 3200 BBL/day in October, 2005. Despite the reduction in field operations, the management did not curtail / rationalize the field expenditure and incurred loss of Rs 4,679 million since FY 2016-17. The management started the process of de-hiring of 198 acres, out of 450 acres of land in 2016 but failure to remove the equipment from the site rendered the de-hiring process hampered till to date. Similarly, the HR remained attached in the field despite considerable decline in production activities This resulted in unjustified operational expenditure causing loss of Rs 4,679 million.

Audit is of the view that in-efficient management practices resulted in loss of Rs 4,679 million.

The matter was reported to the management in October, 2021. The management, in its reply dated December 29, 2021, stated that retrieval of flow lines / trunk lines and other infrastructures could not be executed as per Clause 69(2) and (3) of E&P Rules, 1986. 73 number of employees had been transferred to other fields whereas currently only 78 employees were working at Dhodak field. Further, 102.5 acres of land had already been de-hired. The reply of management is not tenable as most of transferred employees got their transfer cancelled and reposted in the field. Further, the management also failed to de-hire 30 acres excess land.

The DAC, in its meeting held on January, 12 and 13, 2022, directed the management to share correspondence with DG (PC), if any, along with rationalization plan with detailed justification of expenditure. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1484]

2.2.4.2 Loss of production due to inordinate delay in installation of Front End Compression plant – Rs 176.868 million

According to Clause 2.1 of OGDCL Procurement Manual, all departments shall plan all proposed procurements on yearly basis with the object of realistically determining the requirements, within its available resources, with complete justification with a view to procure the material / equipment / services economically. Procurements shall be made against the items which shall be approved in the Annual Business Plan.

During audit of OGDCL for the FY 2020-21, it was observed that the management planned to install Front End Compressor at Maru Reti Compression plant for wellhead pressure enhancement in November, 2019. The installation of the equipment was stated to be necessary to counter declining trend of the wellhead pressure and to maintain optimal production. It was planned that two separate contracts would be awarded for the purpose; one for procurement of compressor and the other for commissioning / installation of the equipment. However, the management issued the purchase order for supply of compressor to M/s Shandong Kerui Petroleum and Gas EQ Co. Ltd., China after lapse of almost 9 months. The stipulated date of delivery was 8 months after opening of LC. However, the LC was opened with delay and repeated changes were also made to the LC documents. On the other hand, the management failed to hire a contractor for commissioning of the compressor and the tender documents for installation and commissioning were still under preparation. This delay in procurement and installation of equipment resulted in loss of production of Rs 176.868 million.

Audit is of the view that inefficient procurement management practices resulted in production loss of Rs 176.868 million.

The matter was reported to the management in October, 2021. The management, in its reply dated December 29, 2021, stated that procurement of material was timely done. The case for hiring of contractor was annulled due to 75% higher price than the estimated price. The rebidding process had been completed and purchase order would be issued shortly. The project would be completed by the August, 2022. The reply of the management is not tenable as procurement started in 2019 but could not be completed despite lapse of more than two years.

The DAC, in its meeting held on January, 12 and 13, 2022, directed the management to expedite the process of installation of compressor and share the outcome with Audit. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC and fixing responsibility besides improving procurement management.

[DP No. 1536]

2.2.4.3 Wasteful expenditure due to delay in construction of crude storage tank - Rs 94.59 million

According to Rule 5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, 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. The principle shall be adhered to especially with respect to handling of public funds, assets, resources and confidential information by directors, executives and employees and in claiming of expenses.

During audit of OGDCL for the FY 2020-21, it was observed that the management planned to spud two new wells in Nashpa field to enhance production from the field. To stock the enhanced production, the management decided to procure new storage tanks. A purchase order for procurement of storage tanks was issued to M/s Fabcon Design and Engineering (Pvt.) Ltd. on April 24, 2015 for Rs 135.135 million with the direction to complete the project within 180 days. The management also made advance payment of Rs 94.59 million (70% of the contract amount) to the contractor. However, despite lapse of 5 years, not only the project remained incomplete but oil production from the

field also reduced by 39% thus rendering the expenditure of Rs 94.59 million on procurement of storage tanks wasteful.

Audit is of the view that weak project management resulted in wasteful expenditure of Rs 94.59 million.

The matter was reported to the management in October, 2021. The management, in its reply dated December 29, 2021, stated that the project had been completed on initial approved prices. As the delay in completion was on the part of the supplier, therefore, 5% LD charges had been deducted as per terms & conditions of the local purchase order The reply of management is not tenable as investment proved wasteful because project remained not only incomplete for five years but production was also decreased 39%.

The DAC, in its meeting held on January, 12 and 13, 2021, directed the management to conduct internal inquiry for fixing responsibility for delay in completion of project within one month. No further progress was reported till the finalization of this report.

Audit recommends to implement the decision of DAC besides improving project management.

[DP No. 1490]

HR / Employees Related Irregularities

2.2.4.4 Non or late finalization of inquiries

As per judgment of the Supreme Court of Pakistan (case 2009 SCMR 1492), no leniency should be shown in favour of employees possessing fake/bogus degrees / certificates. Supreme Court of Pakistan recommended authorities to examine the possibility of getting registered criminal case against such employees to avoid such misconduct in future. Further, as per Para 31-J(1) Chapter–IV of OGDCL Employees Service Rules, 2002, the appointment to a post in the Company shall be subject to verification of character and antecedents of a candidate selected for a post as may be prescribed. As per the BoD decision taken in its 100th meeting held on January 20, 2009, the testimonials, certificates, degrees, etc are required to be verified from the respective Board / University at the time of recruitment of the employees.

During audit of OGDCL for the FY 2020-21, it was observed that the management initiated the process to verify degrees of employees in 2015 i.e., almost 6 years after the directions of the BoD. Degrees of ten employees who were recruited 12 to 31 years ago were found bogus. Management started disciplinary proceedings against these employees. However, it took the management 6 years to finalize the inquiry against these employees and they were subsequently dismissed from service in 2021. Meanwhile, the management continued payment of salary to these employees and paid an amount of Rs 89.449 million. Hence, delayed finalization of inquiry resulted in unjustified payment of Rs 89.449 million to the employees as detailed below:

(Rs in million)

Sr. No.	Name of Employees	Employee No.	Designation	Total
1	Mr. Amjad Mahmood	213742	Well Operator	9.086
2	Mr. Ahmed	208680	Well Operator	13.735
3	Mr. Yawar Abbas Jafri	204241	Superintendent	34.379
4	Syed Pervaiz Rahim	214966	A/C Mechanic	12.158
5	Mohabat Khan	208768	Driver	11.666
6	Hazoor Bux	305657	Well, Chowkidar	0.717
7	Saleem	306047	Well, Chowkidar	0.319
8	Mr. Rano	121222	Shooter	0
9	Mr. Muhammad Hassan Mujtaba	200804	Plant Shift Operator	7.389
10	Zahid Hussain	306116	Well, chowkidar	0
			Total	**89.449**

Audit is of view that weak internal controls resulted in unjustified payment of salary of Rs 89.499 million to the employees.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021 stated that disciplinary proceedings against all employees with bogus degrees had been finalized. The reply of management is not tenable as the testimonials of employees were got verified after 12 to 31 years and inquiries for fake degrees were completed after lapse of six years. Further, no criminal proceedings were initiated against the employees involved in misconduct.

DAC in its meeting held on January, 12 and 13, 2022 directed the management to intimate the proceedings regarding initiation of criminal

proceedings against persons holding fake degrees as directed by the Supreme Court of Pakistan.

Audit recommends to implement the decision of DAC besides developing SoPs specifying timelines for finalization of inquiries.

[DP No. 1719]

2.2.4.5 Loss due to non-initiation of action against delinquents - Rs 78.08 million

According to Rule 123 of OGDCL Employee Service Rules, 2002, the competent authority / the authorized officer may order an inquiry against an employee on the grounds of misconduct, after completing the necessary formalities as required under these rules.

During audit of OGDCL for the FY 2020-21, it was observed that the management constituted a fact-finding committee to investigate the issues highlighted in the Special Audit Report of Nandpur / Panjpir / Bahu field conducted by Internal Audit Department of the company for the period from January, 2019 to April, 2020. The findings of the inquiry committee were as under:

i. Uneconomic hiring and retention of generators for 24 hours despite availability of the MEPCO line. HSD consumption showed rising trend despite no gas production and reduction in strength of employees at residential camp. The company incurred an expenditure of Rs 67.902 million for provision of electricity to few officers and staff members;

ii. Contracts amounting to Rs 5.1 million for retrieval and shifting of material from Panjpir Bahu to Nandpur Gas field were awarded without any competitive bidding in contradiction to PPRA Rules;

iii. M/s Siam Enterprises was awarded several service contracts amounting to Rs 3.857 million by splitting the jobs;

iv. Undue favour was extended to the contractor at the cost of OGDCL as a rental generator of 100 KVA was non-operative since January 2020 but diesel was being issued regularly at an average of 145 litres/day. Hence, company resources amounting to Rs 1.137 million were misused;

v. Unauthorized / suspicious storage of diesel amounting to Rs 80,000 at generator shed premises in camouflaging manner for stealing later;

vi. Misuse of company car by an unauthorized third-party employee and hiring of vehicles from benami company; and

vii. No segregation and rotation of duties was done and majority of employees were deployed at the same job since long.

Audit is of the view that weak internal controls resulted in non-initiation of action against officials / officers responsible for irregularities, in-efficiency and mis-appropriation.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021, stated that fact finding inquiry was in process. The reply is not tenable as the management could not complete the inquiries despite lapse of about one year.

The DAC in its meeting held on January 12 & 13, 2022 directed the management to complete the internal inquiry within two months and share the outcome with Audit. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides improving internal controls to avoid such incidents in future.

[DP No. 1538]

Procurement Related Irregularities

2.2.4.6 Loss of production due to delay in procurement process - Rs 2,496.663 million

According to Rule 8 of PPRA Rules, 2004, all procuring agencies shall devise a mechanism, for planning in detail for all proposed procurements with the object of realistically determining the requirements of the procuring agency, within its available resources, delivery time or completion date and benefits that are likely to accrue to the procuring agency in future.

During audit of OGDCL for the FY 2020-21, it was observed that the Production Department raised indents for 8 jet pumps for Kal-2, Rajian-8, Psakhi-II wells besides one jet pump for testing new wells. The management claimed that the company sustained production loss of Rs 1,087.663 million due

to non-availability of these pumps. Scrutiny of the record, however, revealed that the company had already 3 jet pumps available in stock which could have been installed on the site. This showed that the company incurred production loss due to negligence of the management. Subsequently, the management started procurement of four jet pumps for Rs 333.456 million (US$ 2.021 @ Rs 165) on May 23, 2019. Purchase order was issued on August 07, 2020 after lapse of almost 15 months. Undue favour was also given to supplier by granting extension in LC. This resulted in further production loss of Rs 1,409 million aggregating to total production loss of Rs 2,496.663 million.

Audit is of the view that poor inventory and procurement management resulted in loss of Rs 2,496.663 million due to curtailment of production from shut in wells.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021, stated that purchase order for procurement of 4 jet pump units was issued on August 07, 2020 and LC was opened on February 10, 2021 with initial date of shipment as September 17, 2021. The supplier requested for LC extension. The company extended LC with new shipment date of December 31, 2021 with imposition of LD. The reply of management is not tenable as pumps available in stock were not used and loss of production was sustained. Further, undue extension was allowed at cost of reduction in production.

The DAC in its meeting held on January, 12 and 13, 2022 directed the management to share the comprehensive report showing the production data before and after installation of jet pumps with Audit. No further progress was reported till finalization of this report.

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

[DP No. 1688]

2.2.4.7 Blockage of funds due to unnecessary procurements - Rs 1,506.66 million

As per the OGDCL Procurement Manual, the Indenters will obtain stock availability certificate from Indexing Section, Material Management Department after preparation of indent. The Indexing Section will get the stock position

across OGDCL from the system and furnish position accordingly on the indent. The Indenting Department will also certify that the stock available will be consumed during the period of Procurement.

During audit of OGDCL for the FY 2020-21, it was observed that the management procured items without planning and need assessment. Further, there were instances wherein the management issued purchase orders after delay of months or made unnecessary procurements. The detail is as under;

i. The management raised indents on July 07, 2020 for procurement of casing along with accessories to meet operational requirements of 45 wells planned to be drilled during FY 2020-21. However, management issued purchase order for Rs 2,438.400 million (US$ 15.24 million @ Rs 160) after lapse of 8 months i.e., in March, 2021. Moreover, the company drilled 20 wells only during the financial year whereas it procured casing for drilling of 45 wells, thus, excess material amounting to Rs 1,354 million was procured;

ii. The management hired three gas generators on rental basis whereas three gas generators were available at its Korangi Base Store. This resulted in unnecessary procurement of generators on rent amounting to Rs 29.160 million; and

iii. The management issued purchase order for procurement of line pipe for Rs 123.5 million on June 03, 2020. However, sufficient quantity of the item was available in stock. This resulted in unnecessary procurement of Rs 123.5 million.

Audit is of the view that poor procurement and inventory management resulted in unnecessary procurements amounting to Rs 1,506.66 million.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021 stated that 14 out of 45 wells were permanently dropped from business plan of FY 2020-21 due to various reasons. Further, the available generators were integral part of the Jhal Magsi Gas Field Development Project and could not be used for any other locations / plant, as Jhal Magsi field was a joint venture. Further, line pipes were still required in various field and would be used on as and when basis. The reply of management is not tenable as the business plan was revised in November, 2020

whereas the purchase order for procurement of drilling material was issued in March, 2021. Further, line pipes were procured despite availability of the same in store.

The DAC in its meeting held on January, 12 and 13, 2022, directed the management to share the well wise justification for delay in execution / dropping from annual business plan for verification of Audit. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1535]

2.2.4.8 Blockage of funds due to imprudent procurement of store items - Rs 576.04 million

According to OGDCL Procurement Manual, the Indenters will obtain Stock Availability Certificate from Indexing Section, MM Department after preparation of Indent. The Indexing Section will get the stock position across OGDCL from the system and furnish position accordingly on the Indent. The Indenting Department will also certify that the stock available will be consumed during the period of Procurement. Similarly, the concerned Technical Field staff will raise Indent for the material required for field operations and not available at Field Ware House. They will also get stock availability certificates from In-charge Field Ware House and send them to their respective department for further processing.

During audit of OGDCL for the FY 2020-21, it was observed that the management procured certain store items during the last five years without confirming their availability in store and without keeping in view their utilization pattern. The aging of store items revealed that these items had not been used for many years. Audit identified four indexes relating to hose, switch pressure, plug and clutch which were last utilized in 2004 but management procured these items again during 2016, 2018, 2019 & 2021. For the purpose of illustration few instances are given below:

(Rs in million)

Sr. No.	Nos. of Index	Amount	Year Last Utilized	Year Last Procured
1	4	4.383	2004	2016, 2018, 2019, 2021
2	5	14.357	2005	2016, 2017, 2018

3	4	2.893	2006	2016, 2018
4	6	34.229	2007	2016, 2017, 2020, 2021
5	11	14.479	2008	2017, 2018, 2019, 2020, 2021
6	5	11.451	2009	2016, 2017, 2018, 2020
7	8	29.426	2010	2018, 2019, 2021
8	18	31.481	2011	2016, 2017, 2018, 2019, 2020, 2021
9	30	53.067	2012	2016, 2017, 2018, 2019, 2020, 2021
10	34	94.799	2013	2016, 2017, 2018, 2019, 2020, 2021
11	30	103.884	2014	2016, 2017, 2018, 2019, 2020, 2021
12	57	181.588	2015	2016, 2017, 2018, 2019, 2020, 2021
Total	**212**	**576.037**		

Audit is of the view that poor inventory management and lack of inter-department coordination led to unnecessary procurements and blockage of funds of Rs 576.04 million.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021 stated that E&P operation was of specialized nature and the future was highly uncertain due to which no one could predict the inventory requirements in accurate terms. To meet the operational requirements, adequate level of inventory was ensured to keep for the smooth company's operations. The reply of management is not tenable as the items were lying in the store for more than a decade, therefore, procurement of the same items was unjustified.

The DAC in its meeting held on January, 12 and 13, 2022, noticed that there was lack of data accuracy and data reconciliation between various departments / wings of the company due to which the authenticity of data provided is questionable. DAC directed the management to submit item wise utilization plan for verification of Audit. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides improving inter-department coordination.

[DP No. 1483]

2.2.4.9 Loss due to improper maintenance, record keeping and handling of store items - Rs 110.326 million

According to Para 3.1 and 3.2 of Code of Conduct of OGDCL, the directors and employees of the company seek to protect the company's assets

and to ensure that the company's assets and services are used solely for legitimate business purposes of the company. The company must make and keep books and records that accurately and fairly reflect the company's transactions and the disposition of its assets in accordance with Generally Accepted Accounting Principles (GAAP) and applicable laws and regulations.

During audit of OGDCL for the FY 2020-21, it was observed that management failed to keep, make and maintain accurate record keeping of store items which caused loss to company as detailed below:

i. 52 Indices having value of Rs 10.47 million were shown in Oracle listing but were not physically available at their respective locations. The management could not reconcile differences and failed to take action / make adjustments in Oracle system or manual Bin Cards, by associating these Indices with pending litigations, theft cases and management inquires;

ii. 133 Indices having value of Rs 13.252 million were found damaged;

iii. 17 Indices having value of Rs 17.982 million expired in the absence of system-based control to generate alert or give indication to check expiry dates;

iv. Against 1,077 Indices, quantities at the date of count were found different from the quantities as per Oracle and manual Bin Cards. The differences were mainly due to non-recording of receipts / issuances / transfers or in-transit items on timely basis. However, out of 1,077 reconciled Indices amounting to Rs 66.856 million in 758 instances supporting documents had "dates" on or after the date of physical count;

v. 14 items having value of Rs 1.767 million were shown in Fixed Asset Register of Security Department generated from Oracle but the same were not available physically. Similarly, 31 items were available but not showing in Oracle.

Audit is of the view that due to weak internal and inventory management controls, record pertaining to Indices was not properly maintained which resulted in loss of Rs 110.326 million.

The matter was reported to the management in October, 2021. The management, in its reply dated December 29, 2021, stated that the way forward was being considered by the management for further strengthening the system. The litigation and theft cases were also being pursued.

The DAC, in its meeting held on January 12 and 13, 2022, directed the management to pursue the court / theft cases vigorously and strengthen the internal controls on inventory items besides verification of point-wise reply from Audit. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides strengthening inventory management controls to avoid such incident in future.

[DP No. 1577]

Receivables Management

2.2.4.10 Non-recovery of gas charges due to non-finalization of GSAs - Rs 95,520 million

According to Rule 5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, 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. The principle shall be adhered to, especially with respect to handling of public funds, assets, resources and confidential information by directors, executives and employees and claiming of expenses.

During audit of OGDCL for the FY 2020-21, it was observed that the management failed to get seven GSAs finalized with SSGC pertaining to KPD, Nur Bangla, Bitrisim West, Dhachapur, Jakhro and Thal fields. These GSAs were pending since January, 2013 due to disagreement on discount rates on supply of off-spec gas. This resulted in non-recovery of gas charges amounting to Rs 95,520 million.

Audit is of the view that weak management practices led to non-finalization of GSAs resulting in non-recovery of Rs 95,520 million.

The matter was reported to the PAO / management in October, 2021.

The DAC in its meeting held on January 12 & 13, 2022 directed to expedite the finalization of GSAs in consultation with Petroleum Division and

other stake-holders. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of the DAC.

[DP No. 1573]

2.2.4.11 Non-settlement of gas measurement dispute between OGDCL and SSGC - Rs 11,758 million

According to Clause 16 of Term Sheet signed between OGDCL and SSGC for sale of gas from KPD field, all disputes, controversies or differences that may arise between the parties arising out of or in connection with this agreement shall be settled amicably through mutual negotiations in good faith. All such disputes that are not settled amiably within 60 days from the date of notification of such disputes shall be referred to arbitration. Further, as per Clause 6, the measurement facilities shall be as per American Gas Association Committee Report-3 or latest revision thereof with an online gas chromatograph and flow computer at delivery point. Measurement facilities at KPD gas field shall be jointly calibrated and checked every calendar month by both the parties.

During audit of OGDCL for the FY 2020-21, it was observed that there existed measurement dispute between OGDCL and SSGC on supply of gas from KPD field during 2012-2013 but the management failed to resolve the dispute despite lapse of considerable time. SSGC started making provisional payments against invoices raised by OGDCL from 2017 onwards but the amount pertaining to February, 2012 to March, 2013 were found outstanding. This resulted in non-settlement of measurement dispute on sale of gas of Rs 11,758 million between SSGC and OGDCL.

Audit is of the view that poor management practices resulted in non-settlement of dispute on supply of gas of Rs 11,758 million.

The matter was reported to the management in October, 2021. The management, in its reply dated December 29, 2021, stated that OGDCL was supplying gas from KPD to SSGC through JJVL during 2012-13 & 2014. OGDCL had all meter reading reports of the periods before and after the default time. Since GSA was not finalized, therefore, no development was made. The reply of the management is not tenable as the dispute must have been resolved as per provisions of Term Sheet instead of waiting for finalization of GSA.

The DAC, in its meeting held on January 12 and 13, 2022, directed the management to expedite the finalization of GSA in consultation with Petroleum Division and other stake-holders. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1487]

2.2.4.12 Non-recovery of advances from suppliers / contractors – Rs 499.644 million

As per Rule 14(l) of Public Sector Companies (Corporate Governance Rules), 2013, the Chief Financial Officer shall be responsible for ensuring that appropriate advice is given to the Board on all financial matters, for keeping proper financial records and accounts, for maintaining an effective system of internal financial control.

During audit of OGDCL for the FY 2020-21, it was observed that management failed to recover advances amounting to Rs 499.644 million long outstanding against 37 suppliers and contractors since 2004. Audit requisitioned files of suppliers and contractors to whom advances were made to ascertain the reasons for non-recovery/ settlement of advance, but management provided only one file of M/s Pipelink Construction. After scrutiny, it was found that M/s Pipelink Construction was given an advance of Rs 154.008 million for construction, supply and installation of flow line at KPD-TAY field but the amount was still not settled. The management made payment of Rs 55.970 million to the contractor in 2019 but did not adjust the advance. Further, the management did not encash bank guarantee received from the supplier to adjust the advance. This resulted in non-recovery of outstanding advances amounting to Rs 499.644 million.

Audit is of the view that due to weak financial control, the amount issued as advance could not be recovered from the contractors.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021 stated that some advances had been adjusted whereas remaining would be adjusted in due course of time. Further, in case of M/s Pipelink Construction, the bank guarantee was valid till

March, 2022. Reply is not tenable as management failed to adjust / recover advances issued to contractors despite lapse of period up to 17 years.

The DAC, in its meeting held on January 12 and 13, 2022, directed the management to get the stated stance verified from Audit besides expediting the recovery of remaining advances. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides provision of record related to other suppliers / contractors.

[DP No. 1532]

Others

2.2.4.13 Wasteful operational expenditure on stacked rig - Rs 893.952 million

According to Rule 5(5) of the Corporate Governance Rules, 2017, the Board shall establish a sound internal control system, 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 the company's assets and resources are not used for private advantage and due economy is exercised.

During audit of OGDCL for the FY 2020-21, it was observed that Rig 750-T was stacked in Palli Deep w.e.f. March 29, 2019. It was later moved to Kot Narang Base Store on November 08, 2020. The Rig remained stacked during the period from March, 2019 to June, 2021 but the management incurred operational expenses during the stacking period. The staff remained deployed with the Rig which resulted in payment of extra field allowances, hardship allowance, messing allowance and other financial benefits to the employees. Further, the vehicle hiring charges increased from Rs 2.213 million during FY 2018-19 to Rs 8.767 million during FY 2019-20 and fuel expenses from Rs 3.5 million to Rs 0.253 million during the same period. During the last two years, the company made wasteful expenditure of Rs 893.952 million as detailed below:

(Rs million)

Description of expense	2018-19	Proportionate wasteful expenditure for 2018-19	2019-20	2020-21	Total wasteful expenses
HR related expense	352.394	88.098	358.883	297.315	744.296
Operational expense	30.062	7.515	26.974	13.149	47.638
Vehicle rent	2.213	0.553	1.878	8.767	11.198
Depreciation expense	3.679	0.919	3.411	2.604	6.934
Allocated expense	47.567	11.891	35.064	36.931	83.886
Total	**435.915**	**108.976**	**426.210**	**358.766**	**893.952**

Audit is of the view that negligence of the management resulted in wasteful expenditure of Rs 893.952 million.

The matter was reported to the management in October, 2021. The management, in its reply dated December 29, 2021, stated that the major expenditure was HR related which was indispensable. The reply of management is not tenable as expenses were not rationalized and propriety of the expenditure was not maintained.

The DAC in its meeting held on January 12 & 13, 2022 directed the management to submit comprehensive point wise report to Audit within 15 days. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1689]

2.2.4.14 Un-justified expenditure in respect of stacked rigs - Rs 741.45 million

According to Rule 5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, 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. The principle shall be adhered to, especially with respect to handling of public funds, assets, resources and confidential information by directors, executives and employees and claiming of expenses.

During audit of OGDCL for the FY 2020-21, it was observed that:

i. Rig-125 was shifted to auction yard on January 22, 2017 and was auctioned on June 11, 2020 but expenditure of Rs 250.599 million was incurred during the stacked period as detailed below:

(Rs in million)

Description	2016-17 (w.e.f 22.01.2017 to 30.06.2017)	2017-18	2018-19	2019-20	2020-21	Total Amount
Direct Expense	193.751	24.283	6.897	0.568	0.167	225.666
Allocated expense	21.245	1.687	0.227	0.083	0.005	23.247
Excess store item procured			0.603	0.526	0.556	1.686
Total	**214.996**	**25.97**	**7.727**	**1.177**	**0.728**	**250.599**

ii. Rig-307 was declared un-serviceable on July 13, 2015. The Rig was auctioned on June 11, 2018 but the management showed expenditure of Rs 490.85 million against the same Rig-307 after July 13, 2015 as detailed below:

(Rs in million)

Description	2015-16	2016-17	2017-18	2018-19	Total amount
Direct Expense	303.738	140.261	4.115	0.089	448.203
Allocated expense	28.548	12.694	0	0.002	41.244
Excess store item procured	0.612	0.523	0.217	.051	1.403
Total	**332.898**	**153.478**	**4.332**	**0.142**	**490.85**

This resulted in unjustified expenditure of Rs 741.45 million on the stacked rigs.

Audit is of the view that weak financial controls resulted in unjustified expenditure of Rs 741.45 million.

The matter was reported to the management in October, 2021. The management, in its reply dated December 29, 2021, stated that the major expenditure was HR related which was indispensable. The reply of management is not tenable as expenses were not rationalized and propriety of the expenditure was not maintained.

The DAC, in its meeting held on January 12 and 13, 2022, directed the management to conduct fact finding and submit the report within two months besides devising SOPs for timely finalization of condemnation process.

Audit recommends to implement the decision of DAC.

[DP No. 1518]

2.2.4.15 Non-resolution of the yield dispute - Rs 545.518 million

As per Clause 15.1 of COSA, if any question, or difference or dispute concerning the interpretation and application of this Sales Agreement arises between the parties hereto, then matter in dispute shall be resolved in accordance with Arbitration Procedure as provided in Concession Agreement. Further, as proviso to Clause 28.3 of COSA, in the event of a dispute between the Pakistani Working Interest Owner(s) and President, the arbitration shall be conducted in accordance with the Arbitration Act, 1940.

During audit of OGDCL for the FY 2020-21, it was observed that there emerged a yield differential dispute on supply of crude oil to NRL from five fields i.e., Nashpa, Jakhro, Kunnar Deep, Sinjhoro and TAY in 2016 due to which NRL withheld an amount of Rs 545.518 million claimed by OGDCL. However, the management of OGDCL did not initiate arbitration process under the relevant Clause of agreement referred above and the issue remained unresolved despite lapse of more than five years.

Audit is of the view that negligence of the management resulted in non-settlement of dispute for payment of Rs 545.518 million.

The matter was reported to the management in October, 2021.The management, in its reply dated December 29, 2021, stated that the matter had been referred to DG (Oil) on March 01, 2021. A meeting in this regard was held on September 16, 2021 and it was agreed that DG (Oil) would issue letter to NRL for its comments. The reply is not tenable as the management took up the matter with DG (Oil) after lapse of 4 years.

DAC in its meeting held on January 12 and 13, 2022, took serious notice for non-settlement of long outstanding issue and directed the management to pursue the case with DG (Oil) for early settlement and share the outcome with Audit. DAC further, directed the management to share the correspondence made with DG (Oil) since 2016. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1542]

2.2.4.16 *Non-payment of Customs Duty on proceeds from sale of scrap, junk and obsolete items – Rs 538.832 million*

According to Condition vi(a) of SRO 678(1)/2004, dated August 07, 2004, items imported at concessionary rates when become surplus, scrap, junk, obsolete or otherwise shall be disposed through a public tender and duties shall be recovered at the rate of ten per cent ad valorem of the sale proceeds. Further as Section 156(10) of the Customs Act, 1969, if any condition, limitation or restriction imposed by Federal Government or by the Board for grant of partial or total exemption from Customs Duties is violated in respect of the goods on which exemption has been granted, such goods shall be liable to confiscation and the person to whom the exemption was granted shall be liable to a penalty not exceeding ten times the value of goods.

During audit of OGDCL for the FY 2020-21, it was observed that the management failed to deposit Customs Duty on proceeds realized from sale of scrap, junk and obsolete items which were imported under SRO ibid. Non-payment of Customs Duty was found in practice since 2004. This resulted in non-payment of Customs Duty amounting to Rs 538.832 million to the national exchequer.

Audit is of the view that poor financial controls resulted in non-payment of Customs Duty amounting to Rs 538.832 million.

The matter was reported to the management in October, 2021. The management, in its reply dated December 29, 2021, stated that items auctioned during the period under review were imported prior to application of SRO 678. The reply of management is not tenable as all auctioned items were imported after promulgation of SRO ibid except two trucks.

The DAC, in its meeting held on January 12 and 13, 2022, directed the management to get the stated stance verified from Audit. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1521]

2.2.4.17 Non-reconciliation of difference in accounts receivables of SSGC and SNGPL - Rs 537.41 million

According to International Accounting Standard 18, revenue is measured at the fair value of the consideration received or receivable and recognized when it is probable that any future economic benefit associated with the item of revenue will flow to the entity (seller), and the amount of revenue can be measured with reliability

During audit of OGDCL for the FY 2020-21, it was observed that there was a huge difference in account receivables as stated in final accounts and confirmed by SSGC and SNGPL. This difference is stated below:

(Rs in million)

Company	FY	Account Receivable as per Books	Balance Confirmed by Customers	Difference
SSGC	2017-18	78,013.372	77,350.739	662.633
SSGC	2018-19	111,511.671	111,255.767	255.904
SSGC	**2019-20**	**143,203.445**	**142,753.796**	**449.649**
SNGPL	2017-18	47,108.297	46,625.963	482.334
SNGPL	2018-19	83,768.331	83,137.966	630.364
SNGPL	**2019-20**	**125,287.369**	**125,199.606**	**87.763**
			Total (FY 2019-20)	**537.412**

Audit is of the view that due to poor financial management, excess receivables were shown which impaired the true and fair view of financial statements.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021, stated that the auditors had accumulated three years reconciliation differences and reported it as differences of Rs 2.568 billion. The differences in balances reported and confirmed by customers were routine as there were cheques in transit and accruals maintained at closing periods. These differences had no financial impact as accounts were adjusted for actual invoices and payments.

The DAC in its meeting held on January 12 & 13, 2022 directed the management to get the accounts reconciled and share the outcomes with Audit. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1534]

2.2.4.18 Non-deposit of EOBI contribution in respect of third party employees / daily wagers - Rs 536.23 million

According to Section 4 of Employees Old Age Benefits Act, 1976, every industry or establishment wherein ten or more persons are employed, directly or through any other person, whether on behalf of himself or any other person, or were so employed on any day during the preceding twelve months, According to Section 13(1) of Employees Old Age Benefits Act, 1976, if any employer fails to pay the amount so payable by him shall be increased by such percentage or amount as may be prescribed: Provided that in no case shall such increase exceed fifty percent of the amount due. Furthermore, according to the Employees' Old Age Benefits (Contributions) Rules, 1976, if the employer fails to deduct the employee's contribution or pay contribution on due date, the amount payable, shall be increased by two per cent of such amount for every month or part of a month for which the amount is in arrears.

During audit of OGDCL for the FY 2020-21, it was observed that:

i. The management failed to deduct and deposit EOBI employee contribution and its own (employer) contribution in respect of employees hired on work charge / daily wages basis and through third parties' contractors. This resulted in non-deposit of contribution amounting to Rs 502.843 million.

ii. The management also failed to deduct and deposit EOBI employee contribution and its own (employer) contribution in respect of 2,450 local guards. This resulted in non-deposit of contribution amounting to Rs 33.390 million.

Audit is of the view that the management did not discharge its statutory duty of depositing the employee wise contribution to EOBI to the disadvantage of the low paid employees.

The matter was reported to the management in October, 2021. The management, in its reply dated December 29, 2021, stated that the matter of EOBI of daily wages employees was sub-judice with EOBI Tribunal. Further, EOBI never demanded the contribution regarding 3rd party labour. The reply of the management is not tenable as onus for payment of 3rd party contribution lies on OGDCL.

The DAC in its meeting held on January 12 & 13, 2022 directed the management to pursue the case vigorously and seek clarification regarding onus of payment of 3rd party contribution from EOBI. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides fixation of responsibility.

[DP No. 1539]

2.2.4.19 Irregular exemption due to non-maintenance of software under SRO 678(I)/2004 - Rs 497.106 million

According to Condition viii of SRO 678(1)/2004, dated August 07, 2004, each importer or E&P company shall develop software within a period of one year from the date of issuance of said notification and shall establish an online connection with the Customs authorities for regulating the imports made under this notification.

During audit of OGDCL for the FY 2020-21, it was observed that management failed to develop the software as required under SRO ibid. The company imported goods having value of Rs 1,549.438 million and got cleared after availing exemption of duties & taxes amounting to Rs 497.106 million as detailed below under SRO ibid. As per condition of SRO ibid, E&P Company was required to develop an online connection with the Customs authorities for regulating the import made under this notification.

(Rs in million)

Sr. No.	Total No of GDs	Total value of imported goods	Statutory duty& taxes	Exempted duty& taxes	Paid duty & taxes
1	494	1,549.438	788.802	497.106	291.696

The company has not developed software as required under the law and has been availing the exemption of Customs Duty since 2004 by violating the condition of SRO since 2004. This resulted in irregular import and exemption of duty amounting to Rs 497.106 million.

Audit is of the view that non-compliance of SRO by management resulted in non-development of software to regulate Customs Duty.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021, stated that the matter had also been taken up by the PPEPCA (Pakistan Petroleum Exploration and Production Companies Association) with Ministry of Energy and FBR. The reply of the management is not tenable, as the subject SRO was in vogue and was required to be complied with.

The DAC in its meeting held on January 12 & 13, 2022 directed the management to pursue the case regarding development of software with FBR through Petroleum Division. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1519]

2.2.4.20 Non-realization of GIDC on sale of natural gas to M/s E-Gas - Rs 487.610 million

According to Section 3 of Gas Infrastructure Development Cess Act, 2015, the Cess shall be levied and charged by the Federal Government from gas consumers, other than the domestic sector consumers, or the company at the rates specified in the Second Schedule to this Act. The gas company shall be responsible for billing Cess to gas consumers, its collection from gas consumers, and its onward payment to the Federal Government.

During audit of OGDCL for the FY 2020-21, it was observed that OGDCL sold natural gas from Dhurnal, Rajian and Ratana to M/s E-Gas during October, 2015 to June, 2021. According to the Memorandum of Association of the M/s E-GAS, "company was carrying on the business of selling Compressed Natural Gas (CNG) for automotive vehicles – both wholesale and retail". However, the company did not bill and collect GIDC on sale of natural gas provided in Second Schedule of the GIDC Act, 2015. This resulted in non-realization of GIDC to the extent of Rs 487.610 million.

Audit is of the view that weak internal controls resulted in non-collection of GIDC amounting to Rs 487.610 million.

The matter was reported to the management in October, 2021. The management, in its reply dated December 29, 2021, stated that prior to June, 2014, OGDCL was not included in First Schedule of GIDC Act, 2011 and was

only inserted through amendment dated June 26, 2014. The reply of the management is not tenable as the management failed to collect GIDC after inclusion of OGDCL in GIDC Act, 2015.

The DAC, in its meeting held on January 12 and 13, 2022, directed the management to seek clarification from DG (Gas) regarding application of GIDC Act and share the outcomes with Audit within a month. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1516]

2.2.4.21 Un-justified expenditure on Plug & Abandoned Well - Rs 437 million

According to Rule 5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, 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. The principle shall be adhered to, especially with respect to handling of public funds, assets, resources and confidential information by directors, executives and employees and claiming of expenses.

During audit of OGDCL for the FY 2020-21, it was observed that on the request of OGDCL management, Petroleum Division vide its letter dated October 23, 2018 declared Jand Well No. 02 as plugged and abandoned. Further, Production Department had already requested for de-hiring of land of Jand Well No. 02 vide its letter dated May 02, 2017. Therefore, rig was shifted on July 28, 2017 from the well. However, the management did not de-hire the land in time. Further, the management also incurred expenditure on the well under several heads of accounts including supplies, crop compensation, depreciation of plant etc., during FYs 2019-21. This resulted in un-justified expenditure amounting to Rs 436.798 million on plugged and abandoned well.

Audit is of the view that ineffective management and financial practices resulted in unjustified expenditure of Rs 436.798 million on plugged and abandoned well.

The matter was reported to the management in October, 2021. The management, in its reply dated December 29, 2021, requested to share break-up

of the expenditure to submit reply. The reply of the management is not tenable as break-up of expenditure was provided with audit observation.

The DAC, in its meeting held on January12 and 13, 2022, directed the management to submit revised reply with item-wise justification to Audit. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides developing comprehensive SOPs to avoid such instances in future.

[DP No. 1489]

2.2.4.22 Non-withholding of Sales Tax - Rs 347.606 million

According to Rule 3(4) of The Balochistan Sales Tax Special Procedure (Withholding) Rules, 2018, a withholding agent shall, on receipt of taxable services from un-registered person, deduct the amount of Sales Tax, at the tax rate applicable to the taxable services provided or rendered to him, from the amount invoiced or billed or demanded or charged by such un-registered service provider.

During audit of OGDCL for the FY 2020-21, it was observed that management did not withhold / deduct Sales Tax on services while making payment for security service as detailed below:

(Rs in million)

Sr. No.	Description	Value of Service	BST payable
1	FCSS Payment	1,208.885	181.332
2	Vehicles Hire Charges	537.676	80.654
3	Vehicle maintenance charges	15.794	2.368
4	Security Services	382.756	57.413
5	Local Guard	172.266	25.839
	Total	**2,317.377**	**347.606**

The company was required to withhold / deduct Sales Tax from payment regarding vehicle hire charges, vehicles maintenance charges, Frontier Core Security Services payments, security services and local guards. This resulted in non-withholding of Sales Tax amounting to Rs 347.606 million.

Audit is of the view that due to weak financial control, Sales Tax on taxable services received by the company was not withheld / deducted from payments made to the service provider.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021 stated that OGDCL had security contract with Inspector General Frontier Corps (IGFC) Balochistan, North & South for providing security services to the company's men & material in Balochistan. As per contract, OGDCL did not make payments directly to local guards, vendors of hired vehicles etc. The reply of the management is not tenable as payments made for ibid services were taxable as per Provincial Sales Tax law.

The DAC in its meeting held on January 12 & 13, 2022 directed the management to seek clarification regarding applicability of Provincial Sales Tax on payments regarding vehicle hire charges, vehicle maintenance charges and FCSS charges made to FC Balochistan from Provincial Revenue Authorities. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1541]

2.2.4.23 Non-recovery of insurance claims - Rs 285 million

According to Rule 5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, the principle of probity and propriety entails that a company's assets and resources are not used for private advantage and due economy is exercised to reduce wastage. The principle shall be adhered to, especially for handling public funds, assets, resources, and confidential information by directors, executives, and employees and claiming expenses.

During audit of OGDCL for the FY 2020-21, it was observed that the management filed insurance claim with National Insurance Company Ltd. in 2002. An amount of Rs 285 million (US$ 1.73 million) was outstanding against the insurer despite lapse of long time.

Audit is of the view that weak internal controls resulted in non-recovery of insurance claims amounting to Rs 285 million.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021 stated that matter for release of the outstanding insurance claim was being pursued vigorously with M/s NICL and settlement was expected soon.

The DAC in its meeting held on January 12 and 13, 2022 directed the management to pursue the recovery of insurance claim with M/s NICL. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides improving internal controls.

[DP No. 1512]

2.2.4.24 Non-deposit of unclaimed dividend in Government Account - Rs 209.503 million

According to Section 244 of the Companies Act, 2017, where dividend declared by a company remains unclaimed or unpaid for a period of three years from the date it is due and payable, the company shall give ninety days notices to the shareholders to file claim. If no claim is made by the shareholder, the company shall, after ninety days from the date of publication, deposit any unclaimed or unpaid amount as well as the proceeds from the sale of shares to the Federal Government in a profit bearing account with the State Bank of Pakistan or National Bank of Pakistan to be called "Companies Unclaimed Instruments and Dividend and Insurance Benefits and Investors Education Account" and shall be deemed to be part of public accounts and interest / profit accumulated thereon shall be credited on quarterly basis to the Fund.

During audit of OGDCL for the FY 2020-21, it was observed that the company showed unclaimed dividend under current liabilities in the Financial Statements during last five FYs as follows:

(Rs in million)

FYs	Unclaimed Dividend
2016-17	577.224
2017-18	319.706
2018-19	213.785
2019-20	210.970
2020-21	209.503

The Company neither took adequate actions relating to unclaimed dividend as provided in the above Act nor deposited the amount to Federal Government.

Audit is of the view that weak financial management practices resulted in non-deposit of unclaimed dividend of Rs 209.503 million to Federal Government.

The matter was reported to the management in November, 2021. The management, in its reply dated December 29, 2021, stated that unclaimed

dividend was kept in separate account and claims were being adjusted as and when shareholders approached for payment of their claims. Moreover, the issue was also being pursued with SECP. The reply of the management is not tenable as Section 244 of Companies Act, 2017 clearly states that unclaimed dividend "shall" be deposited to Federal Government which has not been done by management.

The DAC in its meeting held on January 12 and 13, 2022 directed the management to get the stated stance verified from Audit besides pursuing the case with SECP with reference to Section 244 of the Companies Act, 2017. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1690]

2.2.4.25 Non-booking of liabilities regarding unpaid land rent - Rs 177.847 million

International Accounting Standard-1 (IAS) sets out the fundamental principles for the preparation of financial statements, including the going concern assumption, consistency in presentation and classification and the accrual basis of accounting. IAS-1 requires that an entity prepares its financial statements, except for cash flow information, using the accrual basis of accounting.

During audit of OGDCL for the FY 2020-21, it was observed that the management did not book the liability against land rent in respect of Pirkoh and Lotti Field since 2007. The land was under use of the company but neither the rent was paid nor the liability was booked. The expense was charged to profit and loss account on 30th June every year by booking accruals which were reversed without making any payment on this account during the next financial year. This resulted in non-booking of liability of Rs 177.847 million in violation of IAS.

Audit is of the view that poor financial management resulted in non-booking of liability of Rs 177.847 million.

The matter was reported to the management in October, 2021. The management, in its reply dated December 29, 2021, stated that a meeting was held with Senior Member, Board of Revenue and DC, Dera Bugti. In the

meeting, Deputy Commissioner, Dera Bugti ensured that the revenue record would be forwarded to OGDCL after determination of land ownership. The accrued liability was being regularly booked in the books of accounts. The reply of the management is not tenable as record provided to Audit did not show the booking of liability.

The DAC in its meeting held on January 12 and 13, 2022 directed the management to get the stated stance verified from Audit. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1488]

2.2.4.26 Non-deduction of PST of Rs 158.154 million from un-registered service provider and excess payment - Rs 94.576 million

According to Sindh Sales Tax Special Procedure (Withholding Rules) 2011, a withholding agent shall on receipt of taxable services from unregistered person, deduct Sales Tax at the applicable rate of the value of taxable services provided or rendered to him from payment due to the service provider. Furthermore, according to Clause 5.2 of contract dated March 11, 2013, any taxes, duties, fee, levies and other relevant charges, present or future, assessed or payable in Pakistan by the contractor in connection with its performance under the contract shall be exclusive responsibility of the contractor

During audit of OGDCL for the FY 2020-21, it was observed that:

i. Management did not withhold PST from M/s Sprint Oil & Gas Co who was not registered with the Provincial Revenue Authorities. Further scrutiny of record revealed that the claim of input tax against which no tax had been deposited caused additional loss of Rs 158.154 million to the exchequer; and

ii. Management paid PST over and above the contract value in violation of the Clause of the contract. Management entered into two contracts with M/s Sprint Oil & Gas Services. These contracts were inclusive of all taxes including PST but management paid PST amounting to Rs 148.576 million over and above the contract value. Later on, management deducted the overpaid amount to the extent of Rs 54 million only from the running bills but failed to deduct excess paid amount of Rs 94.576 million.

Audit is of the view that due to weak financial controls; management did not deduct an amount of Rs 158.154 million from un-registered service provider and paid an excess amount of Rs 94.576 million aggregating to Rs 252.730 million.

The matter was reported to the management in October, 2021. The management, in its reply dated December 29, 2021, stated that Sales Tax paid over and above contract price was also recovered from subsequent payments to the contractor. The reply of the management is not tenable as invoice-wise calculation showed Sales Tax was not withheld during period when service provider was un-registered with the Provincial Tax Authorities and excess payment was made to the contractor.

The DAC in its meeting held on January 12 and 13, 2022 directed the management to get the invoice wise amount reconciled with Audit from the date of applicability of PST. No further progress was reported till the finalization of this report.

Audit recommends to recover pointed out amount and deposit the same in Government treasury.

[DP Nos. 1544 & 1546]

2.2.4.27 Short-withholding of Income Tax due to non-inclusion of expense in salary slab - Rs 87.182 million

According to Sections 12 and 13 of Income Tax Ordinance, 2001, any salary received by an employee in a tax year, other than salary that is exempted from tax under this Ordinance, shall be chargeable to tax in that year under the head "Salary". Salary means any amount received by an employee from any employment, whether of a revenue or capital nature, including any pay, wages or other remuneration provided to an employee, including leave pay, payment in lieu of leave, overtime payment, bonus, commission, fees, gratuity or work condition supplements such as for unpleasant or dangerous working conditions any perquisite, whether convertible to money or not, the amount of any allowance provided by an employer to an employee including a cost of living, subsistence, rent, utilities, education, entertainment or travel allowance, but shall not include any allowance solely expended in the performance of the employee's duties of employment

During audit of OGDCL for the FY 2020-21, it was observed that management did not add the expenses under heads namely Scholarship of Employee Children, Messing Allowance, H_2S Allowance and subsidized lunch in the salary slab for the purpose of calculation of Income Tax in violation of the law ibid. This resulted in short-deduction of Income Tax amounting to Rs 87.182 million as detailed below:

(Rs in million)

Description	Amount Paid	Amount included in tax slab	Amount not included in tax slab	Income Tax payable
H_2S Allowance - Officers	4.831	-	4.831	0.724
H_2S Allowance - Staff	45.771	-	45.771	6.865
H_2S Allowance – Work charge	0.388	-	0.388	0.058
H_2S Allowance - Staff (Contract)	3.805	-	3.805	0.570
H_2S Allowance - Officers (Contract)	0.121	-	0.121	0.018
Messing Allowance-Officer	62.925	-	62.925	9.438
Messing Allowance-Staff	374.764	-	374.764	56.214
Messing Allowance-Expatriate	49.860	-	49.860	7.479
Messing Allowance - Officers (Contract)	0.927	-	0.927	0.139
Messing Allowance - Staff (Contract)	16.093	-	16.093	2.414
Scholarship For Employee's Children	96.395	94.337	2.057	0.308
Subsidized buffet lunch	19.670	-	19.672	2.955
Total	**675.551**	**94.337**	**581.214**	**87.182**

Audit is of the view that due to weak financial controls, expenses were not included in the salary slab and Income Tax amounting to Rs 87.182 million could not be deducted.

The matter was reported to the management in October, 2021. The management, in its reply dated December 29, 2021, stated that the definition of Salary in Income Tax Ordinance clearly excluded any allowance that was solely expended in the performance of duties of employment, hence, Messing and H_2S allowances were exempted from tax. The scholarship to employee's children was added to the taxable income of employees in the year under reference and was accordingly charged to tax in accordance with law. The reply of the management

is not tenable as these expenses were not expended in performance of duty of employments rather H_2S allowance was paid for un-pleasant working conditions. Messing allowance and subsidized lunch were also additional benefit given to employees. Further. the record provided for audit scrutiny did not show the inclusion of scholarship to employee children in salary slab.

The DAC in its meeting held on January 12 and 13, 2022 directed the management to seek clarification from FBR in the light of audit observation and get the stated stance regarding scholarship to employees' children verified from Audit. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1545]

2.2.4.28 Excess payment to security agency - Rs 83.159 million

According to Para 8 of contract for provision of security, charges for POL consumed for convoy protection up to Jacobabad will be paid in addition to the POL mentioned in Para 8d(1) as per actual consumption. The company will be responsible to provide/payment of agreed quantities of POL as per current market rate during the month. Further, as per Rule 5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, 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. The principle shall be adhered to, especially with respect to handling of public funds, assets, resources and confidential information by directors, executives and employees and claiming of expenses.

During audit of OGDCL for the FY 2020-21, it was observed that management paid an excess amount of Rs 83.159 million to security agency in the following cases;

i. Management paid an excess amount of Rs 10.724 million on account of fixed quantity of 2000 litres per month for escort in contravention of the relevant clause of the agreement. As per agreement, POL charges for escort were required to be paid on actual consumption basis in addition to POL mentioned in Para 8 d(1);

ii. Management paid an excess amount of Rs 10.656 million on account of monthly POL charges at rates which were found over and above the

market rates during the respective month. As per agreement, management was required to pay monthly POL charges at the market rate of the respective month;

iii. An amount of Rs 2.266 million was paid on account of security charges for the whole month of September, 2019. The Chief of the party conducting the survey intimated vide letter dated September 16, 2019 about the successful completion of the projects on September 11, 2019. Similarly, base Camp was shifted from Sui (Zorgarh) to Chak No. 128 E.B, Burewala for next assignment on September 15, 2019; and

iv. An excess amount of Rs 59.962 million was paid in respect of Bela North project. Bela North 2D seismic survey was completed on November 13, 2020 but payment was made up to December 31, 2020. As per agreement, this contract was executed w.e.f. March 01, 2020 till the completion of the project. Project was completed on November 13, 2020 so payment made for the period falling beyond the completion of the project warrants justification.

Audit is of the view that due to weak internal and financial controls, excess payment amounting to Rs 83.159 million was made to security agency.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021 stated that security escorts were provided by FC Baluchistan to OGDCL seismic parties and rigs. The reply of management is not tenable as excess payment was made to the security agency in violation of the contracts.

The DAC, in its meeting held on January, 12 and 13, 2022, directed the management to verify the point-wise record with Audit. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1548]

2.2.4.29 Non-follow up of FIR regarding theft of assets - Rs 68.632 million

According to Para 3.1 & 3.4 of Code of Conduct of OGDCL, the Directors and employees of the company seek to protect the company assets and

adhere in letter and spirit to all laws and conform to the accepted standard of good corporate governance.

During audit of OGDCL for the FY 2020-21, it was observed that management failed to pursue the FIRs regarding theft of company assets and consumable as detailed below;

i. The FIR No. 258/20 dated October 07, 2020 was got registered at Police Chowky Changila, Tehsil Jand regarding theft of well fencing, scrap material, pipe and angles from well No. 05 (Dhakni). The senior security guard submitted report to Plant Manager that truck loaded with theft material i.e., fencing material, net, angles was caught by Police. This material was relating to EFP 3 and Dhakni well. But no further progress was found on the face of record;

ii. The FIR No. 125/19 dated February 27, 2019 was got registered at Police Station Gujjar Khan, District Rawalpindi, regarding theft of crude oil during transportation from Rajian Oil Field to Attock Oil Refinery. The stolen crude oil was filled at private setup at Gujjar Khan. OGDCL received information that tanker No. RIN 9659 filled with crude oil was moving from Gujjar Khan to Dena. On tracing, the OGDCL team reached illegal point where another tanker No. XA-899 was also found. Beside above two tankers, seals of 17 tankers relevant to Rajian field and 3 seals related to PPL' field were also found and taken in custody by Police along with five culprits. Later on, the case was withdrawn by management for unknown reasons despite availability of valid evidences; and

iii. Theft of HSD was done by driver while delivering HSD at Rig N-4 from PSO bouzer No. TTD-194. The bouzer was fitted with hidden theft line directly from main tank to reserve tank installed behind the driver cabin. The hidden tank was found during decanting at rig site. Management stated that driver admitted the theft. Later on, management stated that incident has been informed to police but driver and helper escaped. Management did not ascertain the actual loss by identifying the locations at which bouzer TTD-194 delivered HSD.

Audit is of the view that due to weak internal controls and follow up, the management could not make good of the loss on account of theft of Rs 68.632 million.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021, stated that FIR at Sr. No. i & iii of the para was being pursued. FIR at Sr. No. ii had been withdrawn due to non-establishment of the theft charges.

The DAC in its meeting held on January 12 & 13, 2022 directed the management to get the stated stance at Sr. No. ii verified from Audit and pursue the remaining cases vigorously. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides developing SOPs regarding follow up of theft cases.

[DP No. 1718]

2.2.4.30 Loss due to non-dehiring of excess land - Rs 34.776 million

As per Article 5 of Procedure for well closing / abandoning a drilling well site issued vide No. AAO-107-32 dated September 21, 1988, a committee namely Well Site Closing Committee will be constituted. Further, according to Article 6.2 of SOP ibid, the committee will negotiate with the land owners for the settlement of terms for de-hiring of land. Efforts will be made to offer the structure including the civil works and unserviceable material at the site to the land owner as compensation for land, clearing, levelling and bringing the site in original shape. Clearance in the terms of settlement agreed with the land owner will be sought to Principal Land Management Committee. Furthermore, as per Article 6.5 of ibid, immediately after vacation / levelling the area in proper shape, representative of the land management section will formally de-hire and hand-over the land to the land owner.

During audit of OGDCL for the FY 2020-21, it was observed that 805 acres of land was required to be de-hired by December, 2020 but the Land Management Committee failed to de-hire the land. This resulted in extra payment of land rent amounting to Rs 34.776 million.

Audit is of the view that due to weak internal controls, excess land could not be de-hired which resulted in loss of Rs 34.776 million.

The matter was reported to the management in October, 2021. The management, in its reply dated December 29, 2021, stated that 480 acres out of 805 acres pertained to Pirkoh and was not required. The same had been communicated to Deputy Commissioner, Dera Bugti. The remaining land was still under use / possession of OGDCL. The reply of the management is not tenable as the same piece of land was recommended for de-hiring by the Land Management Committee.

The DAC in its meeting held on January 12 and 13, 2022 directed the management to expedite the process of de-hiring of land. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides fixing responsibility for failure in de-hiring the land in time.

[DP No. 1547]

2.2.4.31 Un-justified payment to suppliers on account of Material in Transit - Rs 28.775 million

According to Note No. 4.8 of Notes to Financial Statement of OGDCL, stores, spare parts and loose tools are valued at the lower of cost and net realizable value less allowance for slow moving, obsolete and in transit items. Cost is determined on the moving average basis and comprises cost of purchases and other costs incurred in bringing the inventories to their present location and condition. Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred in order to make a sale. Materials in transit are stated at cost comprising invoice value and other charges paid thereon.

During audit of OGDCL for the FY 2020-21, it was observed that in 51 cases, management made full payment to the vendor against receipt of short quantity of material. Most of the items were shown as ‘Material in Transit’. Supply of the items was not made but the management did not take any action for supply of the items or recovery of the excess payment. This resulted in excess payment of Rs 28.775 million to the suppliers.

Audit is of the view that due to weak inventory control, un-justified payment amounting to Rs 28.775 million was made to vendors / suppliers without receipt of goods.

The matter was reported to the management in October, 2021. The management, in its reply dated December 29, 2021, stated that the MIT balance was not necessarily due to short / non-delivery but it could also appear due to multiple reasons including wrong feeding of Purchase Order in system, incorrect destination entered in Oracle, invoices submitted by vendor were not exactly as per Purchase Order, supply of superseded part numbers by the vendor etc. The reply of the management is not tenable as the management made payments to the vendors / suppliers without receiving stipulated quantity of items or if, at all, it was clerical mistake in the record, management should have rectified the same in time.

The DAC, in its meeting held on January 12 & 13, 2022, directed the management to get the stated stance verified from audit and expedite the reconciliation of cases. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1720]

2.2.4.32 Loss due to delayed claim of input Sales Tax - Rs 21.179 million

According to Section 7 of the Sales Tax Act, 1990, for the purpose of determining his tax liability in respect of taxable supplies made during a tax period, a registered person shall be entitled to deduct input tax paid or payable during the tax period for the purpose of taxable supplies made, or to be made, by him from the output tax that is due from him in respect of that tax period, provided that where a registered person did not deduct input tax within the relevant period, he may claim such tax in the return for any of the six succeeding tax periods.

During audit of OGDCL for the FY 2020-21, it was observed that in 308 cases, the management did not claim input Sales Tax within prescribed period, therefore, the amount could not be adjusted against the output tax. The company paid Sales Tax against these invoices to respective supplier but did not claim input tax. This resulted in loss to company for Rs 21.179 million.

Audit is of the view that weak financial controls resulted in non-adjustment of input tax causing loss of Rs 21.179 million.

The matter was reported to the management in October, 2021. The management, in its reply dated December 29, 2021, stated that OGDCL operations were spread all over Pakistan, mostly in remote and hard areas, thus, input Sales Tax could not be adjusted within permissible time limit of 6 months. The reply of management is not tenable as the management should have devised a plan to claim the input tax within 6 months of payment of output tax.

The DAC, in its meeting held on January 12 and 13, 2022, directed the management to fix the responsibility on persons at fault besides strengthening the internal controls to avoid such lapses in future.

Audit recommends to implement the decision of DAC.

[DP No. 1515]

2.2.4.33 Loss due to non-deduction of Income Tax - Rs 14.112 million

According to Section 153(1) (a) of the Income Tax Ordinance, 2001, every prescribed person making payment in full or part including a payment by way of advance to resident for sale of goods including toll manufacturing, except where payment is less than seventy-five thousand Rupees in aggregate during a financial year, shall deduct tax from gross amount payable. Further, according to Section 182(15) of the Ordinance ibid, any person who fails to collect or deduct tax as required under any provision of this Ordinance or fails to pay the tax collected or deducted as required under Section 160, such person shall pay a penalty of forty thousand rupees or the 10% of the amount of tax which-ever is higher.

During audit of OGDCL for the FY 2020-21, it was observed that management failed to deduct / withhold Income Tax from payments of over Rs 75,000 to suppliers. The management paid an amount of Rs 285.088 million to various suppliers at its 73 field locations from imprest account without observing the provision of the Ordinance ibid. This discrepancy occurred due to non-booking of purchases against the respective suppliers' accounts and resulted in non-deduction of Income Tax amounting to Rs 14.112 million.

Audit is of the view that weak financial controls resulted in non-deduction / non-withholding of Income Tax of Rs 14.112 million.

The matter was reported to the management in October, 2021. The management, in its reply dated December 29, 2021, stated that suppliers referred

to were not major / regular suppliers of the company and only petty purchases were made on emergent basis. The reply of management is not tenable as Income Tax should have been deducted from the payment exceeding Rs 75,000 to each supplier which was not done.

The DAC, in its meeting held on January 12 and 13, 2022, directed the management to make efforts for recovery and ensure future supplies from registered suppliers and deduction of Income Tax. No further progress was reported till finalization of this report.

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

[DP No. 1510]

2.2.4.34 Non-deduction of Professional Tax - Rs 2.204 million

According to Section 3(1) of the Sindh Finance Act, 1964, Section 11(1) of the Balochistan Finance Act, 1964 amended vide Section 2 Clause (b)(i), of the Balochistan Finance Act, 2018 and Section 7(1) of the Khyber Pakhtunkhawa Finance Act, 1990, amended vide the Khyber Pakhtunkhawa Finance Act, 2019, there shall be levied and collected a professional tax, for each financial year, from persons engaged in professions, trades, calling or employment at the specified rates.

During audit of OGDCL for the FY 2020-21, it was observed that the management was required to deduct Professional Tax from the salaries of 4,638 employees of OGDCL working in Sindh, Balochistan, Khyber Pakhtunkhawa and deposited the same in provincial treasuries. However, the management did not deduct / withhold tax from the salaries of these employees. This resulted in loss of Rs 2.204 million to the provinces**.**

Audit is of the view that weak internal and financial controls resulted in non-deduction of Professional Tax amounting to Rs 2.204 million from the salaries of employees.

The matter was reported to the management in October, 2021. The management, in its reply dated December 29, 2021, stated that the Professional Tax was deducted and deposited with relevant provincial authorities. The management requested Audit to provide list of employees from whom tax had

not been deducted so far. The reply of the management is not tenable as the list of employees has already been shared with the management.

The DAC, in its meeting held on January 12 and 13, 2022, directed the management to recover / reconcile the deducted Professional Tax and share the outcomes with Audit. No further progress was reported till finalization of this report.

Audit recommends to implement the DAC directives besides strengthening of controls to avoid such discrepancy in future.

[DP No. 1514]

2.3 Pakistan Petroleum Limited

2.3.1(A) Introduction

Pakistan Petroleum Limited (PPL) is one of the oldest Exploration and Production (E&P) companies in the country. It was incorporated on June 05, 1950 after 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. The Company's current exploration and production portfolio is spread across Pakistan with international presence in UAE, Iraq and Yemen. PPL also holds mineral rights in Balochistan through Bolan Mining Enterprises, a 50:50 joint operation between PPL and Government of Balochistan. The Company has three wholly owned subsidiaries: PPL Europe E&P Limited (PPLE), PPL Asia E&P B.V. (PPLA) and Pakistan Petroleum Provident Fund Trust Company (Private) Limited (PPPFTC). In 2020-21, a new company was formed with the name of Pakistan International Oil Limited by PPL, OGDCL, MPCL and GHPL, each subscribing 25% share capital. The company is formed for exploration activities in UAE.

The company's shareholding is divided between the Government of Pakistan which owns about 68 percent shares of the company and PPL Employees Empowerment Trust with 7 percent and private investors with nearly 25 percent of shares.

(B) Comments on Company Performance

The performance of the company in terms of profitability remained impressive during the year with 58% Gross Profit Ratio, 35% Net Profit Ratio and 13% Return on Equity. The liquidity position of the company is also strong as indicated by the Liquidity Ratio of 4:36 and Current Ratio of 4:42. However, despite the good liquidity position the company's debtor turnover ratio is alarming as it stood 0.61 times which means the average collection period of the company is 600 days, which needs attention of the management. EPS for the year remained Rs 19.27 per share.

The comparison of production and sale of hydrocarbons by PPL for the last six years is as under:

Six Years comparison of Production and Exploration

Hydrocarbon	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16
Natural Gas production (MMCF)	276,309	283,792	317,457	323,007	329367	306,604
Condensate (“000” BBL)	715	781	792	737	383	70
Oil / NGL production (“0000” BBL)	4,417	4,361	5,076	5,058	5,565	5,353
LPG Production (M.Tons)	115,835	107,114	116,723	95,332	81267	66,597

(* Oil/ NGL producing wells are also included in the total of natural gas producing wells, as these are gas and oil producers)

Sales of Hydrocarbon

Hydrocarbon	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16
Natural Gas Sales (MMCF)	237,187	246,619	278,296	284,828	288,483	269,476
Oil/NGL Sales (thousands BBL)	5,141	5,061	5,753	5,948	5,948	5,282
LPG Sales (M.Tons)	115,601	107,421	117,194	81,038	81,038	66,482

The Sui Mining Lease expired on May 31, 2015. During May, 2016, a Memorandum of Agreement (MoA) was executed between the GoP and the Government of Balochistan (GoB) for grant of Development & Production Lease (D&PL) to the Company over the Sui gas field, with effect from June 01, 2015. The MoA was approved by the Economic Coordination Committee (ECC) of the Cabinet on December 13, 2016. Currently, the GoP has allowed the company to continue production from the Sui gas field, the most recent being dated May 27, 2021, thus permitting the Company to continue producing gas from Sui field for a further period of one year with effect from the expiry of existing lease period i.e., May 31, 2021.

Production and sales of hydrocarbons are constantly decreasing in volume whereas sales amount has increased due to effect of foreign exchange because

crude oil prices are linked to a basket of Middle East crude oil prices (Brent in US Dollar). Declining exploration leads inventory (unexplored) in portfolio and major fields are mature and experiencing natural decline / depletion. PPL is also facing the problems of security issues and high costs in frontier areas, low off-takes by GENCO-II from Kandhkot, low prices of oil and gas in Adhi, Kandhkot and Sui fields and legal / commercial challenges such as renewal of Sui Gas Field and litigation with BYCO.

2.3.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 10,201.796 million were raised in this report during the current audit of PPL, that also includes recoverable amount of Rs 3,071.199 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Management Related Irregularities	6,823.901
B	Procurement Related Irregularities	306.696
2	Others	3,071.199

2.3.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	% age of Compliance
2009-10	2	2	-	100
2010-11	9	1	8	11
2011-12	6	3	3	50
2012-13	4	1	3	25
2013-14	8	5	3	62
2014-15	11	3	8	27
2015-16	6	6	-	100
2016-17	9	5	4	55
2018-19	29	15	14	52
2019-20	01	0	01	-
Total	**85**	**41**	**44**	**48**

The overall compliance of PAC directives needs to be improved.

Audit Paras

Management Related Irregularities

2.3.4.1 Loss of revenue due to less off take by the GENCO-II - Rs 6,678 million

According to Clause 6.1 of Gas Sales Agreement for Kandhkot Gas Field executed between Pakistan Petroleum Limited (Seller) and Central Power Generation Company Limited (Buyer) on October 23, 2017, the seller will supply 180 MMSCFD of specification gas which will gradually be increased to 200 MMSCFD per Contract Year.

During audit of PPL for the FY 2020-21, it was observed the GENCO-II took less quantity than the quantity agreed in Gas Sales Agreement for Kandhkot Gas Field. The company did not initiate action under the GSA such as issuance of notices to GENCO-II and placing the matter before appropriate fora for resolving the matter. Further, the management made no effort for selling of surplus gas to other party after fulfilling all legal formalities. Company sustained revenue loss of Rs 6,678 million during FY 2020-21 due to lower off take by GENCO-II. Further, due to less realization of revenue, Royalty of Rs 834.876 million was also not realized.

Audit is of the view that weak contract management resulted in loss of revenue of Rs 6,678 million due to less off take by the GENCO-II.

The matter was reported to the management in August, 2021. The management in its reply dated January 17, 2022 explained that the current gas production potential of the field is 200 MMCFD, while GENCO-II offtake was 71 MMCFD since July, 2021. Kandhkot Gas Field had the potential to provide 70 MMCFD to 100 MMCFD of surplus gas to an alternate buyer. The management further explained that the matter had already been taken up with the Ministry for resolution of the case. Audit contended that allocation of gas to alternate buyer is vital due to the reason that optimum production from the field will benefit the company.

The DAC in its meeting held on January 21, 2022 directed the management to pursue the case with DG (Gas) vigorously. No further progress was reported till finalization of this report.

Audit recommends to adopt remedial measures and to pursue the case with DG (Gas) vigorously.

[DP No. 1727]

2.3.4.2 Loss due to sale of natural gas under EWT arrangements - Rs 145.901 million

According to Section 4.1.6(3) of Petroleum Exploration and Production Policy, 2012, where the specification and quality of the gas from an approved Extended Well Testing (EWT) is acceptable to the buyer, the gas price shall entail a 5% discount from the applicable gas price for on spec gas and 10% for off spec gas for that Zone. Further, under the relevant Petroleum Policies and Rules, Royalty at the rate of 12.5% of value of Petroleum produced and saved is payable by the E&P companies to Federal Government which is transferred by the Federal Government to the Provincial Government.

During audit of PPL for the FY 2020-21, it was observed that management executed EWT Gas Sale Agreement in 2017 with M/s E-Gas for sale of gas from Kabir X-I well (Gambat South Block). It was mutually agreed that price of gas would be US$ 2.5330/MMBTU, which was 45% lower than the applicable price. It was also decided that if production continued beyond the six months, then the discount of 45% will be reduced to 35% and thereafter to 25%. The offering of discount ranging from 45% to 25% beyond the prescribed limit of 5% to 10% resulted in loss of Rs 122.369 million to the company and loss of Royalty amounting to Rs 23.532 million to the Sindh province aggregating to loss of Rs 145.901 million.

Audit is of the view that poor management practices resulted in loss of Rs 145.901 million on account of inadmissible discount on sale of gas and loss of Royalty.

The matter was reported to the management in September, 2021. The management in its reply dated January 17, 2022 explained that the produced gas during the EWT had to be processed through Gambat South Gas process plant, which was not acceptable to SSGC. PPL therefore, resorted to the option of sale of Kabir Gas to a third party. The reply is not tenable as company had to suffer loss on account of inadmissible discount on sale of gas and loss of Royalty as well.

The DAC in its meeting held on January 21, 2022 directed the management to get the stated stance verified from Audit. No progress was reported till finalization of this report.

Audit recommends to inquire the matter and fix responsibility besides payment of Royalty to Sindh province.

[DP No. 1725]

Procurement Related Irregularities

2.3.4.3 Irregular award of contract in violation of Public Procurement Rules - Rs 187.097 million

According to Rule 42(c) of Public Procurement Rules, 2004, a procuring agency shall only engage in direct contracting if the prescribed conditions are fulfilled including the condition that the procurement concerns the acquisition of spare parts or supplementary services from original manufacturer or supplier provided that the same are not available from alternative sources and only one manufacturer or supplier exists for the required procurement. However, for this purpose the procuring agencies shall specify the appropriate fora which may authorize procurement of proprietary object after due diligence.

During audit of PPL for the FY 2020-21, it was observed that management awarded contract to M/s Frontier Constabulary Security Services (Pvt.) Ltd. for an amount of Rs 81 million under Rule 42(c) on the plea that security services required by the PPL was only available with the FFCS (Pvt.) Ltd. In another case, the management awarded direct contract for air service to M/s PIAC for an amount of Rs 106.097 million while rejected the bid submitted by M/s ASSL in response to the tender floated by the company. The award of these contracts for an amount of Rs 187.097 million without competitive bidding being violative of PPRA Rules was irregular.

Audit is of the view that weak internal controls and poor procurement management resulted in irregular awards of contracts amounting to Rs 187.097 million.

The matter was reported to the management in September, 2021. The management in its reply dated January 17, 2022 stated that the well sites are located on the remotely outskirts of the province, whereas, drilling services / activities remained operational 24 hours. Drilling services were outsourced

through press tender, where primarily foreign companies participated in Pakistan, so security services became challenge for PPL while the drilling crew of these companies had expats in their team. In such situation, a close liaison of the security company was essentially required with the law enforcement agency to avoid any mishap. The management further, explained that only one bidder submitted their bid in case of requirement of Air Charter services, which was rejected on the ground of non-fulfilling the published evaluation criteria. Other potential bidders in the country didn't participate in the bidding process due to different reasons. The reply is not tenable as contract was awarded in violation of PPRA Rules.

The DAC in its meeting held on January 21, 2022 directed the management to provide the delegation of power to Audit for verification and get the case regularized from BoD. No further progress was reported till finalization of this report.

Audit recommends to regularize the award of contract from competent forum besides improving procurement management to avoid such instances in future.

[DP No. 1721]

2.3.4.4 Unjustified extension of contract to vendors - Rs 80.50 million

As per Rule 42(C) of PPRA Rules, 2004, a procuring agency shall only engage in direct contracting if the procurement concerns the acquisition of spare parts or supplementary services from original manufacturer or supplier and are not available from alternative sources or only one manufacturer or supplier exists for the required procurement.

During audit of PPL for the FY 2020-21, it was observed that after completion of three years contract terms, the management further extended the contract with M/s Weir Oil R. Gas Singapore for wellhead engineering services with a capping value of Rs 35.00 million (US$ 250,000 @ Rs 140). Similarly, the management extended contract with M/s Dowell Schlumberger (Western) S.A. for Well Completion Services for three years with a capping value of Rs 45.50 million (US$ 325,000 @ Rs 140) without resorting to fresh competitive biddings. Further, these contractors were not Original Equipment Manufacturers

(OEMs), therefore, extension in the contracts amounting to Rs 80.50 million was irregular.

Audit is of the view that poor procurement management resulted in irregular award of contracts amounting to Rs 80.50 million.

The matter was reported to the management in August, 2021. The management in its reply dated January 17, 2022 stated that the contracts in question were not supply of goods / materials contract but a services contract for installing the OEM equipment already purchased. Each prequalified vendors / OEMs for Downhole Equipment requires an associated proprietary services contract for "Well Completion Services" i.e., running, installation and commissioning of its supplied "Downhole Equipment". The reply of the management is not tenable as no documentary evidence was provided in support of management claim.

The DAC in its meeting held on January 21, 2022 directed the management to get the stated stance verified from Audit. No progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1729]

2.3.4.5 Loss due to unjustified termination of contract and payment of interest on withheld amount - Rs 39.099 million

According to Clause 10 of contract between Bolan Mining Enterprises, a subsidiary of PPL and Deep Rock Drilling (DRD), if the contractor has not executed the work in accordance with this contract or has persistently or flagrantly neglected his obligations, the company exercises its right of termination under this Clause and shall have no liability whatsoever to the contractor. Liability of contractor to the company shall be equal to the amount which company is required to incur in excess of original contract price to complete the work by itself or by a third party.

During audit of PPL for the FY 2020-21, it was observed that the management paid an amount of Rs 27.718 million to M/s Deep Rock Drilling against out of court settlement on behalf of Bolan Mining Enterprises, a subsidiary of PPL. A drilling contract was executed between M/s DRD and Bolan Mining Enterprises in 2013 which was terminated on May 12, 2014 due

to poor performance in completing the task within stipulated timeline. Meanwhile, contractor resorted to arbitration and it was decided in favour of the contractor by the arbitrator. The management of PPL challenged the decision before the Honourable Sindh High Court but later resorted to out of court settlement. This showed that the management terminated the contract without valid reasons due to which the matter was decided against the company in arbitration and was later settled after payment of Rs 27.718 million. Further, the management paid an amount of Rs 11.381 million to M/s Deep Rock Drilling against interest payment @ 6% on withheld amount against out of court settlement.

Audit is of the view that negligence of management resulted in unjustified payment for out of court settlement and interest on withheld amount causing loss of Rs 39.099 million to the company.

The matter was reported to the management in August, 2021. The management in its reply explained that Bolan Mining Enterprises did not make a payment of Rs 11.381 million as per award rather through settlement, Bolan Mining Enterprises avoided to pay further amounts and saved further litigation cost by paying only Rs 27 million to M/s Deep Rock Drilling which is even less than its withheld amount.

The DAC in its meeting held on January 21, 2022 directed to conduct fact finding inquiry at ministry level and submit a report within one month. No further progress was reported till finalization of this report.

Audit recommends to inquire the matter and fix responsibility besides improving management practices.

[DP No. 1726]

Others

2.3.4.6 Non-deposit of Social Welfare Obligations, Production Bonus and Training Fund -Rs 1,985 million

According to Section 2.3 of Petroleum Policy, 1994, read with Section 2.2.1 to 2.2.6, the Policy offered incentives to E&P companies for adoption of economic package. To exercise this incentive, E&P companies were required to enter into Supplemental Agreements with the Government of Pakistan.

During audit of PPL for the FY 2020-21, it was observed that management executed Supplemental Agreement in respect of Adhi field in order to avail incentives of the policy but did not deposit the Social Welfare Obligations, Training Fund Obligation and Production Bonus. This resulted in non-deposit of Social Welfare Obligations, Training Fund Obligation and Production Bonus amounting to Rs 1,985 million.

Audit is of the view that weak internal controls resulted in non-deposit of obligations amounting to Rs 1,985 million.

The matter was reported to the management in September, 2021. The management in its reply stated that all of other incentives and obligations included in the Petroleum Policy, 1994 were not adopted through the stated Supplemental Agreement nor was a PCA signed, therefore, no obligation was payable from Adhi Mining Lease. The reply of the management is not tenable as under the Petroleum Policy, 1994 incentives were offered as a package and not on individual basis, therefore, when the company executed the Supplemental Agreement in order to avail the tax incentives, it had to adopt all incentives as a package.

The DAC in its meeting held on January 21, 2022 directed the management to take up the matter with DG (PC) for further clarification. No further progress was reported till finalization of this report.

Audit recommends to probe the matter for executing the agreement against the spirit of Petroleum Policy and taking corrective action.

[DP No. 1722]

2.3.4.7 Non-resolution of the yield dispute with ARL - Rs 901.116 million

As per Clause 15.1 of COSA, if any question, or difference or dispute concerning the interpretation and application of this Sales Agreement arises between the parties hereto, then matter in dispute shall be resolved in accordance with arbitration procedure as provided in agreement. According to proviso to Clause 28.3, provided that in the event of a dispute between the Pakistani Working Interest Owner(s) and President, the arbitration shall be conducted in accordance with the Arbitration Act, 1940.

During audit of PPL for the FY 2020-21, it was observed that there existed a yield differential dispute on supply of crude oil to ARL from Adhi field

due to which ARL withheld an amount of Rs 901.116 million claimed by PPL. However, the management of PPL did not initiate arbitration process by invoking arbitration clause. The detail of withheld amount is as under:

(Rs in million)

Over 360 days	181 to 360 days	91 to 180 days	Within 90 days	Current billing	Total
67.527	2.525	0.436	828.797	1.831	901.116

Audit is of the view that negligence of the management resulted in non-settlement of dispute for payment of Rs 901.116 million.

The matter was reported to the management in October, 2021. The management in its reply dated January 17, 2022 stated that the outstanding amount on account of dispute as on June 30, 2021 stood at Rs 70.49 million. The reconciliation efforts by PPL were in process to conclude but sensitivity of matter was taking due course for conclusion. The reply of the management is not tenable as management did not make enough efforts to resolve the dispute.

The DAC in its meeting held on January 21, 2022 directed the management to provide the reconciliation / detail breakup to audit for verification. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC and expedite recovery / reconciliation of balance amount.

[DP No. 1728]

2.3.4.8 Non-realization of GIDC on sale of Natural Gas to M/s E-Gas – Rs 185.083 million

According to Section 3 of Gas Infrastructure Development Cess Act, 2015, the Cess shall be levied and charged by the Federal Government from gas consumers, other than the domestic sector consumers, or the company at the rates specified in the Second Schedule to this Act. The gas company shall be responsible for billing of Cess to gas consumers, its collection from gas consumers and its onward payment to the Federal Government. In the Second Schedule of the said Act, the maximum rate of Cess on CNG Region-I was Rs 263.56 per MMBTU and on CNG Region-II was Rs 200 per MMBTU.

During audit of PPL for the FY 2020-21, it was observed that the management sold natural gas to M/s E-Gas from Kabir X-I well during October,

2017 to December, 2019 (Gambat South Block) and from Dhok Sultan during November, 2019 to April, 2020. According to the Memorandum of Association of the M/s E-Gas, “company was carrying on the business of selling Compressed Natural Gas (CNG) for automotive vehicles – both wholesale and retail”. However, PPL did not bill and collect GIDC on sale of natural gas provided in Second Schedule of the GIDC Act, 2015. This resulted in non-realization of GIDC of Rs 185.083 million.

Audit is of the view that weak internal controls resulted in non-realization of GIDC amounting to Rs 185.083.

The matter was reported to the management in September, 2021. The management in its reply stated that since M/s E-Gas was not a gas consumer and was carrying on the business of selling Compressed Natural Gas (CNG) to onward domestic consumers of automotive vehicles and other users. Therefore, Cess imposition was not applicable on M/s E-Gas. The reply of the management is not tenable as M/s E-Gas fell under the CNG sector; hence, the management was required to collect GIDC from it which was not done.

The DAC in its meeting held on January 21, 2022 directed the management to get the clarification from DG (Gas) regarding GIDC on sale of CNG. No further progress was reported till finalization of this report.

Audit recommends to recover GIDC from buyer and deposit the same to national exchequer.

[DP No. 1724]

2.4 Pakistan State Oil Company Limited

2.4.1(A) Introduction

The Government of Pakistan took over Pakistan National Oil (PNO) on January 01, 1974 and merged PNO with Dawood Petroleum Limited (DPL) as Premiere Oil Company Limited (POCL). On June 03, 1974, Petroleum Storage Development Corporation (PSDC) came into existence. PSDC was then renamed as State Oil Company Limited (SOCL) on August 23, 1976. Following that, the M/s Esso Undertakings were acquired on September 15, 1976 and control was given to SOCL. On December 30, 1976 the Premier Oil Company Limited and State Oil Company Limited, was merged as Pakistan state Oil (PSO). Pakistan State Oil Company Limited (PSO) is a public limited company incorporated under the Companies Ordinance, 1984 (now the Companies Act, 2017) and is listed on Pakistan Stock Exchange.

Pakistan State Oil Company Limited (PSOCL) is the largest oil marketing company of Pakistan dealing with purchase, sale, storage and marketing of both indigenous and imported of petroleum products. PSO has 48% market share and a widespread network of 3,500 retail outlets, 9 installations, 23 depots, refuelling facilities at 10 airports, two lubricant manufacturing facilities and LPG storage & bottling infrastructure. PSO is currently engaged in the marketing and distribution of various POL products including Motor Gasoline, High Speed Diesel (HSD), Furnace Oil (FO), Jet Fuel (JP-1), Kerosene, CNG, LPG, Petrochemicals, and Lubricants. In addition to these products, the company has been involved in import of LNG through long term agreements with QG and QP since February, 2016.

(B) Comments on Company Performance

Financial performance of the company for the last five years is given below:

(Rs in million)

	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16
Net Sales	1,204,247	1,108,358	1,154,298	1,063,744	878,147	677,940
Gross Profit	54,609	12,227	36,017	39,636	37,136	22,525
Other Revenues	18,826	10,210	7,559	7,911	11,751	13,411
Marketing & Administrative	15,788	14,806	12,414	11,929	11,238	10,511

Exp.						
Other Exp.	3,930	220	4,699	3,334	2,378	1,986
Operating Profit	53,717	7,749	26,257	31,870	34,662	22,826
Finance Cost	10,242	13,427	8,987	5,123	5,923	7,150
Share of profit from associates	581	545				
Profit before Taxation	44,056	(5,134)	17,477	27,160	29,347	16,289
Profit for the Year	29,139	(6,466)	10,587	15,461	18,226	10,273

PSO reported higher profit on YoY basis as profit was increased 550% in FY 2020-21. PSO turned losses of Rs. 6,466 million in FY 2019-20 into profit of Rs. 29,139 million during FY 2020-21 respectively. PSO earned profit due to increase in market share, sales / OMC margin and other revenues and decrease in finance cost. Port congestion, non-availability of night navigation, narrow channel, one jetty namely FOTCO etc. caused recurring charges on account of demurrages and disrupt whole supply chain. In the wake of commissioning of White Oil Pipeline, further delays in berthing of vessels and unloading of petroleum products will burden PSO with heavy demurrage charges.

2.4.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 60,243.861 million were raised in this report during the current audit of PSO. This also includes recoverable amount of Rs 24,850.133 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Financial Management	24,666.246
B	Procurement Related Irregularities	31,283.496
C	Operations Related Irregularities	4,294.119
D	Retail and Logistics	-

2.4.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	% age of Compliance
1988-89	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	-	1	-
2010-11	14	4	10	29
2011-12	9	4	5	44
2012-13	11	1	10	9
2013-14	17	9	8	53
2014-15	10	3	7	30
2015-16	20	16	4	80
2016-17	15	6	9	40
2018-19	12	6	6	50
2019-20	-	-	-	-
2020-21	-	-	-	-
Total	**188**	**103**	**85**	**55**

The overall compliance of PAC directives needs to be improved.

2.4.4 Audit Paras

Financial Management

2.4.4.1 Non-recovery of outstanding amount from customers and other parties - Rs 13,375.773 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 2020-21, it was observed that the management failed to recover receivables (other than Circular Debt) amounting to Rs 5,311.320 million from bulk customers like, Army, Navy, Marine, NLC, Aviation, PIA, etc., as on June 30, 2021. Further, there were also long outstanding dues of Rs 8,064.453 million against other customers i.e., NFR, Credit Cards, CNG, cartage contractors, refineries on account of terminal and product handling charges, retailers and COCO sites, but the management did not recover the outstanding amount.

Audit is of the view that inefficient receivables management resulted in non-recovery of outstanding amount of Rs 13,375.773 million.

The matter was reported to the management in October, 2021. In DAC meeting held on February 01, 2022, the management stated that out of total outstanding receivables of Rs 13,375.773 million, PSO has recovered an amount of Rs 11,855.02 million leaving outstanding balance of Rs 1,520.753 million.

The DAC directed the management to get the recovered amount verified from Audit within two days besides expediting the recovery of balance amount. During verification, out of outstanding amount, recovery of Rs 11,718.51 million was verified by Audit leaving outstanding balance of Rs 1,657.263 million.

Audit recommends to expedite the process of recovery of outstanding amounts from the debtors.

[DP Nos. 1637 & 1638]

2.4.4.2 Non-repayment of FE-25 loans causing excess exchange loss – Rs 5,504.449 million

According to Finance Division's letter vide No. 4(8)EF(C-III)/2011 dated November 27, 2013, oil importing companies should explore the possibility of financing longer term arrangements from the banks and financial institutions which are currently involved in their import arrangements. In case extended duration arrangements require extra cost and risks to be borne by the companies, the Federal Government would defray such costs and risks. Further, as per Ministry of Petroleum & Natural Resources (Development Wing) letter vide No PL. 9(334)/2014 dated September 7, 2015, Finance Division has agreed to pick the differential on account of appreciation of dollars viz-a-viz Pak Rupee, if any.

During audit of PSO for the FY 2020-21, it was observed that the management borrowed an amount of US$ 339,549,416 equivalent to Rs 355,237.346 million from commercial banks to finance L/Cs for oil imports during the FY 2013 to 2021. The company claimed that borrowed loans were repaid to lending commercial banks in US$ equivalent to Rs 382,519.182 million along with extra cost of Rs 27,281.836 million on account of appreciation of US$ viz-a-viz Pak Rupees. The Federal Government defrayed the extra cost by paying an amount of Rs 27,890 million during April and June, 2020. Further, in 04 cases, loans of US$ 111.384 million equivalent to Rs 12,037 million were taken from NBP (02 cases), Meezan Bank Ltd. and Askari Bank Ltd. in December, 2015, May, 2016, January, 2018 and February, 2018. An amount of Rs 5,504.449 million on account of exchange loss was received from the Federal Government in the instant 04 cases but loans were not repaid to respective commercial banks till June, 2021.

Audit is of the view that due to inefficient financial management, 04 foreign exchange loans were not repaid despite lapse of more than 2 to 6 years and exchange loss of Rs 5,504.449 million was received from the Federal Government.

The matter was reported to the management in October, 2021. The management in its reply stated that all the highlighted loans have now been repaid in December, 2021 and January, 2022 with a total exchange loss of Rs 7,735.962 million i.e., Rs 2,231.513 million is receivable from GoP in lieu of exchange loss in addition to already received exchange loss of Rs 5,504.449

million. At the time of booking / rollover of FE-25 loans, PSO informed MoF with details of loans. Further exchange loss is regularly communicated to GoP. Exchange gain / (loss) is settled based on verification by SBP and approval of the competent authority. Audit contended that correspondence with MoE-Petroleum Division and MoF showed that foreign exchange loan with exchange gain or loss are reported on aggregate basis and details of outstanding loans were not reported as to how much older these were. Working of exchange loss of Rs 27,890 million claimed in May, 2020 was not provided.

The DAC in its meeting held on February 01, 2022 directed the management to take up the matter with Finance Division through DG (Oil) regarding delayed payment of 04 loans involving exchange loss of Rs 7,735.962 million. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1639]

2.4.4.3 Non-recovery of outstanding IFEM claims – Rs 2,648.015 million

Federal Government assigned the responsibility of determination / computation of Inland Freight Equalization Margin (IFEM) to OGRA since September 01, 2008 and to manage IFEM pool for payment of IFEM to OMCs. The IFEM is an integral component of the final price of MS, LDO, SKO and HSD, through which prices are maintained at an equalized level across the country despite disparities in transportation costs; thus, price is equalized at 22 depots/locations spread all over the country. The IFEM is basically the movement of petroleum product across country at 22 depot located at most economical and efficient rates.

During audit of PSO for the FY 2020-21, it was observed that the company’s financial statements (Note 17) and trial balance as on June 30, 2021 reflected an amount on account of IFEM to the tune of Rs 2,648.015 million receivable from OMCs through OGRA for transportation of petroleum products. However, OGRA could not finalize the IFEM claims from the period January, 2012 to June, 2020 because audit of the said period was pending since FY 2012.

Audit is of the view that non-recovery of IFEM claims has turned out to be a systemic issue over a period of time.

The matter was reported to the management in October, 2021. The management in its reply stated that they have been vigorously following up with OGRA for initiation of the Audit pending since 2nd half of FY 2012 and settlement of the receivables. OGRA has recently appointed a firm of Chartered Accountants to conduct IFEM audit of the oil industry for the entire period from FY 2012 to FY 2020. However, the subject audit of PSO claims by OGRA has not been started and there is no chance of early settlement of IFEM amount.

The DAC in its meeting held on February 01, 2022 directed the management to pursue the matter with OGRA through DG (Oil) for early settlement of issue. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1642]

2.4.4.4 Non-payment of Government dues and other long outstanding payables – Rs 1,764.581 million

According to Section 4 of Worker's Welfare Fund Ordinance, 1971, every industrial establishment, the total income of which in any year of account commencing on or after the date specified by the Federal Government in the official Gazette in this behalf is not less than five lakh of rupees shall pay to the Fund in respect of that year a sum equal to two per cent of its total income. Other dues of Municipal / Port authorities or Cess imposed by Provincial Government on imports are to be paid as per provisions of respective notifications. Moreover, as per respective provisions of contracts executed with the insurance companies, surveyors and other parties, freight / insurance premiums and surveyor charges are to be paid.

During audit of PSO for the FY 2020-21, it was observed that Trial Balance and Financial Statement for the FY 2020-21 showed that the company did not pay WWF and the following long outstanding payables for the period ranging up to 15 years as given below:

(Rs in million)

Sr. No.	Description of payables	Period	Amount
1	WWF payable	FY 2020-21	1,279.084
2	LNG Hire charges	08/2015 to 05/2018	126.527
3	Octroi payable to KMC	2004 to 2008	51.589
4	Port Surveyor charges	2011-2020	263.509
5	Cess payable	2005 to 2020	27.205
6	War Risk insurance	2012 to 2017	16.667
		Total	**1,764.581**

Audit is of the view that weak financial management resulted in non-payment of payable taxes, dues and charges at due dates.

The matter was reported to the management in October, 2021. In DAC meeting held on February 01, 2022, the management stated that after 18th amendment both federal and provincial tax authorities had made laws for recovery of WWF from the taxpayers. Since PSO was a trans-provincial organization having presence and business activities in all provinces of Pakistan, pays WWF to federal tax authorities. Accordingly, for tax years 2016 to 2019, federal tax authorities had issued demand notices on account of WWF and PSO had duly discharged the WWF liability on the basis of demand orders (under protest). Sindh Revenue Board in tax year 2016 also issued notices for recovery of Sindh Workers Welfare Fund under provincial law. PSO in response obtained stay order from Sindh High Court against demand notices of Sindh Revenue Board. Remaining payments (2 to 6 of table) will be made after carrying out reconciliation with the respective parties.

The DAC directed the management to take up the matter with Federal Government to resolve the issue of WWF and expedite the clearance of remaining liabilities. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1643]

2.4.4.5 Non-deposit of accumulated unclaimed dividend in Government Account – Rs 1,373.428 million

According to Section 244(1&3) of the Companies Act, 2017, where dividend has been declared by a company which remain unclaimed for a period of three years from the date it is due and payable, the company shall give ninety days notices to the shareholders to file claim. If no claim is made before the company by the shareholder, the company shall after ninety days shall deposit any unclaimed amount to the credit of the Federal Government. The unclaimed amount as well as the proceeds from the sale of shares shall be maintained in a profit bearing account with the SBP / NBP to be called "Companies Unclaimed Instruments and Dividend and Insurance Benefits and Investors Education Account" and shall be deemed to be part of public accounts and interest / profit

accumulated thereon shall be credited on quarterly basis to the Fund established under Section 245 of this Act.

During audit of PSO for the FY 2020-21, it was observed that the company had unclaimed dividend of Rs 3,443.218 million which was reduced to Rs 1,373.428 million as current liabilities in the Financial Statements for the FYs 2017-18 to 2020-21. The company did not take adequate actions in compliance of Section 244 of the Companies Act, 2017 relating to unclaimed dividend of Rs 1,373.428 million and did not deposit the same with the Federal Government by opening Account as required under the law.

The matter was reported to the management in October, 2021. In a DAC meeting held on February 01, 2022, the management stated that in order to deposit unclaimed dividend with the Federal Government, first and foremost pre-requisite is that all dividend accounts must be cent per cent reconciled. This fact was also realized by SECP that most companies are facing difficulties in reconciling their old dividend accounts. Most of the companies are not depositing the same in government account. The reply is not tenable because the reconciliation of dividend accounts is the sole responsibility of the company and provisions of the Companies Act, 2017 are not being complied with, despite lapse of 04 years.

The DAC directed the management to take up the matter with SECP through DG (Oil) for early settlement of the issue. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1645]

Procurement - LNG

2.4.4.6 Non-resolution of LNG / RLNG related issues resulting in accumulation of unaccounted for dues and low profitability in LNG business – Rs 28,543 million

PSO, SSGC and SNGPL entered into a Tripartite Agreement under which PSO is required to supply imported LNG and SSGC will transport / swap re-gasified LNG to SNGPL for sale to GPPs, IPPs, Fertilizers, and other industrial / commercial consumers. Further, as per ECC's decision dated June 6, 2015, RLNG pricing components for PSO include: i. LNG DES (Delivery Ex-Ship) / FOB price (including freight) ii. Other import related actual costs iii. PSO

margin up to 4 percent of LNG DES Price, subject to review after 3 months by an Inter-Ministerial Committee. Further, PSO also executed another long-term agreement with Qatar Petroleum for LNG supply from November, 2021 for two cargoes each month for which necessary arrangements regarding re-gasification arrangements at PGPC's Terminal with PLL and back-to-back agreements for supply of LNG to SNGPL / SSGC and its transportation from PGPC's Terminal to upcountry are required to be finalized prior to November, 2021.

During audit of PSO for the FY 2020-21, it was observed that the company could not get the LNG / RLNG related issues resolved from the Petroleum Division and OGRA as given below:

i. Non-finalization of TA-1 with SNGPL and SSGC for supply of LNG whereas the company is supplying LNG to SNGPL without any legal agreement. Due to absence of any legal agreement, delayed payment charges of Rs 23,846 million and exchange loss of Rs 4,697 million aggregating to Rs 28,543 million were neither accounted for nor recovery proceedings could be initiated against SNGPL since the start of LNG business. Due to liquidity issues, the company had to resort to more borrowings on commercial rates, thus finance cost was increased which affected negatively the bottom line of the profit and loss of the company;

ii. OGRA allowed PSO margin from 1.82% to 2.5% on LNG supplies through RLNG pricing whereas ECC allowed increase in PSO margin vide case No. ECC-62/12/2018 dated May 30, 2018, from 2.5% to 3.75% but the company could not resolve the issue with the OGRA for implementation of ECC decision;

iii. OGRA's directions dated March 18, 2016 regarding conducting audit of actual import / incidental cost for the period w.e.f. July, 2017 to June, 2021 were not complied with and audit reports for the period were neither submitted to OGRA nor provided to Audit;

iv. Under new agreement for LNG supply, re-gasification agreement with PLL at PGPC's Terminal for one cargo was not finalized as no capacity is available at EETPL terminal;

v. Matter regarding handling of Q-Flex cargo at both the Terminals could not be finalized with Port Authorities; and

vi. GSPAs with SNGPL / SSGC for LNG supplies under new contracts were also not concluded because the TA-1 under previous long term agreement could not be finalized despite lapse of more than five years.

Audit is of the view that due to non-execution of agreements and non-resolution of matters, LNG business is being run on ad-hoc basis affecting the whole LNG / RLNG supply chain.

The structural shortcomings in RLNG regime were pointed out in October, 2021. The management replied that the TA-1 could not be executed despite lapse of 5 years, due to various issues raised by SNGPL time and again. Now, PSO has executed new LNG SPA with Qatar Petroleum for supply of 02 cargoes each month from November, 2021 which necessitated re-gasification of LNG cargos at PGPCL beyond 6 cargoes. Therefore, an interim arrangement was executed between PSO, SNGPL and PLL for two cargos in November and December, 2021. However, a quadripartite agreement will be executed shortly among PSO / PLL and SSGC / SNGPL covering entire volumes under both the long-term contracts. Further, the matter of exchange gain / loss adjustment is pending with OGRA since July, 2017. Moreover, the ECC decision regarding enhancement of PSO margin was not implemented by OGRA as yet. As far as actual import cost of LNG is concerned, PSO has regularly been submitting actual price computations to OGRA along with all supporting documents. But OGRA did not issue actual prices subsequently in spite of submission of relevant data by PSO. Issue of berthing of Q-Flex cargo at PGPC has been taken up with MoE - Petroleum Division and PLL. Petroleum Division has issued directives to Ministry of Maritime for the early resolution of this issue and for making necessary arrangements for the berthing of Q-Flex at PGPC terminal. Audit contends that structural gaps in RLNG supply chain could not be removed and major issues in RLNG sector, prejudice to the national interests, remained unresolved. Further, the requisite audit of incidental cost / actual import of LNG was not conducted by OGRA for the period starting from June, 2017 onwards.

The DAC in its meeting held on February 01, 2022 directed DG (Gas) for early resolution of RLNG issues. The DAC also directed PSO management to expedite the execution of agreements with PLL and SNGPL / SSGC under new agreements with QP. No further progress was reported till finalization of this report.

Audit recommends that LNG / RLNG related issues be resolved expeditiously and;

i. Recover exchange loss adjustments from SNGPL and approach Petroleum Division to finalize the issue of LPS on delayed payment by SNGPL;
ii. Take up the matter relating to PSO margin with the OGRA and Petroleum Division / FG for early resolution;
iii. Take up the matter with OGRA for fixation of final RLNG prices by providing audit reports for actual import and incidental cost during the period July, 2017 and June, 2021;
iv. Take up the matter with Port authorities through Petroleum Division / Ministry of Maritime Affairs for making necessary arrangements for berthing of Q-flex cargos at both the terminals, to avail economy of scales and reduce cost of LNG; and
v. Finalize the arrangements for berthing of LNG cargoes, re-gasification at PGPC's terminal and back to back agreements with buyers to actualize new long term agreement with QP.

[DP No. 1647]

2.4.4.7 Excess payment of port charges due to payment of penalties & other charges to PQA – Rs 1,350.049 million

According to Clause 1 of Long Term Sale and Purchase Agreement (SPA) between Qatar Liquefied Gas Company Ltd. and PSO, port charges means any port charges or port dues in respect of an LNG vessel and / or LNG imported by the buyer including light dues, mooring charges, agency or port handling charges, expenditure relating to tugs, pilotage, towage, escort or watch vessels, and such charges in all events shall not exceed US$ 320,000 per cargo delivery to any Unloading Port or Receiving Terminal. Any charges in excess of US$ 320,000 shall be for buyer's account provided that, the seller shall initially pay all required port charges, including those in excess of US$ 320,000, and the buyer will reimburse the seller for any such excess amount.

During audit of PSO for the FY 2020-21, it was observed that the company reimbursed all charges raised through invoice by PQA that included

penalties of Rs 103.050 million imposed on vessel / seller, and dredging for passing bay (Channel Development Cess-CDC) of Rs 1,246.999 million etc during the FY 2019-20 and 2020-21. Port charges were defined broadly and capped at US$ 320,000 for the seller's account whereas in other 5 years agreement with Gunvor for supply of LNG (both the QG and Gunvor at the same rate i.e. 13.37% in 2015) but port charges were capped at US$ 500,000 with specific definition of port charges inclusive of pilotage and towage charges only. All other charges were to be borne by the seller i.e. Gunvor. In case of QG, capping of port charges at US$ 320,000 per cargo increased the effective rate of slope around 0.8% to 0.9%.

Audit is of the view that weak contract and financial management resulted in excess payment on account of port charges. Further, management did not take up the matter with port authorities for widening and dredging of channels for smooth and speedy berthing of cargoes.

The matter was reported to the management in October, 2021. The management in its reply stated that PSO was obligated to pay all the charges as per SPA which are included in PQA invoices. Further, LNG vessel specifications was provided in the Schedule C of the SPA and the vessels arriving under the contract were within these parameters, however, PQA had its own set of parameters, against which it imposed penalties in case of vessels not falling within those parameters. Since the parties have to follow the contractual parameters of a sovereign Government to Government contract, notwithstanding the local port parameters; therefore, the supplier claims such charges within the contractual framework. The reply is not tenable because vessels specifications should have been finalized in the light of PQA parameters keeping in view port constraints, and matter relating to widening of channel and dredging for passing bay was also not taken up with the port authorities for timely action. Now the PQA stopped receipts of CDC but requisite dredging for passing bay was not done due to which night navigation could not be launched resulting in port congestion and payment of demurrages on not only LNG vessels but also on oil vessels as well.

The DAC in its meeting held on February 01, 2022 directed the management to provide the details of payments made to PQA on account of

penalties and CDC for the last 5 years. No further progress was received till finalization of this report.

Audit recommends to justify the payment of other charges penalties, pipeline charges, stand by tug / pilots and dredging for passing bay besides taking up the matter with the PQA for widening the channel / dredging for passing bay.

[DP No. 1650]

2.4.4.8 Unjustified procurement of LNG on higher price – Rs 1,206.560 million

According to Rule 4 of PPRA Rules 2004 read with Rule 12 and 42 of Rules ibid, 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 PSO for the FY 2020-21, it was observed that the company entered into a short-term Agreement with Guvnor for purchasing LNG at 13.37% of Brent for five years for supply of 100 MMCFD per month in March, 2016 which ended on December 31, 2020. PSO has also entered a long-term Sale Purchase Agreement (SPA) with QG at 13.37% of Brent for supply of 500 MMCFD per month. Upon completion of contract period with Guvnor, the company procured four cargoes of LNG through SPA from QG from January, 2021 to April, 2021 in the light of Annual Delivery Plan (ADP) furnished by SNGPL. To meet with the extra demand of SNGPL, the company also floated tender for 02 spot cargoes in May, 2021. Only one bidder offered bid @ 14% which was cancelled being on higher side. Later on, the company approached QG for purchasing two spot cargoes at 13.37% instead of retendering under PPRA rules and option of emergency Clause under Rule 42 was also not availed.

A comparison of LNG prices fetched by PSO under SPA during March, 2021 to April, 2021 and in May, 2021 through spot buying with the price at which PSO purchased LNG from QG is as follows:

Description	March, 2021	April, 2021	May, 2021
Delivery window	24-27.03 2021	5-6.04.2021	10-11.05.2021
PSO procurement from QG under SPA	13.37%	13.37%	13.37%

Slope in case of tender (spot)	12.73%	10.03%	10.60%
Lowest Bidder (PLL)	QP Trading	QP Trading	Guvnor
Difference in Slope %	0.64%	3.34%	2.77%
Brent rate (US$/BBL)	55.9023	61.0476	64.3895
Price paid by PSO in US$	7.47413751	8.16206412	8.60887615
Price paid by PLL in US$	7.6	6.7	7.4851
Difference in US$/MMBTU rate	-0.12586249	1.46206412	1.12377615
Qty. delivered to PSO (MMBTU)	2,974,551	3,196,378	3,198,531
Excess Amount US$	-374,384.40	4,673,309.59	3,594,432.85
Rates Rupees per US$	156	153	153
Excess amount paid in RKR	-58,403,966	715,016,367	549,948,226
Total excess payment due to purchase under SPA with QG			**1,206,560,628**

Audit is of the view that the company did not take advantage of the market trend in summer when spot market dropped significantly. Benefit of low prices to the tune of Rs 1,206.560 million could have been fetched by invoking Rule 42 of PPRA.

The matter was reported to the management in November, 2021. The management in reply stated that as per the Annual Delivery Plan two spot cargoes were needed in May, 2021. In order to fulfil the need PSO floated a tender on March 21, 2021 (60 days ahead) of the two-delivery period i.e., 20-21 May, 2021 and 25-26 May, 2021. The tender was opened on April 21, 2021, and only one bid was received for delivery period 25-26 May, 2021 from DXT Commodities at 14.5201% of Brent, which translated to US$ 9.3494/MMBTU. Keeping in view the market conditions and requirement of the product, PSO approached QG for the supply of cargo through upward flexibility option. PLL had with them special PPRA exemptions on bid validity and shorter timelines for bid submission under which these cargoes were procured. Though PLL also floated the tender exactly in May, 2021 but having PPRA exemptions, the prices they fetched were lower.

In DAC meeting held on February 01, 2022, management further explained that 2020-21 is an exceptional year with respect to price volatility in overall energy markets, especially LNG; where prices have encountered wild swings in both highs and lows during the 02 years due to COVID pandemic when prices have plunged lowest and then an exponential rebound due to resumption in business activity post-pandemic, raising prices in the 2nd half of

the year 2021. Nonetheless, the PSO purchased LNG under its long-term contract with Qatar Gas, acquiring volumes more than the Annual Contract Quantity instead of procuring from Spot market.

The DAC directed the management to get the stated stance verified by Audit. During verification, it was found that after not receiving bids in first tender, re-tendering was not done as per PPRA Rules and to meet with the increased demand of LNG. Emergency Clause was not invoked with the approval of competent authority to reduce both the response and bid validity time. But management approached QG and practice adopted by the Company is not covered under PPRA Rules. On the other hand, PLL fetched lower prices during March, 2020 to June, 2020 because it has exemption from PPR Rules whereas PSO could not avail the exemption of PPR Rules well in time for spot cargoes.

Audit recommends to justify the violation of PPRA Rules and ill planning with respect to ADP requiring spot buying after completion of contract with Gunvor and delay in seeking PPR Rules exemption on the pattern of PLL.

[DP No. 1747]

2.4.4.9 Excess payment of port charges due to wrong calculation of port charges in US$ and non-adjustment of final port charges – Rs 183.887 million

According to Clause 1 of Long Term Sale and Purchase Agreement (SPA) between Qatar Liquefied Gas Company Ltd. and PSO, port charges means any port charges or port dues in respect of an LNG vessel and / or LNG imported by the buyer including light dues, mooring charges, agency or port handling charges, expenditure relating to tugs, pilotage, towage, escort or watch vessels, and such charges in all events shall not exceed US$ 320,000 per cargo delivery to any Unloading Port or Receiving Terminal. Any charges in excess of US$ 320,000 shall be for buyer's account provided that, the seller shall initially pay all required port charges, including those in excess of US$ 320,000, and the buyer will reimburse the Seller for any such excess amount.

During audit of PSO for the FY 2020-21, it was observed that Port charges were calculated by applying rates in US Dollars whereas invoices were raised in Pak. Rupee by PQA. Port charges were included in commercial invoices by applying lower exchange rates which were found different with those

specified on invoices issued by port authorities. Application of lower exchange rates resulted in higher port charges in US$, by this way, port charges amounting to US$ 1,010,312 equivalent to Rs 159.791 million were paid in excess as detailed below:

FYs	Excess payment of Port Charges	
	US$	Rs in million
2019-20	735,933	116.536
2020-21	274,389	43.255
Total	**1,010,312**	**159.791**

Further, port charges were communicated to the supplier on the basis of provisional invoices due to non-receipt of final invoices from PQA. The company is required to work out the port charges on the basis of final PQA invoices and corresponding adjustments be made. Audit worked out the difference showing downward adjustment of Rs 24.096 million in 14 illustrative cases. Aggregate excess payment of port charges of Rs 183.887 million was made to suppliers. Similar practice was also observed in previous years too and its financial impact is required to be worked out by the company.

Audit is of the view that due to weak internal controls and financial management resulted in excess payment of port charges.

The matter was reported to the management in October, 2021. The management in its reply stated that the settlement of Port Charges is between PQA and QG. PQA invoiced port charges to QG in Pakistani rupee and the exchange rate depicted in PQA invoice is only used to convert certain dollar-based components of port charges into Pakistani rupee. QG converted these port charges into dollars at the relevant exchange rate and billed the port charges in excess of US$ 320,000 to PSO along with cargo invoices. The reply is not tenable because PSO made payment of LNG including port charges on the basis of invoices (inclusive of port charges) issued by QG after converting port charges in US$ and calculation sheets were found available in the files showed application of lower exchange rates. Further, actual invoices of PQA were not provided to Audit despite repeated reminders and verbal requests. Furthermore, any downward adjustment after settlement of final port charges with the seller was also not reported to OGRA during the last two years.

The DAC in its meeting held on February 01, 2022 directed the management to provide the invoices served by PQA for verification to Audit. No further progress was reported till finalization of this report.

Audit recommends to:

i. Justify calculation of port charges in US$ by applying different rate of exchange than that of applied by PQA while calculating port charges;

ii. Take up the matter for adjustment / recovery on account of applying lower rates of exchange for conversion of port charges in US$ from the supplier;

iii. Work out adjustments on account of reduction / increase in port charges in final invoices by PQA and provide copies of final invoices for the FY 2019-20 and 2020-21 to Audit so that financial impact in all cases be worked out; and

iv. Expedite the reporting of downward adjustments in port charges for last two years in the light of final settlement to OGRA.

[DP No. 1649]

Operations Related Irregularities

2.4.4.10 Non-completion of 64 Capital Work in Process (CWIP) causing blockage of funds – Rs 3,513.305 million

According to Rule 7(o) of Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall also formulate significant policies of the Public Sector Company, including capital expenditure planning and control. Further, according to provisions of respective Engineering, Procurement, Construction Contracts (EPCCs) and the Purchase / Service orders issued to the vendors / contractors, all works relating to rehabilitation of storage tanks, new development of storage tanks, conversion of tanks from HSD to PMG, improvement in security protocols at bulk oil depots, development of new product handling facility, rehabilitation of old pipelines and construction of new pipelines etc. are required to be completed within a stipulated period.

During audit of PSO for the FY 2020-21, it was observed that the management did not complete 64 CWIP valuing Rs 3,513.305 million which were required to be completed in the years 2015 to 2020 despite lapse of period

of more than six months to five years. This not only blocked the company's funds but also intended benefits could not be fetched despite allocation of funds. Major CWIP related to Operation Department which was responsible for development of new product handling facilities and bulk oil depots / storage terminals for petroleum products, rehabilitation of old storage facilities and pipelines, conversion of storage tanks of HSD into PMG at various storage facilities keeping in view the demand of products. Non-completion of these CWIP meant for core business operations of the company hampered the smooth supply of petroleum products and maintenance of mandatory stock of petroleum products.

Audit is of the view that due to weak project management, 64 CWIP could not be completed which not only hampered the smooth supply of petroleum products and maintenance of mandatory stock of petroleum products but also caused blockage of company's funds.

The matter was reported to the management in October, 2021. In DAC meeting held on February 01, 2022, management explained that amounts pertaining to works in progress has also reduced from Rs. 2.36 billion to Rs 1.247 billion whereas, 45 out of 64 projects are completed / commissioned. Remaining 12 projects were in progress. There are 7 Retail projects which are on hold due to disputes within families and/or dealer not interested in early completion. Further, penalty of Rs 17.64 million has already been imposed on the projects which are delayed in line with terms of the contract. Audit is of the view that these 64 CWIP were pending from 1 to 6 years and 17 projects were not commissioned due to want of OGRA approval and fulfilment of other codal formalities. Record relating to completed projects was not provided for verification.

DAC directed the management to explain reasons for delay in completion of CWIP and provide the completion report of completed projects and expedite the commissioning of 17 under commissioning projects and completion of projects in progress and on hold. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1657]

2.4.4.11 *Non-utilization of funds collected from dealers on account of Central Information System and Dispensing Unit Control System for retail outlets – Rs 668 million*

As per Note for Approval (NFA) No. 42562 dated January 13, 2021, PSO levied 1 paisa per litter on all its retail fuel sales from end of FY 2009 for expense recovery of Central Information System (CIS) project at its retail outlets.

During audit of PSO for the FY 2020-21 it was observed that the company received non-refundable amount of Rs 688 million from its retail fuel sales since FY 2009 to July, 2020 for the project of Central Information System (CIS) enabling Dispensing Units to report nozzle sales and Remote price change. The management vide Purchase Order No. 4110029256 dated February 10, 2021 awarded the contract amounting to Rs 47.268 million to M/s Alsons Consolidated International, a sole authorized agent of Tatsuno Dispensers in Pakistan, by applying direct contracting method under Rule 42(c)(ii) & (iii) of PPRA Rules for "Dispenser Unit Control (DUC)". Global System for Mobile communications devices were to be supplied, installed, tested and commissioned around 400 retail outlets. The project was to be completed by June 30, 2021 but the same could not be completed as yet because only 143 devices / modems could be installed out of total 1600 units. Management could not execute the project planned in FY 2009 for which the levied amount was collected and out of approx. 3,500 retail outlets only 400 NVROs stations were selected for the said project during the FY 2020-21 for installation of Global System for Mobile communications devices.

Audit is of the view that weak project management resulted in non-utilization of funds collected for the purpose of installation of devices for enabling Dispensing Units with the capacity of Fetching nozzle sales, remote price change, control (shut off/turn on) DUs cyber locking.

The matter was reported to the management in October, 2021. The management in its reply stated that in 2019 a project for Dispensing Unit Control (DUC) was initiated for Rs 47.268 million for "Dispenser Unit Control (DUC)" Global System for Mobile communications devices to be supplied, installed, testing and commissioning at around 400 retail outlets in 1st phase. Configuration on 400 Retail Outlets has been completed. Audit contends that despite

availability of funds since 2009 for more than 3,100 operational retail outlets, the company initiated the project in February, 2021 after lapse of 12 years for only 400 retail outlets. The devices / modems were installed at only 143 retail outlets till close of Audit. The company did not utilize funds of Rs 688 million.

The DAC in its meeting held on February 01, 2022 directed the management to get the installation of 400 CIS devices, at retail outlets, verified from audit and expedite the installation at 1000 outlets. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1655]

2.4.4.12 Operational deficiencies at Bulk Oil Depots and payment of lease rent without executing any lease agreement – Rs 87.814 million

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. OGRA Technical Standards vide SRO 624(i)/2009 dated July 02, 2009 envisaged security protocols for Bulk Oil Depots for storage of petroleum products. Further, according to Rule 31(3) of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules 2016, a license granted by the Authority to an existing oil storage facility shall be valid for a maximum period of thirty years subject to renewal, from time to time, on the making of fresh applications subject to the certification of third-party inspector confirming the compliance of technical standards, at least two years prior to the expiry of the existing license. A license renewed shall be valid for a maximum period of fifteen years at a time. 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 making of the 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. Moreover, as per para 34 of Board of Management its 289th meeting dated September 19, 2020, conversion of fuel oil storage tanks to PMG storage at

various bulk oil depots including ZOT and Jaglot be completed by December 31, 2020.

During audit of PSO for the FY 2020-21, following operational deficiencies were found at various Bulk Oil Depots / Terminals for handling, storage and transportation of petroleum products:

i. 51 storage tanks having capacity of 52,164 M.Tons were found inactive;

ii. Non-completion of 04 new development and 03 rehabilitation of storage tanks for 47,700 M.Tons and 22,400 M.Tons;

iii. PSO is operating 25 pipelines of various dias covering 224 Kms to connect its bulk oil depots with ports, refineries installations and dedicated buyers i.e. HUBCO, KAPCO, etc. PSO obtained OMC license in 2018 under Oil Rules, 2016 but neither any composite license for OMC and Pipeline function was obtained nor separate license for pipeline operation was sought;

iv. Important security protocols could not be put in place at various bulk oil depots i.e. installation of foam injection system, corrosion control, up-gradation of firefighting systems, splash plates, level alarm system, gauging system, modern filling gantry etc;

v. Other security protocols as envisaged in OGRA Technical Standards for Depots for storage of petroleum products vide SRO 624(i)/2009 dated 02.07.2009 could not be put in place in old bulk oil depot which were more than 30 years old as detailed in enclosed statement and now needs to be rehabilitated to cater for above-mentioned OGRA Technical Standards; and

vi. Leases of lands on which storage depots were situated had expired since long but the management could not renew or new agreements were not finalized. Annual rent of Rs 87.814 million was paid without any agreements or renewing leases with landlords.

The matter was reported to the management in October, 2021. In DAC meeting held on February 01, 2022, management explained that the status of bulk oil depots / terminals / storage and transportation projects that storage tanks having status of “Empty and Inactive”, development / rehabilitation work would

be completed on or before the deadline. In case of OGRA approval was already being pursued with third party inspection team to complete visit of all locations and reports thereof be submitted to OGRA. As per OGRA, all associated pipelines connected to and from a Depot / Terminal are considered an intrinsic part of any storage points and thus did not necessitate a separate license. Most of the oil installations and depots were in place before the promulgation of SRO 624(I)/2009 being the reason for non-compliance. However, the Audit recommendations have been noted and additional measures will be taken for maximum possible compliance accordingly. Rental agreements / lease agreements status has been updated. However, already working closely with KPT, Railways and private land owners of Shershah for agreements renewal and Railways and Shershah Land agreement will be get finalized very soon after negotiating the best possible/economical rates.

The DAC directed the management to expedite the addressal of operational deficiencies pointed out by Audit and get the compliance made so far verified by Audit. During verification, it was found that 51 storage tanks of substantial capacity of 52,164 M. Tons were inactive which needs rehabilitation or conversion. Pipelines such as Lalpir-KAPCO (32 KMs) and ARL to Sihala terminal (14 KMs) were constructed under JV and connected with depot to consumer and from refinery to depot and compliance of Technical Standards introduced by OGRA was not validated by OGRA. In bulk oil depots which were established more than 30 years ago, security protocols have not been updated in the light of OGRA's Technical Standards. Further, leases of these bulk oil depots have not been renewed.

Audit recommends to:

i. Ensure utilization of 51 inactive storage tanks having capacity of 52,164 M. Tons and expedite the completion of development of 04 new storage tanks and rehabilitation of 3 old tanks;
ii. Compliance of OGRA Technical Standards for oil depots be ensured at all depots;
iii. Take up the matter relating to more than 30 years old depots with OGRA for their rehabilitation to bring them as per technical standards introduced by OGRA in 2009; and

iv. Expedite the process of finalizing the renewal of leases and execution of new lease agreements.

[DP No. 1658]

2.4.4.13 Loss due to leakage of 8'' dia pipeline – Rs 25 million

According to Rule 7(o) read with 5(a) of Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall also formulate significant policies of the Public Sector Company, including capital expenditure planning and control.

During audit of PSO for the FY 2020-21 it was observed that GM Lubricant Manufacturing vide his email dated September 12, 2017 informed the management that 8-inch dia pipeline used for receipt of imported base oil needed urgent repair at some sections. Due to poor condition and leakages of the said pipeline, on January 12, 2020, a cargo of base oil carrying 3000 M.Tons was discharged in LMP-A tanks and two leakages were reported during the discharge. Product of around 240 M.Tons of 150N was found short in tanks. Later on, from the trenches and other spill areas, 50 M.Tons was retrieved but 190 M. Tons base oil valuing Rs 25 million could not be recovered. Insurance claim for this loss was also not made. Afterwards, a contract for rehabilitation of pipelines at Kemari was awarded to M/s Joint Engineering Services (Pvt.) Ltd. vide Service Contract No. 4110029065 dated December 23, 2020 with completion period of 360 days from the issuance of service order.

Audit is of the view that due to weak internal controls and negligence of the management, loss of 190 M. Tons base oil valuing Rs 25 million (approximate) was sustained which could be avoided if repair and rehabilitation work was done in time.

The matter was reported to the management in November, 2021. The management in its reply stated that the project was tendered thrice and third time as per tender inquiry No. CF/14548-MA dated August 24, 2020, a contract was awarded to M/s Joint Engineering Services whose bid was lower than the first two tenders in November, 2019 and March, 2020. Project is in final stages of completion and likely to be completed within next one month. Audit is of the view that rehabilitation work was not initiated on time despite relevant General Manager reported the issue in September, 2017 and in April, 2018.

In DAC meeting held on February 01, 2022, management explained that no loss to PSO was incurred as payment was made based on the quantity received by PSO. Further, this pipeline rehabilitation had been completed.

The DAC directed the management to get the stated stance verified from Audit. During verification, it was found that rehabilitation work was not initiated on time despite relevant General Manager highlighted the issue in September, 2017 and in April, 2018 and tender process was initiated in November, 2019 after more than two years which was finalized with a delay of further one year. Moreover, payment to supplier was made for the quantity received from the vessel as per Certificate of Receipted Quantity prepared by an independent surveyor.

Audit recommends to explain the reasons for delay in repair of pipeline and probe the matter for fixing of responsibility and making good the loss.

[DP No. 1656]

Retail & Logistics

2.4.4.14 Operation of 217 illegal retail outlets without approval of DOE

According to Rule 15(1) and Article 4 (Form-K) of Schedule-I of Petroleum Rules, 1937, read with Sections 4, 5(2), 14(2), 21, 22, 29(1) Petroleum Act, 1934 and Section 22 of the General Clauses Act, 1897, Licenses for importation, transportation and storage (to store petroleum in a tank or tanks in connection with a pump outfit for fuelling motor conveyances) may be granted by the licensing authorities on payment of the fees as per Schedule-I of the Rules ibid.

During audit of PSO for the FY 2020-21, it was observed that PSO showed 3,114 retail outlets as operational for which licenses from the Department of Explosives had been obtained whereas DoE, OGRA and OCAC had more number of retail outlets working under the franchise of PSO. This variation in number of retail outlets is given below:

As per OGRA	As per OCAC	As per DoE	As per PSO	Difference				
				OGRA & OCAC	PSO & OCAC	PSO & DoE	DoE & OGRA	DoE & OCAC
3,469	3,539	3,239	3,114	-70	476	-125	-230	-300

As per record of DoE, 125 retail outlets were not operational, having valid franchise agreements, using logos of PSO but these retail outlets were not purchasing any volume or sufficient volume therefrom. OGRA and OCAC reported that there were 217 to 300 illegal retail outlets being operated without having valid licenses from the DoE and respective district authorities.

Audit is of the view that inaction of OMCs against inactive retail outlets and non-obtaining of licenses from DoE, resulted in illegal growth of retail outlets encouraging hoarding of local and sale of smuggled petroleum products.

The matter was reported to the management in October, 2021. The management in its reply stated that PSO has widespread network comprising of 3,500 retail outlets across Pakistan. As a business process, whenever PSO closes any outlet, it removes all its assets (if any) from the location and inform local District Administration and Explosives department for necessary action. There are illegal agencies in the market which are operative and use the logo of various OMCs including PSO selling illegal fuel. Time & again PSO has taken up the matter with the concerned authorities to take necessary action against such illegal retail outlets. Audit contended that PSO provided the list of 3,114 operational retail outlets to Audit whereas as per record of DoE, PSO has 3,239 retail outlets whereas the company is claiming its 3,500 retail outlets as per its Annual Report and OCAC. This showed that 230 to 300 non-active retail outlets are working without having license from DoE and purchasing petroleum products from PSO.

The DAC in its meeting held on February 01, 2022 directed the management to share the list of retail outlets provided to OGRA. During verification, as per record of sales to retail outlets from bulk oil depots, the Company supplied petroleum products to 3,456 retail outlets. Out of this, 225 retail outlets took meagre supplies (1 to 10 times) ranging from 5000 litres to 192000 litres during the whole financial year showing that these retail outlets are not taking supplies from the concerned OMCs and may involve in sale of smuggled products. Further, total number of retail outlets are not reconciled with the record of DOE and OGRA.

Audit recommends to probe the matter regarding retail outlets not taking supplies from the Company and consider cancellation of the franchise agreement with the non-active retail outlets besides reconciling the active retail outlets with OGRA / DoE.

[DP No. 1660]

2.4.4.15 Operation of 5,534 non-compliant tank lorries and implementation of automated queue management & scheduling system

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 S.R.O. 900(I)/2009, Technical Standards for the Petroleum Industry (Road Transport Vehicles, Containers and Equipment Used for the Transportation of Petroleum Products) which shall be applicable to all road transport vehicles, containers and equipment used for the transportation of petroleum products by the Oil Marketing Companies. All existing road transport vehicles, containers and equipment used for the transportation of petroleum products shall be up-graded to conform to the requirements of these standards within 05years from the date on which these standards are made effective.

During audit of PSO for the FY 2020-21, it was observed that the company was transporting PMG from Kemari, Karachi to upcountry depots at 22 approved locations through 8,197 enlisted tank lorries provided by 443 registered cartage contractors. Out of these tank lorries only 2,663 tank lorries were OGRA compliant whereas 5,534 tank lorries were not complying with the instructions of OGRA. There was no such arrangement for monitoring of their movements, accidents and actual delivery to destination. Similarly, petroleum products from bulk oil depots / terminals to retail outlets (which is termed as Secondary Transportation) were being transported through OGRA non-compliant tank lorries in violation of the technical standards of the SRO ibid.

Audit is of the view that this gross violation of Oil Rules, 2016 and non-compliance of technical standards resulted in dumping of petroleum products, supply of petroleum products to retail outlets of other OMCs. Further, it has also made the physical reporting of actual deliveries and digitization of data of whole oil supply chain difficult.

The matter was reported to the management in October, 2021. The management in its reply stated that Petroleum Division had allowed OGRA & NHA non-compliant tank lorries vide their letter No. DOM-6(7)/2020-P, till the commencement of multi product movement through White Oil Pipeline. The matter has been taken up with the OGRA vide our letter dated December 8, 2021

and the action will be taken accordingly. All the PSO tank lorries are equipped with Trackers. Audit contended that matter needs to be reviewed after inception of White Oil Pipeline to assess how much tank lorries were required for transportation of petroleum products.

In DAC meeting held on February 01, 2022, the management explained that PSO has 3,200 OGRA and NHA compliant tank lorries which are sufficient to meet the need of PSO. However, the tank lorries which are termed as non-compliant also conformed to the safety standards as per government issued fitness certificates as well as 3rd party inspection report. The company also took up the matter with the OGRA however, its validation of revised requirement of tank lorries is pending.

The DAC directed the management to pursue the matter with OGRA for re-assessment of requirement for tank lorries after inception of White Oil Pipeline for multi-product movement.

Audit recommends to pursue the matter with OGRA for assessing the quantity of tank lorries required after inception of White Oil Pipeline.

[DP No. 1662]

2.5 Sui Northern Gas Pipelines Limited

2.5.1(A) 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 7.043 million consumers in northern and central Pakistan through an extensive network of pipeline (145,476 KMs) in Punjab, Khyber Pakhtunkhwa and Azad Jammu & Kashmir.

(B) Comments on Company Performance

(Rs in million)

Details	2020	2,019	2,018	2,017	2,016
Sales	618,527	684,625	446,765	319,696	239,636
Add / (Less): Tariff adjustment / GDS	126,027	69,912	57,016	26,612	11,010
Net Sales	744,555	754,538	503,782	346,308	250,646
Cost of gas sold	690,218	718,742	476,785	326,610	246,424
Gross Profit	54,336	35,796	26,996	19,699	4,222
Other operating income	19,163	18,512	14,159	10,993	11,897
Operating expense	13,547	12,833	12,248	12,072	11,635
Finance Cost	48,975	25,776	10,806	5,350	4,403
Other Charges	707	3,043	2,626	729.719	220.870
Profit / (Loss) before taxation	8,416	11,149	15,475	12,539	(139)
Dividend %	40.00	35.00	70.50	60.00	
No. of employees	8,872	8,881	9,061	9,184	9,203
Consumers in Numbers	7,043,147	6,727,073	6,296,662	5,691,743	5,271,039
T&D Network in KM)	145,476	139,054	131,192	119,652	111,790

SNGPL is facing the problems of unabated UFG losses, non-finalization of GSPA for RLNG with GPPs / IPPs and accumulation of huge receivables / payables especially against RLNG coupled with huge pendency of legal cases.

Due to aggravated demand supply gap of RLNG, SNGPL is confronted with issue of selling of RLNG by identifying new consumers.

2.5.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 211,998.909 million were raised in this report during the current audit of SNGPL. This also includes recoverable amount of Rs 102,849.752 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Non-Production of Record (1 para)	-
2	Irregularities	-
A	UFG Losses	42,436.813
B	Receivables Management	57,016.637
C	Project Management	55,967.617
D	Regulatory Affairs	56,336.000
E	HR / Employee Related Irregularities	84.320
3	Value for Money and Service Delivery Issues	111.462
4	Others	46.060

2.5.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	% 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	39	16	71
2011-12	25	16	09	64
2012-13	10	05	05	50
2013-14	17	14	03	82
2014-15	10	1	10	10
2015-16	17	08	09	47

2016-17	39	31	08	79
2017-18	10	05	05	10
2018-19	10	03	07	5
Total	**371**	**270**	**102**	**73**

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

2.5.4 Audit Paras

2.5.4.1 Non-Production of Record

Section 14(2) of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001 states that 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 the Public Accounts Committee directives, issued vide OM No. F-10(1)/2000/2004-PAC dated June 3, 2004 requires 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 2020-21, the certain record / information was requisitioned for audit scrutiny but the same was not provided despite repeated verbal / written requests. The detail is as under:

Req. No.	Sr. No.	Description	Remarks
1	8	Annual Final Accounts for FY 2020-21	-
	95	Pay Roll showing details of all allowances and deductions of all Executives and SNE Employees in MS excel.;	Grade VII & above not provided
5	-	Copy of the minutes / agenda of meetings of the BoD and its committee requisitioned vide letter No.05- DGAPNR/FAT-VI /Misc. dated October 20, 2021	-

Audit is of the view that non-production of record and refusal to provide the record / information was violation of Section 14(2) of the Auditor General's Ordinance 2001 and the directives of PAC. Due to non-provision of auditable record, authenticity of expenditure could not be ascertained.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 stated that minutes of the BoD were provided for review of Audit team and payroll of majority of employees were also provided. The Annual accounts will be provided on finalization.

The DAC in its meeting held on February 01, 2022 directed the management to provide the annual financial accounts for the FY 2020-21, salary

slips of Grade seven and above, copies of minutes / agenda of BoD requested vide letter dated October 20, 2021. No further progress was reported till finalization of this report.

Audit recommends that responsibility may be fixed on persons responsible for the production of record.

[DP No. 1706]

UFG Losses

2.5.4.2 Loss due to UFG beyond permissible limit – Rs 11,323 million

According to Clause 21.1 of the License of SNGPL issued by OGRA vide No.NG-001/2003 dated 3rd September 2003, 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. Authority may fix UFG target separately for each regulated activity.

During audit of SNGPL for the FY 2020-21, it was observed that OGRA allowed UFG losses @ 6.98 % for the FY 2019-2020 but the company recorded UFG losses up to 12.32% amounting to Rs 26,133 million. Out of this, an amount of Rs 14,810 million on account of UFG losses passed on to consumers whereas the company bore the remaining UFG losses of Rs 11,323 million.

Audit is of the view that weak internal controls resulted in in-effective implementation of UFG reduction plan and KMI(s) causing loss of Rs 11,323 million.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 stated that as a result of effective implementation of KMIs and UFG related activities, UFG losses had substantially been reduced from 44268 MMCF as on May, 2020 to 31,193 MMCF as on May, 2021 showing the reduction of 13,075 MMCF as percentage of UFG had reduced from 12.31% as on May, 2020 to 8.78% as on May, 2021 showing a reduction of 3.53%.

The DAC in its meeting held on February 01, 2022 directed the management to reduce UFG losses to bring it within the allow limits of OGRA

and ensure effective implementation of KMIs. No further progress was reported till finalization of this report.

Audit recommends to ensure effective implementation of UFG reduction mechanism and KMIs to minimize UFG losses.

[DP No.1620]

2.5.4.3 In-ordinate delay in the disposal of gas theft cases – Rs 11,205.51 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 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 2020-21, it was observed that 1,378 theft cases involving Rs 11,205.51 million were pending in different courts of law / gas utility courts since 2009-10. Out of 1,378 recovery suits, 60 cases involved amount above Rs 50 million. In-ordinate delay in the disposal of cases testifies the poor performance of the Law Department. Inordinate delay in disposal of recovery suits resulted in stuck up of an amount of Rs 11,205.51 million.

Audit is of the view that slack pursuance by Law Department in addition to company's panel of litigation cases resulted in huge pendency in different courts of law and gas utility courts.

The matter was reported to the management in October, 2021. The management in its reply dated January 28, 2022 stated that these cases represent litigated consumers accumulated over period of time and are being pursued at various level vigorously.

The DAC in its meeting held on February 01, 2022 directed the management to share the status of these cases with Audit and pursue the cases vigorously in the Court of Law. No further progress was reported till finalization of this report.

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

[DP Nos. 1708 & 1636]

2.5.4.4 Wasteful and unjustified expenditure on UFG control related activities – Rs 3,880.38 million

According to Section III of UFG study (approved by OGRA and circulated to SNGPL for execution), to address the issue of UFG losses, a structured UFG management and control strategy was formulated and a set of 30 Key Monitoring Indicators (KMIs) have been introduced. Furthermore, the annual UFG allowance is linked to the achievement of these KMIs.

During audit of SNGPL for the FY 2020-21, it was observed that the management incurred Rs 3,638 million in FY 2019-20 on UFG related activities and claimed 99.9% achievement of KMIs was claimed for the FY 2019-20. OGRA, however, did not agree with the claim of the company and allowed scoring of 76.15 % against claimed KMI score of 99.9 % and determined UFG at 12.32% for the FY 2019-20. Further, UFG losses increased from 10.9% in FY 2017-18 to 12.32% in FY 2019-20.

The management incurred expenditure of Rs 4,102.62 million during FY 2020-21 on UFG control activities. Out of this amount Rs 3,880.38 million were found unjustified and irrational when compared with job activities. Expenditure of Rs 2,018.33 million was incurred against repair and maintenance of vehicles whereas the company was using hired vehicles (Suzuki Bolan) for its field operations and making payment of Rs 1,150/day including running and maintenance cost. Similarly, Rs 1,047.26 million was incurred under the head 590 contract payments and booked against jobs relating to rectification of above ground leak, re-inspection of disconnected domestic consumers and vigilance of domestic, commercial and industrial consumers etc., despite the fact that all such activities were performed by the company employees. This resulted in unjustified/ irrational expenditures of Rs 3,880.38 million.

Audit is of the view that UFG reduction plan, UFG control and KMIs implementation activities were carried out ineffectively, thus, resulted in wasteful expenditure of Rs 3,880.38 million.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 stated that UFG control activities required to be carried out annually for reducing UFG and operational and regulatory requirement etc. that require the budget allocation. UFG losses of the company had been reduced considerably by 13,075 MMCF which is 3.53% as on May, 2021.

The DAC in its meeting held on February 01, 2022 directed the management to submit reply specifically with respect to expenditure on UFG related activities. DAC further directed to reduce UFG losses to bring it within the allow limits of OGRA and ensure effective implementation of KMIs. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides justify the wasteful expense incurred on the UFG reduction plan, UFG control activities and KMI implementation with empirical data.

[DP No. 1673]

2.5.4.5 Loss due to loose control over SMS – Rs 13,657.15 million

According to Clause 09 of UFG Manual compilation of monthly gas sales reconciliation reports SMS/Regions Wise to ensure action in case of identified grey areas was the responsibility of UFG control Department. Such areas with high %age loss should be focused to have proper control over UFG losses. The gas in Distribution System was measured at Sales Meter Station (SMS) and then was transferred to Town Border Stations (TBSs) and from where the gas was provided to end consumers (Consumer Meter Stations).

During audit of SNGPL for the FY 2020-21, it was observed that the management failed to control the UFG losses during FY 2020-21 relating to various SMSs having UFG ranging from 8 % to 100 % and suffered a loss of Rs 13,657.15 million due to extra ordinary UFG on these SMSs. The management neither took corrective action nor did special vigilance on these SMSs. Moreover, SMS reconciliation position showed that at 48 SMSs, 113,499.76 MMCF of gas passed but the consumption stood at 114,644.65 MMCF which was around 1,144.48 MMCF more than the gas passed.

Audit is of the view that due to in-effective controls, UFG remained above the UFG benchmark at 177 SMS i.e., ranged from 8 % to 100 %.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 stated that as a result of effective implementation of KMIs and UFG related activities, UFG losses were reduced by 13,075 MMCF which was 3.53%. The management was already working on segmentation of loop SMS clusters for better control and visibility.

The DAC in its meeting held on February 01, 2022 directed the management to get the stated stance verified from audit and focus on areas / SMSs prone to high UFG. No further progress was reported till finalization of this report.

Audit recommends to inquire the reasons for extra ordinary UFG losses on the SMSs having higher percentage and fix responsibility against the persons at fault, besides taking corrective measure at SMSs where gas consumed more than the available quantity.

[DP No. 1675]

2.5.4.6 Loss on account of gas theft by various customers – Rs 1,018.197 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 illegal restoration of gas supply."

During audit of SNGPL for the FY 2020-21, it was observed that an amount of Rs 1,018.197 million was involved in 812 gas theft cases out of which 244 cases pertain to direct bypass / direct use and self-reconnection. Recovery from these consumers was neither made nor steps were taken effectively to stop pilferage of gas. Further, management failed to complete procedural formalities in theft cases such as disconnection, assessment of gas charges, issuance of demand, scrutiny from Sales Department, authorization from Law Department and filing of criminal suits by Billing Department etc. within stipulated period.

Audit is of the view that due to weak network surveillance and defective mechanism to detect direct use / direct bypass well in time resulted in delayed

detection of illegal gas connections and pilferage of gas valuing Rs 1,018.197 million.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 stated that an amount of Rs 173 million had been recovered from active and disconnected consumers respectively. Recovery suit against disconnected consumer had been filed except 96 cases which were under process of disconnection.

The DAC in its meeting held on February 01, 2022 directed the management to get the recovered amount verified from Audit besides expediting recovery from the remaining consumers. DAC further directed to initiate criminal proceedings against culprits involved in theft of gas through direct tapping. During verification recovered amount of Rs 60.922 million was verified by Audit leaving a balance of Rs 957.275 million.

Audit recommends to implement the decision of DAC besides probe the matter regarding connivance of staff of SNGPL.

[DP Nos. 1611 & 1668]

2.5.4.7 Loss due to gas theft by non-consumers - Rs 650 million

As per Clause(e) of OGRA letter regarding procedure for dealing with theft of Gas cases dated August 16, 2005, the direct tapping including 'self-reconnecting / connection cases shall be checked by company's vigilance team on receipt of any information, preferably in association with a magistrate or judicial officer and police / army / paramilitary personnel'.

During audit of SNGPL for the FY 2020-21, it was observed that the management detected gas theft of 425.32 MMCF gas valuing Rs 650 million by non-consumers. However, the management neither made any effort for recovery nor pursued criminal proceedings against these pilferers. This resulted in loss of Rs 650 million.

Audit is of the view that weak internal controls resulted in non-initiation of action for gas theft against non-consumers, causing loss of Rs 650 million to the company.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 explained that company is

making all out efforts to curtail the gas pilferage by non-consumers through increased vigilance and as a result of continuous efforts volumetric loss against non-consumers had been decreased to great extent i.e., from 3,355 MMCF in the FY 2017-18 to 425 MMCF in the FY 2020-21.

The DAC in its meeting held on February 01, 2022 directed the management to pursue the criminal proceedings against non-consumers and expedite the recovery. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1609]

2.5.4.8 Non-recovery of gas theft charges evaluated by Head Office Evaluation and Detection Committee – Rs 350.656 million

According to Clause 13.1 of SNGPL Billing Manual, 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 2020-21, It was observed that management reported only 07 theft cases involving an amount of Rs 350.656 million out of total questioned cases detected by the regional offices and evaluated by the Head Office Detection and Evaluation Committee. However, even after lapse of more than one year no action has been taken by the management. The detail is as under:

(Rs in million)

Sr. No.	Date	Region	Consumer Name M/s	Consumer No.	Amount
1	12.06.2020	Lahore	Aziz Enterprises (2nd Case)	2501741000	16.794
2	13.07.2020	Lahore	Tanvir Sadiq	29241410009	68.582
3	20.07.2020	Lahore	Lahore Spinning Mills	1141417394	144.562
4	13.08.2020	Mardan	Baizai CNG	67952930005	22.409
5	24.09.2020	Islamabad	Sun Rise CNG	89537522081	14.404
6	11.11.2020	Lahore	Quetta Textile Mills	6413741000	36.578
7	11.11.2020	Lahore	Amjad Textile Mills	5930741000	47.327
				Total	**350.656**

Audit is of the view that ineffective monitoring by the management resulted in non-recovery of gas theft charges amounting to Rs 350.656 million.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 explained that action was taken against the culprits i.e., FIRs were registered and recovery suit had also been filed. Further an amount of Rs 69 million was recovered.

The DAC in its meeting held on February 01, 2022 directed the management to get the recovered amount verified from Audit and pursue the cases vigorously in the court of Law. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1619]

2.5.4.9 Non-recovery of gas pilferage charges from M/s Badar CNG - Rs 323.26 million

As per clause D-3 of Procedure for dealing with the theft of gas cases issued by OGRA vide its letter 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 illegal restoration of gas supply. As per Clause 18.22 of Billing Manual, to avoid any possibility of pilferage of gas, CMS and other accessories installed at the premises of disconnected consumers shall invariably be removed immediately after three months of disconnection of gas supply. Fortnightly inspection of such consumer's premises may also be undertaken specially of disconnected industrial and commercial consumers.

During audit of SNGPL for the FY 2020-21, it was observed that M/s Badar CNG, Darya Khan Road, Bhakar was found involved in pilferage of gas resultantly SNGPL management registered FIR No. 402/13 against the pilferer. Gas connection, however, was restored on December 22, 2017. Subsequently, gas losses of SMS Bhakar were suddenly increased. Prior to restoration of gas connection of the said consumer, average loss of the SMS was 1.7 MMCF/month from January, 2016 to November, 2017 which rose remarkably to 7.3 MMCF/month from December, 2017 to January, 2020 but the management did not take any notice of the unusual increase in UFG during the period. Raid was

conducted on February 26, 2020 by the team of SNGPL at the premise of above consumer and detected pilferage of gas through direct tapping of 2-inch dia. This bypass line was buried in the reinforced cement concrete of CNG room roof leading to the conclusion that this was managed from day one during construction of CNG station. Meter was disconnected on February 27, 2020 and case was forwarded to the Regional Detection & Evaluation Committee for evaluation of theft charges. The committee after thorough scrutiny of record calculated the recoverable volume of 49,471.387 HM3 amounting to Rs 319 million. The management filed a recovery suit in gas utility court besides registering FIR. Further, as per current billing history of the consumer amount Rs 323.26 million is recoverable.

Audit is of the view that unusual UFG occurred at SMS Bhakar but management did not take action in time which resulted in loss of Rs 323.26 million.

The matter was reported to the management in October, 2021. The management in its reply dated January 28, 2022 explained that all possible measures were taken including lodging of FIR and filing of recovery suit. Culprit was declared as proclaimed offender by the court and arrest warrant of the accused was issued. Recovery suit had been decreed in favour of the Company.

The DAC in its meeting held on February 01, 2022 directed the management to pursue the case vigorously in the court of Law. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides fixing responsibility for delay in detection of illegal network.

[DP No.1630]

2.5.4.10 Non-recovery of gas pilferage charges from M/s Karapa Plaster of Paris – Rs 28.66 million

As per clause D-3 of Procedure for dealing with the theft of gas cases issued by OGRA vide its letter 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 illegal restoration of gas supply. As per Clause 18.22 of Billing Manual, to avoid any possibility of pilferage of gas, CMS and other accessories installed at the premises of disconnected

consumers shall invariably be removed immediately after three months of disconnection of gas supply. Fortnightly inspection of such consumer's premises may also be undertaken specially of disconnected industrial and commercial consumers.

During audit of SNGPL for the FY 2020-21, it was observed that M/s Karapa Plaster of Paris were found involved in theft of gas by meter tampering on March 07, 2018, and again in July 08, 2019 via direct tapping, resultantly an FIR No. 462 (C) / 109 was lodged against him. Further, the huge explosion occurred on August 28, 2020 due to leakage from an illegal tap / connection from SNGPL's distribution main supply, therefore management again lodged an FIR against the owner of the factory. The management has not taken effective measure for a recurring case of gas theft. Finally, Head office Detection & Evaluation Committee calculated recoverable volume of 5,506.41 HM^3 amounting to Rs 28.66 million.

Audit is of the view that due to weak network surveillance and defective mechanism to detect direct tapping resulted in delayed detection of direct by-pass. The management may also clarify either it was a residential building or a factory premises.

The matter was reported to the management in October, 2021. The management in its reply dated January 28, 2022 stated that action had been taken against the culprit i.e., FIR was registered and recovery suit had also been filed.

The DAC in its meeting held on February 01, 2022 directed the management to pursue the case vigorously in the court of Law. No further progress was reported till finalization of this report.

Audit recommends to inquire the matter regarding possible collusion of the staff of SNGPL with the habitual pilferer and fix responsibility for delay in detection of illegal tapping besides recovering the pilferage charges.

[DP No.1632]

2.5.4.11 Late detection of illegal network and installation of undocumented / fake domestic meters

As per Clause 6.5 of Billing Manual, it is the duty of the meter reader to check / report violation of gas supply contracts, e.g., misuse of domestic gas connection for commercial purposes, un-authorized extension of gas supply,

suspected gas pilferage case etc. to sales and distribution departments respectively for their action. As per procedure for dealing with theft of gas cases issued by the OGRA vide letter dated August 16, 2005, 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, as per provision of OGRA Ordinance and Rules / Regulations made there under.

During audit of SNGPL for the FY 2020-21, it was observed that illegal service lines were installed in two streets of Abdullah Garden Chak 73 J.B Faisalabad. Illegal service lines were detected which was removed on May 16, 2019. Pipeline and related material were forfeited. Moreover, illegal service lines were also installed in the area of B-17 MPCHS Housing Society Islamabad at 38 houses by violating the merit order and without the completion of due legal process.

Audit is of the view that weak network surveillance and defective mechanism to detect laying of illegal network in time, resulted in delayed detection of illegal network of pipeline and undocumented consumers.

The matter was reported to the management in October, 2021. The management in its reply dated January 28, 2022 explained that action was taken and illegal network removed. Recovery of Rs 1.02 million was also made in Islamabad cases.

The DAC in its meeting held on February 01, 2022 directed the management to take appropriate action against the employees involved in installation of illegal meters. The DAC further directed to initiate criminal proceedings, pursue the FIR / legal action vigorously and get verified the recovered amount of Islamabad Region from Audit. No further progress was reported till finalization of this report.

Audit recommends to fix responsibility regarding late detection of illegal network by the staff of SNGPL and ascertain the exact volume of theft by consumers / non-consumers beside recovery of the same

[DP No. 1713]

2.5.4.12 Non integration of industrial consumers with SCADA System

OGRA vide its letter dated November 06, 2015 and vide Para No. 7.1.7 FRR 2015-16 allowed Rs 15,645 million inclusive of Rs 4,383 million for machinery and construction equipment etc., of SCADA System.

During audit of SNGPL for the FY 2020-21, it was observed that in the minutes of the 39th Risk management & UFG committee minutes (Item 7.9), management stated that out of around 4,000 industrial units approx. 1,800 units were being monitored on-line while around 480 were integrated with SCADA while process for procuring 1600 smart meters for industrial units were underway for installation on the remaining units. Further, the members pointed out that while analysing the online data by Internal Audit Department, certain industrial consumers were found involved in using over and above contracted load violation. Further, Industrial EVC meters were not replaced with Smart EVC meters by June, 30, 2021.

Audit observed that all the industrial consumers had not yet been fully integrated with the SCADA System and due to non-integration of consumers with the system, UFG remained beyond allowable limit over the years as detailed below:

(Rs in million)

FYs	UFG Volume (MMCF)	Actual UFG %	Amount of UFG Losses	Disallowed Amount
2010-11	74,591	11.21	19,105	7,178
2011-12	68,842	10.20	19,839	6,269
2012-13	71,252	11.17	22,817	13,917
2013-14	61,510	10.57	21,352	12,262
2014-15	57,229	10.97	19,729	11,639
2015-16	46,652	9.21	14,698	7,518
2016-17	39,547	8.07	12,338	5,448
2017-18	49,883	10.90	17,649	6,356
2018-19	52,930	11.94	25,470	10,698
2019-20	48,256	12.32	26,133	11329
	570,692		**199,130**	**92,614**

Audit is of the view that due to the failure of management in integrating the industrial consumers with the SCADA system, UFG could not be controlled and it remained beyond allowable limit.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 explained that company is

targeting to integrate all industrial consumers with SCADA by June 30, 2022. Management further explained that in the first three phases 1,839 Industrial Units were integrated with SCADA system. Moreover, during on-going 4th phase of this project, 788 industrial units were integrated which resulted in total of 2,627 units, remaining 944 number of industrial units shall be integrated to SCADA system by June 30, 2022.

The DAC in its meeting held on February 01, 2022 directed the management to get the stated facts verified from Audit and provide the updated list of integrated industrial unit within a week besides expedite the integration of remaining industrial unit. DAC further directed to provide the detail of machinery and equipment procured and capitalized for SCADA project. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1676]

Receivables Management

2.5.4.13 Non-recovery of gas charges from active and disconnected consumers / defaulters - Rs 13,474.27 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 2020-21, it was observed that the management failed to recover outstanding gas charges of Rs 38,226.4 million (including GIDC Rs 26,988 million) from 1,642 active consumers. The management did not retain sufficient security deposits 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 gas charges amounting to Rs 2,235.87 million in 245 disconnected cases. This resulted in non-recovery of amount aggregating to Rs 13,474.27 million excluding GIDC.

Audit is of the view that due to negligence of the management, outstanding dues of Rs 13,474.27 million could not be recovered from the defaulters.

The matter was reported to the management in October, 2021. The management in its reply dated January 28, 2022 reported that there were no outstanding arrears against active industrial consumer other than litigation i.e., GIDC of Rs 26,988 million, GST, tariff issues and LPS. The management further, explained that amount of Rs 34 million was recovered from commercial consumers.

The DAC in its meeting held on February 01, 2022 directed the management to get the stated stance verified from Audit within two days, pursue court cases relating to GIDC and file recovery suits against disconnected consumers. During verification recovered amount of Rs 7.967 million was verified by Audit leaving a balance of Rs 13,466.30 million.

Audit recommends to implement the decision of DAC besides taking measures for expeditious recovery.

[DP Nos. 1618, 1622, 1633 & 1711]

2.5.4.14 Non-recovery of cost of RLNG diverted to domestic sector in winter season - Rs 27,240 million

As per ECC decision vide case No. ECC-375/45/2020 dated October 7, 2020, OGRA provisionally allowed the recovery of RLNG revenue shortfall considering the month-wise actual RLNG volume diverted in the domestic / commercial sectors by SNGPL and any amount available in the deferral account would also be adjusted while actualizing the RLNG sale price, subject to verification of volumes supplied to domestic and commercial consumer by OGRA. OGRA may create a specific head under the RLNG sale price for charging the diversion cost in a staggered manner.

During audit of SNGPL for the FY 2020-21, it was observed that ECC of the Cabinet approved policy guidelines on October 7, 2020, for making a segment in RLNG price for RLNG diverted to domestic consumers in winters. The recovery of differential amount was to be decided by OGRA, subject to verification of volumes supplied to domestic and commercial consumer. The company sold RLNG having differential amount of Rs 27,240 million (difference between RLNG price and domestic tariff) through diversion to its domestic consumers during FY 2020-21. 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. Further, an amount of

Rs 19 billion and Rs 54 billion for the FY 2018-19 & 2019-20 was also outstanding on account of divergence respectively.

Audit is of the view that due to systemic weakness and non-provision of exact volume of RLNG to OGRA resulting in non-recovery of Rs 27,240 million.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 explained that RLNG was being diverted to domestic sector pursuant to ECC decision. The matter is pending for implementation with OGRA.

The DAC in its meeting held on February 01, 2022 directed the management to pursue the matter with OGRA. No further progress was reported till finalization of this report.

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. 1614]

2.5.4.15 Non-recovery of long outstanding gas charges from consumers of Power, Fertilizer and Cement Sector - Rs 12,902.22 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 Billing Manual, security from disconnected consumers (all categories) should be deposited before re-connecting their gas supply.

During audit of SNGPL for the FY 2020-21, it was observed that the management failed to recover the outstanding amount of gas charges of Rs 11,519.48 million from the consumers of Power, Fertilizer and Cement (PFC) sector and amount of subsidy to M/s Agri tech Rs 655 million & M/s Fatima fertilizer Rs 880 million. This resulted in non-recovery of outstanding gas charges from consumers of Power, Fertilize and Cement Sector of Rs 12,902.22 million.

Audit is of the view that due to negligence of the management, outstanding dues of Rs 12,902.22 million could not be recovered from the defaulters.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 stated that undisputed arrears amounting to Rs 12,673 million had been recovered. Remaining amount Rs 231 million pertains to disconnected sub-judice consumers. During verification out of this, recovered amount of Rs 11293.22 million has been verified by Audit leaving a balance of Rs 1,609 million.

The DAC in its meeting held on February 01, 2022 directed the management to get the stated facts verified from Audit bedsides pursuance of court cases.

Audit recommends to implement the decision of DAC.

[DP No.1671]

2.5.4.16 Unjustified booking of receivables against RLNG GPPs consumers on disputed amount - Rs 2,386 million

According to International Accounting Standard (IAS) 18, recognition of an item as revenue means that probable future economic benefit associated with the item will flow to the entity, and the amount of revenue can be measured with reliability.

During audit of SNGPL for the FY 2020-21, it was observed that the management booked revenue of Rs 2,386 million for the FY 2019-20 under Take or Pay arrangements with Government Power Producers (“GPPs”). The total revenue amounting to Rs 24,641 million was recognized from July 01, 2017 to June 30, 2020 by issuing Take or Pay invoices to GPPs due to failure in consumption of RLNG by the GPPs.

Audit is of the view that due to departure from accounting and reporting standards and continuous raising of disputed invoices resulted in accumulation of huge receivables. Disputed amount cannot be booked as receivables till the resolution of the conflict.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 stated that pursuant to expert

determination in favour of SNPGL by Supreme Court judge M/s NPPMCL referred the matter to LCIA which has decided the matter against the Company. The company has filed the appeal against the decision. In case of QATPL award of LCIA is awaited.

The DAC in its meeting held on February 1, 2022 directed the management to pursue the court case vigorously. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC and revisit the policy of booking of disputed amounts as receivables.

[DP No. 1585]

2.5.4.17 Non-recovery of gas charges decreed in favour of the company from consumers / defaulters – Rs 332.18 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 2020-21, it was observed that the management failed to recover gas charges of Rs 332.18 million from 103 consumers against whom recovery and declaratory cases have been decided in favour of the company.

Audit is of the view that due to negligence of the management, the gas charges of Rs 332.18 million could not be recovered from the defaulted consumers.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 stated that out of 373 consumers 34 execution petitioner had been sine die adjourned due to want of property documents. Remaining cases are being pursued vigorously.

The DAC in its meeting held on February 01, 2022 directed the management to pursue the court cases vigorously. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides taking measures for expeditious recovery.

[DP No.1669]

2.5.4.18 Shortfall in security deposits of industrial consumers - Rs 234.697 million

As per Clause 14.1.3(a) of SNGPL Billing Manual, the security deposits of all industrial and commercial consumers be checked to ensure that in no case this amount is less than their anticipated consumption for three months on the basis of latest available data. All consumers who have not deposited adequate security should be asked to immediately deposit additional security, failing which they should be disconnected unless disconnection is barred by a court order. As per Clause 14.1.3(b) of ibid, it should also be ensured that all industrial, commercial and domestic consumers whose bills exceed the security deposit are disconnected immediately unless a stay order was issued by a court of law.

During audit of SNGPL for the FY 2020-21, it was observed that the management was responsible to maintain the security deposit of all consumers equal to three months average gas consumption. The security deposit was subjected to revision with change in gas prices or average consumption. However, the management failed to enhance security deposits amounting to Rs 234.697 million against 83 consumers.

Audit is of the view that weak internal controls resulted in shortfall in security deposits to the tune of Rs 234.697 million.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 stated that consumers agitated the security deposit before court of law hence the recovery could not be arranged due to sub-judice matter.

The DAC in its meeting held on February 01, 2022 directed the management to pursue the case vigorously in the court of law. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1608]

2.5.4.19 Non-resolution of dispute with the collecting banks – Rs 219.88 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. Further, according to Clause 12 of ibid, authorized the banks to collect gas bills on behalf of the company.

During audit of SNGPL for the FY 2020-21, it was observed that in 07 cases, recovery of Rs 135 million from various banks was lying pending on account of disputes related to remittances of collected amount from end consumers. Moreover, an amount of Rs 84.88 million was outstanding owing to delay in crediting the collected amounts. The management filed suits against the banks at banking courts and Gas Utility Courts but did not take concrete steps to pursue these cases effectively. This resulted in non-recovery of Rs 219.88 million.

Audit is of the view that due to negligence of the management, disputes for recovery of Rs 219.88 million could not be resolved.

The matter was reported to the management in October, 2021. The management in its reply dated January 28, 2022 stated that the cases represent litigated consumers which are being pursued.

The DAC in its meeting held on February 01, 2022 directed the management to pursue the court cases vigorously. No further progress was reported till finalization of this report.

Audit recommends to explain reasons for slack perusal of court cases besides pursuing the same vigorously.

[DP No.1684]

2.5.4.20 Non encashment of bank guarantee - Rs 202.39 million

According to Para 7.7.12 of SNGPL Billing Manual IT/MIS will prepare list of bank guarantee on quarterly basis and forward to Sales Department for their further action. Sales Department will hand over original bank guarantees to Accounts Department within 7 days for encashment under intimation to Billing

Department. Accounts departments will lodge the claim with bank within 7 days after receipt from Sales Department and ensure encashment of bank guarantee within two weeks from issuing bank after lodging claims. Accordingly Accounts section will adjust encashed bank guarantee to the outstanding amount appearing on gas charges as per priority set by company within 7 days.

During audit of SNGPL for the FY 2020-21, it was observed that bank guarantees amounting to Rs 202.39 million were required to be encashed before its expiry i.e., 2015 and onwards but the management failed to encash the bank guarantees. Hence, non-initiation of process for encashment of bank guarantees resulted in non- recovery of Rs 202.39 million.

Audit is of the view that negligence of the management resulted in non-encashment of bank guarantees amounting to Rs 202.39 million.

The matter was reported to the management in October, 2021. The management in its reply dated January 28, 2022 stated that three bank guarantees has been encashed, six had been resolved, three Bank guarantees were in GIDC settlement and sixteen were in court cases.

The DAC in its meeting held on February 01, 2022 directed the management to get the stated stance verified from Audit beside vigorously pursue the court cases. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides taking action against the persons at fault.

[DP No. 1683]

2.5.4.21 Non-recovery of insurance claims - Rs 25 million

According to Clause 10 of National Insurance Act, 1976, public property is to be insured with the Corporation only and all insurance business relating to, any public property, or to any risk or liability appertaining to any public property, shall be placed with the Corporation and no other insurer.

During audit of SNGPL for the FY 2020-21, it was observed that 1500 insurance claims amounting to Rs 25 million were pending with NICL. However, the management did not make any effort to finalize these insurance claims. This resulted in non-realization of insurance claims amounting to Rs 25

million. It is pertinent to mention that SNGPL was paying premium of Rs 300 million per annum for the insurance policies but was making minimal efforts to make good of the losses/damages occurred to the insured assets under the insurance policies.

Audit is of the view that weak internal controls resulted in non-realization of insurance claims amounting to Rs 25 million.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 stated that as per vigorous follow up number of outstanding claims had been reduced to 856.

The DAC in its meeting held on February 1, 2022 directed the management to share the detail of realized insurance claim and vigorously follow up the remaining case with NICL. No further progress was reported till finalization of this report.

Audit recommends to recover outstanding amount of insurance claims besides improving internal controls to avoid such instances in future.

[DP No. 1607]

Project Management

2.5.4.22 Non-completion of gas development work jobs within stipulated time – Rs 18,383.19 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. Furthermore, as per Para 13 of Cabinet Division's Development Wing Notification No.F.7 (2)(Dev)/2016 dated October 10, 2016, the executing agencies shall ensure that the schemes are completed within the same year and the approved cost. Further, as per Para 3.1 of Project Manual of SNGPL, Land section is required to arrange permissions / No Objection Certificates (NOCs) from outside agencies for pipeline crossings.

During audit of SNGPL for the FY 2020-21, it was observed that 340 development jobs having sanctioned cost of Rs 18,383.19 million were started during the FYs from 2013-14 to 2020-21, however, these jobs could not be completed after lapse of period ranging from 1 to 9 years. These jobs were required to be completed within same financial year but these were not completed within same financial years The delayed completion has caused not only cost overrun (cost to be borne by the Government) but also deprived the common households of the area of the utility. This resulted in non-completion of jobs having cost estimate of Rs 18,383.19 million.

Audit is of the view that due to bad project management, jobs were not completed in time.

The matter was reported to the department in November, 2021. The management in its reply dated January 28, 2022 stated that out of 340 jobs, 72 jobs were completed and commissioned, one job was cancelled and remaining jobs are at different stages of completion.

The DAC in its meeting held on February 01, 2022 directed the management to get the stated facts verified from Audit besides expediting the completion of the remaining jobs. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP Nos. 1586 & 1678]

2.5.4.23 Non-approval of jobs despite receipt of funds from Government - Rs 3,538.42 million

As per Clause 13.5.2 of Accounts Manual of SNGPL, section heads shall raise request for job numbers for obtaining management approval for incurring capital expenditure on construction works (pipeline).

During audit of SNGPL for the FY 2020-21, it was observed that in 107 cases (02 cases pertain to 100% cost) management sent to SNGPL Head Office for issuance of job numbers but despite lapse of considerable period these jobs were not approved which resulted in non-initiation of work of Rs 3,538.42 million.

Audit is of the view that due to weak project management and negligence, approval of jobs was not processed despite receipt of funds from Government.

The matter was reported to the management in October, 2021. The management in its reply dated January 28, 2022 stated that out of 107 cases, 12 jobs number had been issued while remaining jobs were not issued owing to moratorium of M/o Energy / OGRA. Audited contended that there was no justification for receiving funds from Government as no new gas schemes was to be undertaken.

The DAC in its meeting held on February 01, 2022 directed the management to get the stated stance verified from Audit. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1681]

2.5.4.24 Non-refund of savings to consumers in cost sharing jobs - Rs 611.21 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. Further, OGRA granted SNGPL a license No. NG-002/2003, on September 03, 2003 to undertake the regulated activities i.e., transmission of natural gas and distribution and sale of natural gas. As per condition No.5.2 of the Licensee, it is to be ensured the grant of 17.5% return on the value of its average net operating fixed assets for each financial year.

During audit of SNGPL for the FY 2020-21, it was observed that the management did not refund the savings from cost sharing jobs to consumers in 27 cases. The estimated cost of jobs amounting to Rs 1,497.85 million was received from consumers. These jobs were completed with actual expenditure of Rs 886.64 million with savings of Rs 611.21 million which was not refunded to the consumers and excess amount was capitalized. The record provided to Audit did not show refund of savings to consumers and reversal of excess amount transferred to “Capitalization of deferred credit against cost sharing jobs. This resulted in non-refund of savings and excess capitalization amounting

to Rs 120.734 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 department in November, 2021. The management in its reply dated January 28, 2022 stated that as per policy savings to the extent of un-laid pipeline are refunded to the consumer.

The DAC in its meeting held on February 01, 2022 directed the management to share the detail of sanctioned vs actual pipeline laid and get verified from Audit within two days. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP Nos. 1589 & 1635]

2.5.4.25 Over-estimation of GOP funded jobs in order to avail maximum Government funds - Rs 511.71 million

According to the Ministry of Petroleum letter dated July 26, 2008, the portion of funds equal to the requirement over the criteria specified for undertaking the schemes are provided by Federal Government whereas cost within criteria is borne by SNGPL from its own resources.

During audit of SNGPL for the FY 2020-21, it was observed that the management completed 201 jobs of laying pipeline by incurring actual expenditure of Rs 5,598.63 million. The budgeted cost of these jobs was Rs 8,157.19 million. This showed that there was a variation of Rs 2,558.56 million between the estimated cost and the actual cost incurred on these jobs out of which Government share was 20% of the total estimates, thus, jobs were over-estimated to obtain maximum funds from Government of Rs 511.71 million (approx.).

Audit is of the view that due to over-estimation of jobs, GoP share was inflated and excess funds of Rs 511.71 million were received by the management.

The matter was reported to the department in November, 2021. The management in its reply dated January 28, 2022 stated that these projects were

under progress and savings in individual jobs cannot be regarded as final savings until the completion of whole project. 201 job numbers pertained to several projects and savings can only be surrendered after the completion of these projects.

The DAC in its meeting held on February 01, 2022 directed the management to expedite the completion of projects and surrender the savings to GOP. No further progress was reported till finalization of this report.

Audit recommends to explain the reasons for preparation of inflated estimates besides surrender the same to the Government.

[DP Nos. 1617 & 1680]

2.5.4.26 Irregular award of work of rehabilitation / maintenance jobs to contractors without open competition - Rs 403 million

According to Rule 12(1) of PPRA Rules, 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. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency. Moreover, all procurement over three million Pakistani Rupees should be advertised on the Authority website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

During audit of SNGPL for the FY 2020-21, it was observed that management did not observe the PPRA Rules, 2004, in award of work of seven rehabilitation / maintenance jobs through open competition by advertisement in the press. This resulted in irregular award of work of Rs 403 million to the contractors.

Audit is of the view that bad contract management practices resulting in irregular award of rehabilitation / maintenance work to contractors without competition.

The matter was reported to the management in October, 2021. The management in its reply dated January 28, 2022 stated that due to emergency /

important nature of work the same was awarded to the contractors of the company as per approved procedure.

The DAC in its meeting held on February 01, 2022 directed the management to place the matter before BoD for regularization. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1710]

2.5.4.27 Non-completion of mutation of land of Rs 11.842 million and non-adjustment of advances - Rs 325.65 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 pipeline. After receiving award from Land Acquisition Collector, mutation in favour of company shall be carried out.

During audit of SNGPL for the FY 2020-21, it was observed that the management issued advances of Rs 337.492 million to Land Acquisition Collectors for purchase of land but only an amount of Rs 11.842 million was adjusted. However, the management could not complete the process of mutation of adjusted amount in favour of the company. This resulted in non-mutation of land amounting to Rs 11.842 million and non-adjustment of advances of Rs 325.650 million.

Audit is of the view that due to negligence on the part of management, advances were neither adjusted nor mutation were executed in favour of company.

The matter was reported to the department in November, 2021. The management in its reply dated January 28, 2022 stated that an amount of Rs 123 million had been adjusted leaving a balance of Rs 202 million against advances. As regards mutation of Rs 11.842 million is concerned the same had been done.

The DAC in its meeting held on February 01, 2022 reduce the para to the extent of Rs 123.310 million with the direction to expedite the adjustment of remaining amount Rs 202.341. DAC further directed the management to provide

the documentary evidence of mutation of land. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC

[DP No. 1590]

2.5.4.28 Non-recovery of excess cost from consumers on account of cost sharing jobs - Rs 145.37 million

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

During audit of SNGPL for the FY 2020-21, it was observed that the management failed to recover excess cost from consumers in 8 cost sharing jobs. These jobs having estimated cost of Rs 803.371 million were completed by incurring expenditure of Rs 948.750 million with excess expenditure of Rs 145.378 million. The excess cost was not recovered from consumers. This resulted in non-recovery of excess cost amounting to Rs 145.378 million from the consumers.

Audit is of the view that weak project / financial management resulted in non-recovery of excess cost amounting to Rs 145.378 million from consumers.

The matter was reported to the department in November, 2021. The management in its reply dated January 28, 2022 stated that out of 8 jobs pointed out by Audit, 4 jobs were completed within budget and in case of remaining 4 jobs, the recovery of excess amount is in process.

The DAC in its meeting held on February 1, 2022 directed the management to get the stated stance verified from Audit besides expediting the recovery of excess amount from the customers. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides recovery of excess cost.

[DP No. 1587]

2.5.4.29 Inadmissible charging / booking of expense to SDGs jobs - Rs 37.225 million

According to Para 15 of guidelines for executing SDGs jobs, "Expenditure shall not be incurred on purchase of equipment, vehicles, fixture, salaries, printing of diaries / calendars / banners, holding of official meeting and

dinners / parties". Similarly, no administrative overhead shall be charged by any agency for execution of the SDG schemes.

During audit of SNGPL for the FY 2020-21, it was observed that the management charged / booked inadmissible expense under head 626 (vehicles hiring), 629 (allocation of vehicles) and 752 (tender advertisement). As per guidelines, these expenses were inadmissible for SDG jobs. This resulted in inadmissible booking / charging of expenses amounting to Rs 37.225 million.

Audit is of the view that due to weak internal controls inadmissible expenditure was included in the cost of SDG jobs in contravention to the above guidelines.

The matter was reported to the management in October, 2021. The management in its reply dated January 28, 2022 stated that the matter had been taken up with Director General (Gas), Ministry of Energy (Petroleum Division) to arrange clarification from the Steering Committee of the Cabinet. The response was awaited.

The DAC in its meeting held on February 01, 2022 directed the management to pursue the matter with Steering Committee of the Cabinet through DG (Gas). No further progress was reported till finalization of this report.

Audit recommends to take corrective action for reversal of booking of inadmissible expenses to these jobs and surrender the same to Government besides improving internal controls.

[DP No. 1592]

2.5.4.30 Pendency of recovery cases due to ineffective role of Law Department – Rs 32,000 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

During audit of SNGPL for the FY 2020-21, it was observed that there were 652 cases for recovery of Rs 32,000 million which were pending in different courts of law / Gas Utility Courts. Audit observed that the performance of Law Department was not satisfactory and that there were no specific criteria for gauging the performance of legal counsels and no success ratio / percentage was being maintained. No reason for pendency of these legal cases were shared and no corrective measures were taken resulting into loss of Rs 32,000 million.

Audit is of the view that negligence of the management resulted in ineffective pursuance and pendency of legal cases involving recovery of Rs 32,000 million.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 explained that these cases represent litigated consumers accumulated over period of time and were being pursued at various level vigorously.

The DAC in its meeting held on February 01, 2022 directed the management to share the status of these cases with Audit within two days and pursue the cases vigorously in the court of law. No further progress was reported till finalization of this report.

Audit recommends to explain reasons for delay in the disposal of legal cases and expedite the same besides devising a mechanism to carry out qualitative analysis of performance of legal counsels on panel. Further, the updated status of 652 cases involved such a huge amount provided to Audit.

[DP No. 1624]

Regulatory Affairs

2.5.4.31 Overstatement of differential margin on indigenous gas – Rs 34,449 million

According to Section 225 of the Companies 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 Natural Gas Tariff Rules, 2002, OGRA 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, Lahore for the FY 2020-21, it was observed that the company recognized revenue of Rs 81,329 million on account of differential margin from the Federal Government against indigenous gas. Out of this amount, Rs 34,449 million were booked against expenses like LPS payable to E&P companies amounting to Rs 32,254 million and other T&D cost of Rs 2,195 million which were disallowed by OGRA. However, these expenses neither formed part of final Revenue Requirement of SNGPL nor were declared as receivables from the Federal Government by OGRA. This resulted in overstatement of revenue on account of differential margin by Rs 34,449 million thus showing profit of Rs 5,997.709 million in company accounts.

Audit is of the view that weak financial controls resulted in overstatement of differential margin amounting to Rs 34,449 million.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 stated that out of Rs 34 billion an amount of Rs 32 billion represents LPS payable to gas producers on payment basis which is part of circular debt. The company had recognized this amount on accrual basis and believes that the settlement of this amount is part of circular debt. The company had taken up the matter with OGRA and is confident of the favourable decision. Audit contented that OGRA did not approve the LPS payable on accrual basis as expenditure against the Review Petition for the FY 2018-19.

The DAC in its meeting held on February 01, 2022 directed the management to pursue the review petition with OGRA. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1612]

2.5.4.32 Unjustified charging of indigenous gas volume on account of energy equivalence from indigenous gas consumers – Rs 9,077 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 2020-21, it was observed that management sold indigenous gas volume of 14,063 MMCF to RLNG consumers 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). Comingled RLNG and indigenous gas having reduced BTU value was transported through same pipeline. Indigenous gas valuing Rs 9,077 million was reduced for sales to indigenous gas consumers during the FY 2020-21. This extra volume shifted from indigenous gas segment to RLNG consumers to meet the BTU difference should have been borne by the RLNG consumers in line with ECC decision dated February 10, 2016 wherein ring fencing of RLNG business without affecting indigenous gas consumer was ensured. Sales value at prescribed price i.e., Rs 644.84 per MMBTU required to be recovered from RLNG consumers and other income of Rs 9,077 million be included in Final Revenue Requirement for the FY 2020-21. Petroleum Division intimated that swapping of gas has now been eliminated up to 95% and RLNG is directly transported through dedicated pipeline for sale to RLNG consumers in a DAC meeting held on January 4, 2021 for PAC meeting held on January 7, 2021 but the SNGPL management was charging energy equivalence volume to indigenous gas 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 management in November, 2021. The management in its reply dated January 28, 2022 stated that energy equivalence volume arises in balancing out RLNG and system gas purchases and sales.

The DAC in its meeting held on February 01, 2022 directed the management to provide the reconciliation of RLNG and indigenous gas purchased and sold in MMBTU to justify energy equivalence volume. No further progress was reported till finalization of this report.

Audit recommends to take up the matter with OGRA for making recovery of Rs 9,077 million from RLNG consumers or give equivalent relief to indigenous gas consumers in Revenue Requirement accordingly.

[DP No. 1677]

2.5.4.33 Reduction in sales volume to claim excess revenue requirement – Rs 6,568 million

According to Rule 17(c) of Natural Gas Tariff Rules, 2002 read with Section 8 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 OGRA 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 2020-21, it was observed that the management deducted huge volume of gas of 12,130 MMCF 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. Due to unexplained deduction in sales volume, the UFG was increased and sales revenue decreased which not only decreased the profit of the company affecting the FG being the major shareholder as well as other shareholders but also increased the Revenue Requirement and Prescribed Prices. This deduction decreased the sales revenue to the tune of Rs 6,568 million during the FY 2019-20 causing excess determination of Revenue Requirements and fixation of gas prices on higher side prejudice to the interest of the common consumer.

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 the management in November, 2021. The management in its reply dated January 28, 2022 stated that the unrecovered pilferage volume reversed in line with the guidelines set by OGRA and company practices in vogue since 2010. Moreover, the volume pointed out by Audit was accumulative volume till June 30, 2020 and as such does not represent reduction in UFG. Audit contended that whole volume was deducted from sales volume in the calculation sheet of UFG and this practice is continued since last many years. Due to this sales volume of indigenous gas reduced, ultimately UFG percentage was increased.

The DAC in its meeting held on February 01, 2022 directed the management to share the accounting and billing record relating to booking of pilferage volume as sales / receivable which were reversed from sales to Audit. No further progress was reported till finalization of this report.

Audit recommends to explain reasons for reduction in sales volumes in UFG sheet besides taking remedial measures under intimation to Audit.

[DP No. 1667]

2.5.4.34 Inflated profit by overstating differential margin on account of RLNG – Rs 4,845 million

According to International Accounting Standard (IAS) 18, recognition of an item as revenue means that probable future economic benefit associated with the item will flow to the entity and the its amount can be measured with reliability. Further, according to Section 225 of the Companies 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 Natural Gas Tariff 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 2020-21, it was observed that the company recognized revenue of Rs 44,698 million in the audited Annual Accounts for the FY 2019-20 on account of differential margin receivable from the Federal Government against RLNG. Out of this amount, Rs 4,845 million were booked on account of expenses e.g., Rs 3,583 million, Rs 1,254, and Rs 8 million was booked against depreciation, gas internally consumed and other expenses respectively. These expenses were disallowed by OGRA. This resulted in overstatement of revenue on account of differential margin by Rs 4,845 million. In this way, management inflated the profit to Rs 5,997.709 million in company accounts.

Audit is of the view that weak financial controls resulted in overstatement of differential margin amounting to Rs 4,845 million.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 stated that OGRA inadvertently

was not allowing full capacity payment with respect to RLNG network. The company had taken up the matter with OGRA and confident of the favourable decision.

The DAC in its meeting held on February 01, 2022 directed the management to pursue the matter with OGRA vigorously. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1615]

2.5.4.35 Unjustified expenditure on security services - Rs 1,018 million

As per Para 8.1.96 & 8.1.97 of ERR 2019-20, Authority directed to submit the detail security plan and deployment of the security personnel across its area of operation and rationalize its security requirements keeping in view overall security situation of the country which has now improved considerably compared to previous years.

During audit of SNGPL for the FY 2020-21, it was observed that OGRA vide Para 11.30 of FRR 2019-20 allowed security expenses of Rs 1,018 million against the claimed amount of Rs 1,264 million. The Authority vide Para 11.29 of ibid found no concrete justification for Rs 563 million reported under the sub-head of private security agencies. The company's security expenses were found increasing over the years, therefore, the Authority directed to rationalize these expenses and management was required to revisit the security needs of the company. Audit held that a comprehensive security plan should be developed and got approved by BoD with the intent to reduce the UFG losses. This resulted in unjustified security expenditure of Rs 563 million on private security agencies and non-rationalization of overall security expenses.

Audit is of the view that weak financial management resulted in non-rationalization & unjustified security expenditure.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 stated that a comprehensive exercise was carried out based on which number of guards were rationalized and company gradually reducing the overall security expenditure on account of private security guards.

The DAC in its meeting held on February 01, 2022 directed the management to submit a detail security plan and deployment of security personals region wise / location wise. The DAC further directed to share the complete security deployment comprising of all security companies & Government organizations for the FY 2019-20. No further progress was reported till finalization of this report.

Audit recommends that a comprehensive security plan should be developed and got approved by BoD with the intent to reduce the UFG losses besides rationalizing the expenditure under the head.

[DP No.1626]

2.5.4.36 Unjustified capitalization of operating fixed assets resulting in excess Revenue Requirement - Rs 379 million

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 2020-21, it was observed that M/s SNGPL vide para 6.6.2 & 6.6.4 of FRR 2019-20, requested to OGRA that an amount of Rs 1,923 million and 254 million were erroneously capitalized under the Measuring and Regulating assets against laying of Distribution Mains and System Augmentation & Head Office Reserves respectively. OGRA added the amounts under Distribution Mains without deducting from Measuring and Regulating Assets. Further, the request for capitalization was made without giving any justification or reference / financial year and without reduction of this amount from financial record of Measuring and Regulating assets etc. OGRA accepted the request of the petitioner without necessary scrutiny of the financial record. This resulted in unjustified capitalization of the assets in the operating fixed assets amounting to Rs 2,177 million and subsequent excess Revenue Requirement amounting to Rs 379 million.

Audit is of the view that unjustified capitalization allowed by the Authority in the operating fixed assets resulted in excessive Revenue Requirement of SNGPL to the tune of Rs 379 million (Rs 2,177 million x 17.43%).

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 stated that the subject amount referred by Audit were erroneously booked in different head of account. However, at the time of FRR, the error was duly identified and accordingly rectified at the time of FRR.

The DAC in its meeting held on February 01, 2022 directed the management to get the stated facts verified from Audit. No further progress was reported till finalization of this report.

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

[DP No. 1712]

2.5.4.37 Waiver of minimum 66% Take or Pay commitment in (TA-2) PPAs & GSAs of three RLNG Power Plants from January, 2022

As per ECC decision vide case No. ECC-/122/13/22012 dated October 3, 2012, RLNG was required to be supplied to public / private sector bulk consumers under firm contracts with Take or Pay clause.

During audit of SNGPL for the FY 2020-21, it was observed that the import of LNG was started in 2015 by PSO under long term (15 years) contract under Take or Pay. SNGPL / SSGC management started purchasing RLNG from PSO for onward sales to GPPs / IPPs and other industrial consumers. But no firm back-to-back contracts were finalized with Take or Pay clause with IPPs and contracts with GPPs were finalized only up to 66% Take or Pay instead of 100%.

As per minutes of BoD vide item No. 7265 (17.01), it was apprised by the management to the BoD that the ECC of the Cabinet decided that all the existing arrangement of RLNG of power plants will remain intact until the date when price review clause under the LNG sale purchase agreement takes it effect in year 2026. However, the Power Division moved a summary to CCoE in the month of September, 2020, wherein it was requested that minimum 66% Take or Pay commitment clause should be exempted from January, 2022. Further, the BoD of SNGPL in the meeting dated December 03, 2021 also allowed waiver of the minimum 66% take or pay clause for three Government owned GPPs.

Audit is of the view that with the removal of TOP clause liquidity of the company would be affected.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 stated that pursuant to ECC's decision, SNGPL BoD being competent authority agreed to waive off 66% take or pay commitment from the GSAs of the three RLNG power plants with effect from January 01, 2022.

The DAC in its meeting held on February 01, 2022 directed the management to share the decision of the ECC and SNGPL BoD.

Audit recommends to take steps to finalize the TA-1 between SNGPL, SSGC & PSO and back-to-back agreements with IPPs, GPPs and other industrial consumers and to finalize / execute the GSPA with PLL as well.

[DP No. 1672]

HR / Employee Related Irregularities

2.5.4.38 Irregular deduction of contribution without registration with EOBI – Rs 15.70 million and non-deposit of EOBI contribution – Rs 41.97 million

According to Section 9 & 9B of Employers & Insured Persons Under Employees' Old Age Benefits Rules 1976 "Contribution shall be payable every month by the employer of the Institution in respect of every person in his insurable employment, at the rate of six percent of his wages in the prescribed manner". Further, according to Section 11(i) "Every employer shall before expiration of thirty days from the day on which this Act becomes applicable to the industry or establishment in respect of which he is the employer, communicate to the Institution the name and particulars of the industry or establishment and of every insured person employed in the industry or establishment".

During audit of SNGPL for the FY 2020-21, it was observed that the management deducted EOBI contribution from contractors and company employees and made payment of Rs.15.70 million to EOBI without registration of labour with EOBI. It is also pertinent to mention here that an amount of Rs 41.97 million was also deducted but not yet deposited into EOBI. This resulted in irregular deposit of EOBI contribution of Rs 15.70 million without

registration of labour with EOBI and non-deposit of EOBI contribution of Rs 41.97 million. Further, the Management in DAC meeting dated January 13, 2022 stated that registration of employees with EOBI both regular and casual, is in process the same is required to be done at the earliest.

Audit is of the view that due to negligence on the part of management EOBI contribution was not credited to the concerned employees' account with EOBI.

The matter was reported to the management in October, 2021. The management in its reply dated January 28, 2022 stated that all the outstanding payment of EOBI had been deposited and all permanent employees were registered with EOBI as far as remaining employees both regular and casual, enrolment was under process.

The DAC in its meeting held on February 01, 2022 directed the management to expedite the registration of the remaining employees. No further progress was reported till finalization of this report.

Audit recommends that each employee / worker should be registered with EOBI and also make sure that the amount so deducted from the contractors /employees is deposited against the name of each employee registered with EOBI since the beginning of their employment.

[DP No. 1679]

2.5.4.39 Irregular appointments of engineers on contract basis – Rs 26.65 million

According to policy guidelines for contract appointment for posts in autonomous / semi-autonomous bodies, corporations, Public Sector Companies etc. owned and managed by the Federal Government. According to Para 14.7(ii), appointment may be made on contract basis by the prescribed appointing Authority after open advertisement of the vacancies for projects which have a limited life. The advertisement should indicate prescribed academic and professional qualification, experience, age, provincial/regional quotas, special quotas etc. where applicable, as per rules / Government policy. Further, as per Rule 14.7(v) of the ibid, the contract appointment, where justifies may be made for a period of two years initially.

During audit of SNGPL for the FY 2020-21, it was observed that the

management made contract appointments of 50 engineers in Head Office and in different regions for UFG control activities on contract basis without advertisement and adopting transparent competitive procedure. The contract appointments were made w.e.f July 25, 2019 and since then bi-annual extension have been granted till the time of finalization of this report.

Audit is of the view that contract appointments were made in violation of the above policy.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 stated that appointments / hiring on contract basis were made on merit in transparent manner following the procedure duly approved by BoD of the company.

The DAC in its meeting held on February 01, 2022 directed the management to expedite amendments in HR manual. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC and implement the Supreme Court decision as in the Atta-Ul-Haq Qasmi case with respect to the whole recruitment process.

[DP No. 1674]

2.5.4.40 Non-finalization of disciplinary cases by HR department

According to Para 110.3 of SNGPL HR Manual, the Company encourages all disciplinary issues to be handled as soon as they come to notice. Further, as per Para 115.1.5 of ibid, an enquiry officer will be required to complete the enquiry proceedings and submit report within 15 days but not later than 90 days except for valid reasons beyond control of Enquiry Officer.

During audit of SNGPL for the FY 2020-21, it was observed that 112 charge sheets on account of disciplinary issues were served upon the employees of different cadres by the HR department but no further action was taken against these employees. It is also pertinent to mention that some of the charge sheets were issued in 2011 but the disciplinary proceedings were not concluded.

Audit is of the view that ineffective HR management practices resulted in non-finalization of disciplinary cases against the employees despite lapse of considerable time.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 stated that inquiries were finalized ensuring that accused were provided the defence opportunity following natural justice. Out of 112 cases 56 inquiries have already been closed while 20 cases are pending due to stay from the court or de-novo inquiries. While remaining 36 were also under process.

The DAC in its meeting held on February 1, 2022 directed the management to expedite the finalization of pending inquiries besides pursue the court cases vigorously. No further progress was reported till finalization of this report.

Audit recommends to finalize the inquiry proceedings against the employees besides improving HR management to avoid such instances.

[DP No. 1610]

2.5.4.41 Non-initiation of action against employees involved in issuance of fake consumer IDs

According to Para 110.3 of SNGPL HR Manual, the Company encourages all disciplinary issues to be handled as soon as they come to notice. Where management undertakes disciplinary action, its intention is principally to ensure that breaches of the policy in case of under-performance are handled in a fair and uniform manner and without unnecessary escalation. Moreover, Para 115.1.5 of ibid states that an enquiry officer will be required to complete the enquiry proceedings and submit report within 15 days but not later than 90 days except for valid reasons beyond control of Enquiry Officer.

During audit of SNGPL for the FY 2020-21, it was observed that management issued explanation letter to 21 employees involved in issuance of fake ID consumer / applicant as detected in Harbanspura scam on July 12, 2021 but the management did not take further action against the employees. Management of SNGPL is managing customer's applications data though Oracle system. However, the data management protocols were not adhered to which resulted in issuance of fake consumer ID / Application. Issuance of fake IDs not only deprived the genuine applicants from their rights to get connections as per merit but also compromised the integrity of the ERP.

Audit is of the view that weak internal controls resulted in issuance of fake consumer IDs but the management did not take punitive action against the delinquents.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 stated that the fact-finding inquiry report was received in HR department, however, certain points were required to clarify before proceeding with the recommended action. The clarification was obtained from the Lahore office and action will be initiated in light thereof.

The DAC in its meeting held on February 01, 2022 directed the management to expedite the finalization of the inquiry at the earliest and take action against the persons at fault. No further progress was reported till finalization of this report.

Audit recommends to inquire into the mal-practice/s committed by the SNGPL employees and fix responsibility besides improving internal controls to avoid such instances in future.

[DP No. 1621]

2.5.4.42 Un-justified increase of posts of high-level management and adjustment of Additional GM at SNGPL Regional Office Lahore

According to Para 3.3.9 of Determination of Estimated Revenue Requirement (DERR) for the FY 2020-21, strength of Senior General Managers / General Managers reached to tune of about 50, Chiefs to the number of about 110. Authority vide para 11.5 FRR 2019-20 notes with serious concern that HR cost is around 96% of the net T&D cost related to indigenous supplies which is being paid by the end consumer.

During audit of SNGPL for the FY 2020-21, it was observed that one post of GM was created when SNGPL Regional Office Lahore was re-structured and divided in GM Lahore East & GM Lahore West. Audit observed that re-structuring plan was not implemented in true letter and spirit as the work of few departments distributed among GM East and GM West but nothing got resolved to deliver the people in a better way. This seems that the additional post of General Manager was only adjusted as the post of SGMs and GMs has already

been increased to the tune of about 70 and chiefs to the tune of 150 as evident from the organogram of SNGPL.

Audit is of the view that unjustified increase of posts of high-level management resulted in increase of HR costs which is being borne by the consumer.

The matter was reported to the management in October, 2021. The management in its reply dated January 28, 2022 stated that bifurcations / re-structuring of Lahore into two independent regions i.e., Lahore East and Lahore West was an essential requirement as the number of consumers and area of operation of Lahore region increased manifold. This had brought about improvement in services of the company. Audit contended as the Authority vide Para No. 11.5 of FRR 2019-20 notes with serious concern that HR cost was around 96% of the net T&D cost related to indigenous and the same is being borne by the consumers.

The DAC in its meeting held on February 01, 2022 directed the management to get the stated stance verified from Audit. No further progress was reported till finalization of this report.

Audit recommends justifying the increase of posts of high management along with its job descriptions and KPIs and posting of additional General Manager at SNGPL Regional Office Lahore.

[DP No. 1685]

Value for Money and Service Delivery Issues

2.5.4.43 Non-deposit of unclaimed dividend in Government Account – Rs 111.462 million

According to Section 244 of the Companies Act, 2017, where dividend declared by a company remains unclaimed or unpaid for a period of three years from the date it is due and payable, the company shall give ninety days notices to the shareholders to file claim. If no claim is made by the shareholder, the company shall, after ninety days from the date of publication, deposit any unclaimed or unpaid amount as well as the proceeds from the sale of shares to the Federal Government in a profit bearing account with the State Bank of Pakistan or National Bank of Pakistan to be called “Companies Unclaimed Instruments and Dividend and Insurance Benefits and Investors Education

Account" and shall be deemed to be part of public accounts and interest / profit accumulated thereon shall be credited on quarterly basis to the Fund. Every company within thirty days of the close of each financial year shall submit to the Commission a return of all unclaimed shares, or dividend in its books in the manner as may be specified by the Commission.

During audit of SNGPL for the FY 2020-21, it was observed that the company reflected unclaimed dividend under current liabilities in the Financial Statements during last five FYs as follows:

(Rs in million)

FYs	Unclaimed Dividend
2015-16	73.775
2016-17	73.365
2017-18	111.462
2018-19	109.039
2019-20	164.753

The company neither took adequate actions relating to unclaimed dividend in the light of the provision of the Act ibid.

Audit is of the view that weak financial management resulted in non-deposit of unclaimed dividend of Rs 111.462 million to Federal Government.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 stated that the amount of unclaimed dividend could not be deposited into Federal Government Treasury due to non-availability of designated account number by the Federal Government.

The DAC in its meeting held on February 01, 2022 directed the management to take up the matter with SECP through DG (Gas) for early settlement of the issue. No further progress was reported till finalization of this report.

Audit recommends to deposit the unclaimed dividend and proceeds from the sale of shares along with interest earned on it into the profit bearing account with the SBP or NBP besides fixing the responsibility on the person/s at fault.

[DP No. 1581]

2.5.4.44 Installation of new gas connections without merit

As per Clause 3.3, 28.1 (h) & 28.2 of Sales Manual, all new application received at Regional Offices and each application shall be registered on the CUP (Case Under Process) Number Register, which shall be maintained for the purpose of tracking and monitoring the status of each application. Sales Section In-charge or any other Officer authorized by him shall arrange processing of domestic applications on 'turn / merit' basis.

During audit of SNGPL for the FY 2020-21, it was observed that the management did not follow merit for disposal of the applications for new connections. During analysis of the data, management was found deviating from the merit order with respect to surveys, issuance of demand notices, installation of service lines and meters to favour certain applicants of new gas connections.

During DAC meeting dated July 28, 2021 while discussing Audit Para No. 2.5.6.55 of Audit Report 2019-20 issues of non- integration of departments and non-carrying out of Business Process Re-engineering (BPR) were discussed. Management of SNGPL stated that various modules of ERP have been integrated with each other like distribution, sales, accounts finance, stores etc. However, merit list / program issued by the IT department for installation of service line and installation of meters was not provided to Audit.

Audit is of the view that due to inefficiency of the management, merit was not followed in installing gas connections. Activities such as physical surveys, issuance of demand notices and installation of service lines and meters were also not performed as per merit.

The matter was reported to the management in November, 2021. The management in its reply dated January 28, 2022 stated that all the meters were installed as per company policy in which proceeding activity was performed first followed by the succeeded activity.

The DAC in its meeting held on February 01, 2022 directed the management to provide the documentary evidences in support of reply. DAC further directed to provide the merit list / programme issued by the IT department for installation of service line and meters. No further progress was reported till finalization of this report.

Audit recommends to justify the discriminatory policy in the installation of new gas connections and non-provision of requisite data besides taking action against the persons at fault.

[DP No. 1634]

2.5.4.45 Installation of meters where illegal meters were removed

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 illegal restoration of gas supply.”

During audit of SNGPL for the FY 2020-21, it was observed that in two (2) reported cases gas connection were installed at the following premises where undocumented meters were already disconnected by UFG team as detailed below:

Sr. No.	Consumer No.	Address	Meter No.	Remarks
1	42723014868	University town Plot No. B-30 Main Murree Road, Bhara Kahu,	GN27459516	SNGPL disconnected an undocumented meter (DD0017903) on 29.04.2020
2	04548451022	Al-Samad Plaza Main Sarwar Road, Madina Town, Bhara Kahu, Islamabad	CT 07639786	SNGPL disconnected an undocumented meter (ZA1610120525) on 05.11.2019

Audit is of the view that due to non-maintenance of database of non-consumers, recurring volumetric losses by non-consumers could not be controlled. A mechanism was needed for keeping all relevant information regarding non-consumers such as identification of the relevant areas / plot ID / House No. / CNIC etc. to maintain a blacklist defaulter.

The matter was reported to the management in October, 2021. The management in its reply dated January 28, 2022 stated that the meters were installed at referred premises after fulfilment of company procedure.

The DAC in its meeting held on February 01, 2022 directed the management to conduct a fact-finding inquiry and share the outcome with Audit

within two months. No further progress was reported till finalization of this report.

Audit recommends to justify the non-maintenance of data base for non-consumers besides fixing responsibility against the persons at fault.

[DP No.1591]

Others

2.5.4.46 Loss of Rs 46.06 million due to management control failure

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". According to Rule-5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, 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. Further, according to para 20.5 of Store Manual of SNGPL, any excessive quantities of material drawn by a department for a specific job will be returned to the relevant area store via MRV. Moreover, in 187th meeting of the Management Committee held on 30.09.2020 has directed to ensure back filling by the contractors. As per Clause 13.6 of Billing Manual "Security deposit of the consumers should be adjusted against their arrears within 3 months from the date of disconnection and for the balance amount of arrears, if any.

During audit of SNGPL for the FY 2020-21, it was observed that due to violation of rules, and procedures by the management of the company, irregularities were happened in different cases as detailed below:

(Rs in million)

Sr. No.	DP No.	Subject	Amount
1	1628	Illegal Installation of meters at Faisalabad which were removed from Multan Region for smashing	-
2	1629	Unauthorized issuance of pipe/ non-recovery of cost of pipe	2.6
3	1631	Compromise by the employee of SNGPL with consumer	0.16
4	1682	Payment to the contractors against pending work	20.02
5	1687	Acceptance of invalid security instrument i.e., Cheque instead of cash/bank guarantee / cash resulting in loss of gas charges	10.26
6	1709	Non-recovery of gas pilferage charges from non-consumers	13.02
		Total	**46.06**

Audit is of the view that inefficient management practices and non-compliance of rules and procedures resulted in loss / irregularities of Rs 46.06 million.

The matter was reported to the management in October, 2021. The management in its reply dated January 28, 2022 stated that as per record the referred meter were initially installed in Faisalabad Region from where they were removed and sent to Central Meter Shop for flow proving. After flow proving these meters were issued to Multan Region for further utilization. Management further explained that the pipe in the society had been laid as per approved job number and no excess pipe has been laid. Work order was issued to the contractor for laying of distribution network was of less quantity due to typographical error. A fact-finding inquiry had also been conducted in this regard which suggested amendment in work order. Moreover, reply to charge sheet submitted by the accused employee was accepted by the In-charge and he was issued warning letter. Management also explained that segregated ditching and back filling were not available in Fiscal Year 2020-21. All FPCs during this period were processed and payments made to the contractors as per actual work done. In another case management explained that cheque was received through recovery contractor. However, after bouncing of cheque, FIR was lodged against the issuer. Management explained that all necessary measures have been taken to create deterrence against gas theft. In respect of Islamabad Region, the accused has been sentenced life imprisonment due to vigorous follow up of SNGPL. Further, FIRs were also lodged against the culprits in Multan Region case.

The DAC in its meeting held on February 01, 2022 directed the management to get the stated facts verified from Audit and pursue the cases vigorously in the court of law. DAC further directed the management to share the charge sheet and reply of the employee to Audit and also provide charge sheet related documents for nomination of official for court hearing. No further progress was reported till finalization of this report.

Audit recommends to inquire the matter and fix responsibility on the persons at fault besides taking corrective measures under intimation to Audit.

[DP Nos. as above]

2.6 Sui Southern Gas Company Limited

2.6.1(A) 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 the provinces of Sindh and Baluchistan. 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 Baluchistan through pipeline network of 46,209 KMs. The company is plagued with multiple problems that inter-alia includes governance issues, operational inefficiency, contract and project management that have suppressed the profitability and business growth of the Company over the period of time. The company has not able to finalize its accounts for the FYs 2019-20 and 2020-21 to resolve certain issues with its Regulator namely OGRA leading to non-determination of its revenue requirements for the aforesaid financial years.

(B) Comments on Company Performance

Audited accounts for the FYs 2019-20 & 2020-21 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)

Head of Account	2018-19	2017-18	2016-17	2015-16	2014-15
Sales (Net)	297,167	177,404	156,512	138,616	162,583
Other Income	14,247	14,002	10,189	25,799	12,686
Total Revenues	311,414	191,406	166,701	164,415	179,479
Cost of Gas	240,649	164,938	140,658	147,285	154,261
Expenses	89,160	37,793	28,130	23,246	26,399
Total Expenses	329,809	206,257	168,788	170,531	180,660
Total Profit or Loss	(18,395)	(14,848)	1,336	(6,115)	(5,391)

(Source: Annual Audited Account)

Due to provisional UFG benchmark, the Company showed overall profits amounting to Rs. 36,718 million during the FYs 2011-12, 2012-13 and 2014-15 which was reversed in November, 2016 and corresponding adjustment of Rs 29,374 million was made in the FYs 2015-16 to 2018-19 leaving a balance of Rs 7,344 million. Resultantly, the Company sustained huge losses of Rs 48,502 million in the FYs 2013-14 to 2015-16 and in FYs 2017-18 & 2018-19.

SSGC is facing the problems of unabated UFG losses hovering around 17%, non-completion of development project due to which fixed assets could not be increased and guaranteed rate of return not increased as compared to its sister concern, exorbitant expenditure beyond OGRA allowed limits, accumulation of huge receivables / payables especially against RLNG coupled with huge pendency of legal cases and increased finance cost. SSGC needs to increase its RLNG sales by entering into agreements directly with LNG sellers and to improve the profitability of LPG business through JJVL / SLL and performance of meter manufacturing plant besides reducing finance cost and enhancing other incomes to reduce its losses.

2.6.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 18,778.763 million were raised in this report during the current audit of SSGC. This includes recoverable amount of Rs 2,447.495 million as pointed out by Audit. Summary of the audit observations classified by nature is as follows:

Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Non-Production of Record (1para)	-
2	Irregularities	-
A	Distribution Related Issues & UFG Losses	13,972.179
B	HR / Employees Related Irregularities	23.795
C	Receivables Management	2,310.834
D	RLNG Related Issues	2,232.766
E	Procurement Related Irregularities	9.808
3	Others	229.381

2.6.3 Compliance of PAC Directives

Audit Year	Total 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	25	5	20	20
2011-12	7	0	7	0
2012-13	5	0	5	0
2013-14	22	8	14	36
2014-15	03	0	3	0
2015-16	25	9	16	36
2016-17	19	4	15	21
2017-18	18	3	15	17
2018-19	05	1	4	20
2019-20	-	-	-	No PAC
2020-21	-	-	-	No PAC
Total	**186**	**77**	**109**	**41**

The overall compliance of PAC directives needs improvement.

2.6.4 Audit Paras

2.6.4.1 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, the Public Accounts Committee directives, issued vide OM No. F-10(1)/2000/2004-PAC dated June 3, 2004 requires all PAOs of the Ministries/Divisions to make available all information/record to Audit as and when required by them.

During audit of SSGC for the FY 2020-21, requisitions were made on August 16, 2021 and August 20, 2021 & September 06, 2021 for production of auditable record. In response, partial record was provided in piecemeal by the management concerned despite issuance of written reminders and several verbal requests (**Annexure-6**).

The management did not produce the auditable record particularly related to the core activity of the Distribution Department. In the absence of record, Audit was unable to authenticate the propriety of the expenditure/transactions made during the period.

The matter was reported to the management in December, 2021. The management in its reply dated January 15, 2022 stated that 75% of the requisitioned record was provided to audit during the currency of Audit. The remaining record is available for scrutiny of Audit.

The DAC in its meeting held on January 17, 2022 expressed its concern over non-production / delayed production of requisite data and directed the management to be careful in future. The DAC further, directed the management to reconcile the data provided / not provided with Audit within a week, provide complete record for scrutiny of Audit besides avoiding such incidents in future. No further progress was reported till finalization of this report.

Audit recommends to fix responsibility on person(s) for non-production of record.

[DP No. 1735]

Distribution Related Issues & UFG losses

2.6.4.2 Loss due to UFG – Rs 12,982.70 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. The Authority may fix UFG target separately for each regulated activity. Clause 21.2 of ibid states that the licensee shall be entitled to claim the UFG to the extent of target fixed by the Authority. Further, Clause 21.3 states that 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.

During audit of SSGC for the FY 2020-21, it was observed that as per OGRA decision dated July 14, 2020 in DERR for the year 2020-21 UFG losses were allowed provisionally @ 6.3% whereas the company reported 17.07% UFG with a volume of 61,954 MMCF during the year. The detail of UFG in the region is as below:

(Rs in million)

Region	Purchase (MMCF)	Sale (MMCF)	UFG (MMCF)	UFG (Amount)	UFG %
Regional Office Larkana	7,178	4,972	2,206	1,176.62	30.73
Distribution Central Karachi	53,764	39,983	13,781	7,351.43	25.63
Regional Office Hyderabad	48,218	43,785	4,433	2,364.81	9.19
Distribution East Karachi	146,709	142,792	3,917	2,089.844	2.67
Total	**255,869**	**231,532**	**24,337**	**12,982.70**	

Despite high UFG in the network, the management did not achieve the following structured UFG Management and Control Strategy as formulated in the UFG Study:

i. Increased Network Visibility (Reduce Data & Metering Errors)
ii. Network Rehabilitation (Reduce Leakages and Gas Losses)
iii. Theft Control (Detect, Monitor & Control)

Audit is of the view that the management was required to focus on Zone / TBSs which were prone to high UFG losses as advised in UFG study approved

by OGRA. Audit holds that due to inefficiency of the management, the company sustained losses of Rs 12,982.70 million on account of UFG.

The matter was reported to the management in December, 2021. The management in its reply dated January 15, 2022 stated that UFG had decreased by 158,565 MCF as compared to previous year in 05 Zones of Hyderabad region. The focus was also given on these high UFG SMSs and major activities were being carried out in Hyderabad Zone such as rehabilitation Schemes Segmentation, Underground & Overhead Leak Rectification, theft Eradication.

The DAC in its meeting held on January 17, 2022 directed the management to submit specific reply with details regarding number of customers existing as on June 30, 2021 of all categories, number of customers whose billing was made provisionally during FY 2020-2021 and categories wise theft cases for the last three years for verification to Audit within one month. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides focusing on areas / TBS prone to high UFG losses and segregation of the network for better control of UFG.

[DP No. 1696]

2.6.4.3 Loss of gas due to non-rectification of underground and overhead leakages – Rs 661.177 million

According to Clause 21.1 of the License issued by OGRA to SSGC, the licensee shall take all possible steps to keep the UFG within acceptable limits. Further, Clause 21.3 of ibid states that 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.

During audit of SSGC for the FY 2020-21, it was observed that Internal Audit Department reported 14 high UFG Zones in West Region during FY 2018-19 and pointed out that no leak rectification had been made in these zones. The management stated that leak rectification was made in 10 high UFG Zones. It was also noticed that there were 03 high UFG Zones reported high UFG for the last two years in the East Region but underground and overhead leakage survey was not carried out to avoid detection of gas leakage cases in the Distribution

network. Non-rectification of underground and overhead leakages in high UFG Zones resulted in loss of 1,239,435 MMCF valuing of Rs 661.177 million.

Audit is of the view that despite knowing the fact that there was large volume of UFG in certain area, management did not conduct under/over ground leak survey to rectify the leakages for the last two years.

The matter was reported to the management in December, 2021. The management in its reply dated January 15, 2022 stated that the main reasons for non-completion of activities included the area residents did not allow for work, Covid, lockdown, delay / not giving road cutting permission from Municipal Administrations & District Government, and delaying tactics by contractors regarding excavation & back filling resulting re-tendering.

The DAC in its meeting held on January 17, 2022 expressed serious concerns about the quality of replies presented by the management. The DAC observed that leakages (underground / surface) pose a potential threat to the population as well as the environment. Therefore, extreme focus of the management is required on this area. The DAC directed the management to submit specific detail with statistics of incidents where the company was forced to stop the work / survey, detail of pending cases of NOCs with district Administration and detail of contractors who failed to complete work and the action taken by the management within one month. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides focusing on areas / TBS prone to high UFG losses by rectifying leakages for better control of UFG.

[DP No. 1693]

2.6.4.4 Loss of gas due to delay in completion of Rehabilitation Schemes - Rs 195.292 million

According to Clause 4 of Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for management of the Public Sector Company and for its procedures in financial and other matter.

During audit of SSGC for the FY 2020-21, it was observed management prepared Rehabilitation Schemes/Proposal for Rehabilitation after conducting necessary detailed underground leak & CP survey of 14 schemes where

distribution system was old. The management planned to lay 10,361.633 KMs network of different diameters pipelines and shifting of 10,954 service connections. The detail of schemes is as under:

(Rs in million)

Region	No. of Schemes	Capital Cost	Loss of Gas MCF/ year	Amount of Loss
Dist. West	03	199.039	73,781.05	36.26
Dist. East	02	58.622	8.20	60.902
Dist. Central	02	150.975	-	-
RO Larkana	04	147.264	89,997	52.840
RO Hyderabad	03	95.603	83,293	45.29
Total	**14**	**651.503**	**247,079.25**	**195.292**

However, the schemes could not be completed in time and the company has to sustain loss of Rs 195.292 million of 247,079.25 MMCF of gas on account of leakage.

Audit is of the view that poor project management resulted in delay in completion of rehabilitation schemes causing loss of Rs 195.292 million on account of UFG losses.

The matter was reported to the management in December, 2021. The management in its reply dated January 15, 2022 stated that main reason for delay in schemes was non-granting of NOC for road cutting. Three schemes of Hyderabad region would be completed till June, 2022. One scheme of Larkana had already been completed while work was in progress on remaining three schemes which would be completed till June, 2022. The schemes of Karachi region were at various stages and were likely to be completed by the end of June, 2022.

The DAC in its meeting held on January 17, 2022 directed the management to expedite the completion of schemes and take action against contractors in cases where the delay was on the part of contractors. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC and expedite completion of rehabilitation schemes besides taking action against contractors in case of delay.

[DP No. 1734]

2.6.4.5 Loss due to theft by registered / non-registered consumers – Rs 133.01 million

According to Para 16 of Gas theft Control and Recovery Act, 2016, any person, being domestic consumer, who does tampering or abets in tampering with any gas meter, regulator, meter index or gas connection or any other related system and equipment, 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 with fine which may be extended to one hundred thousand rupees, or with both.

During audit of SSGC for the FY 2020-21, it was observed that the management detected 273 cases of gas theft volume of 88,130 MCF were reported during the FY 2020-21. The management did not register any FIR against 101 consumers. Due to non-registration of FIR and non-pursuance of court cases, amount of Rs 133.01 million was not recovered which caused a loss to the company.

Audit is of the view that weak internal controls resulted in loss of Rs 133.01 million due to theft of gas.

The matter was reported to the management in December, 2021. The management in its reply dated January 15, 2022 stated that the cases pointed out in DP 1694 were domestic customers who were using gas for commercial purpose. In fact, these were not gas theft cases but the tariff differential cases i.e., using gas for commercial purpose at domestic tariff. These cases included using gas for small commercial purposes like tea shops, samosa / pakora shops, bangle shops mostly in Hyderabad & small pakwan shops etc. Major users included power generations, restaurants, hotels etc. These cases were frequently discussed in the meetings of the Claim Assessment Committees (CAC) consisting of Billing, Recovery, CGTO and Measurement, wherein the estimated claim of differential tariff of domestic and commercial was determined on the basis of the gas load detected during visits. At present 13 cases involving Rs 8.799 million was under litigation. Further an amount of Rs 26.222 million had been recovered from 162 customers. In case of DP 1730, out of 98 cases 37 cases involving of Rs 37.368 million were under litigation and an amount of Rs 60.615 million had been recovered in 61 cases. Out of recovered amount Rs 2.11 million had been verified by Audit.

The DAC in its meeting held on January 17, 2022 directed the management to get the recovered amount verified from Audit, pursue the balance recovery and court cases vigorously and takes steps to change the tariff the cases involved in the para. Para reduced to the extent of verified amount of Rs 2.11 million. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides strengthening surveillance and vigilance to the pilferage and theft of gas.

[DP Nos. 1694 & 1730]

2.6.4.6 High UFG due to ineffective control over Sales Meter Stations (SMS)

According to Rule 9 of UFG Manual, compilation of monthly gas sales reconciliation reports SMS / region wise to ensure action, in case of identified grey areas was the responsibility of UFG Control Department. Areas with high percentage loss should be focused to have proper control over UFG losses.

During audit of SSGC for the FY 2020-21, it was observed that the management failed to control UFG losses ranging from 14.73% to 78.78% in respect of certain SMS in Hyderabad and Larkana Regions. The management was failed to controls on SMSs which were prone to high UFG losses as advised in the UFG study approved by OGRA. Moreover, in certain areas, SMSs were inter-looped with each other which made it impossible to identify the areas with high or low gas losses. The detail of Zone and SMSs wise UFG trend is as under:

Sr. No.	Region	No. of Zone	No. of SMS	UFG Trend (%)
1	Hyderabad	05	13	14.73 to 44.70
2	Larkana	04	11	30.39 to 78.78
	Total	**09**	**24**	

The above position showed that the management could not control the UFG losses in the distribution systems.

Audit is of the view that ineffective managerial control and weak control over SMS(s) resulted in high UFG losses.

The matter was reported to the management in December, 2021.

The DAC in its meeting held on January 17, 2022 directed the management to submit specific reply with details of TBS along with UFG trend

for the last three years, number of TBS isolated / segregated for verification to Audit within one month. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides focusing on areas / SMS prone to high UFG losses besides de-looping of the SMS(s) in cities for effective control of UFG.

[DP No. 1698]

2.6.4.7 No action against the industrial units violating GSA

According to clause 18(ii) of Gas Sales Agreement", where the company determines or has evidence that the consumer is pilfering natural gas by tampering with the meter or any other equipment or is securing natural gas through any other unauthorized means or has attempted to do any of the foregoing acts supply of natural gas premises shall be disconnected forthwith without any notice.

During audit of SSGC for the FY 2020-21, it was observed that as per directives of Board Audit Committee meeting 88th held on April 29, 2020, Internal Audit carried out detailed review on MAZIK system to identify consumers who were using gas beyond sanctioned load as per GSA. Internal Audit Department selected top 44 customers where meter capacity exceeded 100% up to 500 times in a year. Furthermore, Technical team from the Internal Audit Department directly contacted the Original Equipment Manufacturer (OME) and asked if these meters were continuously working beyond their rated capacity, whether or not they were measuring accurate gas volumes. OEM responded if the meters were operating beyond the maximum flow rate, there was likely to be more strain on the bearings, maintenance required would be more frequent and the accuracy was in doubt as the meters were calibrated to the maximum flow rate. Similarly, if the meters are continuously working beyond their capacity, there is a risk of under-sizing / overloading of meters which leads to meter wear and tear.

Audit observed that 93 units including top 44 customers identified by Internal Audit were using un-authorized enhanced load and only 37 meters were changed by the department. Consumers increased their load / consumption beyond the sanctioned load thus leaving the installed Gas Meter overloaded. The management neither took punitive actions against the delinquents nor were their

connections disconnected. The management stated in its earlier reply dated October 27, 2021 that a joint survey of 8 units were carried out and action against remaining units was under process who were involved in violation of Gas Sales Agreement. Action would be taken as per SOP. Audit contended that joint survey was delayed in violation of GSA.

Audit is of the view that due to weak monitoring meters were not disconnected which resulted in violation of GSA.

The matter was reported to the management in December, 2021. The management in its reply dated January 15, 2022 stated that 25 cases had been addressed. Further, in 33 cases overload meters of industrial customers had been replaced with higher capacity meters. For remaining cases joint survey was under process.

The DAC in its meeting held on January 17, 2022 directed the management to get the stated stance verified from Audit besides certifying the percentage of completion of joint survey and regularization of enhancement of load within two months. Identification and rectification of all overloading meters of industrial customers may be ensured 100%. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1754]

2.6.4.8 Non-initiation of reinforcement schemes

According to 4.1 of SOP of Distribution Department "Distribution Department shall efficiently operate and monitor gas distribution network, while ensuring its structural integrity and resilience, in order to provide all authorized customers with appropriate level of gas pressure".

During audit of SSGC for the FY 2020-21, it was observed that 13 reinforcement schemes covering area of 5,095.226 Km were proposed for solving low pressure issues. The management approved various schemes to cover low pressure issues, as detailed below:

(Rs in million)

Sr. No.	Name of Region	No. of approved Schemes	Area Covered KMs	Capital Cost
1	Distribution West	05	3,095	22.055
2	Distribution Central	03	1,988	15.168

3	RO Hyderabad	05	12.226	90.491
	Total	**13**	**5,095.226**	**127.714**

However, the management could not execute the above schemes involving capital cost of Rs 127.714 million thus, the consumers were deprived of appropriate level of gas pressure.

Audit is of the view that bad project management resulted in non-initiation of reinforcement schemes and non-redressal of low-pressure issues.

The matter was reported to the management in December, 2021. The management in its reply dated January 15, 2022 stated that these schemes could not be completed due to non-granted of road cutting permission.

The DAC in its meeting held on January 17, 2022 directed the management to provide the scheme wise detail of delay, action thereon and steps taken to expedite the delayed schemes for verification to Audit. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1738]

HR / Employees Related Irregularities

2.6.4.9 Sale of vehicles to executives of the company at lower cost – Rs 17.525 million

According to Agenda 06 "Car Policy for Executives" of minutes of 90th meeting of the Board Audit Committee (BAC) dated 27.08.2016 in which the BAC directed that henceforth value of vehicles being sold to outgoing executives would be sold at a cost which must be equivalent to written down value appearing in books of accounts so that no loss is reported in the financial statement. SGM (HR) was advised to submit necessary amendment in the HR Car Policy to Board HR&RC in order to get it aligned with the Accounting Policy.

During audit of SSGC for the FY 2020-21, it was observed that the management sold 46 company owned vehicles to outgoing executives at lower price than written down value of the vehicles from 2016-17 to 2020-21 which resulted into loss of Rs 17.525 million to the company.

Audit is of the view that weak internal controls resulted in sale of vehicles at lower than written down value to outgoing executives in violation of the policy.

The matter was reported to the management in December, 2021.

The DAC in its meeting held on January 17, 2022 directed the management to submit the detailed reply within three days. No further progress was reported till finalization of this report.

Audit recommends to place the matter before committee besides fixing responsibility on person (s) at fault for non-compliance of directives.

[DP No. 1757]

2.6.4.10 Unauthorized payment on account of club membership facility due to no implementation of directives of Board of Directors - Rs 6.27 million

As per minutes of the 550th meeting of the Board of Directors held on July 30, 2020, the Board directed to "immediately stop privileges including club membership facility".

During audit of SSGC for the FY 2020-21, it was observed that the management reimbursed club membership fee of Rs 1.484 million to 22 executives and also approved payment of Rs 4.786 million on account of club membership facility of 03 executives despite Board's decision ibid. It showed that the management negated the decision of Board and failed to stop privileges including club membership facility.

Audit is of the view that weak internal controls resulted in non-implementation of directives of BoD and unauthorized payment of club membership facility amounting to Rs 6.27 million.

The matter was reported to the management in December, 2021. The management in its reply dated January 15, 2022 stated that privileges including club membership facility & reimbursement were part of the employment benefits offered to executive staff including salary and allowances and while they could be disallowed / restricted to new hires / fresh recruitment. Audit contended that OGRA also directed to review the present perks and privileges including club membership as per para 9.3.3 to 9.3.12 and 12.1.1 of ERR for the FY 2020-21.

The DAC in its meeting held on January 17, 2022 directed the management to place the matter before the Board for clarification in the light of OGRA's directives. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1737]

2.6.4.11 Irregular promotion of official without fulfilling minimum requirement

According to Rule 10.1 of Promotion Cycle - Eligibility of HR Employee Hand Book, an executive having “Minimum three years’ service in current grade” be considered for participation in respective grade’s promotion cycle.

During audit of SSGC for the FY 2020-21, it was observed that Mr. Adil Shabbir Paracha, Executive (Emp. No.9662) was appointed on a two years contract on November 30, 2000. After fifteen months of service in Grade-I, he applied for vacancy of Deputy Manager against internal advertisement dated May 07, 2002. He was appointed for the post of Deputy Manager in Grade III on August 08, 2002. Later on, his appointment for the post of Deputy Manager in Grade-III was withdrawn w.e.f. November 28, 2002 and he was offered permanent employment in Grade-I against the same post on November 28, 2002. He joined as Deputy Manager in Grade-III as fresh candidate in August 19, 2004 vide letter dated August 13, 2004 against the unapproved vacancy as per organogram. Further, scrutiny revealed that he was promoted to higher post without fulfilling requirement of minimum three years’ service in current grade during his entire tenure. Following irregularities were found in his promotions:

i. He was later promoted in Grade-IV as Manager-HRIS w.e.f May 01, 2008.

ii. He was promoted to Grade-V Deputy Manager-HRIS w.e.f December 31, 2008 within just 7 months of promotion from Grade-IV without fulfilling criteria of three years in the same grade.

iii. He was promoted to Group-VI as Chief Manager HR w.e.f January 01, 2009 by rectifying date of appointment as August 08, 2002 vide ASP (9662) dated April 29, 2011 which is unjustified because permanent employment in Grade-I was offered vide DOASP on November 28, 2002.

iv. His post of Chief Manger was re-designed as Deputy General Manger (GTI) w.e.f. December 28, 2012 to August 05, 2013 vide Note to MD moved by ASGM (MS) dated December 21, 2012 and later on Acting

Charge Allowance was given w.e.f December 28, 2012 vide Memorandum dated October 1, 2013.

Audit is of the view that due to bad management practices weak internal controls resulted in undue favour to the employee and grant of irregular promotion.

The matter was reported to the PAO / management in December, 2021. The management in its reply dated January 15, 2022 stated that Mr. Adil Shabbir Paracha was appointed as executive (Grade-I) on November 2000 on contract basis for a period of 2 years. As the company was progressing, the then senior management decided to induct fresh MBAs / Engineers through test conducted by IBA. In response to an internal advertisement, after due process of recruitment, MR. Adil Shabbir Paracha was appointed as Dy. Manager (Data base) in Grade-III after his resignation from his contract appointment and appointed on the basis of direct recruitment.

The DAC in its meeting held on January 17, 2022 directed the Petroleum Division to conduct a factfinding inquiry and fix responsibility for irregular appointment within two months. The inquiry committee may inquire the matter in the light of Supreme Court of Pakistan's judgment in the case of Mr. Attah-ul-Haq Qasmi.

Audit recommends to implement the decision of DAC.

[DP No. 1746]

Receivables Management

2.6.4.12 Non recovery from industrial customers - Rs. 1,875.719 million

According to Para 4.4.1 read with Para 4.4.7 of Natural Gas Consumer Service Manual, 2011 R/w 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. 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 2020-21, it was observed that an amount of Rs 1,875.719 million was found outstanding against 81 industrial customers.

Audit is of the view that weak internal controls resulted in non-recovery of outstanding dues of Rs 1,875.719 million from the defaulters.

The matter was reported to the management in December, 2021. The management in its reply dated February 02, 2022 stated that the break-up of grand total up to December 31, 2021 stood at Rs 1,875.719 million out of which 27 cases were pertaining to litigation & OGRA cases amounting to Rs 1,398.365 million. However, the company had recovered an amount of Rs 325.158 million and remaining amount of Rs 152.196 million was in the process of recovery. Audit requires to get the stated position verified. No further progress was reported till finalization of this report.

Audit recommends to management to get the stated position verified from Audit and make efforts for recovery of outstanding amount.

[Para No. 15 of AIR SSGC for FY 2020-21]

2.6.4.13 Non-recovery of outstanding amount from commercial defaulters - Rs 240.605 million

According to Para 4.1.2(c) read with Para 4.4.1, of Natural Gas Consumer Services Manual 2011, the Company will recover amount in default of gas bills through various methods. Disconnection of gas supply will be one of such method which will be used as a threat to enhance recovery. Further As per letter No. RA/275/Cond.39 dated September 15, 2013 of SSGC "once the consumption pattern of the consumer is established, revision of security deposit on the basis of annual average consumption of three months may be carried out by the company. Further the adjustment in security deposit be recovered from all consumers (new and existing) in gradual manner over the period of six months in easy instalments through normal gas bills.

During audit of SSGC for the FY 2020-21, it was observed that an amount of Rs 240.605 million was found outstanding against 870 commercial customers.

Audit is of the view that weak internal controls resulted in non-recovery of outstanding dues of Rs 240.605 million from the defaulters.

The matter was reported to the management in December, 2021. The management in its reply dated February 02, 2022 stated that the company had received the payments of Rs 170.76 million which was 70.96% of total

outstanding amounts. Moreover, remaining balance of Rs 69.84 million was being persuaded for recovery. Audit requires to get the sated position verified. No further progress was reported till finalization of this report.

Audit recommends to get the position verified and make efforts for recovery of outstanding amount.

[Para No. 07 of AIR SSGC for FY 2020-21]

2.6.4.14 Non-recovery of outstanding amount from customers / defaulters - Rs 71.077 million

According to Para 4.1.2(c) read with Para 4.4.1, of Natural Gas Consumer Services Manual 2011, the Company will recover amount in default of gas bills through various methods. Disconnection of gas supply will be one of such method which will be used as a threat to enhance recovery.

During audit of SSGC for the FY 2020-21, it was observed that an amount of Rs 71.077 million was found outstanding against 1,022 the defaulters.

Audit is of the view that weak internal controls resulted in non-recovery of outstanding dues of Rs 71.077 million from the defaulters.

The matter was reported to the management in December, 2021. The management in its reply dated January 15, 2022 stated that an amount of Rs 19.82 million had been recovered out of which an amount of Rs 6.85 million had been verified by Audit. Recovery of Rs 51.26 million was being pursued.

The DAC in its meeting held on January 17, 2022 directed the management to get the recovered amount verified from Audit and pursue the recovery of balance amount and share the documentary evidences regarding efforts made for recovery of outstanding amount. Para reduced to the extent of verified amount of Rs 6.85 million. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides recovering the remaining outstanding amount at the earliest.

[DP No. 1733]

2.6.4.15 Non-completion of meter locking activity and non-recovery of dues - Rs 53.254 million

According to SOP 1.2 of Recovery - Meter Locking, gas line of the customer is disconnected when the debt ages more than 330 days and amount is greater than Rs 3000.

During audit of SSGC for the FY 2020-21, it was observed that there were 554 meters locking field activity pending in the system involving Rs 53.254 million recoverable from the defaulters during the year. This showed that the recovery departments neither took any action for removal of meter of defaulters nor recovered outstanding amount from them.

Audit is of the view that weak internal controls resulted in non-locking of meters and non-recovery of outstanding dues of Rs 53.254 million.

The matter was reported to the management in December, 2021. The management in its reply dated January 15, 2022 stated that an amount of Rs 11.30 million had been recovered. The recovery of balance amount is being pursued.

The DAC in its meeting held on January 17, 2022 directed the management to get the recovered amount verified from Audit and pursue the recovery of balance amount and share the documentary evidences regarding efforts made for recovery of outstanding amount. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides recovering the outstanding dues from the defaulters.

[DP No. 1732]

2.6.4.16 Non-recovery from commercial customers - Rs 50.829 million

According to Clause 4.8.2 of Removal of Service line after Disconnection of Recovery Department SOP, Recovery Department will initiate request through Field Activity in CC&B for Distribution Department to kill service at the premises of disconnected customer, if the customer does not procure reconnection within 60 days.

During audit of SSGC for the FY 2020-21, it was observed that there were 421 disconnected commercial customers whose services were not removed

within 60 days of default. These customers did not apply for reconnection within 60 days. This resulted into non-removal of service line of the customer with default amount of Rs 50.829 million.

Audit is of the view that weak internal controls resulted into non-removal of service line of defaulted commercial and non-recovery of Rs 50.829 million.

The matter was reported to the management in December, 2021. The management in its reply dated January 15, 2022 stated that as per standard operating procedure Recovery Department was responsible for disconnection of gas supply through meter removal or meter locking of commercial customers. Field activity was generated accordingly as a request to Distribution Department within prescribed time. Subsequently, concerned field staff of the Distribution Department was then assigned the task for service killing. Most of the time service killing was done but not updated in the system which showed activity not done yet but in fact it was done. Service line of the most of the cases as pointed out by Audit was already removed. This was an ongoing activity, however status of the 421 cases would be provided to Audit within a week after taking action in the cases where service killing was still pending.

The DAC in its meeting held on January 17, 2022 directed the management to get the stated stance verified by Audit besides pursing the recovery. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides recovering the outstanding amount under intimation to Audit.

[DP No. 1745]

2.6.4.17 Un-authorized re-connection of domestic meters - Rs 19.35million

According to Detailed Procedure for Instalment of Disconnected / normal Default customers circulated dated November 4, 2016, customer Facilitation Centre will negotiate with customer to pay maximum default amount which should not be less than 40%.

During audit of SSGC for the FY 2020-21, it was observed that the management re-connected the gas supply of 1,171 domestic consumers without recovery of the outstanding amount. The management was required to recover Rs 36.877 million i.e., 40% of the total recoverable amount before re-connection

but it recovered Rs 17.527 million only. This resulted in unjustified reconnection of gas supply without recovery of outstanding amount of Rs 19.35 million.

Audit is of the view that weak internal control resulted in re-connection of consumer meters without payment of recovery of Rs 19.35 million.

The matter was reported to the management in December, 2021. The management in its reply dated January 15, 2022 stated that in hardship and special cases customers were given facility to get reconnected with short instalments due to low paying capacity and high inflation. There were cases where high gas bills were generated due to leakages or PUG was charged after meter change. These customers were given relaxation to pay less than the reconnection amount. The balance amount was being recovered in instalments.

The DAC in its meeting held on January 17, 2022 directed the management to pursue the recovery of outstanding amount and share the progress with Audit on regular basis. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides recovering outstanding amount at the earliest.

[DP No. 1736]

2.6.4.18 Non-recovery of dues from various customers

According to Para 4.4.1 read with Para 4.4.7 of Natural Gas Consumer Service Manual, 2011 R/w 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. 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 2020-21, the management failed to recover an amount of Rs 328,112 million (Circular Debt) including LPS amount of Rs 165,751 million against various customers.

Audit is of the view that in-effective receivables management resulted in non-recovery of Rs 328,112 million from the customers.

The matter was reported to the PAO / management in December, 2021. The management in its reply dated January 15, 2022 stated that majority of receivables pertained to K-Electric (Rs 134 billion), Pakistan Steel Mills (Rs 74 billion) and SNGPL (Rs 112 billion).

The DAC in its meeting held on January 17, 2022 directed the management to get the stated stance verified from Audit besides taking up the matter at relevant forum for early resolution.

Audit recommends to implement the decision of DAC and stresses the management to resolve the issue through effective pursuance with all stake holders for recovery of outstanding dues.

[DP No. 1739]

RLNG Related Issues

2.6.4.19 Non-recovery of outstanding dues from SNGPL - Rs 2,232.766 million

As per Clause 16 of Gas Transportation Agreement (GTA) between SSGC and SNGPL, SNGPL shall pay each Tariff Invoice to SSGC by the 7th day following receipts 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 one-month KIBOR pus 2%.

During audit of SSGC for the FY 2020-21, it was observed that management failed to recover an amount of Rs 2,232.766 million from SNGPL on account of terminal charges, regasification charges, cost of supply of gas and LNG Sale agreement as on June 30, 2021.

(Rs in million)

Particulars	Invoice Amount	Payment Received	Outstanding
Terminal Charges	18,415.759	16,945.308	1,470.450
Cost of Supply	7,832.372	7,134.925	697.447
LSA Margin	1,039.314	974.446	64.868
Total	**27,287.445**	**25,054.679**	**2,232.766**

Audit is of the view that due to weak internal control, management did not recover Rs 2,232.766 million.

The matter was reported to the management in December, 2021. The management in its reply dated January 15, 2022 stated that SSGC and SNGPL entered into an agreement in January 2021 regarding outstanding dues whereby SSGC had to pay SNGPL for the RLNG molecules (MMBTU) withheld by

SSGC and subsequently SNGPL had to pay SSGC for the invoices withheld by them for the period starting from June 2020 and onwards. Regarding outstanding amount of Rs. 2,232.766 million it was submitted that SSGC had already adjusted this amount from the purchase invoices of SNGPL against the cost of Gas Consumed Internally (GCI) during transportation of RLNG to SNGPL.

The DAC in its meeting held on January 17, 2022 directed the management to get the stated stance verified from Audit within a week. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides expedite recovery of outstanding dues.

[DP No. 1758]

2.6.4.20 Irregular supply of RLNG to K-Electric without executing Gas Sale Agreement

According to Rule 5 of the Public Sector Companies (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.

During audit of SSGC for the FY 2020-21, it was observed that M/s K-Electric was purchasing 109,603 MMCF RLNG without executing any GSPA for the period April, 2018 to October, 21. This resulted in irregular supply of RLNG amounting to Rs 173,743 million.

Audit is of the view that bad corporate management practices resulted into irregular supply of RLNG without GSA.

The matter was reported to the management in December, 2021. The management in its reply dated January 15, 2022 stated that draft of GSA for RLNG and indigenous gas was under negotiation. Since this was not a standard GSA pertaining to indigenous gas only, various clauses of technical nature had to be mutually agreed for both the gases separately. However, the gas supplied would be termed as comingled gas.

The DAC in its meeting held on January 17, 2022 directed the management to expedite the finalization of GSA. No further progress was reported till finalization of this report.

Audit recommends implementation of the decision of DAC besides improving management practices.

[DP No. 1753]

Procurement Related Irregularities

2.6.4.21 Wastage of funds due to non-utilization of software - Rs 9.808 million

According to Rule 5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, 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. Further Agenda 12 of minutes of the 550th BoD meeting held on July 30, 2020, the Board directed to ensure that payment of software maintenance fee should only be made for those software packages which were in use.

During audit of SSGC for the FY 2020-21 it was observed that the management purchased two software (applications) of Oracle ERP from M/s Oracle Pakistan but no utilization was made since its procurement. The detail of software and expenditure incurred thereon is under:

Sr. No.	Name of application /software	License Cost (Rs)	Maintenance fee paid since FY 2012-13 up to 30.06.2020	Maintenance fee paid during 30.06.2021	Total Cost including maintenance fee up to 2020-21	Management reply for usage of application (software)
01	E-Business Intelligence	597,282	2,199,172	262,490	3,058,944	For Supply Chain, Testing is completed. Go-Live date will be decided with the consent of the Business.
02	Balanced Scorecards	1,491,293	4,602,488	655,403	6,749,184	This was a bundled package and not used due to resource constraints.
	Total	**2,088,575**	**6,801,660**	**917,893**	**9,808,128**	

Audit is of the view that negligence of the management resulted in wasteful expenditure on non-utilized of software in violation of the BoD directive.

The matter was reported to the management in December, 2021. The management in its reply dated January 15, 2022 stated that both the software was made operational.

The DAC in its meeting held on January 17, 2022 directed the management to provide the reasons for non-implementation of software. DAC further directed to provide business continuity plan along with relevant documents for verification to Audit within a week. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides placing the matter before BoD for fixing responsibility on person(s) at fault.

[DP No. 1740]

Others

2.6.4.22 Non-filing of insurance claims against damages to infrastructure - Rs 210.228 million

According to Section 118(I) of the Insurance Ordinance, 2000 read with SSGC Fire and other Non-Life Insurance Policies, 2009, it shall be an implied term of every contract of insurance that where the entitled person has complied with all the requirements, the insurer shall make the payment within a period of 90 days from due date. Moreover, after expiry of notice time period, any such claim is time barred. Any claim below the deductible amount will not be entertained.

During audit of SSGC for the FY 2020-21, it was observed that company sustained gas losses of 373,726 MCF valuing Rs 210.228 million due to third party damages and accidental loss to its infrastructure but the management neither lodged insurance claims against these losses nor claimed any damages from the third parties. This resulted in loss of Rs 210.228 million to the company.

Audit is of the view that negligence of management, management did not make good of the losses of Rs 210.228 million to the company through insurance claim.

The matter was reported to the management in December, 2021. The management in its reply dated January 15, 2022 stated that the claim was below the deductible amount hence rejected.

The DAC in its meeting held on January 17, 2022 directed the management to get the stated stance verified from Audit.

Audit recommends to implement the decision of DAC and fixing responsibility for accepting the defective insurance policies.

[DP No. 1756]

2.6.4.23 Invalid insurance policy for covering risk of financial losses during ditching and backfilling work - Rs 15.502 million

Para 7.13 (a) of General Conditions of Contract, the insurance shall cover the period from commencement to completion of Work and shall also cover' period of maintenance for loss or damage arising from any cause whatsoever'. Further, according to Clause 14.4 of General Conditions of Contract read with sub clause (f) Termination of the contract by the Company "the contractor have neglected or failed persistently to observe and perform all or any of the acts".

During audit of SSGC for the FY 2020-21, it was observed that four tenders for Ditching / Backfilling were floated. After technical evaluation the tenders were awarded to the following successful bidders and contract was executed between the contractors and SSGC for Rs 15.502 million. The detail is as follows:

(Rs in million)

Sr. No.	Name of Contractor	Contract No.	Policy No.	Period of Insurance	Amount of Contract
1	Sadaat Engineering	SSGC/SC/TE-10293/ Cont-6073/2020	UIC/D/T004 /0000100322/ 0920/137-0	13-03-2020 to 12-03-2021	1.944
2	Best Engineering Co.	SSGC/SC/TE-9184/ Cont-4889/2018	UIC/D/T004 /0000100459/ 1218/135-0	07-12-2018 to 07-12-2019	3.957
3	Sadaat Engineering	SSGC/SC/TE-10292/ Cont-6074/2020	UIC/D/T004 /0000100321/ 0920/137-0	13-03-2020 to 12-03-2021	1.864
4	Global Business Services Company	SSGC/SC/10349	UIC/D/T004 /0000100304/ 0920/137	01.06.2020 to 01.06.2021	7.736
				Total	**15,502,830**

As per company's requirement, the contractor submitted contractor's all Risks Policy covering a period of contract for rehabilitation schemes. But these

insurance policies had already expired and did not cover the contract period which resulted into invalid insurance policy for covering the risk of financial losses during ditching and backfilling work valuing at Rs 15.502 million.

Audit is of the view that carrying out work without valid insurance policy shows weak internal controls due to which the company was exposed to a risk involving an amount of Rs 15.502 million.

The matter was reported to the management in December, 2021. The management in its reply dated January 15, 2022 stated that insurance covers were now being revalidated before issuance of Service Purchase Order (SPO). Further, in future, special condition in tender documents would be inserted whereby revalidated insurance policy would be arranged in case it was expired during the execution / delay in completion of job.

The DAC in its meeting held on January 17, 2022 directed the management to get the stated stance verified from Audit within a week. No further progress was reported till finalization of this report.

Audit recommends implementation of the decision of DAC besides strengthening of internal controls.

[DP No. 1755]

2.6.4.24 Non-imposition of liquidated damages on award of ditching / backfilling contract – Rs 3.651 million

According to Clause 3 of Special Terms and Condition of contract "the rate of liquidated damages shall be on one percent of the final contract value for each week of delay and limited to a maximum of ten percent of the final contract value.

During audit of SSGC for the FY 2020-21, it was observed that the management awarded contract of ditching/backfilling and allied activities at supply main and service connections through a tender at a cost of Rs 36.512 million and Letter to Proceed was issued to contractor specifying period of completion of work. The detail is as under:

Sr. No.	Name bidder M/s	Enquiry No.	SPO No.	Completion Date of Contract	Value of Contract (Rs)	LD @10% (Rs)
1	Jamal Engineering Services	SSGC/SC/ 10203	15/S5/26929	09.03.2021	4.484	0.448
2	Noshad Engineering Services System	SSGC/SC/ 10205	15/S5/26339	15.07.2020	4.911	0.491
3	Asad Enterprises	SSGC/SC/ 10196	-	10.08.2020	7.104	0.710
4	Noshad Engineering Services System	SSGC/SC/ PT/10182	15/S5/26316	22-08-2020	3.150	0.314
6	Sachal Engineering Wroks	SSGC/SC/ 10181	15/S5/26667	13-12-2020	5.479	0.551
7	Adnan Pervez AU PR	SSGC/SC/ 10180	15/S5/26832	22-11-2020	2.299	0.229
8	Naveed Ahmed Contractors & Associates	SSGC/SC/ TE-10014	-	30.12.2020	9.085	0.908
				Total	**36.512**	**3.651**

The above contractors stopped work without assigning any reason. Under the provision of terms stated in bid documents, in case of failure to complete the work within stipulated time, the liquidated damages were required to be recovered from the contractor.

Audit is of the view that liquidity damages were required to be levied on the contractor under the provision of above terms & conditions at 10% due to delay in completion of work which comes to Rs 3.651 million.

The matter was reported to the management in December, 2021. The management in its reply dated January 15, 2022 stated that LD was being deducted as per standard tender terms and conditions of tender enquiries. In the cases pointed out by Audit, LD charges would be recovered from the remaining / unpaid invoices upon finalization of the respective.

The DAC in its meeting held on January 17, 2022 directed the management to recover the LD charges from the contractor where applicable besides strengthening control on project management ensuring timely completion of work. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1695]

2.7 Pakistan LNG Limited (PLL)

2.7.1(A) Introduction

Pakistan LNG 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 principal activity of the Company is to import, transport, market and distribute Liquefied Natural Gas (LNG) and to manage the handling, re-gasification, storage, treatment, transportation and processing of Liquefied Natural Gas (LNG), Re-gasified Liquefied Natural Gas (RLNG). The Company's registered office is located at 3rd floor, Block A. Pak Secretarial Islamabad, Pakistan. The Company started its commercial operations on January 04, 2018. The Company is wholly owned by Government Holdings (Private) Limited (the Parent Company). The Company has awarded contract to M/s Gunvor and M/s ENI SPI (the Sellers) for purchase and import of one LNG cargo per month from each seller for a period of five years and fifteen years respectively. The company has entered into Operation Services Agreement (OSA) "the Agreement" with Pakistan Gas Port Consortium Limited, (the Operator) on July 01, 2016 for regasification of LNG.

(B) Comments on Company Performance

(Rs in million)

Particulars	2019-20	2018-19	2017-18
Revenue	150,886.960	179,477.667	73,638.109
Cost of Sales	(145,026.001)	(173,419.392)	(70,451.764)
Gross Profit	5,860.958	6,058.275	3,186.345
Administrative Expenses	(149.959)	(179.693)	(150.578)
Other Income	592.972	393.516	124.222
Exchange Loss	(4,567.595)	(3,595.795)	(768.760)
Finance Cost	(4,309.333)	(924.746)	(503.084)
Profit / (Loss) before Tax	(2,572.958)	1,751.556	1,888.145
Taxation	(940.502)	(1,891.865)	(857.115)
Profit / (Loss) after Tax	(3,513.549)	(140.309)	1,031.030

The Company is sustaining losses in last two years due to high finance cost, low margins, and exchange loss. PLL is facing the problems of non-finalization of GSPA for RLNG with SNGPL, accumulation of huge receivables. Due to inconsistent of demand, and absence of Procurement framework, PLL is confronted with issue of importing LNG at affordable rates for end consumers.

2.7.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 41,042.442 million were raised in this report during the current audit of PLL. This also includes recoverable amount of Rs 9,661.784 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Procurement Related Irregularities	26,249.696
B	Financial Management	11,402.279
C	Contract / Project Management	3,390.467
D	HR / Employees Related Irregularities	-

2.7.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	% age of Compliance
2017-18	18	07	11	39
2018-19	15	0	15	-
2019-20	08	0	08	-
2020-21	06	4	02	67
Total	**47**	**11**	**36**	**24**

The overall compliance of PAC directives needs improvement.

2.7.4 Audit Paras

Procurement Related Irregularities

2.7.4.1 Loss due to mismanagement in import of LNG cargoes - Rs 10,275.039 million

According to Para 6.4 of minutes of 80th BoD meeting, it was unlikely that an urgent tender would yield high prices due to less time between the award and delivery of cargo as the number of available suppliers / cargoes were less which had an impact on the price. According to Rule 4 of PPRA 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 PLL for the FY 2020-21, it was observed that the management awarded spot cargo contracts at higher rates for the months of July, September and October, 2021 as narrated below:

i. The management floated two tenders for spot purchase of LNG, for the month of July, 2021, on May 21 and June 05, 2021. As per bid evaluation report dated June 02, 2021 and June 08, 2021, M/s Trafigura and M/s Vitol Bahrain offered US$ 11.7747, US$ 11.6612 and US$ 12.7777 per MMBTU for delivery windows of 08-09 and 12-13July, 2021 respectively. BoD, however, cancelled the bidding process, considering exorbitant price that was predicted from unprecedented increase in global LNG demand and market benchmark of JKM (Japan Korea Maker). In contrast with its own earlier observation, BoD reduced the lead time for procurement of LNG. In order to fulfil the LNG demand, the management again floated two tenders on June17, 2021 & June 24, 2021 and awarded LNG spot cargoes contract to M/s QP Trading and M/s Vitol Bahrain on June18, 2021 & June 29, 2021 at higher rates of US$ 11.97 and US$ 13.45 per MMBTU for the same delivery windows. This resulted in excess cost of Rs 983.215 million on purchase of LNG;

ii. The tender for spot purchase of LNG for September was floated on June 19, 2021. As per bid evaluation report dated July 06, 2021, M/s Qatar Petroleum and M/s Total Gas & Power offered US$ 13.7875 and US$

14.6721 per MMBTU for delivery windows of 16-17 and 26-27 September, 2021. However, the BoD cancelled the bidding process, considering the downward trend of the LNG prices in international market, in contrast with its own earlier observation, thus, reduced the lead time for procurement of LNG. In order to fulfil the LNG demand, the management again floated a tender on July 20, 2021 and awarded LNG spot cargos contracts to M/s Gunvor Singapore and M/s Petro China International on July 28, 2021 at higher rates of US$ 15.397 and US$ 15.1988 per MMBTU for the same delivery windows. This resulted in excess cost of Rs 1,148.421 million on purchase of LNG; and

iii. The management floated tender for spot purchase of LNG, for the month of October, 2021, on June 19, 2021. As per bid evaluation report dated July 06, 2021, M/s Qatar Petroleum and M/s BB Energy offered US$13.9875, US$ 16 and US$ 13.9875 per MMBTU for delivery windows of 08-09, 23-24 and 28-29 October, 2021. However, the BoD cancelled the bidding process, considering the downward trend of the LNG prices in international market, in contrast with its own earlier observation, thus, reduced the lead time for procurement of LNG. In order to fulfil the LNG demand, the management again floated a tender on August 30, 2021 and awarded LNG spot cargoes contract to M/s Vitol and M/s Trafigura on September 02, 2021 at higher rates of US$ 19.8477, US$ 20.2877 and US$ 18.9966 per MMBTU for the same delivery windows. This resulted in excess cost of Rs 8,143.403 million on purchase of LNG.

Audit is of view that mismanagement in procurement decisions resulted in incurrence of extra cost of Rs 10,275.039 million on purchase of LNG due to less lead time and JKM forecast.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021 stated that in accordance with PPRA's guideline of accepting single bids while ensuring rate reasonability, bids received for initial tenders for July, 2021 could not be awarded. However, PLL was constrained to purchase these cargoes later owing to directions from the ministry to procure LNG to avoid expected energy shortage in the country. Further, for September & October 2021, PLL's BoD decided not to award any of

the eight cargos considering the downward trend of the prices in the market (news related to OPEC and sudden decrease in Brent and JKM S&P Platts on July 08, 2021). However, the spot market rose unexpectedly in the next week. PLL immediately floated a PPRA compliant urgent tender for procurement of four (04) spot cargoes for September, 2021 and seven spot cargoes in October and November, 2021. Audit is of view that while cancelling tenders, management did not account for premium which is to be paid due to procurement process of Pakistan as compared to JKM forecast of LNG price and short lead time.

The DAC in its meeting held on January 04, 2022 directed the management to submit a comprehensive report with detail justification for subject procurement and share the same with Audit for verification. No further progress was reported till finalization of this report.

Audit recommends to inquire the matter and fix responsibility for excess cost besides improving procurement management.

[DP No. 1558]

2.7.4.2 Non-finalization of GSAs under G2G agreement - Rs 9,767.326 million

According to decision of the ECC in its case No. ECC-121/21/2016, PLL was mandated to carry out negotiations with other LNG producing countries subject to availability / reliability of their LNG suppliers under Inter-Government Agreements.

During audit of PLL for the FY 2020-21, it was observed that the Federal Government entered into Inter-Government agreements with 07 LNG producing countries. Accordingly, PLL initialed SPAs with nominated suppliers and sought price proposals in sealed envelope. Meanwhile, Price Negotiation Committee (PNC) formed a subcommittee on May 08, 2018 to negotiate the prices with suppliers. Pursuant to the meetings of the PNC sub-committee with nominated suppliers on May 22, 2018 and May 25, 2018, the suppliers submitted their revised price proposals on May 26, 2018 which were valid till June 15, 2018. However, subsequent meetings of PNC sub-committee scheduled to be held on June 05 and June 07, 2018 for finalization the proposals could not be convened due to unavailability of the Additional Secretary, Power Division, thus leaving the price offers expired on June 15, 2018. The entire negotiation process with

nominated suppliers was scrapped and PLL was compelled to procure LNG at higher price. PLL made 30 spot cargoes from July, 2018 to September, 2021 at an average slope of 12.84% of Brent- higher than the offer of 11.82% made by the G2G supplier. With this, excess cost of Rs 9,767.326 million (US$ 57.454 million) was passed on to general public in the form of higher LNG prices.

Audit is of view that negligence of the Petroleum Division resulted in non-finalization of GSAs under G2G agreements due to which excess cost of Rs 9,767.326 million was incurred on LNG imports.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021 stated that PLL is not in a position to opine on the matter as the decision to finalize and negotiate the price rested with the Price Negotiation Committee (PNC) and the Ministry had to inform PLL to execute the LNG SPA under the G2G. It was the prerogative of the Government, not PLL.

The DAC in its meeting dated January 04, 2022, the management explained that the matter pertains to Petroleum Division rather than PLL. The DAC directed the management to shift the para to DG (LGs).

Audit recommends Petroleum Division to inquire the matter and fix the responsibility on the person(s) at fault besides taking steps to finalize GSAs.

[DP No 1570]

2.7.4.3 Unjustified extra cost of LNG due to poor procurement planning - Rs 6,207.331 million

According to Section 1.1 of initialed GSA between SNGPL & PLL (Firm Gas Allocation), the total quantity of Gas to be delivered by the seller to the Buyer on firm basis, being 185 MMCFD, which can be enhanced based on mutual agreement, to be delivered in terms of the ADP, along with any as and when required. Further, According to Confirmation Notice with ENI & Gunvor, seller shall deliver and buyer will take over one cargo in each month over the entire contract period. Further, according to rule 04 of Public Sector Corporate Governance Rules, 2013, the chairman of the Board shall ensure that the Board is properly working and all matters relevant to the governance of the Public Sector Company are placed on the agenda of Board meetings and the chief executive is responsible for making appropriate arrangements to ensure that

funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of PLL for the FY 2020-21, it was observed that PLL procured 4 LNG cargoes scheduled for December, 2020 and January and February, 2021 in December 2018, January 2019, November 2020 and October, 2020. Since, the advance procurements were made from the long-term contract supplier, M/s Gunvor, thus, PLL made payments @ 11.62% and 11.95% of slopes of Brent crude. However, PLL management failed to schedule alternative cargos against the advance procurement and awarded four spot cargos contracts to fill the demand-supply gap for above mentioned period at slope of 12.95% to 23.44% of Brent crude which was substantially higher than slope of term cargoes. This resulted in extra payment of Rs 6,207.331 million on procurement of LNG which was ultimately passed on to end consumers.

Audit is of the view that poor procurement planning resulted in non-scheduling of LNG cargoes causing extra payment of Rs 6,207.331 million.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021 stated that PLL had problem with early procurement of LNG like (i) Spot cargoes were arranged only once demand was confirmed as LNG procured on a 100% take or pay basis. Considering the several past examples of SNGPL's demand variations and SNGPL's inability to sign a GSPA in which a firm commitment of at least 200 MMCFD was guaranteed. (ii) Spot cargoes were typically locked in three months in advance. In order to schedule spot cargoes well in advance, PLL had to commit significant advance payment and LC/SBLC was required to open in favour of supplier well in advance, thereby, exhausting PLL's limited credit facilities and PLL's existing financial position and available credit facilities, especially its ever-increasing receivables from SNGPL did not allow it to make these commitments.

The DAC in its meeting held on January 04, 2022 directed the management to devise a mechanism for effective & efficient method for procurement, wherein advance term cargo is used, in consultation with other stakeholders. No further progress was reported till finalization of this report.

Audit recommends to inquire the matter besides improving procurement planning.

[DP No. 1563]

Financial Management

2.7.4.4 Non-recovery of LPS on delayed payments - Rs 4,464.953 million

According to Section 9.5 of the initialed GSPA between PLL and SNGPL, 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 default 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 2020-21, it was observed that SNGPL submitted firm demand for supply of LNG for the FY 2020-21 but made payments against these cargoes after due date. Management of PLL however, did not claim LPS on these delayed payments. This resulted in loss of Rs 4,464.953 million on account of LPS up to June 30, 2021.

. Audit is of view that poor financial management resulted in non-recovery of LPS on delayed payment @ 7.16%-7.51% KIBOR rate plus two percent causing aggregate loss of Rs 4,464.953 million to the company.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021 stated that PLL has been taking up the issue of payment on account of Late Payment Surcharge (LPS) with SNGPL since April, 2018. Subsequently, in response to PLL's letter dated March 21, 2019, SNGPL communicated that there was no agreement signed between PLL and SNGPL. Hence, claim of LPS by PLL was void and rejected in all respect. Subsequent to the communication, PLL has, nonetheless, continued to communicate the LPS amounts to SNGPL on a regular basis. However, no communication has been received from SNGPL regarding their agreement on the amount and timeline for payment of such amounts.

The DAC in its meeting held on January 04, 2022 directed the management to take up the matter at Ministry level to conduct an inquiry as to why so far GSPA has not been signed between SNGPL & PLL and what steps can be taken for early finalization of GSPA. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1564]

2.7.4.5 Payment against Idle Terminal Capacity - Rs 2,563.366 million

The ECC of the cabinet on 28.07.2020 (case No. ECC-312/34/2020) considered the summary dated July 245, 2020 submitted by the Petroleum Division regarding Third Party Access (TPA) to LNG Terminals: i) Excess Capacity ii) Government Contracted Un-utilized Capacity and approved, in principle, the concept of auctioning the unutilized capacity of the Government.

During audit of PLL for the FY 2020-21, it was observed that PLL had terminal peak daily delivery capacity of 600 MMCFD at the FSRU. Audit found PLL using average terminal capacity up to 488 MMCFD, thus, leaving capacity of 112 MMCFD idle during the year. PLL paid full capacity charges of USD 85 million for 600 MMCFD during the year. On September 25, 2020, the management floated a tender for letting the idle terminal capacity out to third party for one month only but no bid was received. Management floated three more tenders with the same condition, but received no bid against any tender. Non auction of idle capacity resulted in capacity charges of Rs 2,563.366 million for the FY 2020-21.

Audit is of the view that auction of idle capacity for one month only did not make economic and commercial sense by any means as RLNG supply chain involves complex business processes like docking, re-gasification, transportation and distribution to end consumers. Due to non-auction of idle capacity, PLL had to make extra capacity charges of Rs. 2563.366 million.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021 stated that PLL has been auctioning the operationally possible idle terminal capacity as and when available to third parties as per ECC summary dated 28.07.2020 (case No ECC-312/34/2020). Any deviation from TPA framework required ECC approval.

The DAC in its meeting held on January 04, 2022 directed the management to take up the matter with ECC through Petroleum Division. No further progress was reported till finalization of this report.

Audit recommends to auction idle terminal capacity to third party on yearly / multi-yearly basis.

[DP No. 1567]

2.7.4.6 Non-recovery of excess payment of port charges from M/s Gunvor – Rs 2,214.960 million

According to Rule 04 of Public Sector companies (Corporate Governance) Rules, 2013, the chief executive of the Public Sector Company is responsible to implement strategies and policies approved by the Board. Further, BoD vide Board Resolution 102/06, directed to set-off the outstanding amounts on account of excess payment of Port Charges from the upcoming LNG cargoes' invoices of PLL's term contract suppliers M/s Eni S.P.A and M/s Gunvor International B.V. Amsterdam.

During audit of PLL for the FY 2020-21, it was observed that the BoD, in its meeting held on April 17, 2021, directed the management to set-off the outstanding amount on account of excess payment of port charges from invoices of PLL's Term Contract Supplier namely M/s Gunvor International B.V. Amsterdam. The management recovered the outstanding amount on account of excess payment from other suppliers but did not comply with BoD decision in case of M/s Gunvor. The CFO neither moved the case for adjustment against upcoming invoices nor en-cashed the suppliers' performance guarantee. This resulted in non-recovery of excess payment of port charges amounting to Rs 2,214.960 million (US$ 13.184 million @ Rs 168).

Audit is of the view that bad financial management practices resulted in non-recovery of excess port charges amounting to Rs 2,214.960 million.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021 stated that PLL's board in late April 2021 had given their direction to set off Gunvor International's liability amount from their future invoice. The matter was then presented to the board of GHPL who had shown their concern about the potential encashment of the SBLC issued by PLL, which at the time was backed by GHPL. Legal opinions from WFW and Orr, Dignam & Co. ("ODC") have been sought about the risks of such encashment and any mitigation strategy that PLL can employ. The opinions suggested that it is possible albeit risky for PLL to deduct the amount from alternative cargoes. Further, Supplies from Gunvor International's contract will continue until July 2022 and PLL has a strategy in place to ensure recovery of amounts outstanding on account of Port Charges. The reply of the

management is not tenable as PLL management failed to realize the outstanding amount on account of Port Charges despite the lapse of period of eight months.

The DAC in its meeting held on January 04, 2022 directed the management to re-submit the matter before BoD with details analysis/ clarity, for consideration and way forward. No further progress was reported till finalization of this report.

Audit recommends that the matter may be inquired for not recovering the excess port charges despite BoD directions.

[DP No. 1505]

2.7.4.7 Un-authorized retention of amount received on account of excess payments of port charges - Rs 2,159 million

According to Ministry of Energy (Petroleum Division), vide its letter dated December 29, 2017, OGRA may carry out RLNG Pricing in respect of M/s PLL's LNG consignments in line with existing policy guidelines i.e., ECC/-87/11/2015 dated June 06, 2015 and ECC-72/12/2016 dated June 14, 2016.

During audit of PLL for the FY 2020-21, it was observed that the management paid excess port charges of Rs 2,159 million ($ 12.7 million @ Rs 170) to its LNG supplier and charged the same to the end consumers. Later, the management recovered the excess payment from its suppliers but did not pass the relief to the end consumers. Audit contended that port charges had already been included in RLNG price component, thus, payment received from LNG suppliers in connection with excess payment of port charges required to be passed on to end consumers through adjustment.

Audit is of the view that bad management practices resulted in unauthorized retention of Rs 2,159 million received by PLL on account of excess port charges.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021 stated that PLL has recovered US$ 12.7 million on account of Port Charges from seven LNG suppliers. Out of that amount, USD 3.5 million has already been booked by PLL as a liability and the amount has also been adjusted in the RLNG tariff actualization working being finalized by PLL for the period December 2017 to June 2020 for onwards submission with OGRA. Moreover, PLL is keeping the remaining amount USD

9.2 million relates to Eni Port Charges separately until conclusion of the LCIA arbitration proceedings, after which its treatment will be finalized subject to the decision of the LCIA.

The DAC in its meeting held on January 04, 2022 directed the management to get the stated stance verified from Audit. No further progress was reported till finalization of this report.

Audit recommends to refer the matter to OGRA for adjustment of port charges in RLNG prices.

[DP No. 1557]

2.7.4.8 Delay in policy decision on acquisition of LNG service Infrastructure-Terminal-2

According to Clause 3.2 of the Fixed Assets Option Agreement, if PLTL delivers an option exercise notice, then the option closing date shall be the date that falls no later than 60 business days after the date of option exercise notice. Further, Clause 5 of Schedule 1 of the Fixed Assets Option Agreement. PLTL also had the right to purchase the assets of the Operator at a price that is equivalent to the Net Book Value (NBV) of the assets.

During audit of PLL for the FY 2020-21, it was observed that PLTL terminated its OSA with PGPCL due to adequate assurance guarantee submitted by PGPCL stood discredit in September 2019 using Clause 35 of the OSA and exercised its option to acquire Fixed Assets on January 2020. Meanwhile, PGPCL approached LICA for arbitration. Moreover, according to agreement, PTL will have to purchase fixed assets on the Book value which was Rs 13,091 million on June 30, 2020 within maximum 60 days after decision of LICA. GHPL (parent company of PLL) requested MoE - Petroleum Division to make financial arrangements vide letter dated March 27, 2020 however, the matter is still pending. Delay in policy decision with regard to financial arrangements by the MoE - Petroleum Division despite lapse of period of one year would reduce tolling tariff @ 0.0586 per MMBTU and ultimately RLNG prices would also reduce. The issue was highlighted in previous report and 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.

Audit is of view that indecision of MoE - Petroleum Division may result in overpayment of Rs 2,295 million per annum of levelized charges and put extra burden on end consumers. With this, PLL would also lose its right to purchase fixed assets as PLL have maximum 60 days to conclude the option exercised after decision of LCIA which is expected to be announced on Jan 2022.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021 stated that PLTL now PLL has completed its due diligence within the time frame and issued Option Exercise Notice to PGPCL. GHPL Board after detailed deliberation has also sent its recommendation to MoE - Petroleum Division vide its letter dated March 27, 2020. As per the recommendation of Audit, a reminder letter to be sent to MoE on the issue.

The DAC in its meeting held on January 04, 2022 directed the management to pursue the case with DG (LGs) for early settlement of the issue and submit the report within one month. No further progress was reported till finalization of this report.

Audit recommended to pursue the matter with GHPL and MoE - Petroleum Division vigorously besides inquire the reasons for not taking over the LNG infrastructure.

[DP No. 1568]

Contract / Project Management

2.7.4.9 Non-imposition of penalty on account of Seller's Deficiency Quantity - Rs 2,981.871 million

According to Clause 4.3.5 of MPSA read with Clause 4.3.2, upon seller's failure to deliver Seller's Deficiency Quantity (SDQ), the buyer shall issue to the seller an invoice for Seller's Liability Amount equal to costs, charges, losses, damages, expenses and liabilities associated with terminating or breaching the regasification arrangements. Further, according to Clause 4.2 of bid document, LNG cargo shall meet energy content (3,200,000 +/-5%) and volumetric quantity (140,000 m^3 -2% +5%) requirements, in accordance with the delivery schedule.

During audit of PLL for the FY 2020-21, it was observed that:

i. Five suppliers supplied less LNG than the contractual quantity. PLL

management did not charge Seller's Liability Amount from LNG suppliers. Management neither informed the impact of short supply to BoD nor initiated any action against the LNG suppliers for discrepancies. This resulted in loss of Rs 1104.841 million to the national exchequer;

ii. PLL received off-spec LNG with Short Delivered Quantity (SDQ) of 73,790 MMBTU for delivery window of August 15-16, from M/s Petro China International; however, the PLL management neither raised invoice to the supplier on account of liquidity damages nor reported supply of off-spec LNG to supplier. This resulted in loss of Rs 7.390 million (US$ 43,470 * 0.5891 / MMBTU @ Rs 170) to the national exchequer; and

iii. M/s Vitol, LNG supplier of PLL, delivered cargo on December 22, 2020 against scheduled date of December 18, 2020 having less LNG quantity of 2,711,950 MMBTU against contractual quantity of 3,040,000 MMBTU (3,200,000 +/-5). PLL management, however, did not recover Seller's Liability amount from the supplier. The issue was discussed in the 85th BoD meeting, however, BoD did not give any direction to recover the LDs from the supplier. This resulted in loss of Rs 1,870 million due to non-imposition of penalty on the supplier.

Audit is of the view that that negligence of the management resulted in non-recovery of Seller's Liability Amount of Rs 2,981.871 million.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021 stated that PLL cannot raise the claim of SDQ on account of loss suffered by downstream consumers due to short delivery of LNG/off-spec LNG in the absence of any such invoice from downstream consumer as it has to provide reasonable, verifiable, documented and direct evidence of such a claim. However, PLL is in the process of devising a methodology of imposing SDQ penalty on suppliers which is based on opportunity costs to PLL regarding loss of PLL margin, terminal management fee and costs associated with utilization of the terminal.

In the DAC meeting dated January 04, 2022, the management explained that the matter will be re-examined thoroughly and thereafter management will present the same to the Board along with the way forward on the matter. Audit is of the view that under the present contractual arrangements, management of PLL

is obliged to raise invoice for short supply as there are 28 incidents wherein supply of short quantity was reported.

The DAC directed the management to submit a comprehensive report to the Board for consideration and share the outcome with Audit. No further progress was reported till finalization of this report.

Audit recommends to recover outstanding amount from the suppliers besides improving management practices.

[DP Nos. 1506, 1507 & 1565]

2.7.4.10 Irregular payment against excess quantity of LNG - Rs 408.596 million

According to Confirmation Notice for sale and purchase with Gunvor and ENI Asp, the quantity sold and purchased under this confirmation Notice comprising the Estimated Contract Quantity for each cargo is 3,200,000 +/- 5%. Further, according to Clause 4.1.3 of MSPA, buyer shall have no obligations to receive a quantity of LNG in excess of, and the LNG Heel shall not serve to increase or reduce, the quantity of LNG in a Cargo to be sold and purchased in accordance with the relevant Confirmation Notice, subject to Seller's operational tolerance of plus or minus two percent.

During audit of PLL for the FY 2020-21, it was observed that PLL management paid irregular amount in five cases on account of excess quantity of 17,236,156 MMBTU received i.e., 16,800,000 (3,200,000 +5% x 5) in violation of the agreement. This resulted in irregular payment of Rs 408.596 million made on excess quantity of LNG. Further, by accepting the excess quantity, the management took financial risk of selling the excess quantity in the absence of GSPA with SNGPL.

Audit is of the view that the weak internal controls resulted in irregular payment of Rs 408.596 million against excess quantity of LNG.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021 stated that the exact energy content of the cargo is only known after lab analysis by the Independent Surveyor, therefore, the energy content delivered could not be predicted before discharging of the cargo. Further, no supplier delivered extra volume without PLL’s prior request / consent. In these cases, PLL requested for delivery of extra

quantity of LNG due to either urgent requirement of RLNG or to improve re-gas profile.

In DAC meeting dated January 04, 2022, the management explained that PLL's customer is only concerned with volume and specifications of LNG. No supplier delivered extra volume without PLL's prior request/consent. However, while discharging of an LNG cargo, it is quite challenging to meet the tolerance range of both volume and energy as quality or energy content of LNG being discharged is not known. Although it is almost impossible to predict the energy content accurately, however, PLL had asked the supplier to reduce volume to meet energy contents in some of the specific cargoes above. Considering this and feedback from PLL's suppliers, PLL reformed its contracts with the approval of the Board and now there is only restriction on volumetric content of LNG, in line with the international industry norms and as required by PLL's customer.

The DAC directed the management to get the stated stance verified from Audit within two weeks. No further progress was reported till finalization of this report.

Audit recommends to improve internal controls to avoid such instances in future.

[DP No. 1491]

HR / Employees Related Irregularities

2.7.4.11 Irregular Appointment of Company Secretary

According to Rule 13 of Public Sector (Corporate Governance) Rules, 2013, the Board shall appoint a company secretary in accordance with Rule 14(4) of Public Sector (Corporate Governance) Rules, 2013, whereby no person shall be appointed as the company secretary of a Public Sector Company unless he is (a) a member of a recognized body of professional accountants; or (b) a member of a recognized body of corporate or chartered secretaries; or (c) a person holding a master degree in business administration or commerce or being a law graduate from a university recognized by the Higher Education Commission with at least five years relevant experience.

During audit of PLL for the FY 2020-21, it was observed that the Ms. Saman Gul joined PLL as Management Associate Procurement (OFL-1, non-management grade) in February, 2018. She was posted as acting Company

Secretary w.e.f. October 21, 2018 to January 26, 2021 in violation of the Rule 14(3) Corporate Governance Rules, 2013. BoD in its 94th meeting dated January 26, 2021 appointed Ms. Saman Gul as Company Secretary. Following discrepancies were found in appointment of the subject officer as Company Secretary:

i. Advertisement for the post of the Company Secretary was not published thus limited the open competition;

ii. The position of Company Secretary was an E-IV post but the management changed the post to E-VI in January 26, 2021. With the change in grade, Ms. Saman Gul was promoted from non-management grade (OFL-1) to management grade (E-VI) and appointed as Company Secretary; and

iii. The incumbent did not possess requisite experience for the said post of Company Secretary.

Audit is of the view that weak internal controls resulted in irregular appointment of a non-executive employee as Company Secretary in violation of Rules.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021 stated that on the recommendation of HR & Nomination Committee, BoD promoted and appointed her as Company Secretary. Further, the legal opinion clarified as to what constituted as relevant experience and that it is not provided in law that to qualify for the position, five (05) years of full-time Company Secretary experience is required, thus, appointment of Ms. Saman Gul as Company Secretary was compliant with the CG Rules and PLL's HR Manual.

In the DAC meeting dated January 04, 2022, management explained that Ms. Saman Gul was promoted for the post of Company Secretary under the rules and duly recommended by HRM Nomination Committee. However, Audit contended that, the post of Company Secretary is of statutory nature under the corporate laws in vogue.

The DAC directed to conduct an inquiry at Ministry level. No further progress was reported till finalization of this report.

Audit recommends to inquire the matter and fix responsibility besides improving internal controls.

[DP No. 1561]

2.7.4.12 Non-Compliance of Corporate Governance Rules by BoD

According to Rule 4(2) of Public Sector (Corporate Governance) Rules 2013, Chairman has a responsibility to lead the Board and ensure its effective functioning and continuous development, he shall not be involved in day-to-day operations of the Public Sector Company. According to Rule 5(6) and 5(7) of ibid, the Board shall adopt a vision or mission statement and corporate strategy, and formulate significant policies of the Public Sector Company. Furthermore, according to Rule 7, the Board shall establish appropriate arrangements to ensure it has access to all relevant information, advice and resources necessary to enable it to carry out its role effectively.

During audit of PLL for the FY 2020-21, it was observed that the BoD was found involved in routine operations of the company e.g., procurement of LNG, renewal of HR contract, removal of salary band. Some of the examples of BoD's overarching role in PLL routine operations and failure to perform its designated functions are as under;

i. Board did not make procurement policy like delegation of powers of procurement of LNG, time framework of LNG tenders w.r.t economic cost. In the absence of Procurement policy, Board awarded the spot cargos contract at high prices in contrast with its own earlier observation in 80th BoD meeting like an urgent tender would yield high prices due to less time between the award and delivery of cargo;

ii. There were instances for procurement of LNG at high prices due to non-finalization of GSPA with SNGPL. BoD is comprised of representatives of both Power and Petroleum Division to have rational demand forwarded by Power Division to SNGPL under Petroleum Division and to make sure supply of LNG. However, despite representation of demand as well as supply side of the LNG regime, there had been irregular demands submitted by the stakeholders and procurement of LNG had been delayed and costly;

iii. BoD did not allocate the excess capacity to third party in contravention to the ECC decision dated July, 2020;

iv. There were instances where undue favour was extended to the officers / officials at the expense of company’s interest. Contracts were renewed by the BoD in violation of HR manual, maximum salary band was removed thus paving way for exorbitant salaries and criteria for promotion and promotion increments was changed;

v. BoD failed to establish appropriate arrangements to ensure that it had access to all relevant information, advice and resources necessary to enable it to carry out its role effectively. In one instance, BoD did not reschedule term cargoes in advance and with no alternate arranged, PLL had to procure LNG on higher price; and

vi. Board did not hold its members and its Board committee’s members accountable for the number of meetings took place and the quality of the output from those meetings.

Audit is of the view that due to non-compliance of Rules ibid BoD, the efficiency of the company operations was affected adversely.

The matter was reported to the management in October, 2021. The management in its reply dated December 29, 2021 stated that the collective wisdom of the BoD is required on undertaking a transaction of procurement of LNG cargoes which is a costly business amounting to millions of dollars and has a huge national impact. Further, PLL made continuous efforts and showed flexibility to execute the GSPA but even after the decision from the ECC, the GSPA between PLL and SNGPL could not be executed due to absence of downstream RLNG sales agreements of gas utility companies with its end consumers. Furthermore, PLL’s business is costly and of critical nature, which requires the collective wisdom of the BoD to ensure effective governance. BoD and its committees have held meetings as and when required to assess and evaluate matters of critical importance, with Board members providing their availability to deliberate on critical matters to prevent and avoid any delays in decision making. All agenda items were submitted to the BoD as and when received from the management and if any agenda was deferred, it was resubmitted to the BoD.

In the DAC meeting dated January 04, 2022, management explained that the review of PLL's Board has been assigned to Pakistan institute of Corporate Governance.

The DAC directed the management to share the report with Audit. No further progress was reported till finalization of this report.

Audit recommends the BoD to follow Corporate Governance Rules, in true letter and spirit besides carrying out independent assessment of performance of members of BoD to enhance efficiency / performance of the company.

[DP No. 1562]

2.8 Other Organizations

This chapter includes comments on audited accounts in respect of Government Holdings Private Ltd. (GHPL) and Pakistan Mineral Development Corporation Private Ltd. (PMDC).

2.8.1 Government Holdings (Private) Limited (GHPL)

2.8.1.1(A) Introduction

Government Holding Private Ltd. was incorporated in Pakistan as a private limited company on January 15, 2000 under the Companies Ordinance, 1984 (Now the 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;

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; and

iii. The Company has 99.83 % shareholding in the Inter State Gas System (the subsidiary) under share subscription agreement and 100% shareholding in PLL.

(B) Comments on Company Performance

Contents	2019-20	2018-19	2017-18	2016-17	2015-16
Sales Net	71,520.12	77,609.57	61,915.84	48,052.18	46,579.00
Cost of Sales					
Royalty & other levies	(8,058.83)	(8,408.43)	(6,925.81)	(5,135.22)	(4,996.68)
Operating & others expenses	(13,985.29)	(9,564.43)	(12,052.29)	(12,654.35)	(13,416.42)
Gross Profit	**49,476.01**	**59,636.71**	**42,937.74**	**30,262.61**	**28,165.90**
Other income	4,670.23	3,240.09	2,321.61	3,582.18	2,358.79
Exploration and prospecting expenditure	(598.31)	(539.40)	(1,087.25)	(1,089.04)	(607.81)
General and administrative expenses	(536.56)	(352.96)	(262.02)	(306.10)	(192.44)
Other expenses	(1,705.21)	(7,207.74)	(1,570.14)	(238.16)	(529.48)
Operating Profit	**51,306.17**	**54,776.70**	**42,339.94**	**32,211.49**	**29,194.96**
Finance Cost/Income	(528.38)	(338.55)	(238.31)	7.4	39.86
Profit before Taxation	**50,777.79**	**54,438.15**	**42,101.63**	**32,218.89**	**29,234.82**
Taxation	(17,634.04)	(19,876.69)	(14,557.78)	(11,905.56)	(11,168.58)
Profit after taxation	**33,143.76**	**34,561.47**	**27,543.85**	**20,313.33**	**18,066.24**

(source: Annual Audited Accounts)

GHPL's sales decreased to 7.85% during 2019-20 as compared to previous financial year but its operating & others expenses increased by 46.22% resultantly its gross profit decreased by 17.04%. Although other income increased by 44%, however, general and administrative expensive and financial cost also increased by 52% & 56% respectively which ultimately resulted in decrease in profit after taxation of 4.10%.

Comparison of FY 2019-20 with 2018-19 revealed that crude oil sales decreased from Rs 29.101 billion to Rs 22.228 billion and sales of LPG decreased from Rs 4.727 billion to Rs 4.236 billion.

2.8.1.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 18,333.332 million were raised in this report during the current audit of GHPL. This also includes recoverable amount of Rs 8,190.307 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Contract Management	1,300.746
B	Financial Management	2,447.876
C	HR / Employees Related Irregularities	-
D	Project Management	9,404.850
E	Receivables Management	5,179.860
2	Others	-

2.8.1.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	% age of Compliance
2007-08	03	03	0	100
2008-09	01	0	1	0
2009-10	10	08	2	80
2010-11	03	0	3	0
2011-12	06	01	5	17
2012-13	04	03	1	75
2013-14	06	04	2	67
2014-15	02	0	2	0
2017-18	08	03	5	37
2018-19	0	0	0	0
2019-20	0	0	0	0
2020-21	0	0	0	0
Total	**43**	**22**	**21**	**51**

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

2.8.1.4 Audit Paras

Contract Management

2.8.1.4.1 Loss of Signature Bonus from Sinjhoro field – Rs 340.015 million

According to Rule 4 of PPRA Rules, 2004, the 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. Further, according to Clause 8.2 of Sinjhoro PCA, each of working interest owners have the obligation to lift and separately dispose of its share in all petroleum produced and / or stored at such times, in such quantity and in accordance with such procedures as may be agreed by all working interest owners.

During audit of GHPL for the FY 2018-19 to 2020-21, it was observed that GHPL was JV partner with OGDCL in Sinjhoro Block having 22.5% share. On August 12, 2015 OGDCL requested GHPL for disposal of its LPG share and after 04 months GHPL decided to dispose of its share of LPG on the same parameters as OGDCL was disposing off its share from Makori field. On October 25, 2016, OGDCL also proposed that PSO may be allowed to lift GHPL's share of LPG from Sinjhoro field by charging pro-rata Signature Bonus @ Rs 3,453 per M. Tons over and above the LPG base price. OGDCL charged Rs 2,031,089 as cost of bidding and time writing. Moreover, OGDCL also withheld the Signature Bonus amount for six months and GHPL failed to take the benefit of earning through bank deposit. Provided that in the FYs 2015 & 2016 GHPL sold 2,418 M. Tons and 11,603 M.Tons of LPG without Signature Bonus. In the year 2017, a quantity of 43 M. Tons per day of LPG was available out of which only 20 M. Tons was sold on the basis of Signature Bonus to SSGC LPG (Pvt.) Ltd. who offered the highest bonus of Rs 72.9 million. This resulted into loss of Signature Bonus amounting to Rs 340.015 million.

Audit is of the view that due to poor management of LPG business, GHPL failed to earn Signature Bonus on sale of LPG.

The matter was reported to the management in August, 2021. The management in its reply dated October 21, 2021 explained that the matter was under litigation since 2015-16 and the company could not dispose of LPG on

Signature Bonus basis. The reply is not tenable as management failed to initiate the bidding process well in time which resulted in loss to GHPL.

The DAC in its meeting held on January 21, 2022 directed the management to provide fact-finding report to Audit within one month.

Audit recommends to implement the decision of DAC.

[DP No. 1717]

2.8.1.4.2 Loss of Signature Bonus due to sale of LPG amounting to Rs 298.62 million

According to Clause 2.1.3 of Petroleum Policy 1997, a new 100% GoP owned holding company will be formed to separate GoP's ownership and regulatory functions. The GoP participation in Joint Ventures will be handled through this Holding Company. Further, according to Tender No. 01/LPG/02-14 dated February 21, 2014, GHPL invite the bidders for sale of 45 M. Tons of LPG from Tal block on the basis of non-refundable Signature Bonus prior to signing of sale purchase agreement (SPA).

During audit of GHPL for the FYs 2018-19 to 2020-21, it was observed that GHPL was JV partner with MOL (the Operator) and OGDCL, in TAL block with 15% working interest. On July 25, 2013 the Operator requested JV Partners to initiate process for uplifting of LPG shares from Makori field. GHPL offered 09 lots of LPG, out of which 06 were awarded to successful bidders on non-refundable Signature Bonus basis of Rs 22.5 million each. In 2nd bidding, 03 bidders qualified on non-refundable Signature Bonus basis for Rs 49.77 million. However, only M/s Bukhari fulfilled the commitment and remaining 02 lots were distributed among the successful bidders without Signature Bonus. This resulted in loss of Rs 298.62 million.

Audit is of the view that failure in bidding process resulted in loss of Rs 298.62 million.

The matter was reported to the management in August, 2021. The management in its reply dated October 21, 2021 stated that GHPL disposed of its entire share of LPG from TAL block at a price which was in accordance with LPG Policy and Contracts as signed with the successful bidders. Reply is not tenable as management failed to initiate the bidding process well in time which resulted in loss to GHPL.

The DAC in its meeting held on January 4, 2022 directed the management to submit a chronological report of events for verification along with documentary evidence.

Audit recommends to implement the decision of DAC.

[DP No. 1552]

2.8.1.4.3 Non-realization of *Signature Bonus from OGDCL - Rs 237.113 million*

According to Rule 4 of PPRA Rules, 2004, the procuring agencies while engaging in procurement, shall ensure that the procurement 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. Further, according to Rule 5(5) of the Corporate Governance Rules, 2013 read with Rule 5(5)(a), 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.

During audit of GHPL for the FY 2018-19 to 2020-21, it was observed that on December 21, 2011 OGDCL (Operator of Nashpa Block) submitted a Field Development Plan to DG (PC) to grant a D&P lease in Nashpa block on the plea that a single LPG train will process 100 MMCFD gas for both the fields. In November 2015, the contract for installation of LPG Recovery Plant was awarded to M/s Hong Kong Huihua (HKH) Global Technology Ltd. on EPCC basis for US$ 148 million. The work on the project was started in January, 2016 and was to be completed up to June 2017, but Nashpa project / plant started LPG production in February, 2018. GHPL requested OGDCL to dispose of its share of LPG on temporary basis and on the same arrangements on which OGDCL was selling its own share. OGDCL sold its LPG share from Nashpa field on the basis of Signature Bonus of Rs 1,129.108 million. However, GHPL failed to recover its share of Signature Bonus of Rs 237.113 million (Rs1,129.108 x 15%) from OGDCL.

Audit is of the view that due to poor management GHPL failed to collect Signature Bonus from OGDCL.

The matter was reported to the management in September, 2021. The management in its reply dated October 21, 2021 stated that the matter of sale of

LPG on Signature Bonus was pending for adjudication with Lahore High Court, Lahore. It was not possible for GHPL to carry out any bidding at that stage as any such bidding on Signature Bonus basis may have attracted the Contempt of Court proceedings. Therefore, in line with the clause 11 and 8 of Nashpa PCA and JOA respectively, the Operator was requested to dispose of GHPL's share of LPG on the same grounds on which it was selling its own share of LPG. The reply is not tenable as management failed to recover the Signature Bonus from OGDCL due to non-initiating recovery process.

The DAC in its meeting held on January 4, 2022 directed to take up the matter with OGDCL expeditiously.

Audit recommends to implement the decision of DAC.

[DP No. 1572]

2.8.1.4.4 Non-resolution of dispute regarding payment of irrelevant expenses in JV account – Rs 222.308 million

According to Clause 2(a) of Article 1 of Accounting Procedures, annexed to the Joint Operating Agreement (JOA), the Operator shall maintain and keep true and correct record of the production and disposition of all petroleum and of all costs, expenditures as well as all other necessary or proper data. Further, all record shall be open at reasonable times for inspection and copying for the authorized representative of the JV Partners.

During audit of GHPL for the FYs 2018-19 to 2020-21, it was observed that GHPL was JV partner with PEL (the Operator), PPL and OGDCL in Block 22. The managements of GHPL and PPL conducted a non-operator audit of the block for the FYs 2008-12 and pointed out serious financial irregularities. As per findings, expenditure on activities e.g., foreign/local travelling, office rent, repair and maintenance etc., not related to the JV operation, were charged to the JV partners. The Operator agreed with the findings but did not adjust the pointed-out expenditure. Further, the management failed to recover / adjust the amount despite lapse of almost ten years. This resulted in non-recovery of Rs 222.308 million. It is pertinent to mention that no subsequent audit had been conducted by the management and the JV Operator continued to issue cash calls.

Audit is of the view that negligence of the management resulted in non-resolution of dispute regarding payment of Rs 222.308 million on irrelevant expenditure in JV accounts.

The matter was reported to management in August, 2021. The management in its reply dated October 21, 2021 stated that the matter of disputed monetary findings was under discussion with the Operator along with PPL. If the audit finding remains disputed, the last option as per Joint Operating Agreement available to JV Partners was to conduct third party audit of the disputed monetary findings. After agreement by Operator, the amount would be adjusted and the same would be shared with Audit for verification. Audit contended that weak monitoring of Joint Operating Agreement, management failed to get the monetary findings settled with the Operator.

The DAC in its meeting held on January 4, 2022 directed the management to share the stated stance verified from Audit.

Audit recommends to explain reasons for non-resolution of dispute, recover/adjust the amount involved besides improving monitoring and conducting audit of the unaudited period.

[DP No. 1503]

2.8.1.4.5 Loss of revenue due to short-lifting of LPG by SSGC LPG Private Ltd. – Rs 103.150 million

According to Rule 4 of PPRA Rules, 2004, the 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. Further, Clause 4.1 LPG Sale and Purchase Agreement between GHPL and SSGC LPG Private Ltd. dated March 04, 2013 states "the buyer shall take delivery of the quantity of LPG made available by the seller on "Take or Pay" basis. In the event that the buyer's off take of LPG is less than the total quantity of LPG made available by the seller, the buyer shall pay for the quantity of LPG made available by the seller".

During audit of GHPL for the FYs 2018-19 to 2020-21, it was observed that management entered into LPG Sale and Purchase Agreement with SSGC LPG Private Ltd. on March 04, 2013 on "Take or Pay" basis, without open

competition. SSGC LPG Private Ltd. short uplifted the LPG quantity from Mirpur Khas Khipro field against allocated quota. As per agreement, buyer was bound to pay for the short-lifted quantity but management failed to recover the amount from SSGC LPG Private Ltd. This resulted in loss of revenue of Rs 103.150 million.

Audit is of the view that due to weak internal control, management failed to recover the amount from SSGC LPG Private Ltd. under "take and pay" clause of the agreement.

The matter was reported to the management in August, 2021. The management in its reply dated October 21, 2021 stated that Clause 3 of the LPG SPA for Mirpur Khas Khipro block dated March 4, 2013 doesn't provide any specific quantities of LPG which the seller is obligated to provide. Regarding supply of LPG to OPI, GHPL share of LPG was made available to SSGC LPG Private Ltd. and if it was not able to lift all the available quantity, then this short-lifted quantity was disposed through Operator, which had lifting arrangements through M/s OPI Gas for disposal of its share of LPG from the field. Audit contended that management failed to invoke take or pay clause of the agreement which resulted in loss of revenue.

The DAC in its meeting held on January 4, 2022 directed the management to get the residual account verified from Audit.

Audit recommends to implement the decision of DAC.

[DP No. 1550]

2.8.1.4.6 Unjustified allocation of LPG to SSGC resulting in potential loss of Signature Bonus of Rs 99.54 million

As per Clause 3.1.1 of LPG (Production & Distribution) Policy, 2016, "Public Sector E&P Companies and Refineries shall give preference in sale of LPG to Gas Utility Companies for supply of LPG Air-Mix Plants in pursuance of GoP's socioeconomic consideration for supply of fuel to domestic consumers". Further, Clause 3.6.7 of the Policy states, "all local LPG producers in Sindh and Baluchistan will dedicate 10% of their production to LPG Air-Mix Plants and Marketing Companies for exclusive distribution in Baluchistan and Rural Sindh". Furthermore, as per Clause 4 of PPRA Rules, 2004, the procuring agencies while engaging in procurement, shall ensure that the procurement 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 GHPL for the FY 2018-19 to 2020-21, it was observed that in 2013, management allocated full production of LPG from Mirpur Khas Khipro field to M/s SSGC LPG Private Ltd. and M/s OPI for a period of five year by giving preference for supply to LPG Air Mix Plants instead of allocating 10% of LPG production. The management did not opt for sale of LPG by inviting bids through open competition bidding which could fetch Signature Bonus of Rs 99.54 million.

Audit is of the view that the management of GHPL allocated its LPG quota to SSGC Private Ltd. in violation of LPG Policy, 2016 and without open competition which resulted in loss of Rs 99.54 million.

The matter was reported to the management in August, 2021. The management in its reply dated October 21, 2021 stated that the LPG was allocated to SSGC Private Ltd. under the LPG Petroleum Policy, 2013, which allowed the preference in sale of LPG-to-LPG Air Mix plant. Reply is not tenable as according to LPG Policy, local LPG producers in Sindh and Baluchistan were required to dedicate 10% of their production to LPG Air-Mix Plants which was not done rather GHPL allocated whole of its share to subsidiary of SSGC which resulted in non-initiating the tendering process and sale of LPG to SSGC Private Ltd. and OPI without obtaining Signature Bonus.

The DAC in its meeting held on January 21, 2022 directed the management to provide the details whether the Air Mix Plant was installed by the SSGC Private Ltd.

Audit recommends to implement the decision of the DAC.

[DP No. 1716]

2.8.1.4.7 Irregular award of LPG contract to MOL

As per Clause 3.1.1 of LPG (Production and Distribution) Policy, 2016 and Policies thereafter, Public Sector E&P companies will outsource all LPG production to technically and financially sound private sector parties holding valid license from OGRA for the purpose, through a transparent and competitive process with a view to making LPG supplies available on commercial and

market driven consideration. The outsourcing process must ensure that no cartels and monopolies are created.

During audit of GHPL for the FY 2018-19 to 2020-21, it was observed that GHPL having 15% working interest was JV partner with MOL, OGDCL, PPL and POL in TAL block. MOL (the Operator) vide letter dated July 25, 2013 requested JV Partners to initiate the process for uplifting their share of LPG from Makori field. After lapse of 07 months, GHPL floated tender on Feb 21, 2014 on the basis of Signature Bonus for a quantity of 45 M. Tons per day (in lots of 5 M. Tons per day) for a period of 5 years. On the basis of successful bidding, only 07 lots were awarded and excess quantity of LPG 40 M. Tons per day (75 M. Tons less 35 M. Tons) was given on proportionate basis without obtaining Signature Bonus. After expiry of initial 5 years, two years extension was also granted to the buyers instead of re-bidding. On expiry of extended period, MOL approached GHPL and signed an LPG disposal agreement on May 07, 2021 without open competition. Some clauses of LPG disposal agreement were against the spirit of GHPL formulation (to safeguard the interest of Government) which are as under:

i. If any third party sue MOL in relation to contract for GHPL's share of LPG, MOL shall have the right to defend such suit for and on behalf of GHPL at GHPL cost;

ii. Selling price of LPG, in case the market condition does not permit LPG sale and disposal at the producer's price notified by OGRA, GHPL price shall not be less than MOL's LPG price or OGDCL's LPG price; and

iii. LPG buyer(s) shall deliver to MOL a cash deposits security, for an amount equivalent to thirty (30) days sale value of GHPL's share of LPG, inclusive of all applicable taxes. MOL shall receive and retain said cash deposit on behalf of GHPL into a separate bank account managed by MOL. Resultantly, an amount of Rs 1,890 million kept on laying in the MOL account throughout the year (75 M.Tons per day x 30 Days x Rs 70,000 average rate of LPG x 12 months)

Audit is of the view that management of GHPL awarded an irregular contract without open competition to MOL for disposal of LPG and entered in an unfavourable sales agreement.

The matter was reported to the management in August, 2021. The management in its reply dated October 21, 2021 stated that GHPL conducted two bidding rounds in 2014 to dispose of its share of LPG from TAL block. Seven lots of five M. Tons each were allocated to Burshane, POL, OPI Gas and Bukhari based on highest Signature Bonus offered. The agreements were signed with these companies for five years period which were extended for further period of two years. Due to pending case in Honourable Islamabad High Court regarding Signature Bonus (OGRA application 13/18), it was not possible for GHPL to conduct competitive bidding process based on Signature Bonus. Therefore, Operator was authorized sale of GHPL share of LPG from TAL block. Audit contended that management signed an unfavourable LPG sale contract with the Operator without open competition.

The DAC in its meeting held on January 4, 2022 directed the management to get the record regarding legal opinion verified from Audit besides examine the PPL model of sale of LPG and justify why the same can't be followed by GHPL.

Audit recommends to probe into the matter and fix responsibility on the person(s) at fault.

[DP No. 1606]

Financial Management

2.8.1.4.8 Non-recovery of sales proceeds of crude oil from OGDCL – Rs 2,447.876 million

According to Clause 5.1 of standard COSA "the buyer or his designee shall pay the sellers' invoices for all condensate delivered by the sellers at the Delivery Point in the preceding calendar month at the relevant condensate price, plus any duties and any other taxes, levies, duties or charges payable by the buyer in accordance with Article 6. The buyer shall make such payments separately and directly as invoiced by each seller within forty five days of receipts of invoice. If not so paid, liquidated damages shall be paid to the sellers on the unpaid balance after the due date at the rate per annum of 1.5% above the rate of the most recent six months Treasury Bills issued by the State Bank of Pakistan.

During audit of GHPL for the FYs 2018-19 to 2020-21, it was observed that GHPL received less sales proceeds of condensate for 220,274 BBLs instead of 573,980 BBLs valuing Rs 1,652.592 million for the period from January, 2017 to June, 2021 from TAY field. The matter was raised after 04 years and 06 months by GHPL and OGDCL agreed to pay Rs 1,373.163 million after deduction of Rs 36.042 million as transportation charges instead of actual claim of GHPL. OGDCL (the Operator) was selling TAY condensate by commingling it with Kunnar Crude Oil and Kunnar field was 100% owned by OGDCL. As per produced record, the sales quantities dispatched from KPD were not priced in accordance with allocation letter issued by the regulator and discounted prices were applied and GHPL sustained loss of differential amount of Rs 795.284 million. This resulted into non-recovery of sales proceeds of Rs 2,447.876 million.

Audit is of the view that the poor monitoring of JV operations resulted in non- recovery of Rs 2,447.876 million from the Operator.

The matter was reported to the management in September, 2021. The management in its reply dated October 21, 2021 stated that GHPL has taken up the matter with OGDCL to release the funds of Rs 1,409.204 million without deducting transportation charges and raising debit notes for differential of Rs 795.284 million. Audit requires detail reconciliation of amount involved with production and sales.

The DAC in its meeting held on January 4, 2022 directed the management to reconcile the amount with OGDCL and pursue the recovery and resolve the issue within six months.

Audit recommends to implement the decision of DAC.

[DP Nos. 1598 & 1599]

2.8.1.4.9 Over payment of 19.78% by GHPL on account of processing and operational charges of development facility

According to Clause 30.1 (Article 30) of Model PCA, the Operator shall conduct all exploration, exploitation, drilling, development, and production in accordance with Good International Oilfield Practices and Principles and Standards laid down in the Rules. Consistent with this requirement, Operator

shall endeavour to minimize exploration, development, production and operation costs and maximize ultimate economic recovery of Petroleum.

During audit of GHPL for the FY 2018-19 to 2020-21, it was observed that GHPL was JV partner of OGDCL (the Operator) in Sinjhoro block having 22.5% share. The Operator offered to install new plant consisting of Amine Unit, Compressor where all costs (other than field development and operating cost) were to be exclusively borne by the Operator and the plant was to be remained its sole property during the entire period of lease and thereafter. In lieu, Gas Processing Fee @ US$ 170/MMSCFD, LPG extraction fee @ US$ 60 /M. Tons, Condensate Processing fee @ US$ 1.30/BBL and LPG handling fee @ US$1.50/M. Tons was to be charged from the JV partners. A fair cost sharing mechanism of all field development and operating costs on case-to-case basis for common facilities such as mosque, recreation areas, access road etc., was agreed by the Joint Venture Partners. However, GHPL paid US$ 31.697 million to OGDCL on account of processing and operational charges of development facility which was 42.28% of the total expenditure instead of paying 22.5% corresponding to its share. This resulted into over payment of 19.78% by GHPL on account of processing and operational charges of development facility.

Audit is of the view that due to poor contract management of JVs operations, while evaluating the Field Development Plan, GHPL ignored the payback period which was just 1.47 years as per Table-B of Economics Analysis and also over looked the operating cost of facility development which was 42.28% of the processing cost.

The matter was reported to the management in August, 2021. The management in its reply dated October 21, 2021 stated that the plant was 100% owned by OGDCL and its ownership was not offered to JVs (GHPL & OPI) by paying the cost of the plant. Moreover, the Capex figure in the FDP does not relate to plant, rather it relates to gathering system/lines. The figure of US$ 31.697 million for three years 2018-20 is gross figure and not GHPL share. The “Other processing charges” relates to salaries of field staff of Sinjhoro, repair & maintenance of the pipelines / flow lines, wells etc., oil transportation charges, supplies & services etc., Hence, processing / handling fee cannot be compared with Sinjhoro field costs in terms of percentage. Reply is not tenable

as management ignored the payback period of 1.47 years and preferred to pay higher operational cost.

The DAC in its meeting held on January 4, 2022 directed the management to get the stated stance verified from Audit.

Audit recommends to justify the reasons for non-contribution in Capex and payment of processing charges besides justification for paying 42.28% instead of 22.5%.

[DP No. 1603]

HR Management

2.8.1.4.10 Irregular appointment of Assistant Manager (Joint Venture Finance)

According to an advertisement for appointment of Assistant Manager (Joint Venture Finance) floated by GHPL in the Daily News on March 01, 2009, the candidate must be a qualified accountant / MBA in Finance or Masters in Commerce with minimum three years relevant experience in an oil and gas company, preferably in upstream oil and gas sector and having knowledge of accounting software.

During audit of GHPL for the FYs 2018-19 to 2020-21, it was observed that in response to the advertisement for appointment of Assistant Manager (Joint Venture Finance) published in the Newspaper, 04 candidates' submitted applications. Out of these candidates, 03 fulfilled the criteria whereas one candidate, Ms. Samina Sabir, did not have the relevant experience. However, the management appointed Ms. Samina Sabir as Assistant Manager (JV Finance) on July 21, 2009 by ignoring the other 03 candidates. This resulted in irregular appointment of Assistant Manager (JV Finance).

Audit is of the view that poor HR management resulted in irregular appointment of Assistant Manager (JV Finance).

The matter was reported to the management in August, 2021. The management in its reply dated October 21, 2021 stated that Ms. Samina Sabir did her B.Com in 2003 and completed her Chartered Accountancy in 2008. She had working experience from 2003 till 2009 in one of the reputed audit firms. She was qualified accountant and had more than five years of experience of audit in

different companies inclusive of three years of experience of audit of upstream oil and gas companies particularly upstream joint ventures. The final selection of the candidate whether having industry experience or audit experience was made through a proper interview process. Audit did not agree with the explanation of the management.

The DAC in its meeting held on January 4, 2022 directed the Ministry to conduct an inquiry and fix responsibility at fault within two months.

Audit recommends to implement the decision of DAC.

[DP No. 1504]

2.8.1.4.11 Illegal appointment of Chief Internal Auditor in GHPL

According to Rule 22(2) of the Corporate Governance Rules, 2013 "no person shall be appointed to the position of the Chief Internal Auditor unless he is considered and approved as "fit and proper" for the position by the Audit Committee. No person shall be appointed as the Chief Internal Auditor of a Public Sector Company unless he has five years of relevant audit experience.

During audit of GHPL for the FYs 2018-19 to 2020-21, it was observed that Ms Samina Sabir was working as Deputy Manager (JV) in GHPL. Management of GHPL appointed Ms Samina Sabir, as acting Chief Internal Auditor of the Company vide office orders dated July 30, 2018 despite the fact, the officer did not have five-year relevant experience. After one year of appointment, Chief Internal Auditor was reverted back to the post of Deputy Manager (JV).

Audit is of the view that as the officer does not have five years relevant experience as envisaged in the ibid Rules besides the officer was also involved in day-to-day operations, hence, could not be appointed as the Chief Internal Auditor of the company and her appointment was irregular.

The matter was reported to the management in August, 2021. The management in its reply dated October 21, 2021 stated that GHPL initiated the process for appointment of Chief Internal Auditor commenced on November 7, 2017 as per applicable Rules. The advertisement for the position / post of Chief Internal Auditor was duly published in newspapers. The selection process was ongoing when the date for general elections in the country was announced, where after the Election Commission of Pakistan placed restriction on all

appointments in the public sector. This resulted in delay in the appointment of Chief Internal Auditor. As an interim measure, the company gave acting charge of Chief Internal Auditor to Ms. Samina Sabir (Employee of the Company) w.e.f July 23, 2018.

The DAC in its meeting held on January 4, 2022 directed the Ministry to conduct an inquiry and fix responsibility at fault within two months.

Audit recommends to implement the decision of DAC.

[DP No. 1553]

2.8.1.4.12 Irregular appointment of Senior General Manager (Legal & Commercial) E-IV

According to Clause 3.2.4 of GHPL Service Rules 2012, minimum qualification for the appointment of Grade E-III post is Bachelors or equivalent professional degree with 10 years of working experience. As per advertisement for the post of General Manager (Legal & Commercial) E-III, published in the daily Dawn dated February 12, 2012, the candidate should have minimum required qualification of Bachelors' degree in Law (LLB), preferably with additional qualification in corporate / commercial law. Further, the candidate must have minimum 12 years post graduate experience in managing commercial and contract/legal matters in corporate sector including five years' experience at senior management position, preferably in energy sector.

During audit of GHPL for the FYs 2018-19 to 2020-21, it was observed that the advertisement for the post of General Manager (Legal & Commercial) E-III was floated in the newspapers. After codal formalities, Mr. Jam Umair Ahmad was appointed as Deputy General Manager (Legal & Commercial) in E-IV instead of General Manager (Legal & Commercial) in E-III as was advertised in the newspapers. The management restricted the competition for E-IV post by appointing a candidate on the basis of criteria set for E-III post and in the absence of any other candidate. Moreover, the candidate did not possess requisite experience. This resulted into irregular appointment of General Manager (Legal & Commercial) E-IV by the management of GHPL.

Audit is of the view that poor HR management resulted in irregular appointment of Senior Manager (Legal & Commercial) E-IV.

The matter was reported to the management in August, 2021. The management in its reply dated October 21, 2021 stated that recruitment was made with the approval of competent authority. Audit did not agree with the explanation of the management and argued that the officer was appointed without advertisement.

The DAC in its meeting held on January 4, 2022 directed the Ministry to conduct an inquiry, fix responsibility and submit the report within two months.

Audit recommends to implement the decision of DAC.

[DP No. 1554]

2.8.1.4.13 Irregular appointment of GHPL employee as Company Secretary of its subsidiary (PLTL)

According to Rule 14(4) of the Corporate Governance Rules 2013, "no person shall be appointed as the Company Secretary of a Public Sector Company unless he is (a) a member of a recognized body of Professional Accountants; or(b) member of a recognized body of Corporate or Chartered Secretaries; or (c) person holding a master degree in business administration or commerce or being a law graduate from a university recognized by the Higher Education Commission with at least five years relevant experience. Further, according to clause 1(XIII) of GHPL Revised Service Rules, employee means a person on the payroll of the company as full time employee and shall include only the employees with whom the company has written employment contract which shall govern the entire terms and conditions for the employment of such person with the company.

During audit of GHPL for the FY 2018-19 to 2020-21, it was observed that Board of PLTL (a subsidiary of GHPL) in its 59th meeting held on November 19, 2019 approved the appointment of Ms Samina Sabir – an employee in GHPL, as acting Company Secretary of PLTL, on an additional charge basis with effect from November 21, 2019, till the appointment of a full-time person.

Audit is of the view that a regular employee of the parent company was appointed as Company Secretary of its subsidiary which was not permissible under Clause 1(XIII) of GHPL Service Rules. This appointment has also raised question on the independence of the subsidiary company as well.

The matter was reported to the management in August, 2021. The management in its reply dated October 21, 2021 stated that additional charge of the Company S5ecretary was granted for some period with the approval of Board as per Service Rules of GHPL. Reply of the management is not tenable as GHPL employee was not allowed to take additional charge of its subsidiary company.

The DAC in its meeting held on January 4, 2022 directed the management to get the stated stance verified from Audit.

Audit recommends to take appropriate action besides justification of irregular appointment of GHPL regular employee as Company Secretary of its subsidiary (PLTL) on additional charge basis.

[DP No. 1555]

2.8.1.4.14 Illegal appointment of Senior Manager Human Resource and Administration E-IV

As per Rule of 3.2 of GHPL Revised Service Rules, 2012, approved by the BoD, minimum required qualification is Bachelors or equivalent professional degree from HEC recognized institution and 05 years of work experience. As per advertisement for the post of Senior Manager (Human Resources) published in daily Dawn dated November 7, 2017, the minimum required qualification was MBA/MPA with minimum ten years experience in human resources management, organizational development and administrative matters of oil and gas sector. Candidate having at least five years experience in (Oil and Gas) public sector organization in management would be given preference.

During audit of GHPL for the FYs 2018-19 to 2020-21, it was observed that Ms. Shabana Khan, an employee of ISGS working as Managing Director, ISGS also have acting charge of GHPL, advertised a tailor made criterion which included a clause that “preference would be given to a candidate having experience of PSE” in violation to the criteria of GHPL Service Rules duly approved by the BoD. Ms. Shabana Khan was appointed on December 07, 2017 at a monthly package of Rs 475,000. Further, acting management did not include “preference would be given to a candidate having experience of PSE” in the advertisements for other posts.

Audit is of the view that poor HR management resulted in conflict of interest in the appointment of Senior Manager, HR and Administration.

The matter was reported to the management in August, 2021. The management in its reply dated October 21, 2021 stated that the criteria of five years experience in oil & gas public sector organization were mentioned with reference to preference. However, the candidates meeting the criteria were short-listed and final candidate was finalized after going through proper selection process including interviews. Ms. Shabana Khan was selected by the interview panel and joined as Senior Manager Human Resources and Administration. She did her MBA in Human Resources Management. She had more than ten years experience including five years experience in oil and gas sector. Audit did not agree with the explanation of the management.

The DAC in its meeting held on January 4, 2022 directed to conduct an inquiry at the Ministry Level, fix responsibility and submit the report within two months.

Audit recommends to implement the decision of DAC.

[DP No. 1556]

Project Management

2.8.1.4.15 Loss due to defective project management and less extraction of LPG - Rs 5,611.830 million

According to Field Development Plan of KPD-TAY, expected daily production was 278 MMSCF of gas, 4,700 BBLs condensate, 400 BBLs additional NGL and 361 M. Tons of LPG with a payback period of 2.65 years.

During audit of GHPL for the FY 2018-19 to 2020-21, it was observed that OGDCL (the Operator of KPD-TAY field) developed an integrated Development Plan for KPD-TAY fields. After tendering formalities, contract was awarded to M/s Shandong Kerui Petroleum Equipment Co. Ltd, on March 20, 2013. The contract was to be completed within 12 months from the date of establishment of LC but the project was completed in 2015 and LPG extraction was started in September, 2016. Resultantly, the management failed to receive the committed quantity of LPG as per Field Development Plan resulting in loss of Rs 5,611.830 million.

Audit is of the view that due to weak monitoring of JV operations, management of GHPL failed to recover the committed quantity of LPG which resulted in loss of Rs 5,611.830 million.

The matter was reported to the management in September, 2021. The management in its reply dated October 21, 2021 stated that GHPL is a partner in TAY EL only (and not in KPD Field, which was also being produced from the same KPD Plant). TAY production was started in January, 2017 and production of all the products i.e., Gas, Condensate and LPG started at the same time. Moreover, the production of LPG from TAY was initially estimated as 125 M. Tons/day (refer FDP) and not 361 M. Tons/day as mentioned in the report (361 M. Tons/day is the design capacity of the plant considering production from both TAY and KPD Fields). Further, 361 M. Tons/Day for TAY and KPD was not committed quantity for LPG, rather it was an estimated quantity which might differ from the actual quantity. TAY gross production during 2018-21 remained at average 99.87 M. Tons/day. Reply is not tenable as management failed to recover committed quantity of LPG according to FDP form the Operator.

The DAC in its meeting held on January 4, 2022 directed the management to share the breakup of production/ reconciliation for verification of Audit for last three years.

Audit recommends to justify the reason(s) for less production than projected in the Field Development Plan.

[DP No. 1593]

2.8.1.4.16 Less recovery of LPG from Mirpur Khas Khipro (Niamat field) for Rs 3,021.90 million

According to Rule 5(5) of the Corporate Governance Rules, 2013 read with Rule 5(5)(a), 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.

During audit of GHPL for the FY 2018-19 to 2020-21, it was observed that UEPL (Operator) and a JV partner of GHPL, charged processing fee of US$ 85 per M. Tons for LPG extraction at Mirpur Khas Khipro block. In 2016, the Operator decided to upgrade the Niamat LPG Plant and offered GHPL either to invest in capital expenditure of US$ 40 million or accept gas process charges @ 110 US$ Per M. Tons instead of current rate i.e., US$ 85 per M. Tons. The Operator committed that LPG recovery will be increased from current 60% to 95%. Operator admitted that plant capacity was 50 MMSCFD while gas was

being processed above 100 MMSCFD. However, LPG recovery declined instead of increase as was committed which resulted into less recovery of LPG for Rs 3,021.90 million.

Audit is of the view that due to weak monitoring of JV operations, management of GHPL paid heavy processing fee of US$ 110 per M. Tons for LPG extraction with a redundant plant which resulted in lesser extraction of LPG and loss.

The matter was reported to the management in August, 2021. The management in its reply dated October 21, 2021 stated that in the oil and gas industry, it was very difficult to predict how the subsurface wells will perform in terms of decline rates and water encroachment. If the mix of production changes, the volume of LPG extracted also changes. In the current case, the LPG Plant could not produce more due to the Wobbe Index limitation whereas, payment for gas was based on the actual BTUs sold. Reply of the management is not tenable as processing charges were enhanced with a commitment of recovery of LPG up to 95% rather it decreased.

The DAC in its meeting held on January 4, 2022 directed the Ministry to conduct fact finding inquiry on the subject matter and submit the reports within two months simultaneously.

Audit recommends to implement the decision of DAC.

[DP No. 1605]

2.8.1.4.17 Loss due to delay in completion of Mela-Nashpa transmission pipeline & Mela facilities – Rs 771.120 million

As per Section 7.3 of Field Development Plan dated October 12, 2012 the Central Processing Facility (CPF) would be installed at Nashpa field to cater the production of Mela and Nashpa fields. The designed capacity of the plant for gas processing would be 100 MMSCFD from Nashpa and Mela filed.

During audit of GHPL for the FY 2018-19 to 2020-21, it was observed that GHPL was JV partner with OGDCL (Operator) in Nashpa Block with 15 % share. On November 16, 2015, OGDCL awarded a contract to M/s Hong Kong Huihua (HKH) Global Technology Ltd. for US$ 148 million for installation of LPG recovery plant. The work was started in January, 2016 and was to be completed by June 10, 2017 but Nashpa plant started LPG production in

February, 2018. In order to fetch raw gas of Mela field to Nashpa field, OGDCL started laying a 23 Kms separate pipeline along with facilities on June 01, 2018 which was to be completed up to May, 2019 but was completed in May 2020. Similarly, contract for installation of Mela facilities was awarded to M/s GASCO Engineering on April 15, 2019 for Rs 653.815 million which was to be completed in eight months from the date of Letter of Credit. Due to non-completion of Mela-Nashpa transmission pipeline and Mela facilities simultaneously, there occurred a loss of Rs 771.120 million to the national exchequer.

Audit is of the view that due to weak monitoring and management's oversight, the Operator failed to fulfil work obligation and loss occurred.

The matter was reported to the management in August, 2021. The management in its reply dated October 21, 2021 stated that the Mela-Nashpa transmission pipeline project scope was between two fields i.e., laying of pipeline from Mela to Nashpa (23 Km away from each other in a challenging terrain) in which several stakeholders were involved. The main reasons of delay were Local ROW & community issues and delay in change of Point of Delivery for Mela gas from Mela to Nashpa due to SNGPL reluctance. Reply of the management is not tenable as weak monitoring of joint operating agreement, Mela Gas could not be processed due to non-completion of Nashpa transmission pipeline which resulted in loss of LPG.

The DAC in its meeting held on January 4, 2022 directed the management to get the stated stance verified from Audit.

Audit recommends to implement the decision of DAC.

[DP No. 1551]

2.8.1.4.18 Blockage of revenue and non-Development of Kandra Field since 2004

According to Rule 43 of Pakistan Petroleum (E&P) Rules 1986, "the lease may be revoked if regular, commercial production has not commenced within five years from the grant of the lease. Further, according to Rule 5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, the principles of probity and propriety entails that the assets and resources of the

company should not be used for private advantage, and that due economy is exercised so as to reduce wastage.

During audit of GHPL for the FYs 2018-19 to 2020-21, it was observed that GHPL and PEL were JV partners in Kandra Field located in Sindh. After successful discovery and subsequent Field Development Plan, DG (PC) granted Kandra lease for a period of 25 years w.e.f January 05, 2006. However, PEL failed to bring the field on production within five years and requested for a further four years extension in lease period. Meanwhile, GHPL increased its share to 25% (post commercial). ECC approved low BTU gas (40 MMSCFD of 200 BTU/SCF) from Kandra field for SSGC along with 10 MMSCFD pipeline quality gas from SSGC's system at Sukkhur at the disposal of M/s PPIB, who later issued Letter of Intent to M/s Kandra Power Company for setting up a 120 MW power plant. However, the matter remained unresolved due to difference of opinion between the parties for signing of conditional GSA. Although, the lease had expired on January 04, 2011, DG (PC) relaxed application of Rule 43 with the condition that PEL would undertake development activities 03 years and 04 months in order to start commercial production. However, despite expiry of the extended period, the field could not be developed. After detailed discussions and a number of meetings, a further four years extension was granted by the DG (PC) w.e.f February 17, 2016 mentioning that the relaxation in Rule, 43 shall in no manner, whatsoever, would entitle the Kandra JVPs for any amendment in earlier ECC decision(s) relating to allocation of gas etc. No further progress was made to make the field operational.

Audit is of the view that due to poor planning and management, JVs department of GHPL did not make serious efforts to bring the Kandra field on production which resulted in loss of potential revenue and risk of revival of field production after the lapse of more than 18 years.

The matter was reported to the management in August, 2021. The management in its reply dated October 21, 2021 stated that Kandra field could not be developed due to negative economics and commercialization challenges, which are based on low BTU and high contents of CO_2 / Nitrogen. Previously, efforts are made time and again to utilize this gas and develop the field through supplies to power plant. However, the same could not be materialized due to gas quality challenges and negative economics. Reply is not tenable as management

failed to pursue the Operator to develop Kandra field and loss of potential revenue besides taking serious efforts to start the commercial production from field.

The DAC in its meeting held on January 21, 2022 directed the management to take up the matter with Ministry for non-development of Kandra field.

Audit recommends to justify the position besides strengthening the internal controls.

[DP No. 1714]

Receivables Management

2.8.1.4.19 Non-recovery of loan with interest from borrowers – Rs 5,179.86 million

GHPL entered into loan agreements with PLTL / PLL on December 11, 2015and with ISGS on September 09, 2018 (read with amendments to loan agreements) in the light of ECC decisions dated November 25, 2015 & December 15, 2016 respectively. The agreements mandated the Lender (GHPL) being the parent company of the Borrowers (PLTL/PLL/ISGS) to fund all its expenditure, excluding all Government investments which shall be routed to GHPL, on the Government mandated Projects being undertaken by the borrower. Further, as per relevant clauses of the agreements, the borrower shall pay interest on the principal amount of the loan during the loan period at the rates given in the agreements payable in accordance with the schedule of payments.

During audit of GHPL for the FY 2018-19 to 2020-21, it was observed that GHPL granted loans to PLTL, PLL and ISGS for specific periods and on certain terms and conditions. However, on expiry of the loan period(s) there was an amount of Rs 5,179.86 million recoverable from the borrowers as detailed below:

(Rs in millions)

Sr. No.	Borrower	Amount
1	PLTL	43.559
2	ISGS	270.302
3	PLL	4,866
	Total	**5,179.861**

Audit is of the view that poor receivable management resulted in non-recovery of outstanding amount of Rs 5179.861 million from the borrowers.

The matter was reported to the management in August, 2021. The management in its reply dated October 21, 2021 stated that the entire amount of Rs 1.6 billion from ISGS had been recovered and amount of loan from PLTL & PLL was being recovered in instalments. Audit contended that the amount involved was required to be recovered as per loan agreements which was not done.

The DAC in its meeting held on January 4, 2022 directed the management to get the stated stance verified from Audit besides pursuance of balance amount.

Audit recommends to get the recovered amount verified besides recovery of balance amount with leviable interest.

[DP No. 1571]

Others

2.8.1.4.20 Violation of Cabinet decision resulting in irregular amendment in the organizational structure

According to Clause (i) Annexure-IV of the Cabinet's decision in case No. 68/6/97 dated January, 1997, the holding company should be incorporated as a private Ltd. company rather than as a Public Ltd. company, enabling it to function with minimum number of staff and Directors. This will reduce compliance of requirement of filling returns to the concerned Registrar saving in expenditure. Further, according to Clause (iii) of the Annexure ibid, Member of BoD, possessing high professional competencies, appointed for a fixed tenure, should be given job security, the composition of the Board is proposed as under:

i. Managing Director; He should be appointed for a term of three years;
ii. Director Finance and Administration; and
iii. Director Technical.

The base for removal of Director should be the same as stated for the Managing Director. Furthermore, according to Clause (vii) of the Annexure ibid, the organizational chart (Appendix-I) of the company brings out clearly the line of command for the various functional positions of the company. Services Rules

covering appointment and promotion procedures should be in place before making the position operative.

During audit of GHPL for the FY 2018-19 to 2020-21, it was observed that a summary was submitted to Cabinet for establishment of Government owned holding company with limited functions and a small number of Directors. The Cabinet approved those posts of Director (Technical) and Director Finance & Admin Personnel, highly trained in their respective disciplines. However, Organogram of GHPL revealed that above posts did not exist in it and Organogram adopted by the Company differed from that one duly approved by the Cabinet. The overall existing sanctioned strength of the company consisted of 121 officers / officials out of which 38 related to technical department including 19 vacant posts.

Audit is of the view that violation of Cabinet's decision resulted in altered structure consisting of less members of technical employees which hampered the functioning of the Company.

The matter was reported to the management in August, 2021. The management in its reply dated October 21, 2021 stated that there is no violation of cabinet decision. All of the hiring was under the approved organogram whereas, all the previous / existing Boards were / are approved by the Federal cabinet. Audit contended that the existing organogram was not in accordance with that one approved by the Cabinet.

The DAC in its meeting held on January 4, 2022 directed the management to provide the summary of establishment of GHPL, framework of GoP holding company along with all the relevant record to audit for verification within two weeks.

Audit recommends to implement the decision of DAC.

[DP No. 1601]

2.8.2 Pakistan Mineral Development Corporation (Pvt.) Ltd.

2.8.2.1(A) Introduction

Pakistan Mineral Development Corporation (Pvt.) Limited (PMDC) was established in 1974. PMDC is the only federal entity engaged in prospecting, exploration, evaluation, mining, and marketing of minerals in the country. PMDC gets exploration licenses and mining leases from the respective Provincial Governments. It undertakes all activities, from prospecting to the marketing of the minerals, in competition with other public and private sector mining companies. The assets of West Pakistan Industrial Development Corporation of Pakistan and following companies were transferred to PMDC vide production division's letter No. Admn-1(23)/74.

Sr. No.	Name of Company	Sr. No.	Name of Company
1	Makerwal Colliories Ltd. Makerwal	8	Deve1opment of Central block Sor Range
2	Rock Salt Quarries Bahaderkhel & Karak	9	Development of Degari Coal Mines
3	Salt Mines Khewra	10	Salt Mines Warcha
4	Salt Mines Kalabagh	11	Rock Salt Quarries Jatta
5	Development of Sharigh coal Mines, Sharigh	12	Exploration & Development of Ruby Deposits in Hunza Area, Gilgit Agency
6	Mineral development program, Punjab	13	Mineral development program, N.W.F.P
7	Mineral development program Sindh		

(B) Comments on Audited Accounts

The financial statement of the company for the year 2020-21 has not been finalized by the management.

2.8.2.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 795.868 million were raised in this report during the current audit of PMDC. This amount also includes recoverable amount of Rs 615.606 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Over view of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Contract Management	495.278
B	Frauds	161.432
C	Receivables Management	70.003
D	Project Management	16.917
F	Poor Assets Management	12.275
E	Human Resource Management	16.615
2	Others	23.348

2.8.2.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	% age of Compliance
2006-07	05	04	01	80
2009-10	01	0	01	-
2010-11	10	10	0	100
2011-12	15	5	10	33
2012-13	04	01	03	25
2013-14	05	04	01	80
2014-15	14	03	11	21
2015-16	08	01	07	12
2016-17	09	07	02	77
2017-18	06	04	02	67
2018-19	14	01	13	07
2019-20	0	0	0	0
2020-21	0	0	0	0
Total	**91**	**40**	**51**	**44**

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

2.8.2.4 Audit Paras

Contract Management

2.8.2.4.1 Non-realization of profit-sharing amount from the contractor – Rs 495.278 million

According to Clause 5.1 of the agreement executed between PMDC and M/s MCC Resource Development Limited (MRDL), the final profit accruing from the project shall be appropriated between MRDL and PMDC in the ratio of 80:20. Further, according to Para 15.3 of the agreement ibid, an independent firm of chartered accountants will be selected for auditing the project. The firm will be selected in consultation with PMDC.

During audit of PMDC for the FY 2020-21, it was observed that the annual audited accounts of MRDL depicted Rs 495.278 million (US$ 3,084,880) as the profit-sharing amount payable to PMDC. However, the management did not claim that amount from MRDL which resulted in non-realization of Rs 495.278 million. Further, MRDL did not consult PMDC in selection of audit firm thus the authenticity of profit-sharing could not be determined but the management did not take up the matter with the contractor.

Audit is of the view that the weak contract management resulted in non-recovery of profit sharing amounting to Rs 495.278 million.

The matter was reported to the management in October 12, 2021. The management in its reply dated November 24, 2021 stated that the profit had been recorded in the financial statement of PMDC for the FY 2020-21. The matter regarding payment of profit share had been taken up with MRDL's management and remittance procedure was being settled. The amount would be received in near future. The matter of appointment of statutory auditors of MRDL in consultation with PMDC was also being pursued as per agreement.

The DAC in its meeting held in December 08, 2021 directed to expedite the recovery and share the outcome with Audit. No further progress was reported till finalization of this report.

Audit recommends to recover the profit-sharing amount from the contractor besides authenticating the record of the project for determining the profit.

[DP No. 1464]

Frauds

2.8.2.4.2 Loss due to cash embezzlement - Rs 58.068 million

According to Para 1 (ii & iv), Section II of Chapter III of Accounting Procedure of Accounting Manual for Projects & Companies of West Pakistan Industrial Development (adopted), the corporation accountant in charge should entrust the writing of the main cash book to an Assistant other than the Cashier. He should ensure that no member of accounts staff other than cashier is allowed to receive cash on behalf of the Project/Company and all receipts are deposited in the Bank.

During the audit of PMDC for the FY 2020-21, it was observed that Assistant Manager (Accounts) at Lakhra Coal Mining Project entered various fake journal vouchers in computerized cash book. The entries were made to reconcile the computerized cash book with the bank statement by fraudulent means whereas the cash was never deposited in the bank. One such voucher No. 99 was found edited nineteen times. This embezzlement by the officer resulted in loss of Rs 58.068 million.

Audit is of the view that weak internal controls resulted in embezzlement of cash causing loss of Rs 58.068 million to the company.

The matter was reported to the management in October 12, 2021. The management in its reply dated November 24, 2021 stated that PMDC had now set up an internal control system as per legal requirement under the Public Sector Companies (Corporate Governance) Rules, 2013. After due inquiry, PMDC fixed responsibility for the embezzlement in question and suspended the main accused Mr. Niaz Akhter due to involvement of huge amount, the case was referred to National Accountability Bureau (NAB), which later on referred the matter to Federal Investigation Agency (FIA) Crime Circle, Hyderabad and now the case is under trial at Anti-Corruption Court, Hyderabad.

The DAC in its meeting held on December 08, 2021 directed to place the matter before the BoD for stoppage of cash handling forthwith besides pursuance of case with FIA. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1466]

2.8.2.4.3 Loss of revenue due to fraudulent means - Rs 55.582 million

According to Section 153 (1) & 229 of the Punjab Mining Concession Rules, 2002, a licensee or a lessee shall keep, in the form prescribed by the Licensing Authority, complete record at the mine premises, showing the quantity of the minerals obtained and dispatched from the mines on the authenticated register issued by it or its authorized representative. The minerals excavated from any licensed or leased area shall be dispatched from the area on the prescribed dispatch slips duly authenticated by the Licensing Authority or its authorized representative.

During audit of PMDC for the FY 2020-21, it was observed that the clerks at Warcha Mine recorded short measurement/ inferior quality of salt on sales register compared to quantity and quality mentioned in MD-8 (salt dispatch slips). Further, inward gate passes of rejected industrial quality salt were also not available on record. With this, undue benefit was extended to the vendor by recording inferior quality and less quantity of salt causing loss of Rs 55.582 million.

Audit is of the view that weak internal controls resulted in fraudulent practices in the company causing loss of Rs 55.582 million.

The matter was reported to the management in October 12, 2021. The management in its reply dated November 24, 2021 stated that under the direction of PMDC Board of Directors and its Audit Committee, the Chief Internal Auditor carried out verification of MD-8 dispatch slips and sales record for the last five years (July 01, 2015 to June 30, 2020) at Warcha Salt Mines. As per recommendations of Chief Internal Auditor, further action for fixing responsibility was under process.

The DAC in its meeting held on December 08, 2021 directed to finalize the internal inquiry within three months.

Audit recommends to fix responsibility besides recovering the pointed-out amount.

[DP No. 1467]

2.8.2.4.4 Loss of revenue due to misplacement of tickets books - Rs 42.195 million

According to Section-IV of Chapter-V of the Accounting Procedure of Accounting Manual for Projects & Companies of West Pakistan Industrial Development Corporation(adopted), stores item receiving, issuance, either on loan or permanent basis, its return and closing balance will be recorded on bin card.

During audit of PMDC for the FY 2020-21, it was observed that the management issued 8,008 printed ticket books to the management of Khewra Tourist Resort. Out of these, 7,569 ticket books were returned to the store as per bin card whereas 51 ticket books were lying at resort museum. The balance of unused 388 ticket books were neither available at store / museum nor its sale revenue amounting to Rs 28.304 million was deposited. Further, 111 ticket books worth Rs 13.891 million were received by store keeper but the same were neither issued to the resort nor their sale revenue deposited in company accounts. This misplacement / illegal sale of printed tickets resulted in loss of revenue of Rs 42.195 million.

Audit is of the view that weak internal controls resulted in misplacement / illegal sale of tickets resulted in loss of Rs 42.195 million.

The matter was reported to the management in October 12, 2021. The management in its reply dated November 24, 2021 stated that a committee comprising three officers was constituted at Head Office to investigate the matter. The Committee in its report fixed the responsibility on the person(s) at fault. Afterwards, an authorized officer was appointed on the subject matter who submitted report recently and decision of competent authority was in process.

The DAC in its meeting held on December 08, 2021 directed to share the inquiry report with Audit within three days. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1468]

2.8.2.4.5 Loss due to pilferage of salt stock - Rs 5.587 million

According to Para 3 (vi) & (vii) of Section X of the Accounting Manual for Projects & Companies of West Pakistan Industrial Development Corporation (adopted), read with Para 3 of Section VIII of ibid, discrepancies in inventory due to pilferage or theft should be fully explained and the responsibility for shortages be fixed.

During audit of PMDC for the FY 2020-21, it was observed that during stock-taking of salt at Warcha Salt Mines on October 29, 2018, a shortage of 5,212 tons of salt was pointed out. Fact-finding committee was constituted which also endorsed the shortage of stock. This resulted in a loss of Rs 5.587 million (Salt 5,212 tons X @ Rs 1,072 per metric tons as average sale proceeds of Koryan Salt).

Audit is of the view that weak internal controls resulted in pilferage of salt stock amounting to Rs 5.587 million.

The matter was reported to the management in October 12, 2021. The management in its reply dated November 24, 2021 stated that a detailed inquiry was conducted by the company and recovery from the concerned officers/staff was in progress. Recovery amounting to Rs 550,000 had been made till date.

The DAC in its meeting held on December 08, 2021 directed to get the stated stance verified from Audit and pursue the recovery of balance amount. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1480]

Receivables Management

2.8.2.4.6 Un-authorized grant of loan and advance to default contractor – Rs 36.094 million

According to Para 4 & 8 of the Coal Raising Agreement, the raising contractor shall bear the entries cost relating to excavation etc., and the sale of coal in such a manner that on sale of coal, a net margin of Rs 400 per ton is paid to PMDC. The raising contractor will weigh both empty trucks and loaded trucks on the weighbridge of PMDC and duly record in a register for effecting recovery of the due amount in the first week of the preceding month.

During audit of PMDC for the FY 2020-21, it was observed that the management of PMDC signed an agreement with Haji Abdul Razik, already a PMDC raising contractor of mines at Lease No. 192, to supply coal to CFPP Khushab in August, 2018. The contractor requested the management of PMDC for an advance to accelerate the development and excavation of coal from the said mine to meet the CFPP Khushab coal requirements. The contractor was already in default for payment of net margin but the management sanctioned him a loan of Rs 30 million by converting the receivable of Rs 24 million as a loan and paying the balance amount of 6 million in cash despite absence of provision for advance loan to the contractor. Later, the contractor neither returned the loan along with interest which stood to Rs 38.648 million nor paid the net margin of Rs 6.094 million due as on 30.06.2021. This resulted in non-recovery of advances along with interest and net margin of Rs 44.742 million.

Audit is of the view that weak internal controls resulting in authorization of inadmissible advance and receivable of net margin.

The matter was reported to the management in October 12, 2021. The management in its reply dated November 24, 2021 stated that an amount of Rs 15.142 million had already been recovered till date.

The DAC in its meeting held on December 08, 2021 directed to get the recovered amount verified from Audit and expedite the recovery of balance amount. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1469]

2.8.2.4.7 Non-imposition of penalty on raising contractor for non-achievement of target - Rs 21.955 million

According to Clause 3.5 read with Clause 31 of the salt raising agreements between raising contractor and PMDC, the annual target will be mutually fixed by the project manager in consultation with raising contractor, and penalty on account of short production will be imposed @ Rs 25 per ton on the quantity short produced.

During audit of PMDC for the FY 2020-21, it was observed that the Project Manager, Khewra, agreed on annual targets with raising contractor for extraction of salt from the mines. However, upon failure of the contractor, the

Project Manager failed to impose penalty on the quantity short produced. This resulted in a non-imposition of penalty amounting to Rs 21.955 million.

Audit is of the view that weak financial controls resulted in non-imposition of penalty of Rs 21.955 million on the contractor.

The matter was reported to the management in October 12, 2021. The management in its reply dated November 24, 2021 stated that the matter would be examined and decided in the light of provisions of the agreement and applicable law.

The DAC in its meeting held on December 08, 2021 directed to pursue the matter with contractor. No further action was reported till finalization of this report.

Audit recommends to recover the amount pointed out besides improving financial controls.

[DP No. 1479]

2.8.2.4.8 Non-recovery of receivables from raising contractors – Rs 6.410 million

According to Para 4 & 8 of the Coal Raising Agreement, the raising contractor shall bear the entire cost relating to excavation etc., and the sale of coal in such a manner that on sale of coal, a net margin at agreed rates is paid to PMDC. The raising contractor will weigh both empty trucks and loaded trucks on the weighbridge of PMDC and duly record in a register for effecting recovery of the due amount in the first week of the preceding month.

During audit of PMDC for the FY 2020-21, it was observed that the management of PMDC entered into agreements with three the raising contractors for excavation of coal from SOR-Range Deep area. The raising contractors excavated coal without payment of net margin to PMDC. However, previous outstanding liability of net margin was paid by the raising contractors at belated stage. This resulted in non-realization of receivables from the raising contractors amounting to Rs 6.410 million.

Audit is of the view that weak internal controls resulting non-realization of receivables.

The matter was reported to the management in December, 2021. The management in its reply dated January 13, 2022 stated that the amount of Rs 2.582 million had been recovered and efforts were being made for recovery of remaining amount.

The DAC in its meeting held on January 21, 2022 directed the management to get the recovered amount verified from Audit and pursue the recovery of remaining amount. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1704]

2.8.2.4.9 Non-recovery of net margin from the raising contractors – Rs 5.544 million

According to Para 4 & 8 of the Coal Raising Agreement, the raising contractor shall bear the entries cost relating to excavation etc., and the sale of coal in such a manner that on sale of coal, a net margin of Rs 400 per ton is paid to the PMDC. The Raising Contractor will weigh both empty trucks and loaded trucks on the weighbridge of PMDC and duly record in a register for effecting recovery of the due amount in the first week of the preceding month.

During audit of PMDC for the FY 2020-21, it was observed that the management did not recover net margin of Rs 5.544 million from the three raising contractors at Lakhra Coal Mines. The amount remained recoverable despite the fact that PMDC had already lost Lakhra Coal Development lease and the case was pending before the apex court for review. Management did not make any effort to recover the outstanding amount. This resulted in non-recovery of net margin of Rs 5.544 million.

Audit is of the view that poor receivable management resulted in non-recovery of net margin of Rs 5.544 million.

The matter was reported to the management in October 12, 2021. The management in its reply dated November 24, 2021 stated that in order to recover the amount, several notices were issued to all these contractors but no response had been received from these contractors as due to closure of Lakhra Coal Project Operations, some of the contractors had left the area. However, the recovery would be pursued through legal recourse as advised by the Audit.

The DAC in its meeting held on December 08, 2021 directed to pursue the recovery at the earliest besides considering legal action against the contractors concerned. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1472]

Project Management

2.8.2.4.10 Loss due to commission of malpractices - Rs 16.917 million

According to office orders bearing No. C.NO.SWM/M.NO.47 /Jansuukh /3610 and C.NO.SWM/M.NO.49/Jansuukh/4205, Mines 47 and 49 were allotted to Mr. Rahat Iqbal and Mr. Shahid Iqbal respectively under the new investor policy for the excavation of salt for five years.

During audit of PMDC for the FY 2020-21, it was observed that the contractors of Mine 47 and Mine 49 in Jansuukh Warcha Salt Mines submitted applications dated nil and 08.08.2015 respectively, for fixation of excavation rates under the new policy. For Mine 47, the inspection committee recommended a cumulative rate of Rs 273 per M. Tons (incentive rate of Rs 75/M. Tons besides provision of a base rate of Rs 198/M. Tons). The rate was approved after the committee acknowledged that the contractor had developed 500 feet approach road and prepared a mine-mouth by digging a trench of 150 feet. Moreover, the Project Manager in letter dated July 7, 2017, admitted development of a tunnel up to 235 feet in length. However, after payment of Rs 8.55 million, it was observed that instead of development of new drivage for mine old mine-mouth of Mine 34 was rehabilitated to get benefits under the new investor policy. Similarly, rehabilitation was carried out to obtain an undue extension of the lease period for Mine 34 which expired on May 31, 2020. For Mine 49, the inspection committee recommended a cumulative rate of Rs 220 per M. Tons (incentive rate of Rs 75/M. Tons besides provision of a base rate of Rs 145/M. Tons). However, the area of Mine 08 was illegally included in Mine 49 to provide undue benefit to the contractor. Fraudulent practices in fixation of excavation rates resulted in a loss of Rs 16.917 million.

Audit is of the view that malpractices in project management resulted in fraudulent fixation of excavation rates causing loss of Rs 16.917 million.

The matter was reported to the management in October 12, 2021. The management in its reply dated November 24, 2021 stated that recovery letters were issued to the persons involved (contractors). As per provisions of the contract, on applications by the contractors, the case was referred to the PMDC Board of Directors for Arbitration. Moreover, the case had also been taken up by FIA Crime Circle, Sargodha which was under investigation.

The DAC in its meeting held in December 08, 2021 directed to pursue the case with FIA. No further progress was reported till finalization of this report.

Audit recommends to inquire the matter and fix responsibility besides recovering the amount pointed out and improving internal controls.

[DP No. 1470]

Poor Assets Management

2.8.2.4.11 Non-recognition of land and non-recovery of cost of land - Rs 12.275 million

According to the MPNR letter No. DGM-11(1)/95 dated December 10, 1995, the land of GEMCP at Ferozwala District Sheikhupura, measuring 300 Kanals and 17 Marlas, was handed over to PMDC. Further, according to IFRS 8, "comparative figures will be restated if prior period errors or omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that: (a) was available when financial statements for those periods were authorized for issue, and (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements".

During audit of PMDC for the FY 2020-21, it was observed that 300 Kanals and 17 Marlas of land situated at Mauza Gallo, Tehsil Ferozwala, District Sheikhupura was transferred to PMDC, from the Gemstone Corporation of Pakistan (GCP) in 1996. However, the management of PMDC did not recognize the land as an asset in its books of accounts nor took possession of the same. Later, Punjab Irrigation & Drainage Authority acquired 43 Kanals and 9 Marlas of that land for widening of Daig Nullah (western side) but no payment was made to PMDC. This resulted in non-recovery of Rs 12.275 million (Rs 2.260 million arbitrary value set by PMDC X 43K9M) from the PIDA.

Audit is of the view that negligence of the management resulted in non-recognition of the company asset causing non-recovery of Rs 12.275 million.

The matter was reported to the management in October 12, 2021. The management in its reply dated November 24, 2021 stated that during the finalization of financial statements for the FY 2020-21, the land in question measuring 300 Kanals and 17 Marlas had been recognized as an asset valuing Rs 17.035 million (historical cost).

The DAC in its meeting held on December 08, 2021 directed the PAO to expedite the recovery of cost of land from PIDA and take up the matter with District Administration for demarcation of land. No further progress was reported till finalization of this report.

Audit recommends to provide audited financial statements and implement the decision of DAC.

[DP No. 1471]

Human Resource Management

2.8.2.4.12 Non-recovery of inadmissible payment of four special increments and charges for usage of non-entitled car – Rs 7.657 million

According to the Sub-Rule 8(b)(I & ii) of PMDC Employees Service Rules, 2012, in case of outstanding performance of an employee below the rank of Deputy General Manager whose performance has caused substantial financial benefit to PMDC, the Chief Executive, on recommendations of the Head of Project / Department, may grant one or more special increments in the basic pay scale provided that no more than two increments shall be granted in five years period. All such increments granted shall be brought to the notice of the Board with full justification in its meeting held immediately thereafter.

During audit of PMDC for the FY 2020-21, Ex-General Manager (A&E) was granted four special increments which resulted in inadmissible payment of Rs 2.891 million. The officer used chauffer driven car beyond entitlement of Rs 4.766 million. The Board of Directors in its 171st meeting, held on October 26, 2018, resolved to the exempt recovery of Rs 3.961 million and directed to recover Rs 0.805 million out of Rs 4.766 million which was still pending. This resulted in non-recovery of inadmissible payment of four special increments and charges for usage of non-entitled car amounting to Rs 7.657 million.

Audit is of the view that weak internal controls resulted in excess payment of pay and allowances and usage of non-entitled car to the tune of Rs 7.657 million.

The matter was reported to the management in October 12, 2021. The management in its reply dated November 24, 2021 stated that PMDC filed a recovery suit which is sub-judice in the Civil Court, Islamabad.

The DAC in its meeting held in December 08, 2021 directed the management to pursue the case in the court of law vigorously. No further action was reported till finalization of this report.

Audit recommends to pursue the court case besides improving internal controls.

[DP No. 1478]

2.8.2.4.13 Illegal promotion of officers – Rs 4.09 million

According to approved staff standards read with partial modification of service limits for promotion of PMDC officers vide letter dated 12.11.2001, minimum service limits for promotion of PMDC officers to the next higher posts is prescribed as follows:

Sr. No.	Category	Service Limits
1	Deputy Manager	5 years as Assistant Manager
2	Manager	7 years as Deputy Manager (Total 12 years)
3	Deputy General Manager	5 years as Manager (Total 17 Years)
4	General Manager	5 years as Deputy General Manager (total 22 years)

During audit of PMDC for the FY 2020-21, it was observed that while promoting officers, the Departmental Promotion Committees ignored the criteria of incumbency period. Owing to irregular promotions excess amount of Rs 24.090 million on pay & allowances was paid granted to two officers.

Audit is of the view that weak internal controls resulted in undue favour to the employee in grant of promotion.

The matter was reported to the management in October 12, 2021. The management in its reply dated November 24, 2021 stated that calculation of service period was done as per OM No. PMDC/EST-11 dated November 12, 2001 in conjunction with 3rd proviso of Rule 8-A of the Civil Servants

(Appointment, Promotion and Transfer) Rules, 1973-SI.157 of Esta-Code. In this proviso, it has been mentioned that where first appointment of a person was made to Government Servant in BPS-16 one half of service in the BPS-16 and one fourth in BPS-15 and below may be counted as service in Grade-17 for computing length of service for the purpose of promotion.

The DAC in its meeting held on December 08, 2021 directed the PAO to get the stated stance verified from Audit within 15 days. No further action was reported till finalization of this report.

Audit recommends to inquire the matter and fix responsibility besides improving internal controls.

[DP No. 1473]

2.8.2.4.14 Excess payment on account of salary due to in-admissible adjustment / fixation of running basic pay – Rs 1.913 million

PMDC BoD, in its 175th meeting held on January 23, 2019, allowed an increase of 10% in the running basic pay of PMDC regular officers / supervisors w.e.f July 01, 2018. The same was also applicable to newly appointed officers / supervisors from the date of joining their duties.

During audit of PMDC for the FY 2020-21, it was observed that the management fixed the pay of the officers / staff in the next above stage. The allowance was to be given as a special / ad-hoc allowance and no re-fixation was required. The re-fixation caused an increase of up to 14.43% instead of admissible increase of 10%. Further, allied allowances like house rent allowance, utility allowance etc. were also increased. This resulted in inadmissible payment of pay and allowances amounting to Rs 1.913 million.

Audit is of the view that weak internal controls resulting in excess payment of pay & allowances amounting to Rs 1.913 million.

The matter was reported to management in October 12, 2021. The management in its reply dated November 24, 2021 stated that working paper for 15% increase in the pay of officers and supervisors along with detailed financial impact of 17% including House Rent and Utility allowances was approved by BoD in its 175th meeting. Further Board specifically approved the increase in the pay of new entrants from the date of their joining.

The DAC in its meeting held on December 08, 2021 directed to present the audit observation before BoD for consideration. No further action was reported till finalization of this report.

Audit recommends recovering the amount pointed out and re-fixing / adjusting running basic pay of employees.

[DP No. 1481]

2.8.2.4.15 Inadmissible payment of Additional Charge Allowance / Special increment - Rs 2.955 million

According to the PMDC Establishment Office Notification No. PMDC/EST-22/5196 dated November 01, 2016, special pay on current charge / additional charge of identical post shall be 20 % of basic pay subject a maximum of Rs 12,000 per month and special pay on current charge / additional charge of non-identical post shall be 10% of basic pay subject to subject to a maximum of Rs 12,000 per month. Further, according to Sl. No. 123 of the Establishment Code, Additional Charge appointments should be made as a temporary measure and should not ordinarily be made for more than six months. Further, as per Sl. No. 125, immediately on the expiry of six months of the full additional charge of the particular vacant post, the post shall be treated as having been abolished and its duties automatically becoming part of the normal duties of the other existing posts

During the audit of PMDC for the FY 2020-21, it was observed that the management allowed the additional charge to officers for duration more than three months without requisite approval and in disregard to rules. In other case Special increment was granted to Chief Internal Auditor in violation of contracted lumpsum payment. This resulted in grant of irregular additional charge / Special increment amounting to Rs 2.955 million.

Audit is of the view that ineffective HR management resulted in inadmissible payment amounting to Rs 2.955 million.

The matter was reported to the management in October and December, 2021. The management in its reply dated January 13, 2022 stated that PMDC Board was competent authority to take decisions without the requirement of taking approval from the Government. Further, PMDC Board approved the annual increment of 10% to Chief Internal Auditor on the recommendation of

Audit Committee. The reply is not tenable as Government rules are applicable where PMDC HR Rules are silent and Chief Internal Auditor was appointed on lumpsum payment as per contract. Therefore, salary of the contractual employee could not be increased during the tenure of the contract.

The DAC in its meetings held on December 08, 2021 and January 21, 2022 directed the management to get the stated stance verified from Audit and directed the management to recovered the amount. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP Nos. 1482 & 1702]

2.8.2.4.16 Non-verification of degrees of officers / officials

According to Establishment Division's D.O.No.6 (28)2011-DG-II, dated March 08, 2011, the Secretary and the Head of the Department /Organization will take measures to authenticate the degree/certificate of employees of all Federal organizations/autonomous bodies and corporations. The degrees will be authenticated to ensure the genuineness of the degree/other documents required for induction into the respective posts.

During audit of PMDC for the FY 2020-21, it was observed that the management of PMDC did not get the degrees/certificates of their employees verified from the concerned Boards / Universities / HEC in violation of the instructions of the Establishment Division.

Audit is of the view that weak internal controls resulted in non-verification of degrees / certificates of officers / officials.

The matter was reported to the management in October 12, 2021. The management in its reply dated November 24, 2021 stated that verification of the degree / certificate of officers working in BPS-17 to BPS-20 has been started. Degrees/certificates of 78 officers were verified, out of which 37 officers are still in PMDC service. However, verification process of degrees / certificates of remaining officers and officials will be completed on priority basis.

The DAC in its meeting held in December 08, 2021 directed the PAO to get the stated stance verified from Audit. No further action was reported till finalization of this report.

Audit recommends to get the degrees / certificates verified from the concerned institutions besides improving internal controls.

[DP No. 1476]

Others

2.8.2.4.17 Non-payment of Sales Tax on coal consumed internally - Rs 23.348 million

According to Section 3 of the Sales Tax Act, 1990 there shall be charged, levied and paid a tax known as Sales Tax at the rate of seventeen percent of the value of taxable supplies made by a registered person in the course or furtherance of any taxable activity carried on by him.

During audit of PMDC for the FY 2020-21, it was observed that from 2013 to 2021, the management of PMDC provided 14,883 M.Tons of coal to its employees serving in Quetta, Degari, Sharigh, & SOR-Range Project. The coal, valuing Rs 137.344 million was supplied for heating, lighting & cooking purpose. However, no corresponding Sales Tax was charged. This resulted in non-payment of Sales Tax amounting to Rs 23.348 million.

Audit is of the view that weak financial controls resulted in non-payment of Sales Tax on coal consumed internally amounting Rs 23.348 million.

The matter was reported to the management in December, 2021. The management in its reply dated January 13, 2022 stated that the matter of Sales Tax on supply of coal to employees / labour for internal consumption was sub-judice before Commissioner Appeals, Islamabad.

The DAC in its meeting held on January 21, 2021 directed the management to pursue the case with Commissioner Appeals, Islamabad. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1705]

2.8.3 PARCO

2.8.3.1 Non-production of Record

As per 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 the Public Accounts Committee directives, issued vide OM No. F-10(1)/2000/2004-PAC dated June 3, 2004 requires 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. Further, Honourable Supreme Court of Pakistan has ruled in the CMAs 3330, 3471, 3594/13 in constitutional petition No. 105/12 dated July 08, 2013 that "it would be for the AGP to ensure the audit of each rupee spent from Consolidated Fund and Public Accounts, without exception".

In compliance of AGP office letter No. CAE/Non-Prod. Of Record/Vol-II/629 dated December 27, 2021, Directorate of PNR issued a letter bearing No. 584–Coord/DGAPNR/11-2018-Vol-II dated January 02, 2022 to PARCO to provide the auditable record for the FY 2020-21. However, PARCO, vide its letter No. 2535 dated January 12, 2022, denied access to Audit of its record stating that "*PARCO is an independent legal entity and as result of distinct legal status, is neither a Division, Department nor office of the Federal Government, nor it is a Public sector company nor is a corporation, or Authority which has been established by a statute*".

Audit is of the view that non-production of record is violation of Section 14(2) of the Auditor General's Ordinance, 2001 and the explicit ruling of the apex court.

The matter was reported to the management in January, 2022. No further progress was received till finalization of this report.

Audit recommends the Petroleum Division to take up the matter with PARCO to ensure provision of requisite record at the earliest.

[DP No. 1759]

Chapter-3

Cabinet Division

3.1 Oil and Gas Regulatory Authority

3.1.1(A) 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. Authority comprises of Chairman 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. 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.

Audit profile of OGRA under Cabinet Division is as under:

(Rs in million)

Sr. No.	Description	Total No.	Audited	Expenditure Audited FY 2020-21	Revenue / Receipts Audited FY 2020-21
1	Cabinet Division (OGRA)	1	1	1,123.784	1,601.192

(B) Comments on Audited Accounts

The Authority did not provide its financial statements for the FY 2020-21.

3.1.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 2,426.555 million were raised in this report during the current audit of OGRA. This amount also includes recoverable amount of Rs 267.492 million as pointed out by Audit. Summary of the audit observations classified by nature is as under:

Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Non-Production of Record (1 para)	-
2	Irregularities	-
A	Defective Financial Management	2,277.730
B	Violation of Rules / Regulations	148.825

3.1.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	% age of Compliance
2006-07	06	04	02	67
2009-10	01	01	0	100
2010-11	07	0	07	-
2011-12	01	0	01	-
2012-13	05	0	05	-
2013-14	14	12	02	86
2014-15	20	06	14	30
2015-16	04	0	04	-
2016-17	04	0	04	-
2017-18	21	11	10	52
Total	**83**	**34**	**49**	**41**

The overall compliance of the PAC directives was very poor and required immediate attention of PAO.

3.1.4 Audit Paras

3.1.4.1 Non-production of record

Section 14(2) of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 states that 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. PAC in its meeting held on August 10, 2020, directed the Cabinet Division to provide all record relating to regulatory functions of OGRA to Audit.

During audit of OGRA for the FY 2020-21, it was observed that OGRA did not provide complete record relating to regulatory functions despite PAC directives dated August 10, 2020 followed by its circulation by Cabinet Division. The record was requisitioned vide this office memos vide No. 01–FAT -I/01-2021/Misc. dated September 20, 2021, No. 03–FAT -I/01-2021/Misc. dated September 23, 2021, No. 06–FAT -I/01-2021 Misc. dated September 24, 2021 and No. 08–FAT VI/01-2021/Misc. dated September 28, 2021, but OGRA denied access to Audit of its record.

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 Authority in January, 2022. OGRA maintained that the audit of the functions of the regulatory Authority was beyond the domain of Auditor General of Pakistan. The departmental stance being violative of the constitutional provisions, enactments made there-under and directions of the PAC is not tenable. Therefore, the matter was taken up with the Cabinet Division by the Auditor General of Pakistan. Cabinet Division took up the matter with the Federal Cabinet and a committee was constituted under the convenorship of Minister for Finance and Revenue for further course of action, outcome of which was still awaited.

The DAC in its meeting held on February 04, 2022 pended the para till finalization of the matter.

Audit recommends to explain reasons for disregarding the constitutional provisions besides providing requisite record to audit.

[DP No. 1492]

Defective Financial Management

3.1.4.2 Unauthorized investment of surplus receipts of Rs 1,290.330 million and non-deposit of surplus receipts of Rs 577.633 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 Fund. Further, as per the amendment made by Federal Government to Section 17 of OGRA Ordinance, 2002 through Section 17 of 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 Fund.

During audit of OGRA for the FY 2020-21, it was observed that Authority invested surplus receipts amounting to Rs 1,290.330 million in Treasury Bills instead of depositing the same into Federal Consolidated Fund in violation of the OGRA Ordinance, 2002. Further, Authority did not deposit surplus receipts of Rs 577.633 million for the FY 2020-21 in the Federal Consolidated Fund. This deprived the national exchequer of the funds to the tune of Rs 1,290.330 million and non-deposit of receipts of Rs 577.633 million in the Federal Consolidated Fund.

Audit is of the view that poor financial management resulted in unauthorized investment of surplus receipts and non-deposit of receipts in the Federal Consolidated Fund.

The matter was reported to Authority in September, 2021 and January, 2022. OGRA in its reply dated December 10, 2021 stated that the surplus as per audited accounts of OGRA is regularly deposited into the Federal Consolidated Fund since 2012 and in order to prudently utilize and maximize the funds, the same were invested in Treasury Bills. It may further be highlighted that most of the subject funds were earmarked for construction of OGRA's building. Further, it was stated that the surplus amount would be paid in Federal Consolidated Fund in due course of time after completion of audit by the Chartered Accountant Firm. The reply of the management is not tenable, as OGRA was required to deposit all surplus of receipts over the actual expenditure in the Federal Consolidated Fund.

The DAC in its meeting held on February 04, 2022 directed OGRA to provide detail of all funds / bank accounts maintains by Authority to Audit and to deposit the receipts over expenditure in the Federal Consolidated Fund after completion of audit by the Chartered Accountant(s).

Audit recommends to deposit the surplus receipts in the Federal Consolidated Fund after the close of financial year.

[DP Nos. 1501 & 1494]

3.1.4.3 Unauthorized sale of POL by M/s Fossil Energy - Rs 228.110 million

According to Para 4(vi) of Special Report No.4/2017 of Standing Committee on PNR, "OGRA should ensure that OMCs 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". According to OGRA decision No. OGRA-12(02)/2017-SBR dated August 24, 2017, an OMC may build one retail outlet for every 40 MT storage capacity or 2 ton/per for 20 days.

During audit of OGRA for the FY 2020-21, it was observed that Authority granted provisional marketing license for 3 years to M/s Fossil Energy for setting up an Oil Marketing Company. During the period of provisional license, the company developed two retail outlets, hence, the company could acquire and sell POL / MS of 80 MT per month but M/s Fossil Energy imported and sold 2000 M. Tons of oil during April, 2020. This showed that the company supplied oil to retail outlets of other OMCs in violation of above-mentioned Rule but OGRA did not take cognizance of illegal sale of oil by the OMC. This resulted in unauthorized sale of POL/MS amounting to Rs 228.110 million (2000x1097=2194000 litres x 103.97 = Rs 228.110 million) to other OMCs outlets. Secondly, most of the OMCs were supplying the products to their retail outlets without installing tracking system as a result of which the supply by one OMC to another could not be tracked.

Audit is of the view that poor monitoring of Authority resulted in unauthorized sale of POL amounting to Rs 228.110 million.

The matter was reported to Authority in January, 2022. OGRA maintained that the audit of the functions of the regulatory Authority was beyond the domain of Auditor General of Pakistan. The departmental stance being

violative of the constitutional provisions, enactments made there-under and directions of the PAC is not tenable. Therefore, the matter was taken up with the Cabinet Division by the Auditor General of Pakistan. Cabinet Division took up the matter with the Federal Cabinet and a committee was constituted under the convenorship of Minister for Finance and Revenue for further course of action, outcome of which was still awaited.

The DAC in its meeting held on February 04, 2022 pended the Para till finalization of the matter.

Audit recommends to explain reasons for non-initiation of action against the OMC for unauthorized sale of POL besides improving monitoring to avoid such instances in future.

[DP No. 1496]

3.1.4.4 Non-realization of Annual License Renewal Fee from PGPCL - Rs 125.751 million

According to Clause 3(2) of LNG Rules, 2007, Authority may grant a license to carry on any regulated activity to such persons, and on such terms, and for such periods, as it may, in accordance with these Rules and the LNG Policy, 2011. Further, annual fees shall be payable at the time of the grant or renewal of the license, as the case may be and thereafter, yearly in advance @ one-half of one percent of the gross revenue of the licensee generated from the provision of the licensed regulated activity.

During audit of OGRA for the FY 2020-21, it was observed that Authority did not recover Annual License Renewal Fee from M/s PGPCL for the FY 2021-22 despite lapse of considerable time. Further, the company did not deposit the fee in time for the FY 2017-18. However, Authority neither took any action against the company nor imposed penalty on it. The lapse resulted into non-recovery of Rs 125.751 million.

Audit is of the view that defective financial management by OGRA resulted in non-realization of Annual License Renewal Fee of Rs 125.751 million.

The matter was reported to the OGRA in January, 2022. OGRA in its reply dated December 10, 2021 stated that the annual licence renewal fee for FY 2021-22 was not deposited despite reminders to deposit the same. The reply is

not tenable as the annual licence renewal fee was required to be deposited in time.

The DAC in its meeting held on February 04, 2022 directed OGRA to pursue the case with M/s PGPCL vigorously. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1527]

3.1.4.5 Unauthorized exemption from interest on motor car loan to the employees - Rs 38.438 million

According to Rule 9 of OGRA Financial Regulations, 2005, every officer of Authority who is authorized to incur expenditure from the OGRA fund account shall exercise the same vigilance in respect of the expenditure as a person of ordinary prudence would exercise in respect of the expenditure of his own money and ensure that Authority's money is not expended for the benefit of a particular employee or class of employees. As per Finance Division (Regulation Wing-II) letter O.M No. F-1(1)imp/94 dated June 29, 1999, the revision of salaries, allowances and perquisites of the supervisory and executive staff of Public Sector Corporations, Autonomous / Semi-autonomous bodies may be carried out by the respective Board of Directors besides clearance from the Finance Division.

During audit of OGRA for the FY 2020-21, it was observed that the management allowed interest free motor car loans of Rs 139.777 million to its executive cadre employees without getting prior clearance from Finance Division as it has direct bearing on Federal Consolidated Fund. Further, these employees were also allowed interest on their Contributory Provident Fund balances. This resulted in undue favour of unjustified exemption to the employees from payment of interest to the tune of Rs 38.438 million (Rs 139,777,000 x 60 months x 10.96% interest rate / 2,400 = Rs 38,438,675).

Audit is of the view that poor management practices resulted in unjustified exemption to the employees from payment of interest of Rs 38.438 million on motor car loan.

The matter was reported to Authority in January, 2022. OGRA replied that it was exclusively empowered to determine the matters in its jurisdiction

including pay & allowances and remuneration policies of its employees. The reply is not tenable, the Ordinance only gives exclusive powers to grant licenses, and OGRA has no exclusive right to make service rules without approval of Federal Government.

The DAC in its meeting held on February 04, 2022 directed OGRA to refer the case to Finance Division for vetting as it affects the Federal Consolidated Fund. No further progress was reported till finalization of this report.

Audit recommends to recover the interest on motor car loan from the employees.

[DP No. 1500]

3.1.4.6 Unauthorized use of official vehicles - Rs 16.426 million

According to Cabinet Secretary D.O letter No. 12/43/95-CS dated November 07, 1996, it should be ensured that no Government functionary is provided with vehicles beyond entitlement and misuse of Government transport by non-entitled officials should be checked. Further, OGRA, in its administrative meeting No.4 held on February 21, 2014, decided to adopt / implement the Federal Govt. Transport Monetization Policy from March 01, 2014.

During audit of OGRA for the FY 2020-21, it was observed that Members and Executives of Authority were drawing monetization allowance in lieu of availing themselves the facilities of official vehicles. However, it was found from the log books / movements register of vehicles that they were detailed with the Members and Executives for personal use. This resulted in unjustified expenditure of Rs 16.426 million on unauthorized use of official vehicle.

Audit is of the view that poor management practices led to use of official vehicles by officers despite receipt of monetization allowance which resulted in unauthorized expense of Rs 16.426 million.

The matter was reported to Authority in January, 2022. OGRA replied that neither any Member of Authority (including Chairman OGRA) nor any executive of OGRA was entitled for any dedicated vehicle. The departmental stance is not acceptable as it was evident from log books of vehicles that vehicles were allocated to the Members / Executives throughout the year.

The DAC in its meeting held on February 04, 2022 directed OGRA to produce relevant record and get it verified from Audit. No further progress was reported till finalization of this report.

Audit recommends to explain reasons for unauthorized use of official vehicles and recover expense from the officers besides improving management practices.

[DP No. 1497]

3.1.4.7 Irregular purchase of vehicle during ban period – Rs 1.042 million

According to Para (i) of Austerity Measures for the Financial Year 2021-22 issued by Finance Division vide OM No. F.7(1)Exp-IV/2016-440 dated July 15, 2021, there was ban on purchase of all types of vehicles both for current as well as development expenditure except operational vehicles of law enforcing agencies for which NOC from Finance Division would be required.

During audit of OGRA for the FY 2020-21, it was observed that Authority purchased 01 vehicle without obtaining NOC from the Finance Division. This resulted in irregular expenditure of Rs 1.024 million.

Audit is of the view that weak internal control resulted in irregular purchase of vehicle for Rs 1.042 million.

The matter was reported to Authority in November, 2021. OGRA in its reply dated December 10, 2021 stated that in the light of provisions of Section 3(2), 4(1), 17 & 18 of the OGRA Ordinance, 2002, Authority was competent and fully authorized to incur expenditure in accordance with its budget duly approved by its Budget Committee. The reply is not tenable as OGRA had already been directed by PAC in its meeting held on September 23, 2019, while discussing an identical Para No. 2.5.4.4 APRSE 2017-18, to get the expenditure regularized from the Finance Division.

The DAC in its meeting held on February 04, 2022 pended the para and directed Chairman OGRA to look into the matter in the light of austerity measures issued by Finance Division.

Audit recommends to explain reasons for irregular purchase of vehicle and fix responsibility for violation of rules besides improving internal controls.

[DP No. 1523]

3.1.4.8 Non-initiation of action against OMCs having excess retail outlets

According to OGRA decision No. OGRA-12(02)/2017-SBR dated August 24, 2017, an OMC may build one retail outlet for every 40 MT storage capacity or 2 ton/per for 20 days. The storage capacity is maintained and calculated separately for the purpose for establishment of retail outlets.

During audit of OGRA for the FY 2020-21, it was observed that there were 11,025 retail outlets established by 33 OMCs across the country. Out of these 4,106 were in excess of the permissible limit under the Rule ibid. Management of OGRA neither ensured enhancement in storage facilities nor took any action against the OMCs found non-compliant with the regulatory framework. Non-development of storage corresponding to number of retail outlets was one of the factors that contributed to oil shortage crisis in June, 2020.

Audit is of the view that failure of management in implementing its own decisions as regulator resulted in OMCs having retail outlets without enhancement in the storage capacity.

The matter was reported to Authority in January, 2022. OGRA maintained that the audit of the functions of the regulatory Authority was beyond the domain of Auditor General of Pakistan. The departmental stance being violative of the constitutional provisions, enactments made there-under and directions of the PAC is not tenable. Therefore, the matter was taken up with the Cabinet Division by the Auditor General of Pakistan. Cabinet Division took up the matter with the Federal Cabinet and a committee was constituted under the convenorship of Minister for Finance and Revenue for further course of action, outcome of which was still awaited.

The DAC in its meeting held on February 04, 2022 pended the para till finalization of the matter.

Audit recommends to explain reasons of non-initiation of action for excess retail outlets besides ensuring establishment of requisite storage capacity by OMCs and improving performance of regulatory functions.

[DP No. 1498]

3.1.4.9 Illegal permission for marketing to OMCs under Provisional License

According to Rule 35(2) of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, OGRA initially issues a

license for a period of three years during which the marketing infrastructure i.e., storages, retail outlets and filling stations etc., shall be completed in accordance with the laid down technical standards. Subject to penalties under OGRA Ordinance and the Rules, Authority may grant extension on such terms and conditions and for such period as deemed appropriate.

During audit of OGRA for the FY 2020-21, it was observed that Authority issued provisional licenses to 26 OMCs for a period of 3 years. The OMCs were required to develop marketing infrastructure including establishment of storage facility and retail outlets during the period of provisional license. There was no provision available in above Rules for allowing OMCs to sell petroleum products under the provisional license. However, OGRA let the 26 OMCs to sell petroleum products under provisional licenses. Consequently, these OMCs sold petroleum product without fulfilling the conditions of developing minimum storage capacity and maintaining minimum stocks etc. Instead of ensuring compliance of the Rule ibid, management of OGRA allowed extension in the provisional licenses after imposition nominal penalty of Rs 100,000 to Rs 1,000,000 and let the OMCs continue their business.

Audit is of the view that ineffective regulatory functions resulted in illegal permission for marketing of petroleum products to OMCs with provisional licenses.

The matter was reported to Authority in January, 2022. OGRA maintained that the audit of the functions of the regulatory Authority was beyond the domain of Auditor General of Pakistan. The departmental stance being violative of the constitutional provisions, enactments made there-under and directions of the PAC is not tenable. Therefore, the matter was taken up with the Cabinet Division by the Auditor General of Pakistan. Cabinet Division took up the matter with the Federal Cabinet and a committee was constituted under the convenorship of Minister for Finance and Revenue for further course of action, outcome of which was still awaited.

The DAC in its meeting held on February 04, 2022 pended the para till finalization of the matter.

Audit recommends to explain reasons for violation of Rules besides ensuring compliance of the same and improving performance of regulatory functions.

[DP No. 1499]

Violation of Rules / Regulations

3.1.4.10 Non-realization of Annual Inspection Fee from CNG stations - Rs 117.400 million

According to Clause 13(C)(i) of OGRA Financial Regulations, 2005, the revenue on its accrual must be claimed by the respective department by sending proper notice of demand to the licensees and proper record of the recoveries should be maintained.

During audit of OGRA for the FY 2020-21, it was observed that Authority carried out mandatory annual inspection of all the operational CNG stations in the country through third party inspectors. OGRA charged Rs 100,000 from each station as Annual Inspection Fee out of which 50% was remitted to 3rd party inspectors and remaining was retained by Authority. Out of 3,330 CNG stations in the country 1,174 CNG stations did not deposit Annual Inspection Fee but OGRA did not take any action to recover the same from the CNG stations. This resulted in non-realization of Annual Inspection Fee amounting to Rs 117.400 million.

Audit is of the view that weak monitoring resulted in non-recovery of annual inspection of Rs 117.400 million.

The matter was reported to Authority in September, 2021. OGRA in its reply dated December 27, 2021 stated that quoted inspection fee was not applicable on CNG stations which had closed down temporarily. The reply of the management is not supported by any documentary evidence.

The DAC in its meeting held on February 04, 2022 directed OGRA to get the status of "closed CNG stations" verified from Audit. No further progress was reported till finalization of this report.

Audit recommends to realize outstanding amount of Annual Inspection Fee besides improving monitoring.

[DP No. 1495]

3.1.4.11 Non-deduction of Income Tax from leave encashment – Rs 15.231 million

According to Section 12(2)(a) of Income Tax Ordinance, 2001, salary means any amount received by an employee from any employment, whether of a revenue or capital nature, including any pay, wages or other remuneration provided to an employee, including leave pay, payment in lieu of leave, overtime payment, bonus, commission.

During audit of OGRA for the FY 2020-21, it was observed that Authority failed to withhold Income Tax from the leave encashment of ten employees. This resulted in non-deduction of Income Tax amounting to Rs 15.231 million as detailed below:

Sr. No.	Date	Voucher No.	Amount (Rs)	Tax due (Rs)
1	30.07.2020	119/BV	6,593,495	1,318,699
2	04.09.2020	252/BV	164,464	32,893
3	12.10.2020	419/BV	4,126,326	825,265
5	03.12.2020	669/BV	138,312	27,662
4	28.12.2020	742/BV	5,989,488	1,197,898
6	06.01.2021	809/BV	2,025,278	405,056
7	27.012021	877/BV	87,394	17,479
8	19.02.2021	1046/BV	597,893	119,579
9	31.03.2021	1295/BV	2,438,142	487,628
10	27.05.2021	1607-A/BV	3,012,158	602,432
Sub total			25,172,950	5,034,590
Leave encashment paid during 2019-20			50,986,441	10,197,288
Total				**15,231,878**

Audit is of the view that weak financial controls resulted in non-deduction of Income Tax amounting to Rs 15.231 million from leave encashment payment to the employees.

The matter was reported to Authority in September, 2022. The management in its reply dated December 10, 2021 reported that Clause 19 of Schedule-II of Income Tax Ordinance 2001 states that any sum representing encashment of leave preparatory to retirement of a member of the Armed Forces of Pakistan or an employee of the Federal or Provincial Government was exempted from deduction of Income Tax. The stance of Authority is not

tenable as employees of OGRA did not fell under the category of Federal / Provincial Government employees.

The DAC in its meeting held on February 04, 2022 directed OGRA to recover the amount pointed out by Audit. No further progress was reported till finalization of this report.

Audit recommends to recover Income Tax from the employees besides improving financial controls.

[DP No. 1530]

3.1.4.12 Short-deduction of Income Tax from the salaries of employees – Rs 9.11 million

According to Section 149 of Income Tax Ordinance 2001, every person responsible for paying salary to an employee shall, at the time of payment, deduct tax from the amount paid at the employee's average rate of tax computed at the rates specified.

During audit of OGRA for the FY 2020-21, it was observed that Authority deducted less Income Tax from the annual gross salary of 84 executive cadre employees. This resulted in short-deduction of Income Tax amounting to Rs 9.11 million (**Annexure-7**).

Audit is of the view that poor financial controls resulted in short-deduction of Income Tax amounting to Rs 9.11 million.

The matter was reported to Authority in January, 2022. OGRA in its reply dated December 27, 2021 stated that Section 149 of the Income Tax Ordinance, 2001 allows the employer to make adjustments regarding Income Tax withheld under other heads in the form of tax deducted at source and tax credits. The reply is not tannable as adjustment made by OGRA was not admissible as per Income Tax Ordinance, 2001.

The DAC in its meeting held on February 04, 2022 directed OGRA to recover the amount pointed out by Audit. No further progress was reported till finalization of this report.

Audit recommends to recover the due amount of Income Tax besides strengthening financial controls.

[DP No. 1529]

3.1.4.13 Misuse of funds under the head "entertainment charges" - Rs 4.995 million

According to Para 3(xv) of the Delegation of Financial Powers, Authority has delegated the financial power to sanction the expenditure in respect of entertainment charges for entertainment of visitors, guests, delegation etc., for Chairman up to Rs 50,000, Member Rs 40,000 and EDs, Registrar, Head of litigation department up to Rs 4,000.

During audit of OGRA for the FY 2020-21, it was observed that OGRA incurred expenditure of Rs 2.952 million and Rs 2.043 million under the head of entertainment charges during FYs 2019-20 & 2020-2021 respectively. A large number of claims / expenditures were after office hours or on weekends. For instance, Mr. Atif Sajjad, ED (Accounts) claimed entertainment charges by splitting the claims of different bills bearing same date to keep the charges within permissible limit. Further, bills / receipts feature time-stamps of 12:06 AM, 10:23 PM, 12:13 AM & 11:04 PM. Audit contended that entertainment charges were meant for visitors, guests, delegation etc. as per rule ibid. Therefore, expenditure incurred after office hours and that too for personal use was inadmissible and resulted in misuse of Rs 4.995 million funds under the head of entertainment charges.

Audit is of the view that weak internal control resulted in misuse of funds of Rs 4.995 million under the head of re-imbursement of entertainment charges.

The matter was reported to Authority in October, 2022. OGRA in its reply dated December 10, 2021 stated that the expenditure on account of entertainment charges had been reimbursed to the entitled officers and Authority members in accordance with the financial limit prescribed in the Delegation of Financial Powers. The reply is not tenable as the entertainment charges were for visitors, guests, delegation etc., and was not for officers and Authority members. Further, splitting of claims to remain within the permissible limit was irregular.

The DAC in its meeting held on February 04, 2022 directed OGRA to recover the amount pointed out by Audit. No further progress was reported till finalization of this report.

Audit recommends to recover the amount pointed out besides improving internal / financial control to avoid such instance in future.

[DP No. 1748]

3.1.4.14 Non-deduction of Islamabad Capital Territory tax on services and Income Tax from legal counsels – Rs 2.089 million

According to Section 3(2) of Islamabad Capital Territory (tax on services) Act, 2020, the tax shall be charged and levied on the services specified in 3 column (2) of the Schedule to this Ordinance in same manners and at the same time, as if it were a Sales Tax leviable under Section 3, 3A or 3AA , as the case may be, of the Sales Tax Act, 1990. Further, as per Sections 153(1)(b) of Income Tax Ordinance 2001, every prescribed person making a payment in full or part including a payment by way of advance to a resident person for the rendering of or providing of services shall, at the time of making the payment, deduct tax @ 10% of the gross amount payable.

During audit of OGRA for the FY 2020-21, it was observed that Authority did not deduct Islamabad Capital Territory tax on services from payments to legal counsels of Rs 1.939 million Further, Authority also did not deduct / withheld Income Tax of Rs 0.150 million from payments to legal counsels. This resulted in non-deduction of Islamabad Capital Territory tax on services and Income Tax from legal counsels of Rs 2.089 million.

Audit is of the view that negligence of the management resulted in non-withholding of ICT tax and Income Tax of Rs 2.089 million.

The matter was reported to Authority in January, 2022. OGRA in its reply stated that the Islamabad Capital Territory Tax on services was not deducted / withheld from the payments of legal counsels due to stay order granted by the Islamabad High Court. Authority further reported that withholding of Income Tax was not done being the amount was not directly paid to legal firms / professionals. The reply of management is not tenable, because as per law, Authority was required to withheld the Islamabad Capital Territory tax on services and Income Tax from payments made to legal counsels.

The DAC in its meeting held on February 04, 2022 directed OGRA to recover the amount pointed out by Audit. No further progress was reported till finalization of this report.

Audit recommends to recover outstanding Islamabad Capital Territory tax on services and Income Tax from payments made to legal counsels besides improving financial management.

[DP Nos. 1749 & 1528]

3.1.4.15 Non initiation of action against illegal retail outlets

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 subject to condition that the petroleum products supplied in no case exceed the storage capacity of the agent, dealer or bulk consumer as the case may be. as Para 4(vi) of Special Report No.4/2017 of Standing Committee on Petroleum and Natural Resources, OGRA should ensure that OMCs were not involved in giving their products to other OMCs 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 2020-21, it was observed that lease of 206 outlets / petrol pumps of certain OMCs had expired but they continued sale of petroleum products. Either the OMCs were providing petroleum products to illegal outlets or the outlets were selling smuggled products. However, OGRA neither initiated any punitive action against the outlets nor took up the matter with concerned district authorities to close the operations.

Audit is of the view that poor regulatory oversight resulted in non-initiation of action against illegal outlets.

The matter was reported to Authority in January, 2022. OGRA maintained that the audit of the functions of the regulatory Authority was beyond the domain of Auditor General of Pakistan. The departmental stance being violative of the constitutional provisions, enactments made there-under and directions of the PAC is not tenable. Therefore, the matter was taken up with the Cabinet Division by the Auditor General of Pakistan. Cabinet Division took up the matter with the Federal Cabinet and a committee was constituted under the convenorship of Minister for Finance and Revenue for further course of action, outcome of which was still awaited.

The DAC in its meeting held on February 04, 2022 pended the para till finalization of the matter.

Audit recommends to explain reasons for non-initiation action against illegal retail outlets and take appropriate action against same in collaboration with respective district authorities.

[DP No. 1750]

3.1.4.16 Irregular approval of Joint Venture Storage Facility of OMCs

According to Rule 28(1) of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, no person shall construct or operate any oil storage facility or undertake storage of oil for the purpose of commercial storage of crude oil or petroleum products without obtaining license from Authority.

During audit of OGRA for the FY 2020-21, it was observed that Authority allowed seven participant OMCs to construct Joint storage facility. However, there was no provision in the Oil Rules of 1971 and 2016 for JV storage facilities between two OMCs.

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 OGRA in January, 2022. The OGRA maintained that the audit of the functions of the regulatory Authority was beyond the domain of Auditor General of Pakistan. The departmental stance being violative of the constitutional provisions, enactments made there-under and directions of the PAC is not tenable. Therefore, the matter was taken up with the Cabinet Division by the Auditor General of Pakistan. Cabinet Division took up the matter with the Federal Cabinet and a committee was constituted under the convenorship of Minister for Finance and Revenue for further course of action, outcome of which was still awaited.

The DAC in its meeting held on February 04, 2022 pended the para till finalization of the matter.

Audit recommends to fix responsibility for giving irregular approval of JV storage facilities.

[DP No. 1751]

3.1.4.17 Delay in determination of FRR of SSGC for the FY 2019-20

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 of natural gas. Further, according to Rule 15 of Natural Gas Tariff Rules, 2002, 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 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 2020-21, it was observed that Authority failed to finalize the FRR of SSGC for the Financial Year 2019-20. This resulted in non-determination of prescribed price by OGRA and advice to the Government for fixing sales prices, thus GDS / differential margin payable / receivable to Federal Government by the Company could not be determined.

Audit is of the view that poor performance of regulatory functions resulted in non-determination of final revenue requirement of SSGC.

The matter was reported to the OGRA in January, 2022. OGRA maintained that the audit of the functions of the regulatory Authority was beyond the domain of Auditor General of Pakistan. The departmental stance being violative of the constitutional provisions, enactments made there-under and directions of the PAC is not tenable. Therefore, the matter was taken up with the Cabinet Division by the Auditor General of Pakistan. Cabinet Division took up the matter with the Federal Cabinet and a committee was constituted under the convenorship of Minister for Finance and Revenue for further course of action, outcome of which was still awaited.

The DAC in its meeting held on February 04, 2022 pended the para till finalization of the matter.

Audit recommends to explain reasons for delay in finalization of the FRR of SSGC besides expediting the determination of the same.

[DP No. 1526]

Chapter-4

Thematic Audit

4.1 LNG / RLNG Regime in Pakistan

4.1.1 Introduction

Liquefied Natural Gas (LNG) is the liquid form of natural gas that has been cooled to a temperature of approximately -256°F (-160°C). Liquefaction reduces the volume of the natural gas by approximately 600 times making it economical for transportation in specially designed vessels. A typical LNG carrier can transport 125,000 – 140,000 cubic meters of LNG which provides 3.32 million MMBTU of energy.

LNG supply chain in Pakistan starts with the import of LNG by PSEs followed by re-gasification of LNG into Re-gasified Liquefied Natural Gas (RLNG) at the Floating Storage and Re-gasification Unit (FSRU) and transmission and distribution of RLNG through Sui gas companies' network.

4.1.1.1 LNG Imports / Procurements

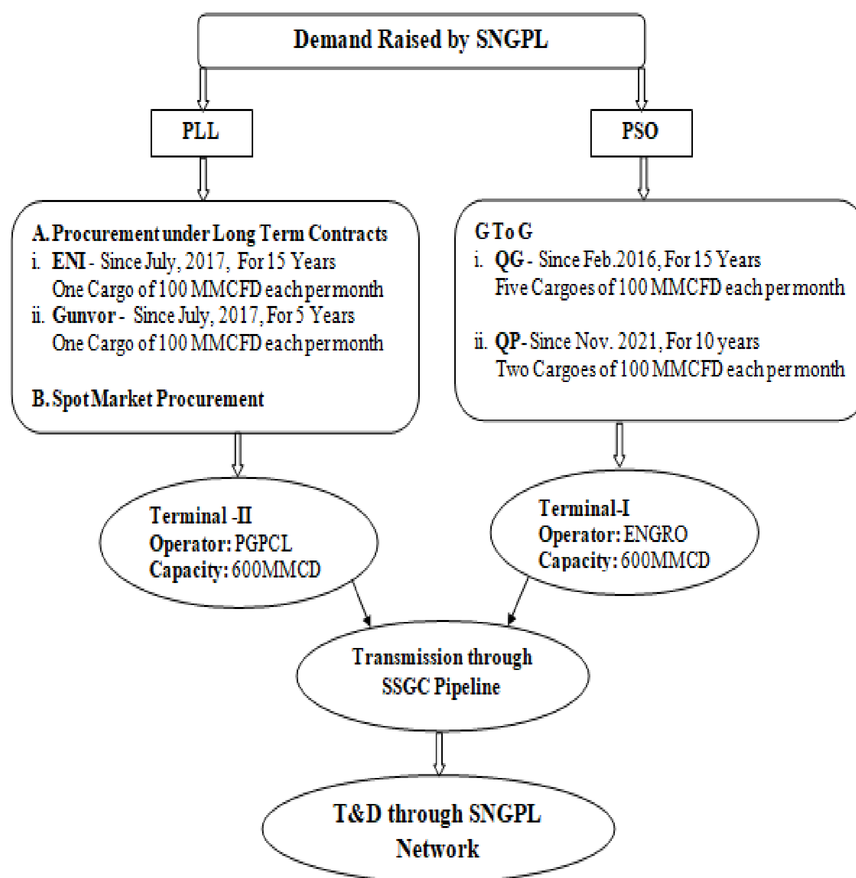
In order to bridge the ever-widening gap between supply and demand, Pakistan started import of LNG in 2015. PSO and PLL are required to import LNG on the basis of demand submitted by SNGPL. Procurement is made through long term contracts, G2G contract in the case of PSO, and spot purchases. PSO imports five cargoes per month - on average - under G2G long-term contracts with Qatar Gas whereas PLL imports one cargo per month each from ENI and Gunvor under long term agreements. To ensure optimal utilization of available terminal capacity i.e. 1,200 MMCFD (twelve cargoes) and transportation capacity through pipeline , PSO has executed another G2G long term contract with Qatar for two cargoes per month thus There is arrangement of nine cargoes per month through long term contracts leaving the balance of three cargoes (300 MMCFD) from spot purchases through International Competitive Bidding (ICB).

i. ***Re-gasification:*** It is the process of converting the LNG back to gaseous state. This process takes place at Floating Storage and Re-gasification Unit (FSRU) These units are specifically designed for the purpose of storing and turning it into Re-gasified Liquefied Natural Gas (RLNG).

Two FSRUs are operational on Karachi Port (PQA), one each for PLL and PSO.

ii. ***Transmission & Distribution:*** Once LNG is converted into RLNG, SSGC receives the gas from the port and supply the same to SNGPL through a dedicated transmission line. The RLNG then enters into the system of SNGPL for further onwards supply to end consumers; mainly power plants and industrial consumers. Currently, RLNG @ 1.2 BCF per day is being injected into the network.

RLNG - Supply Chain



4.1.2 Background

Natural gas is a major contributing fuel in country's energy mix. Demand for natural gas particularly by Residential, Fertilizer and Power sectors has increased over the years causing more pressure on limited indigenous gas supplies. The indigenous gas production declined by 10 percent to 3,936 MMCFD from 3,607 MMCFD during the FY 2019-20. The ever widening gap between production and consumption of indigenous gas supply is partially met through RLNG import whose share in natural gas supplies has increased to 29 percent during 2020-2021.

Pakistan has over 63 Trillion Cubic Feet (TCF) of natural gas, out of which around 42 TCF has already been consumed. As per Petroleum Division, domestic production of gas during 2020-21 was 1.27 TCF against the target of 1.43 TCF.

Gas Reserves (TCF) as on 30th June, 2021

Province	Original Recoverable	Cumulative Production / consumed	Balance Recoverable	%age
Baluchistan	20.637	15.182	5.455	26.04%
KPK	2.932	1.746	1.186	5.66%
Punjab	3.977	2.379	1.598	7.63%
Sindh	35.765	23.053	12.712	60.67%
Total	**63.311**	**42.36**	**20.951**	**100%**

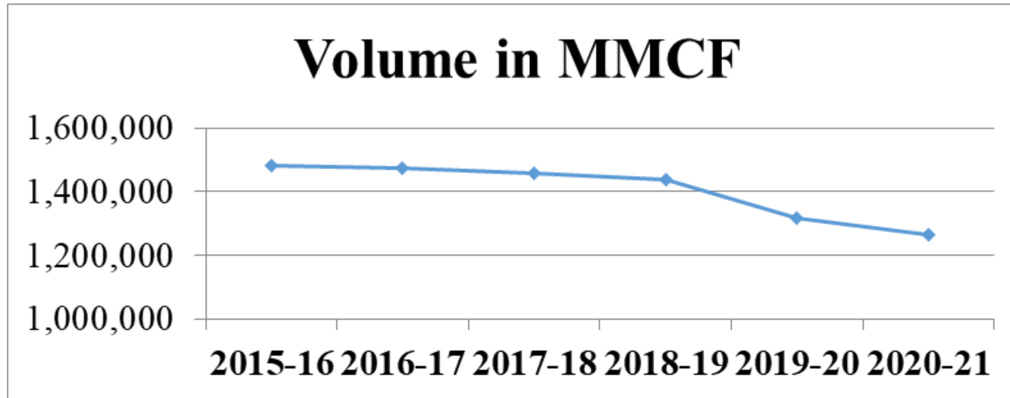
(Source: Petroleum Division)

Local Production

FYs	Volume in MMCF
2015-16	1,481,551
2016-17	1,471,855
2017-18	1,458,936
2018-19	1,436,546
2019-20	1,316,635
2020-21	1,263,000

(*Source: Energy Book 2019-20)*

Decline in Indigenous Gas Production



(i) Demand & Supply Position

With the increase in population and subsequent enhancement in economic activities, demand of natural gas in Pakistan has increased over time. The known recoverable indigenous gas reserves, however, are insufficient to meet the demand. Total demand of gas in the country is about 1.770 TCF[18] per annum whereas indigenous production is 1.263 TCF per annum leaving a deficit of 0.507 TCF per annum. In order to meet the deficit 0.382 TCF, LNG was imported during FY 2020-21. The shortage of gas was also met from local production of LPG (1.257 million M.Tons) during FY 2020-21.

[18] OGRA Annual Industry Report 2019-20

Sector wise Total Demand (in MMCFD) of the Country[19]										
Sector	**FY 2015-16**	**FY 2016-17**	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**
Domestic	840	840	797	860	882	920	960	1,001	1,044	1,089
Commercial	130	96	90	87	79	81	83	85	88	90
Industrial	883	611	355	551	549	563	578	594	610	626
CNG	380	380	184	178	151	152	154	156	157	158
Power	1,793	1,945	1,322	1658	1,548	1,697	1,604	1,470	1,470	1,449
Fertilizer	741	795	715	760	758	733	736	736	737	738
Cement	201	201	173	0	1	15	15	15	15	15
Captive Power	387	387	393	117	135	145	148	151	156	159
Total Demand	**5,355**	**5,255**	**4,029**	**4211**	**4,103**	**4,305**	**4,277**	**4,207**	**4,276**	**4,323**
UFG, RLNG Re-gasification, Internal consumption,	604	604	670	715	513	545	583	619	656	694
Total Demand	**5,959**	**5,859**	**4,698**	**4,926**	**4,616**	**4,850**	**4,860**	**4,826**	**4,932**	**5,017**
SNGPL Supply	1443	1463	1364	1282	1,050	1,158	1,091	954	749	664
SSGC Supply	1195	1278	1180	1164	1,161	1,087	1,167	1,160	1,018	861
Independent Supply	990	990	990	1040	1,056	1,279	1,348	1,423	1,356	1,252
Total Country Supply	**3628**	**3731**	**3534**	**3486**	**3,267**	**3,524**	**3,606**	**3,537**	**3,123**	**2,777**
Total Demand	**5959**	**5859**	**4698**	**4926**	**4,616**	**4,850**	**4,860**	**4,826**	**4,932**	**5,017**
Gap	**2331**	**2128**	**1164**	**1440**	**1,349**	**1,326**	**1,255**	**1,289**	**1,809**	**2,241**

In order to address this gap, various imports options remained under review of the GoP during last two decades. In 2014, the Government of Pakistan decided to import LNG and entered into a G2G agreement with Qatar. Consequent upon the G2G agreement, PSO entered into a long-term contract of 15 years with Qatar Gas. A company, PLL, was established with the objective to import LNG. PLL also entered into two contracts, one 15-years long term agreement with Gunvor and another 5 years short term agreement with ENI. These PSEs made contracts for terminal utilization with PGPL and EETL. Meanwhile, a sweeping arrangement was facilitated between SSGC and SNGPL for transmission and distribution of RLNG whereby the former received RLNG from the terminals, supplying the later natural gas in lieu.

[19] OGRA Annual Industry Report 2015-16-2019-20

Pakistan is currently spending approximately US$ 2.8 billion annually for the import of LNG.[20] The current demand of gas in Pakistan is around 4,850 MMCFD[21] of which around 900 MMCFD is contributed through LNG / RLNG. The demand for LNG / RLNG in the country fluctuates due to additional demand in summer by Power Sector and by domestic consumers in winter. Similarly, there has been instances of delay in communication of demand which has compelled PLL to import LNG cargoes through spot purchases. During the FY 2018-19 to 2020-21, PLL procured 66 spot LNG cargos to meet additional requirements raised by SNGPL.

4.1.3 Establishing the Audit Theme

4.1.3.1 Reasons of Selection

Demand of LNG / RLNG has emerged as the important component of the energy mix of the country during recent years. Management of the whole processes of its supply chain has direct bearing on common citizen, and industrial and commercial sectors of the country. Audit has highlighted the issues of need / demand assessment and procurement of LNG in previous Annual Audit Reports. The issue has become of public interest times and has also got the attention of national print and electronic media Further, under Sustainable Development Goal 7 - Affordable and Clean Energy - Pakistan is obliged to fulfil her commitment of expanding infrastructure and upgrading technology to provide clean and efficient energy to her citizens by 2030. This office considered it appropriate to delve into the matter to review the LNG /RLNG Regime to underscore bottlenecks in efficient, economical procurement and distribution of LNG / RLNG.

4.1.3.2 Purpose / Objectives

The theme incorporated an analysis of the process of import of LNG and distribution of RLNG by the PSEs. Any mismanagement has a direct bearing on the general public. It is, therefore, imperative that the import and distribution mechanism and their practical application be analysed and examined. With shortage of gas in the spotlight during recent months and Government's efforts to resolve the matter, the issue needs to be reviewed critically and shortcomings,

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[20] Annual Reports of PSO & PLL 2019-20

[21] OGRA Industry Report 2019-20

if any, be highlighted. The report will be placed before the Parliament for discussion on the matter to bring improvements to the LNG / RLNG import and transportation regime.

4.1.3.3 Scope

The thematic audit involved several entities; therefore, the theme was probed at both the horizontal i.e., Government level / Petroleum Division and vertical level i.e., Pakistan LNG Limited, Sui Northern Gas Pipelines Limited, Pakistan State Oil and Sui Southern Gas Company for the FY 2017-18 to onwards. On the basis of desk audit carried out at the Directorate General of Audit, Petroleum and Natural Resources, Lahore, following TORs were devised;

i. To evaluate if comprehensive need/demand assessment was done by relevant stakeholders;

ii. To check whether there exists any mechanism to coordinate scheduling of incoming cargos under long term contracts and spot purchase keeping in view demand supply position and international prices to decrease the weighted average cost of RLNG;

iii. To identify whether scheduling of incoming cargos is being made to ensure optimum utilization of Terminals and mechanism exists to minimize the surplus / unutilized capacity of Terminals by allowing other licensees (in addition to Gas Companies) to import LNG under TPA Rules;

iv. To evaluate the efficacy of the LNG / RLNG infrastructure and its incidental problems and to identify issues related to swap arrangements between SNGPL and SSGC and their resolution;

v. To check whether there exists any mechanism to ensure submission of regular demand and subsequent payments; and

vi. To examine the financial management in procurement and sale of LNG / RLNG and its impact on end consumers / national exchequer.

On the basis of TORs, following areas of the theme were identified for audit:

i. Overall Planning of LNG Import / Strategic Planning;

ii. Demand & Supply of LNG / RLNG;
iii. Efficient Procurement & Optimum utilization; and
iv. RLNG Infrastructure Development.

4.1.4 Legal Framework Governing the RLNG Regime

The LNG / RLNG sector is governed under the following acts, policies and rules. In pursuance of Liquefied Natural Gas Policy 2006 and Oil and Gas Regulatory Authority Ordinance 2002, OGRA notified LNG Rules in 2007 in order to bring the anticipated LNG activity under regulatory regime. The LNG / RLNG sector is governed under the following acts, policies and rules;

i. Companies Act, 2017;
ii. Corporate Governance Rules, 2013;
iii. PPRA Rules, 2004;
iv. Liquefied Natural Gas Policy, 2006 and 2011;
v. Liquefied Natural Gas Rules, 2007;
vi. OGRA Ordinance, 2002;
vii. Petroleum Products (Petroleum Levy) Ordinance, 1961;
viii. Natural Gas Licensing Rules, 2002; and
ix. Third Party Access (TPA) Rules, 2012 amendment Rules, 2018.

4.1.5 Stakeholders and Governmental Organizations Identified as Directly / Indirectly Involved

Important stakeholders and Government organizations involved in LNG / RLNG import and distribution are as under;

i. Ministry of Energy (Petroleum Division);
ii. OGRA;
iii. Pakistan State Oil Company;
iv. Pakistan LNG Ltd;
v. Engro Elengy Terminal Private Ltd;

vi. Pakistan Gas Port Consortium Ltd;

vii. Sui Northern Gas Pipeline Ltd; and

viii. Sui Southern Gas Company

ix. International Suppliers i.e. QG, QP, ENI, Gunvor, Vitol, etc.

4.1.6 Role of Important Organizations

1) Ministry of Energy (Petroleum Division)

Petroleum Division, being an important stakeholder, is responsible for coordinating the development of natural resources of energy and minerals in Pakistan. It is responsible to ensure, secure and make available sustainable energy supply for economic development in the country.

2) Pakistan LNG Limited

The principal activity of the company is to import, re-gasify, transport, market and distribute (LNG / RLNG). The Company is wholly owned by Government Holdings (Private) Limited, a company itself wholly owned by the Government of Pakistan.

3) Pakistan Gas Port Consortium Limited

Pakistan Gas Port Consortium Limited (PGPC) owns and operates the 750 MMSCFD LNG import terminal at Port Qasim, Karachi. It is providing LNG storage and re-gasification services to PLL of up to 600 MMSCFD for 15 years at an availability of 96% and at a levelized tariff of US$ 0.4177/MMBTU under Terminal Usage and Re-gasification Agreement (TURA).

4) Oil and Gas Regulatory Authority

Oil and Gas Regulatory Authority (OGRA) is the regulator of downstream sector of petroleum industry in the country. It is entrusted with the task to fix / finalize the sale price of RLNG in the country.

5) Sui Northern Gas Pipeline Limited

SNGPL is required to submit demand for LNG to PLL/PSO on the basis of demand intimated to it by the end consumers. SNGPL distributes the RLNG to the consumer through its distribution extensive network of pipelines present in the Punjab and KPK.

6) **Pakistan State Oil Company**

The principal activities of the company are procurement, storage, and marketing of petroleum products. It also blends and markets various kinds of lubricating oils. Under the G2G agreement between Government of Pakistan and Qatar, PSO imports LNG from Qatar-Gas as per the demand submitted by SNGPL.

7) **Sui Southern Gas Company**

The main activity of the company is transmission and distribution of natural gas in Sindh and Baluchistan. The company receives RLNG from Engro Elengy Terminal and provides SNGPL natural gas in lieu of the RLNG under swapping arrangement.

4.1.7 Organization's Financials

All the entities involved in LNG / RLNG import and distribution regime are either wholly or partially owned by the Government of Pakistan. PSEs manage and maintain their finances through sales revenue. Meanwhile, the Government of Pakistan (GoP) and International Islamic Trade Finance Corporation (ITFC) have entered into a deferred financing facility for the FYs 2017-18, 2018-19, 2019-20 and 2020-21 whereby PARCO, PLL and PSO have been designated as executing agencies by the GoP to purchase POL products as an agent on behalf of International Islamic Trade Finance Corporation which would make payment to the seller.

Details of Credit Facility used by PSO & PLL for purchase of LNG under Loan No. Pak- 0200, 0201, 0202, 0203 & 0204 are as under:

(Amount in US$)

FYs	Amount of Credit Facility	Amount utilized by PSO	Amount utilized by PLL
2018-19	551,000,000	56,808,429	122,769,391
2019-20	555,800,000	101,127,071	216,903,352
2020-21 (up to September, 2021)	951,500,000	-	369,040,791

4.1.8 Field Audit Activity

4.1.8.1 Methodology

Since the audit involved various PSEs, multiple audit teams were deputed to collect data from these organizations. During the audit cycle, the teams followed a graduated and integrated approach which comprised:

- Carrying out comprehensive audit planning by studying previous Annual Audit Reports, determining audit objectives and TORs, and establishing audit scope. Planning was carried out to minimize the omission of any material risks.
- Substantive analysis of documents and computer-aided techniques were utilized to examine procurement, financial and operational management of LNG / RLNG sector.
- Meetings with relevant stakeholders were held to discuss audit findings e.g., gaps, mismanagement in the LNG supply chain

4.1.8.2 Audit Analysis

4.1.8.2.1 Review of Internal Controls

The LNG regime in Pakistan involves various PSEs, working in collaboration with each other to supply RLNG to end consumers. Therefore, several controls have been implemented by the Government to ensure smooth functioning of the system. An analysis of the internal controls of LNG regime is as under;

i. **Implementation of ECC Decisions / Policies**

The ECC in its various meetings provided guidelines for dealing with the matters pertaining to LNG. ECC set out policy for development of LNG infrastructure including RLNG pipeline while introducing swapping arrangement between Sui companies, until construction of the pipeline. The pricing mechanism of LNG regime is also governed under the decision of ECC according to which OGRA is responsible to finalize the sale price of RLNG.

ii. **Duality of Legal Framework of LNG / RLNG Regime**

In pursuance of Liquefied Natural Gas Policy, 2006 and 2011, Oil and Gas Regulatory Authority Ordinance, 2002, OGRA notified LNG Rules in 2007

in order to bring the anticipated LNG activity under regulatory regime. For licensing purposes, there are two separate legal regimes governing LNG and RLNG in Pakistan. The LNG Rules, 2007 fundamentally provide legal, commercial and technical parameters concerning LNG processing, production, testing, licensing as well as the terminal and operational matters. These activities pertaining to RLNG are regulated and governed under the Natural Gas Licensing Rules, 2002. As per LNG Policy 2011, the project structures can be integrated in which the terminal developer arranges LNG imports as well as its buyers or unbundled the structures in which the terminal developer, LNG importer and LNG buyers are different.The RLNG sale and purchase is governed under S.R.O. No. 408 (I)/2015 dated 07.05.2015 which has amended the First Schedule and the Second Schedule of Petroleum Products (Petroleum Levy) Ordinance, 1961. Resultantly, RLNG and/or any volumes supplied in lieu thereof through a swap arrangement are deemed to be petroleum product for the purpose of determination of price by the Federal Government. The names of both gas distribution companies i.e. SNGPL and SSG, was also inserted in the Second Schedule but on the other hand RLNG transportation charges are determined under OGRA Ordinance, 2002 through determination of FRRs of both the gas companies.

iii. Procurement Mechanism for Import of LNG

There are two modes of import of LNG in the country; long term contracts and spot purchases. PSO and PLL have both entered into long-term contracts with international suppliers. PSO entered into a G2G contract with Qatar Gas Company Limited in February 2016 for supply of 195 million MMBTU annually for the period of 15 years. PLL executed long-term contracts with ENI and Gunvor for supply of one cargo per month from each supplier. The terms and conditions set forth in these long-term contracts provides the basis, which is to be followed by the parties.

In order to meet seasonal fluctuation, PLL purchases LNG cargoes from spot market by following the PPRA Rules, 2004. Compliance of PPRA Rules, at times, creates hindrance to take advantage of lower prices as under these rules purchaser is required at least 45 days for confirming the purchase. LNG international market being inherently highly volatile, suppliers tend to quote

high rate invariably when there is uncertainty both in price and firm supply order(s).

iv. **Agreements among Stakeholders**

SNGPL takes RLNG from PLL and PSO and supplies the same to the end consumers including industrial consumers, power plants etc. Sale and purchase between importer (PLL) and buyer (SNGPL) were carried out without any agreement. Similarly, back to back agreements between SNGPL and end consumers on the same terms and conditions i.e., take or pay had not been executed. Absence of agreements between the parties concerned has raised disputes among the stakeholders of the RLNG supply chain.

4.1.8.2.2 Critical Review

Import and further distribution of LNG / RLNG to end consumers has been found marked with certain issues which had led to mismanagement as narrated below:

i. Inconsistent demand of LNG*:* PLL procures LNG as per demand submitted by SNGPL. However, due to inconsistent demand by SNGPL, PLL is forced to to procure LNG from the spot market with less delivery time on higher price. Further, refusal of the end consumer to receive the demanded quantity of RLNG upset the entire supply chain;

ii. Defective Procurement Planning*:* PLL have rescheduled their term cargos for the period when the LNG cargos were available at low cost. As a matter of fact, Spot LNG prices were remained low in summer, 2020 due to COVID-19. It was required to secure LNG for upcoming winter season which was not done and in November & December 2020, LNG was procured at higher rates for winter season; and

iii. Inefficient Infrastructure for distribution of RLNG*:* The stakeholders have failed to develop RLNG infrastructure (Terminals for Re-gasification capacity, no storage, and pipeline constraints) as envisaged in LNG Policy, 2011. Consequently, existing infrastructure is used to maintain RLNG supply chain which has given rise to dispute between two gas companies; SSGC withholds volume of RLNG by transporting less quantity in violation to TPA whereas SNGPL stops payments on

account of terminal / re-gasification, administrative charges and SNGPL also exchange loss adjustment payable to PSO / PLL.

(i) Overall Planning of LNG Import / Strategic Planning

Audit observed that Petroleum Division in consultation with all the stakeholders including Power Division has failed to evaluate comprehensive need/demand assessment for LNG. Following discrepancies in the overall planning were found during the thematic audit:

- As per ECC decision vide case no ECC-/122/13/22012 dated October 03, 2012, RLNG was required to be supplied to public / private sector / bulk consumers under firm contracts with take or pay clause. But no firm back-to-back contracts were finalized with IPPs and contracts with GPPs were also finalized only up to 66% *take or pay* basis (instead of 100%) under TA-2 agreements. However, later ECC decided vide Case No ECC-52/07/2015 dated April 09, 2015 and Case-62/08/2015 dated May 23, 2015 that RLNG supply to IPPs would be on *as and when* basis.. This inconsistency in decision making resulted in non-finalization of GSPA with IPPs and execution of TA-1 among PSO, SSGC and SNGPL could not be done thus the whole RLNG sale/ purchase business remained at risk. In the absence of assurance for payments on contracted off-takes, aall the three PSEs have been exposed to the risk of possible financial insolvency. Further, the Power Division moved a summary to CCoE in the month of September 2020, wherein it was requested that minimum 66% TOP commitment clause with GPPs should be exempted from January 2022. With the removal of TOP clause liquidity of SNGPL would be affected adversely
- As per ECC decision communicated by MPNR (Policy Wing) vide letter No. NG(II)-16(I)/15-RLNG-IPP-Vol-II dated June 23, 2015, the RLNG price will be determined on similar lines as that of Petroleum Products Pricing but price is being determined under OGRA Ordinance, 2002 on annual basis.
- OGRA did not finalize the aforesaid provisional prices since April, 2017 which has resulted in accumulation of huge RLNG related arrears among PSEs. Detail is as follows;

   i) Accumulation of receivables to PSO / PLL by SNGPL on account of cost of RLNG, LPS and recovery of foreign exchange loss etc.

ii) Unresolved disputes on account of swapped volume of RLNG between SSGC and SNGPL resulting in retention of RLNG by SSGC and payment of terminal charges, regasification charges and LSA margin by SNGPL which requires reconciliation by third party;

iii) SSGC claims higher UFG losses owing to handling of huge volumes of RLNG and its swapping with SNGPL despite its RLNG pipeline being operational since September, 2018.

(ii) Demand & Supply of LNG / RLNG

RLNG demand has remained un-certain because Ministry of Energy (both the Petroleum / Power Division) failed to carry out realistic demand and supply assessment. Due to acute decline in the demand of RLNG by IPPs even in summer season, Power Sector / IPPs did not purchase RLNG off-takes. With the addition of coal in merit order (issued by NTDC on periodic basis) above RLNG for fuel consumption by IPPs, demand of RLNG would further reduce in near future.

- Due to inconsistent demand of LNG / RLNG and to facilitate the loading of incoming LNG cargo, Ministry of Energy (Petroleum Division) had to stop production in gas fields of indigenous gas (like Mela & Nashpa) in August, 2019 and again in September, 2019 in order to curtail pressure on line pack of SNGPL. This not only deprived the consumers of indigenous cheaper sources of gas but also put the strategic assets of the country i.e. pipeline of SNGPL at risk due to uncontrollable pressure. SSGC had to withhold RLNG at its own without having any agreement with the seller.

- The uncertainty existed at companies' level as well. According to Section 5.1 of the initialed GSPA, 2017 between SNGPL and PLL, the demand shall be finalized one hundred five (105) days prior to the start of each year. However, SNGPL reduced the demand of gas after short listing of the LNG supplier by PLL. The uncertainty of demand led to import of LNG at higher rates due to shortening of lead time.

(iii) Efficient Procurement & Optimum utilization

SNGPL has not been able to finalize any of the Annual Delivery Plan for procurement of RLNG with PLL whereas it shared ADP with PSO. However,

Ministry did not devise any mechanism to evaluate the firm demand and timelines were also not fixed for submission of demand, due to this LNG procurements could not be initiated in timely manner. SOPs/Guidelines for initiating tenders for spot cargos has not been framed thus LNG is being procured at higher prices due to less delivery window as some illustrative cases are given below:

- From February to July 2020, when the price of petroleum products was considerably low, Pakistan failed to take advantage of the collapsing prices of LNG in spot markets, preferring to stick to its long-term contracts throughout these months. PLL did not make any offer to the suppliers for procurement of LNG for later periods due to uncertain demand of LNG from SNGPL.
- In some other cases, PLL received demand from SNGPL in time but failed to issue tenders well in time due to which delivery window was reduced. o Country ended up paying higher price of LNG and unfilled slots further aggravated the gas shortage. Moreover, the existing supplies to the power sector had to be diverted to domestic consumers and the power plants had to be run on costlier furnace oil.
- Moreover, PLL management failed to procure the LNG timely or schedule the LNG cargoes as per requirement. Hence, the country ended up paying higher price of LNG, the cost of which was ultimately borne by the end consumers.

(iv) RLNG Infrastructure Development

Although development of LNG / RLNG infrastructure was envisaged in the LNG Policy, 2011, the land-based storage facility for RLNG has not been developed whereas pipeline for transmission of RLNG has remained incomplete. In the absence of necessary infrastructure, there would remain a risk of disruption in the supply chain of LNG / RLNG.

- Due to non-completion of LNG Pipelines Project, swapping arrangement was introduced between SSGC and SNGPL under which SSGC received RLNG from EETL and utilized the same in its franchise area on indigenous gas tariff and was to deliver equal volume of indigenous gas to SNGPL for sale in its franchise area on RLNG price. This swapping

arrangement caused problems like line pack issues by increasing high pressure on pipelines of both the gas utility companies and forced intake and sale of RLNG by SSGC in its franchise area at domestic tariff etc. This swapping arrangement also gave rise to dispute between SNGPL and SSGC. SSGC transferred less natural gas against RLNG to SNGPL during 2015-16 to 2017-18 and supplied the RLNG to its own consumers in its network area. The issue is still unresolved and could not be resolved by the Regulator and Petroleum Division.

- Due to line pack issues and inconsistent demand of RLNG and to facilitate the loading of incoming LNG cargo, Ministry of Energy (Petroleum Division) had to stop production in gas fields of indigenous gas (like Mela & Nashpa) in August, 2019 and again in September, 2019 in order to curtail pressure on line pack of SNGPL. This not only deprived the consumers of indigenous cheaper sources of gas but also put the strategic assets of the country i.e. pipeline of SNGPL at risk of rupture due to uncontrollable pressure.
- Under LNG Policy, 2011, LNG Developer / LNG Terminal Operator were required to develop LNG storage facility. However, LNG storage capacity had not been developed by LNG importers and Terminal Operators i.e. PSO / PLL / EETPL / SSGC / PLTL / PGPC etc.

(v) Accumulation of RLNG Related Circular Debt

RLNG Supply Chain issue and unpaid subsidies by Government along with Receivables from Power Sector are other factors responsible for the piling up of the CD as summarized below:

(Rs in million)

Description	PSO	PLL	Total
Cost of RLNG	112,598	132,639	245,237
LPS	23,846	4,464	28,310
Exchange Loss	4,697	**618**	5,315
Total	**141,141**	**137,721**	**278,862**

SNGPL receivables have risen to Rs 95,666 million and Rs 75,498 million on account of cost of RLNG / (Diversion to Domestic Consumers) and WAPDA and IPPs / GPPs respectively. Exchange loss adjustment has risen to Rs 5,315 million on September 30, 2021.

(vi) Non-recovery of Cost of RLNG Diverted to Domestic Sector

Pursuant to FG policy guidelines, SNGPL diverted RLNG to domestic sector in winter months during FYs 2018-19, 2019-20 and 2020-21 but the OGRA did not validate the claim raised by SNGPL against cost of diversion (Rs. 116,621 million) up till now causing snowball effect as SNGPL was forced to delay payments to PSO and PLL, thus, rendering the whole supply chain of LNG cash stripped.

(vii) RLNG Related Disputes between SNGPL and SSGC

A dedicated 1,120 KM pipeline (36-inch dia and 42-inch dia) for RLNG transportation from Port Qasim Karachi to Lahore was constructed by both the Gas Companies; SSGC constructed 358 KM pipeline up to Sawan whereas SNGPL constructed 762 KM pipeline from Sawan to Lahore. Pipeline has a design capacity of transportation of 1,200 MMCFD RLNG from Karachi to Lahore.

A Tripartite Agreement (TA-1) was initialed between SNGPL, SSGC and PSO for sale and purchase of LNG / RLNG. PSO and PLL sold LNG to SNGPL by issuing invoices whereas SSGC took the custody of LNG at terminal having capacity up to 600 MMCFD and entered into a regasification agreement with terminal Operator i.e., EETPL on payment of terminal charges, re-gasification charges and LSA margin by SNGPL whereas remaining LNG imported by PLL is unloaded at second terminal operated by PGPCL having capacity of up to 600 MMCFD. After re-gasification from both the terminals, RLNG is entered in SSGC's pipeline for onward supply to consumption nodes under Gas Transportation Agreement (GTA) executed under TPA Rules, 2018 up to Sawan, from where SNGPL took the custody of RLNG from Sawan to Lahore.

SSGC used to withhold RLNG received from terminal meant for transportation to SNGPL for sale in its own franchise area and SSGC retained RLNG worth Rs 64,560 million up to June, 2021 without having any agreement with the seller i.e., PSO and PLL. In turn SNGPL stopped payment of Terminal Charges, Regasification Charges and LSA margin amounting to Rs 33,298 million to SSGC up to June, 2019.

Disputes relating to cost of RLNG withheld and payment of terminal charges, Regasification charges and LSA margin remained unresolved which

effected whole RLNG supply chain badly and made assessment of demand and supply of gas difficult due to uncertainty existed in the supply chain.

(viii) Streamlining the Legal Regimes Governing Gas Sector

System gas and RLNG are being administered through two set of legal regimes i.e., OGRA Ordinance, 2002 only deals with System Gas but does not cover RLNG under which pricing was done twice in the year and Petroleum Products Act, 1961 deals RLNG as petroleum products under which pricing is done on monthly basis. The duality of legal regimes requires different treatment to RLNG than that of System Gas as far as recovery of diversion cost of RLNG is concerned and two prices of gas are existing in the country; one is cheaper and other is extremely expensive. Current pricing method for system gas and RLNG is ring fenced.

The Government is currently unable to substitute depleting local gas with imported gas without incurring heavy financial losses. ECC issued instructions to amend OGRA Ordinance, 2002 to cater for RLNG for which legislation is required. FG intends to introduce "Weighted average cost of gas" (WACOG) as a pricing mechanism by taking into account the blended costs of both indigenous and imported gas as opposed to the current pricing method, which ring-fenced the use of imported fuel. But there is a need to develop consensus on the proposed pricing mechanism because under the 18th amendment, gas-producing province has the first right to its use and gas-producing provinces have been opposing WACOG.

4.1.8.2.3 Significant Audit Observations

(i) MPNR (Policy Wing) vide No. NG(II)-16(I)/15-RLNG-IPP-Vol-II dated 23.06.2015 conveyed the decision of ECC to OGRA / Gas Utilities / PSO for implementation vide Case No ECC-52/07/2015 dated April 09, 2015 and Case-62/08/2015 dated April 23, 2015 regarding the Allocation and Pricing of RLNG and related matters

Audit observed that import of LNG was started in 2015 by PSO under long term (15 years) contract with take or pay clause and SNGPL / SSGC management started purchasing RLNG from PSO for onward sales to GPPs / IPPs and other industrial consumers. However, Ministry of Energy (Petroleum Division) and SNGPL failed to sensitize the Federal Government regarding

inconsistencies in governing RLNG business which resulted in mismanagement in the shape of ever aggravating demand supply gap of RLNG, endangering the pipeline of gas companies due to line pack issues, jeopardizing their financial solvency due to non-payment in the absence of back to back agreements on "Take or Pay" and accumulation of huge RLNG related circular debt of Rs 105,681 million as on September 30, 2019. [22]

(ii) According to Section 1.1 of initialed GSA between SNGPL & PLL (Firm Gas Allocation), the total quantity of Gas to be delivered by the Seller to the Buyer on firm basis, being 185 MMSCFD, which can be enhanced based on mutual agreement, to be delivered in terms of the ADP, along with any As and when required. Further, According to Confirmation Notice with ENI & Gunvor, seller shall deliver and buyer will take over one cargo in each month over the entire contract period. Further, according to Rule 04 of Public Sector Corporate Governance Rules, 2013, the chairman of the Board shall ensure that the Board is properly working and all matters relevant to the governance of the Public Sector Company are placed on the agenda of Board meetings and the chief executive is responsible for making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations

Audit observed that PLL procured four LNG Term cargoes in December 2018, January 2019, November 2020 and October, 2020 that were scheduled to be delivered in December 2020, and January and February, 2021 respectively. However, the management of PPL did not schedule substitute cargoes for these months and had to subsequently procure LNG on spot basis. This led to procurement of LNG at higher rates of 12.95% to 23.44% of Brent crude compared to 11.62% to 11.95% for the term cargoes. This resulted in loss of Rs 6,207.331 million. [23]

(iii) According to Para 6.4 of minutes of 80th BoD meeting, it was unlikely that an urgent tender would yield high prices due to less time between the award and delivery of cargo as the number of available suppliers / cargoes were less which had an impact on the price. According to Rule 4 of PPRA Rules, 2004, Procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of

[22] Para 2.1.7.32 AR 2019-20
[23] Para 2.7.4.3 of AR 2021-22 / DP 1563/PLL

procurement brings value for money to the agency and the procurement process is efficient and economical.

PLL floated tenders for spot purchase of LNG, for the months of July, September and October, 2021. BoD, however, cancelled the bidding process, considering exorbitant price that was predicted from unprecedented increase in global LNG demand and market benchmark of JKM (Japan Korea Maker), in contrast with its own earlier observation, thus reducing the lead time for procurement of LNG. In order to fulfil the LNG demand, the management again floated tenders and awarded LNG spot cargoes contract at higher rates. This resulted in excess cost of Rs 10,275.039 million on purchase of LNG. [24]

(iv) According to Rule 04 of Public Sector companies (Corporate Governance) Rules, 2013, the chief executive of the Public Sector Company is responsible to implement strategies and policies approved by the Board. Further, BoD vide to Board Resolution 102/06, directed to set-off the outstanding amounts on account of excess payment of Port Charges from the upcoming LNG cargoes' invoices of PLL's term contract suppliers M/s Eni S.P.A and M/s Gunvor International B.V. Amsterdam.

Audit observed that PPL failed to recover excess payment on account of port charges amounting to Rs 2215 million from Gunvor International B.V. Amsterdam. The company had recovered these charges from other suppliers but minimal effort was made to recover the same from the said company. The management neither made any adjustment against upcoming invoices nor encashed the suppliers' performance guarantee submitted under the contract despite the lapse of considerable time. This resulted into non-recovery of excess payment of port charges amounting to Rs 2,215 million. [25]

(v) According to decision of ECC in case No ECC-/122/13/22012 dated October 03, 2012 conveyed by MPNR vide No. NG(II)-16(I)/14-Misc-LNG-Pt dated November 12, 2015 regarding approval of modalities for LNG / RLNG infrastructure projects any financing cost for LNG purchased will be allowed as admissible expenditure under the revenue requirements to the gas utilities. Further, according to ECC decision in case No. 124/15/2015 dated September 03, 2015 financial costs incurred in creation of RLNG infrastructure of national

[24] Para 2.7.4.1 of AR 2021-22 / DP 1558/PLL
[25] Para 2.7.4.6 / DP 1505/PLL

importance should be allowed as admissible expense in the revenue requirement of the utility companies.

Audit observed that RLNG regime was being administered under the Petroleum Products (Petroleum Levy) Ordinance, 1961 (SRO No 408(I)/2015 dated May 07, 2015) under which no such guaranteed rate of return on RLNG assets (ROA) was allowed. Further, due to violation of ECC decision, the Company availed inadmissible guaranteed Return on Assets on non-operational pipeline instead of admissible expense on account of finance cost of LNG projects which resulted in extra burden on RLNG consumers. [26]

However, OGRA allowed SNGPL to capitalize the fixed assets relating to LNG projects in FRRs for the FY 2017-18 and 2018-19. However, RLNG pipelines were not operationalized and swapping arrangement between SSGC and SNGPL continued till September, 2018 and partially continued till date. Hence, SNGPL availed guaranteed rate of return of Rs 7,504 million and Rs 8,738 million (aggregating to Rs 16,242 million) for the said FYs against the admissible amount of Rs 3,291.851 million. Hence, an amount of Rs 12,950.149 million (Rs 16,242 million – Rs 3,291.851 million) was availed in excess of SNGPL's legitimate right as "Transportation Charges".

(vi) According to condition 39.1 of license read with provisions of the Sale of Goods Act, 1930 and the Contract Act, 1872, the licensee shall not sell gas to consumers without a contract. All agreements or contracts should be negotiated, entered into or amended on an arms' length basis and in accordance with the provisions of the Ordinance and the Rules. Moreover, Agenda Item-I (5993) para (vii) of 526th BoD Meeting dated April 27, 2019 regarding signing of GSPA with Punjab Thermal Power (PTPL) for Trimu Power Project along with the back-to-back agreements (GSPA) with PLL, Reimbursement agreement with CPPA and Addendum to the existing Gas Transport Agreement with SSGC was deferred for consideration to a subsequent meeting of BoD due to paucity of time.

It was observed that the SNGPL had been purchasing RLNG from PLL and selling RLNG to a GPP i.e., Punjab Thermal Power (PTPL) for Trimu Power Project without finalizing the GSPA with PLL. Consequently, back-to-back agreements with Central Power Purchasing Agency-Guarantee (CPPA-G) and

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[26] Para 2.5.6.18 of AR 2019-20

Gas Transportation Agreement (GTA) with SSGC could not be finalized. The non-finalization of GSPA with PLL put the whole RLNG business at risk being not backed by firm commitments. [27]

(vii) According to Rule 4 of PPRA Rules, 2004 read with Rule 12 and 42 of Rules ibid, procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

Audit observed that upon completion of contract period with Guvnor, the company started buying one cargo of LNG through SPA with QG at 13.37% of Brent from January, 2021 to June, 2021. LNG being a volatile market, price remained high in winter months ranging from 16% to 17% in January, 2021 and February, 2021 and decision of PSO regarding purchase of LNG from QG at 13.37% of Brent in these months is justified whereas from March, 2021 to June, 2021, price of LNG dropped down ranging 10% to 12% from where the decision of purchasing LNG through SPA with QG was required to be reconsidered keeping in view the market volatility. However, the company bought two cargos in March / April, 2021 from QG under SPA at higher price and similarly, tendered for two spot cargos in May, 2021 but only one bidder offered bids but the company cancelled the bid being unfavourable and the company did not re-tender the spot cargoes under PPRA Rules neither option of emergency Clause was adopted whereas it bought both the cargoes from GQ without any tendering under PPRA Rules. In April / May, 2021 spot market dropped significantly due to 10% to 12% but the PSO procured LNG on 13.37% on higher prices and benefit of low prices to the tune of Rs 1,206.560 million could not be fetched. [28]

(viii) 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.

[27] Para 2.5.6.23 of AR 2019-20
[28] Para 2.4.4.8/PSO of AR 2021-22 / DP 1747/PSO

Audit observed that the management could not receive RLNG worth Rs 23,661.29 million for the FY 2020-21 (total recoverable were Rs 64,559.8 million as on June 30, 2021) 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. [29]

(ix) As per ECC decision vide case no ECC-/122/13/22012 dated October 03, 2012, RLNG was required to be supplied to public / private sector bulk consumers under firm contracts with Take or Pay clause.

Audit observed that with the removal of TOP clause i.e., 66% Take or Pay contracts with GPPs liquidity of the Company would be affected adversely.[30]

(x) PSO, SSGC and SNGPL entered into a Tripartite Agreement under which PSO is required to supply imported LNG and SSGC will transport / swap re-gasified LNG to SNGPL for sale to GPPs, IPPs, Fertilizers, and other industrial / commercial consumers. Further, as per ECC Decision dated June 6, 2015, RLNG pricing components for PSO include: i. LNG DES (Delivery Ex-Ship) / FOB price (including freight) ii. Other import related actual costs iii. PSO margin up to 4 percent of LNG DES Price, subject to review after 3 months by an Inter-Ministerial Committee. Further, PSO also executed another long-term agreement with Qatar Petroleum for LNG supply from November, 2021 for two cargoes each month for which necessary arrangements regarding re-gasification arrangements at PGPC's Terminal with PLL and back to back agreements for supply of LNG to SNGPL / SSGC and its transportation from PGPC's Terminal to upcountry are required to be finalized prior to November, 2021.

Audit observed that the PSO could not get the LNG / RLNG related issues resolved from the Petroleum Division and OGRA like Non-finalization of TA-1 with SNGPL and SSGC for supply of LNG, non-resolving the issue with the OGRA for finalization of RLNG prices and increase in LNG margin. Further necessary arrangements for second G2G agreement with QP for supply of two

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[29] DP 1580/SNGPL

[30] Para 2.5.4.37/SNGPL of AR 2021-22 / DP 1672/SNGPL

cargo per month were also not finalized since June, 2021 and supplies have been initiated from November, 2021 on provisional basis and agreements were not finalized with other stakeholders for berthing and regasification of one cargo which is beyond the capacity of EETPL terminal and GSPAs with buyers were also not finalized. Matter regarding port handling through Q-flex at both the Terminals and rationalization of port charges by PQA. [31]

4.1.9 Departmental Responses

(i) Management explained that dedicated pipeline has been commissioned in 2018 and most of the LNG is being provided to SNGPL through this line. Technical assistance of ADB has been solicited by ISGSL for undertaking the feasibility study for development of Gas Storage in the country. The consultant of ADB has initiated collection of required data with respect to demand supply or Natural Gas. In order to mitigate the financial risks of the companies involved in RLNG supply chain, a proposal of amending OGRA Ordinance has been initiated by the Cabinet Division. The proposed amendment will be placed before the CCI after its approval, same will be submitted to the Parliament for approval.

(ii) The management in its reply dated December 29, 2021 stated that PLL has problem with early procurement of LNG like 1 spot cargo is arranged only once, demand is confirmed as LNG is procured on a 100% take or pay basis. Considering the several past examples of SNGPL's demand variations and SNGPL's inability to sign a GSPA in which it guarantees a firm commitment of at least 200 MMCFD, it is not possible for PLL to arrange additional cargoes, over and above the scheduled term cargoes in the absence of GSPA. 2 spot cargoes are typically locked in 3 months in advance. In order to schedule spot cargoes well in advance, PLL will have to committing the Significant advance payment and LC/SBLC to be opened in favour of supplier well in advance, thereby exhausting PLL's limited credit facilities and PLL's existing financial position and available credit facilities, especially its ever-increasing receivables from SNGPL does not allow it to make these commitments.

(iii) The management in its reply dated December 29, 2021 stated that in accordance with PPRA's guideline of accepting single bids while ensuring rate

[31] Para 2.4.4.6/PSO of AR 2021-22 / DP 1647/PSO

reasonability, bids received for initial tenders for July, 2021 could not be awarded. However, PLL was constrained to purchase these cargoes later owing to directions from the ministry to procure LNG to avoid expected energy shortage in the country. Further, for September & October, 2021, PLL's BOD decided not to award any of the 8 cargos considering the downward trend of the prices in the market (news related to OPEC and sudden decrease in Brent and JKM S&P Platts on July 08, 2021. However, the spot market rose unexpectedly in the next week. PLL immediately floated a PPRA compliant urgent tender for procurement of four (04) spot cargoes for September 2021 and seven (07) spot cargoes in October and November 2021. Audit is of view that while cancelling tenders, management did not account for premium which is to be incurred due to procurement process of Pakistan as compared to JKM forecast of LNG price and short lead time between date of award to date of delivery.

(iv) The management in its reply dated December 29, 2021 stated that PLL's Board in late April 2021 had given their direction to set off Gunvor International's liability amount from their future invoice. The matter was then presented to the Board of GHPL who had shown their concern about the potential encashment of the SBLC issued by PLL, which at the time was backed by GHPL. Legal opinions from WFW and Orr, Dignam & Co. ("ODC") have been sought about the risks of such encashment and any mitigation strategy that PLL can employ. The opinions suggested that it is possible albeit risky for PLL to deduct the amount from alternative cargoes. Further, Supplies from Gunvor International's contract will continue until July 2022 and PLL has a strategy in place to ensure recovery of amounts outstanding on account of Port Charges.

(v) The management replied that as per ECC decision assets relating to LNG project would be included in asset base and ROA would be allowed thereon. Company had been following up with OGRA for implementation of ECC decision and inclusion of finance cost in revenue requirement but OGRA did not allow the finance cost in revenue requirement.

(vi) The management replied that ECC in its meeting held on October 02, 2019 had decided that M/s SNGPL and PLL shall execute a separate GSPA for supply of 185 MMCFD on take or pay basis and a separate GSPA for supply of RLNG volumes over and above 185 MMCFD backed by submission of SBLC. Further the CPPA-G advised elimination of 66% minimum RLNG off-take

obligation for PTPL and they would only be accommodated against any unutilized RLNG by the GPPs.

(vii) The management in its reply dated December, 2021 stated that as per the Annual Delivery Plan two spot cargoes were needed in May, 2021. In order to fulfil the need PSO floated a tender on March 21, 2021 (60 days ahead) of the two-delivery period i.e., 20-21 May 2021 and 25-26 May 2021. The tender was opened on April 21, 2021, and only one bid was received for delivery period 25-26 May 2021 from DXT Commodities at 14.5201% of Brent, which translated to $9.3494/MMBTU. PSO approached QG for the supply of cargo through upward flexibility option. QG, while giving waiver of the notice period required for such request, agreed to supply the cargo at contract price of 13.37% of Brent slope ($8.6089/MMBTU). PLL had with them special PPRA exemptions whereas PSO does not have such exemption in place. In a market with high price volatility, the validity of bids required under PPRA rules makes a big difference, and this has been proved in the tender that PSO has floated for May cargoes. Though PLL also floated the tender exactly same time, but having PPRA exemptions for response time (10 days against normal 30 days) and bid validity of single day (against normal of 15 days), the prices they fetched were lower.

(viii) The management in its reply dated December, 2021 stated that the TA-1 could not be executed despite lapse of 5 years, due to various issues raised by SNGPL time and again, Now, PSO executed new LNG SPA with Qatar Petroleum for supply of 02 cargoes each month from November, 2021 which necessitated re-gasification of LNG cargos at PGPCL beyond 6 cargoes. Therefore, an interim arrangement was executed between PSO, SNGPL and PLL for two cargos in November and December 2021. However, a quadripartite agreement will be executed shortly among PSO/PLL and SSGC / SNGPL covering entire volumes under both the long-term contracts. Further, the matter of exchange gain/loss adjustment is pending with OGRA since July 2017. Moreover, the ECC vide case no. ECC-62/12/2018 dated May 30, 2018 enhanced PSO margin on LNG from 2.5% to 3.75% w.e.f June 01, 2018, however the same was not implemented by OGRA as yet. Moreover, issue of withholding tax was also taken up with FBR time and again to reduce this high taxation on LNG business, however, the matter is pending with FBR. As far as actual import cost of LNG is concerned, PSO has regularly been submitting actual price computations to OGRA along with all supporting documents. But

OGRA did not issue actual prices subsequently in spite of submission of relevant data by PSO. Issue of berthing of Q-Flex cargo at PGPCL has been taken up with MoE / Petroleum Division and PLL and MOE has issued directives to Ministry of Maritime for the early resolution of this issue and for making necessary arrangements for the berthing of Q-Flex at PGPCL terminal. Audit contends that structural gaps in RLNG supply chain could not be removed yet and all major issues remained unresolved. Further, the requisite audit of incidental cost / actual import of LNG was not conducted for the period starting from June, 2017 onwards.

(ix) The management in its reply dated January 28, 2022 stated that pursuance to agreement between SNGPL and SSGC initiate in January, 2021, company has received all payments pertaining to FY 2020-21.

(x) The management in its reply dated January 28, 2022 stated that pursuant to ECC’s decision, SNGPL BoD being competent authority agreed to waive off 66% take or pay commitment from the GSAs of the three RLNG power plants with effect from January 01, 2022.

4.1.10 Recommendations

Based on the audit findings, the following recommendations are made to make the LNG / RLNG regime economical and efficient;

- Formulation of SOPs to evaluate demand by concluding agreements between the parties and formulate timelines for communication of demand to sellers;
- Revision in legal regime i.e. OGRA Ordinance, 2002 to cater for the RLNG both its pricing and determination of cost of service;
- Ensure development of LNG / RLNG infrastructure (Storage and more terminals and pipelines) and efficient utilization of available resources and access to third party for utilization of idle capacity; and
- Ensure effective financial management to avoid piling up of receivables to ensure availability of funds for continuous supply of RLNG.

4.1.11 Conclusion

With depleting indigenous natural gas reserves, Pakistan's dependence on imported LNG has increased during recent years. However, the LNG import and RLNG sales has been marked with inefficiency and mismanagement. From submission of delayed / insufficient demand by the Power Sector to SNGPL to non-development of necessary infrastructure for import and transmission & distribution of RLNG, there exist various factors which have led to mishandling of the LNG / RLNG procurement and further transmission and distribution. Failure to finalize GSA has resulted into piling up of huge receivables payable by the buyers / end consumers, thus affecting the financial health of the PSEs. Due to delayed development of RLNG infrastructure and absence of dedicated pipeline for RLNG, the business is being carried out on makeshift basis by utilizing existing natural gas infrastructure which has resulted in disputes of energy equivalence and quantity of RLNG between the parties involved.

In order to mitigate the inefficiency and mismanagement in the LNG / RLNG regime, the Government needs to play its role and ensure smooth working of the sector. As LNG / RLNG has turned out to be an important component of energy mix of the country and appears to remain so in foreseeable future, it is imperative that LNG / RLNG business is carried out efficiently under certain of . The Government needs to pay special attention to the sector with the intention to streamline the system instead of managing the sector on makeshift arrangements.

4.2 Revamping of Mineral Sector-Pakistan Mineral Development Corporation

4.2.1 Introduction

The world's second-largest salt mines, coupled with giant cooper, coal, and gold reserves may provide a potential boost to the beleaguered economy of Pakistan. Surging worldwide demand for metallic and non-metallic minerals can generate prospective revenue inflows for our economy.

PMDC, the only federal entity involved in the exploration, evaluation, mining, and marketing of economic minerals deposits, has had scrambled in its response to these myriad challenges. In order to capitalize on the multiple opportunities provided by the sector, the company needs to revamp by instituting vibrant governance structures which are capable of strategically fostering its organic growth. These structures should ensure the development of dynamic management policies and procedures, technological transformation, funding diversification, robust internal control structures, and regulatory compliance. Moreover, the company needs a product portfolio planning and a revitalized business and marketing strategy to play its role effectively in the national economy.

4.2.2 Background

Federal Cabinet, in its case No. 216/10/2019 dated February 28, 2019, directed Petroleum Division to formulate a plan for revamping of PMDC to get benefit of its true potential It was only in 1995 that the first National Mineral Policy was developed. the policy of 1995 further, gave way to the National Mineral Policy of 2013.

Incorporated in 1974, the Pakistan Mineral Development Corporation (PMDC) inherited the mineral-related assets and liabilities of the erstwhile West Pakistan Industrial Development Corporation (WPIDC). However, in its entire history, the company operated under a much-reduced scope by mostly focusing on the fields that were bequeathed to it.

4.2.3 Establishing the Audit Theme

4.2.3.1 Reasons for Selection

World Bank studies on mining sectors imply that every dollar spent on a mine generates another 2.80 dollars elsewhere in the economy. Some of the most successful economies in the world like Canada, China, the U.S.A, etc. have mineral-based industries that act as a pillar for their broad industrial development.[32] However, despite possessing ninety-two[33] known minerals, Pakistan's mineral sector is subject to decades of neglect and dwindling outputs. Resultantly, the sector contributed only 2.51%[34] to the GDP in the year 2019. Similarly, its contributions to the total yearly exports stood at 1.88%[35].

To address the issue, Government of Pakistan framed National Mineral Policy, 2013 with the objective to increase economic contribution of mining sector in Pakistan's economy by encouraging private investment in mineral sector. The policy further delineates to ensure coordination between Federal and Provincial Governments in implementation of regulatory and legislative regime.

Based on the importance of the sector and introduction of new policy, audit selected the theme to analyse role of PMDC in the changed environment and its revamping in the wake of new policy. Moreover, Sustainable Development Goals such as 1.2, 13.2 and 17.6 related to reduction in poverty, integrated climate change, and sharing and cooperation for access to science, technology and innovation also necessitates analysis of revamping of PMDC to ascertain the progress towards achievement of these goals.

4.2.3.2 Purpose / Objectives

Apart from adhering to the statutory requirements, the current audit will provide valuable insights to multiple stakeholders i.e., Ministry of Energy (Petroleum Division) and PMDC.

Audit will give recommendations regarding revamping of PMDC in the areas like HR structure, operational excellence, business development, excel in

[32] World Bank (2000a)pp.103-32
[33] Geological Survey of Pakistan
[34] Pakistan Economic Survey 2019-20
[35] WTS – UNSD Comtrade

sale & marketing, and IT & ERP after discussing the prevailing conditions and help the management to plug the loopholes.

4.2.3.3 Scope

The Ministry of Energy (Petroleum Division) develops liaison among all the provincial and federal stake holders on the subject of minerals. The minerals are provincial matter but no mineral department of any province has been audited by this office. The Audit only covered mineral sector to the extent of PMDC (sole federating unit) keeping in view the directions of the Cabinet Division for revamping of PMDC. Thematic Audit revolves around the concept of necessity of the revamping plan of PMDC. Audit checked the areas like HR structure, operational excellence, business development, excel in sale & marketing, and IT & ERP covered under revamping plan Audit adopted the vertical and horizontal approach. As part of vertical coverage, the audit team selected the offices of DG Minerals and the head office of the Pakistan Mineral Development Corporation (Pvt.) Limited. For horizontal coverage, two salt projects (namely Khewra and Warcha) were selected out of 5 salt projects and reviewed generally the record of coal projects (namely Sor-Range and Lakhra Coal Mining Development Limited) available at PMDC head office. The period for the record requisitioned ranging from FY 2019-20 to 2020-21 in different areas. The following table depicts the coverage type, TOR covered and formations visited along with justification:

Coverage type	TOR	Formation visited along with justification
Horizontal Coverage	• To evaluate the status of implementation of objectives set forth in National Mineral Policy, 2013 and effectiveness of regulatory framework provided by the policy and its impact in terms of development of the mineral sector with reference to PMDC.	• DG (Minerals) being regulator and have administrative power for smooth running of PMDC. • PMDC's Headquarter.
Vertical Coverage	• To review the strategy for the revamping of PMDC and its impact besides improvements in its financial performance.	• PMDC, Head office & selective projects at Khewra and Warcha – being the entity responsible for planning and implementation

	• To assess business strategy & planning at PMDC with a special focus on its vision, objectives, and products portfolio planning and extent of the achievement of its objectives. • To review facility development and marketing & promotional strategies in PMDC. • To check the investment portfolio in high grades mines, acquisition of new leases as well as the development of new mines.	of the revamping plan.

4.2.4 Legal Framework Governing the Theme

In accordance with Article 172[36] of the constitution of the Islamic Republic of Pakistan minerals, other than nuclear minerals and those occurring in specified federal areas, fall under the purview of provinces. Through dedicated mines and mineral departments, each province is responsible for regulations, planning & exploration, award of concessions, safety, and skill development for mines falling in their respective jurisdiction. The Federal Government, on its part, is responsible for geological / geophysical survey and mapping, national and international coordination, and formulation of national policies and plans. Following primary and secondary pieces of legislation govern the theme:

i. Article 172 of the Constitution of Pakistan, 1973;
ii. The Mines Act, 1923;
iii. The Regulation of Mines and Oilfields and Mineral Development Government Control Act, 1948;

[36] (1) Any property which has no rightful owner shall, if located in a Province, vest in the Government of that Province, and in every other case, in the Federal Government. (2) All lands, minerals and other things of value within the continental shelf or underlying the ocean beyond the territorial waters of Pakistan shall vest in the Federal Government. (3) Subject to the existing commitments and obligations, mineral oil and natural gas within the Provinces and the territorial waters adjacent thereto shall vest jointly and equally in that Province and the Federal Government."

iv. National Mineral Policy, 1995;
v. National Mineral Policy, 2013;
vi. Shareef-ud-Din Pirzada Award, 1979;
vii. Khyber Pakhtunkhwa Mineral Policy, 2014;
viii. Punjab Mineral Policy, 2018;
ix. The Sindh Mining Concession Rules, 2002;
x. The Baluchistan Mining Concession Rules, 2002;
xi. The KPK Mining Concession Rules, 2005;
xii. The Companies Act, 2017; and
xiii. Public Sector Companies (Corporate Governance) Rules, 2013.

4.2.5 Stakeholders and Governmental Organizations Identified as Directly / Indirectly Involved

Important stakeholders directly or indirectly involved in the theme are:

i. Ministry of Energy (Petroleum Division);
ii. Federal and Provincial Governments;
iii. Public Accounts Committee (Federal & Provincial);
iv. DG (Mineral);
v. Pakistan Mineral Development Corporation Private Ltd;
vi. Provincial Mineral Development Authorities; and
vii. Private Consumers like M/s. ICI Khewra, M/s Ittehad Chemicals, M/s Sitara chemicals, etc.,

4.2.6 Role of Important Organizations

(i) Ministry of Energy (Petroleum Division)

Mineral, other than mineral oil, gas, and radioactive minerals, is a provincial subject. The executive and legislative authority rest with the respective provincial Governments. The Ministry of Energy (Petroleum Division) is entrusted with the responsibility of formulation and implementation of National Mineral Policy. Moreover, maintenance of close liaison among

Federal & Provincial Governments, Provincial Mineral Authorities, DG Mineral, Geological Survey of Pakistan, PMDC, and foreign investors is its responsibility.

(ii) PMDC

PMDC is the only federal entity engaged in prospecting, exploration, evaluation, mining, and marketing of minerals in the country. PMDC gets exploration licenses and mining leases from the respective Provincial Governments. It undertakes all activities, from prospecting to the marketing of the minerals, in competition with other public and private sector mining companies. The following table depicts types, fields, net reserves, and ownership status, of the product portfolio of PMDC:

Type of Mineral	Fields	Net Reserves estimation (million tons)	Ownership status
Coal	• Degari • Sor Range • Sharigh[v]	• 0.886 • 6.185 • 3.094	PMDC is operating along with raising contractors, who provide its revenue on a net margin basis.
Salt	• Khewra &Makrach • Warcha • Kalabagh • Jatta Bahadur Khel	• 375.278 • 1978.235 • 33.384 • 80087.262	PMDC is operating along with new investors, who change to excavation contractors after approval of incentives.
Kurram Soapstone	• Daradar Area • Gandao Area	• 2.3[37] (reserves)	Working as a JV with KPK (previously FATA)
Lead and Zinc	• Duddar	• 10	PMDC will share profit in return for handing its lease area to MCC

4.2.7 Organization's Financials

PMDC generates its resources on its own. In 1974, the company was incorporated with a shared capital of 10,000,000 wholly owned by the federal Government. The company had one million shares at the share price of ten each. Later, under Benazir employees stock option scheme, the GOP transferred 120,0000 ordinary shares of Rs 10 each to PMDC Employee's Empowerment Trust. In 2020, the company's profit after taxation was Rs 283.343 million.

[37] PC 1 of Kurram Soapstone

Further, PMDC entered into an agreement with China Metallurgical Construction (Group) Corporation for development of Dudar Lead Zinc Deposits in Balochistan. Furthermore, PMDC entered into an agreement with Government of Balochistan with 10 % participation by buying shares 3,200,000 of Rs 10 each of M/s Balochistan Mineral Exploration Company Limited to invest in 10 % shares of Balochistan Mineral Exploration Company Limited. PMDC paid Rs 160 million as first tranche and second tranche of the same amount will be paid as and when demanded by M/s Balochistan Mineral Exploration Company Limited.

4.2.8 Field Audit Activity

4.2.8.1 Methodology

During the entire auditing cycle, the team followed a graduated and integrated approach which comprised:

- Carrying out comprehensive audit planning by determining audit objectives, establishing audit scope, analysing error / irregularity conditions, demarcating issues of potential significance and relevant audit criteria, and envisaging field audit methodologies. Planning was carried out to minimize the omission of any material risks.
- Following the integrated audit program, developed during the planning and execution stage.
- Compliance testing, substantive analysis, substantive testing of details, ICQs and computer-aided techniques were utilized to cull transactional data from the trial balance and general ledger.

4.2.8.2 Audit Analysis

4.2.8.2.1 Review of Internal Controls

Internal control is defined as “a process effected by an entity’s Board of Directors, management and other personnel designed to provide reasonable assurance of the achievement of objectives in the following categories:

- Operational Effectiveness and Efficiency
- Financial Reporting Reliability
- Regulatory Compliance

As per Committee of Sponsoring Organizations-COSO, an effective internal control framework comprises a sound cohesion between five elements[38], which include control environment, risk assessment, control activities, information and communication and monitoring, and 17 relevant principles for controls. Accordingly, the findings can be briefly summarized as:

Sr. No.	Elements of COSO	Finding
1	Control Environment:	Sketchy Controls
2	Risk assessment	Deficient Controls with no policy
3	Control activities	Unconsolidated and Ineffective Controls
4	Information And Communication	Dysfunctional Controls
5	Monitoring	Dysfunctional Controls

Details for these elements are given below:

a) Control Environment

The control environment is the basic foundation of the internal control framework. A tone from the top is established through activities like strong oversight by the Board, robust organizational structure, adequate policies, and the existence of an internal audit function. During the audit following weaknesses appeared in the control environment of PMDC:

a. Ineffective Oversight by the Board

Dynamic Boards play a pivotal role in setting strategies for the long-term benefits of corporations. BoD has a discerning oversight over the activities of executives and they vouchsafe interests of stakeholders in the public sector entities. They ensure the fulfilment of the vision and the mission of the company by acutely examining its policies and procedures. An evaluation of the PMDC's vision against its performance to date reveals lacunas in the efficient oversight by the Board. Detailed analysis of the performance of the Board is carried out in the critical review section.

b. Organizational Structure

PMDC, having a hierarchical organizational structure, has an HR strength of 783 personnel. Breakdown of this strength is given below:

[38] COSO Framework for evaluating internal controls (1992)

Sr. No.	Designation	Total	Technical	Non-technical
1.	Officers	122	62 (50.9%)	60 (49.1%)
2.	Officials	661	26 (3.9%)	**633 (96.1%)**

As depicted in the above table, PMDC has a significant majority of its HR strength which is non-technical. In a technology-driven sector, where HR costs are ever reducing, the presence of a large number of non-technical staff members is a liability for the organization. The staff involved in envisaging, implementing, monitoring, and upgrading internal controls was not properly selected, trained, and supervised. As a result, the management of PMDC failed to utilize its HR strength as an asset for the organization.

c. Management Policies

Existence of sound policies results in the smooth operations of any organization. These policies act as a source of information, guidance, reliability, accountability, efficiency, and clarity for the organization. However, the management of PMDC has had failed to identify the need for robust policies for the organization. Policies and manuals relating to procurement, ethics, risk, R&D, operations, credit sales, legal section, HR, etc are either not existing or are obsolete. Detailed analysis of the absence/antiquatedness of these policies is carried out in the critical review section.

d. Internal Audit

The organization has an internal audit function under the supervision of the chief internal auditor. The audit observed that the office is being utilized to develop certain policies like cash and investment policy which is purely a management affair. The office should not have the authority to write policies regarding the control environment and should just monitor the effectiveness of the policies. Further, the reports produced by the section did not follow a normative approach as they merely indicated the existence of the malaises without suggesting a remedial course.

e. Risk Assessment

After a considerable delay, the Board in its 203rd meeting finally, constituted a Risk and Finance Oversight Committee. To date, the committee has organized three meetings. An analysis of the minutes of these meetings depicts that the committee is primarily concerned with the financial performance of the

company. The committee needs to institute an integrated risk management framework that can help the company in identifying, assessing, and mitigating the plethora of risks it faces. The absence of an integrated risk management framework has resulted in erosion of stakeholder's value.

f. Inapposite Handling of Financial Risks

Key financial risks facing the company include the absence of a credit sales policy, an ambiguous operational model, issues regarding the supply chain, and impending concerns about the renewal of leases. The company needs an integrated risk management framework. In the absence of such an integrated framework, various tiers will be unable to respond to contemporary risks. The risk associated with accruals mismanagement and capital blockage, for instance, has resulted in the appearance of Rs.79.199 million as accounts receivables and Rs.18.959 million as accounts payables. Interestingly, the major chunk of these receivables is due to credit sales for which no policy exists.

g. Improper Handling of Strategic Risks

The company faces both business and systemic types of strategic risks. High HR costs, inefficient policies and procedures, outdated mining technology, and poor marketing are a few of the daunting business risks. Recruitment of HR strength, as discussed later, was carried out without adopting a fair process. In the same manner, recurring issues with raising contractors and new investment policy, detailed later, are potential strategic risks for the organization. Similarly, lack of mineral intensive industries, volatility in international mineral prices, geopolitical factors are a few of the systemic issues beleaguering the company. The business plan, which needs to be a kernel document for any mining company, has had not been developed.

h. Improper Handling of Regulatory Risks

Since the 1985 Shareef-ud-Din Pirzada award, the provincial regulators have had become more assertive. Multiple leases of PMDC, for instance, DIMD/S/ML-Coal (88)/(85)/2668 in Lakhra and (F)/MCC/Kurram/ML-SOAPSTONE(15)/2005 in Kurram, have expired due to regulatory compulsions and litigations by locals. Moreover, safety issues in mining areas like Degari can invite potential HSE enactments.

i. Control Activities

In response to the myriad of risks facing the PMDC, the management of PMDC needs to develop comprehensive policies and standard operating procedures. However, the Audit observed systemic weaknesses of control activities in the organization. Some of these are detailed below:

- The audit of the vouchers for the fiscal years 2018, 2019 and 2020 revealed the absence of requisite documents for payment of claims regarding educational expenses, reimbursement of medical claims for retired persons, and canteen subsidy. The disbursements were made without attaching requisite documents to ensure the admissibility of claims of Rs 33.692 million.
- Though PMDC had adopted PPRA to regulate its procurements, the organization did not develop detailed procedures for proposed procurements/contracts. Procedures for the classification of purchases/contracts on the basis of monetary value and the bidding method are not developed. The audit team observed that multiple procurements of technical nature, like the installation of a shed in Khewra, were carried out on a single-stage single envelope procedure.
- The organization did not develop an objective and merit-based hiring mechanism. Instead of issuing a proper advertisement for recruitment, in 35 illustrative cases the company hired its officials on a simple application. The officers of PMDC, on the other hand, were appointed without being tested by a 3rd party. Such appointments are subjective and the management can influence selections. Moreover, the management did not carry out a comprehensive analysis of the required strength and resultantly the bulk of appointments were made on the non-technical cadre.
- Trained manpower of PMDC, would have enabled it to work efficiently through its required expertise in required field. However, during last 3 fiscal years only 32 employees were trained and out of which only 4 employees were trained for the technical courses.

j. Information and Communication

In the absence of requisite control activities, as discussed above, multiple tiers of PMDC are not working on an optimal level. A survey on "Health and Safety Assessment in Lakhra Coal Mines and Its Mitigation Measures"[39] , an erstwhile field of PMDC revealed that "the maximum of health risk and subsequent health damages are triggering due to lack of awareness, non-compliance of labour as well as mines laws". The survey observed that in Lakhra, alone, 8 workers died and 121 workers were injured in mine-related accidents during the last five years. The HSE department, which finally evolved its leading and lagging indicators in 2020, could not inform the grass root workers and resultantly culture of knowledge is confined to a few tiers. In 2020-21 the number of fatalities was 24 which speaks to the implications of a weak information system.

In a technologically intensified industry, the importance of timely and reliable communications cannot be overlooked. PMDC, however, has failed to translate its competitive advantage in the mining sector due to the absence of an integrated information and communication mechanism. The responsible tiers work in isolation and at whims. In the HR and the finance section of the headquarter, for instance, there is a lack of integration between different files and requisite documents. Resultantly, important decisions are taken by the responsible authorities in a data fog. Similarly, important information, like fact-finding inquiries, is not being communicated to the concerned departments- when the GM (Coal) was inquired about the fact-finding report related to Degari, he acknowledged that no such report was shared with his section. Resultantly, such reports cannot produce the desired results. Since there are no requisite SOPs for sharing important information, in a tier can hide the relevant information from others. Moreover, weaknesses in the controls structures affecting information and communication have resulted in erroneous asset profiling. In various projects, like Warcha, Lakhra, Khewra, etc., the management does not use an independent information gathering mechanism to assess the level of reserves and inventory. Resultantly, fraudulent transactions were observed.

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[39] Health and Safety Assessment in Lakhra Coal Mines and its Mitigation measures, US-Pakistan Centre for advance studies in water, MUET, Jamshoro, Sindh, Pakistan.

k. Monitoring

As discussed above, the internal control framework in any organization is built upon a set of graduated and interrelated elements. Weaknesses in the control environment, risk assessment, control activities, and information channels lead to a poor monitoring mechanism. In cases where the controls were present, the audit observed a lack of periodic and ongoing assessment. Some of the instances of weak monitoring mechanisms are given below:

- PMDC is yet to implement automated site monitoring through remote sensing. Implementation of the remote monitoring mechanism will significantly improve the quality and quantity of data. Right now the bulk of monitoring is being carried out through contingent paid staff, which are susceptible to duress from the management. Resultantly, the Warcha project, a classic manifest of weak monitoring, sustained a loss of more than 50 million rupees due to the difference between sales data and the MD-8 records. In the SOR range, as another example, the timber at the Sor-Range of Rs 5.466 million was not of the required quality. Had the whistle not blown, in the mines, and revenue of the PMDC could both be at stake.
- The absence of spot checks on inventory management resulted in multiple deviances. Mixing industrial grade salt with dealer grade salt has resulted in a loss of revenue at depots located in multiple salt fields. Moreover, cases of salt pilferage from the inventory have resulted in a loss of millions of rupees in Warcha, Makrach, Khewra, etc.
- PMDC has still not developed its grading policies and procedures for salt and coal outputs of its fields. Resultantly, in the absence of automated site monitoring, multiple types can be mixed and high-value output can be replaced with a low-value output. Similarly, issues with bypassing of weighage scales can be corrected by using automated cameras.
- In the case of accounting software provided by Sadat Haider, proper monitoring of entries is not possible as procedures for making entries are not defined. IT user roles are not segregated. The bulk of journal voucher entries are being passed every month which could be a significant financial risk as it happened in Lakhra, where the accountant Mr. Niaz

Akhter posted fake JVs and pilferage Rs 56 million. Had multiple tiers been involved with restrictions on user roles, this fraud would not have taken place.

4.2.8.2.2 Critical Review

(A) Role and Performance of Organization

(i) Review of Governance at PMDC

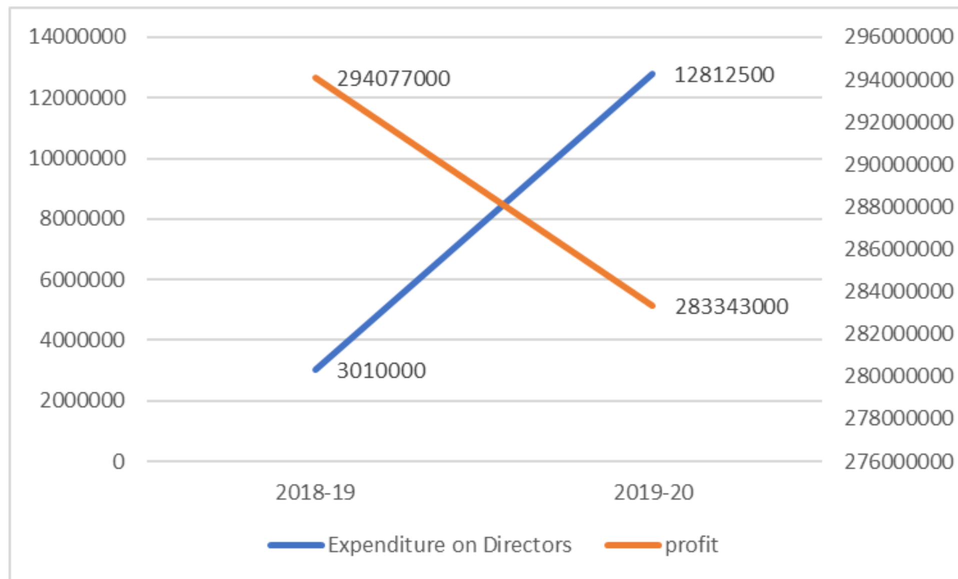
Good governance results in the flourishing of an organization. It enables an organization to create long-term value. In 2020-21, the PMDC Board comprises nine members, six independent and three executive members. The independent directors are nominated by the ministry. The Board has five committees on Risk& Finance, Business Development, HR, Technical & Procurement, and Audit. While analysing the performance of the Board, Audit observed the following things:

- Rule 3(1) of the Corporate Governance Rules 2013 states that (1) The Board shall consist of executive and non-executive directors, including independent directors and those representing minority interests with the requisite range of skills, competence, knowledge, experience, and approach so that the Board as a group includes core competencies and diversity considered relevant in the context of the Public Sector Company's operations. Boards of a mining company operating in the contemporary world need competencies in strategy (portfolio planning, capping investment opportunities, long-term scenario planning, etc), risk management, acumen about the global outlook, financial management, and knowledge about the latest technological trends. The Board lacks the skill matrix required for running a company in the technology concentrated field. Whereas the executive directors appointed by the Government are civil servants and don't possess industry expertise, the skill set of the independent directors, along with the remuneration received by them is as follows:

(Rs in million)

Sr. No.	Name of Director	Qualification	No. of Years in PMDC	Important Positions Held	Remuneration Received as Director in 2019-20 & 2020-21
1	Mr. Muhammad Iqbal Malik (Late), Director	i. MA (International Relation)	Dated of Appointment (06.05.2020)	Brigadeer Retired	1.296
2	Mr. Farhan Shafi, Director /MD, PMDC **	i. Bachelor of Mechanical Engineering	Dated of Appointment (30.4.2020	No experience was shared	No record was provided
3	Mr. Ijaz Ali Khan, Director	i. M A	Dated of Appointment (5.4.2019)	CEO (Premium Oil and Gas Company)	4.546
4	Mr. Irshad Ali Khokhar, Director	i. MSc. Mining Engineering	Dated of Appointment (5.4.2019)	Retired DG Minerals	3.437
5	Ms. Huma Ejaz Zaman, Director	i. LLM	Dated of Appointment (5.4.2019)	Lawyer	4.515
6	Mr. Muhammad Daud, Director	i. LLB (Hons.)	Dated of Appointment (5.4.2019)	Now A Practicing Lawyer with Mining Experience	4.125

- As per Rule 19(2) of the Corporate Governance Rules 2013, "Directors' remuneration packages shall encourage value creation within the company, and shall align their interests with those of the company". An analysis of the skillset of the directors for the last 3 years reveals that despite no significant change in the skillset of the directors, the expenditure on the Board increased manifolds. Moreover, the audit observed no significant improvement in the performance of the company. The following graphs plot the directors' meeting fees vis-a-vis financial performance of the company whereas the profits of the company declined by 3.5% from 2018 to 2019 the remuneration increased by the Board increased by 325%.



- As per Rule 19(1) of the Corporate Governance Rules 2013, "there shall be a formal and transparent procedure for fixing the remuneration packages of individual directors. No director shall be involved in deciding his remuneration". Contrary to the instruction in the rules, the Board of Director, in its 200th meeting, enhanced their meeting fee from Rs 54,000 net to Rs 62,500 (Rupees sixty-two thousand and five hundred only) net of taxes Similarly in its 198th meeting the Board raised its Chairman fees to Rs 100,000 even though the cooperation fee of Rs 25,000 was set by the Petroleum Division.

- As per Rule 5(2) of the Corporate Governance Rules 2013, the Board shall evaluate the candidates based on the fit and proper criteria and the guidelines specified by the Commission for appointment to the position of the chief executive, and recommend at least three individuals to the Government for appointment as chief executive of the Public Sector Company. During the audit, it was observed that from 2.2.2015 to date six MDs changed. Moreover, the Board, in its 83rd meeting, scrapped the entire exercise of selecting a CEO on the plea that the three candidates' quorum was not complete. The Board could have easily nominated a candidate in waiting to prevent the delay in the appointment of a regular MD.

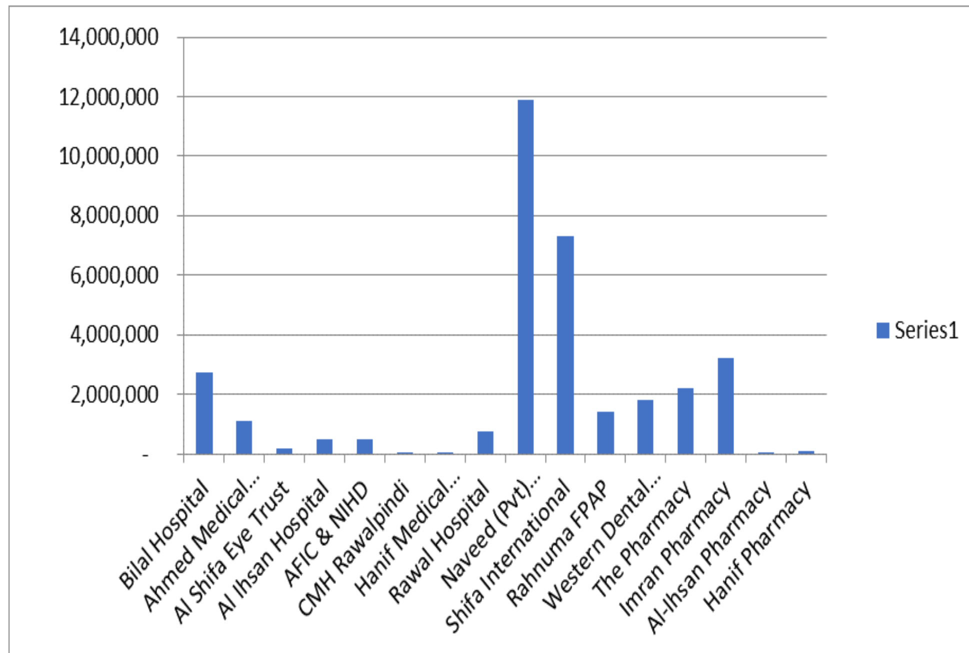
- As per Rule 11(3) of the Corporate Governance Rules 2013, “to acquaint the Board members with the wider scope of responsibilities concerning the use of public resources, to act in good faith and the best interests of the Public Sector Company, at least one orientation course shall be arranged annually on specified courses”. While no orientation course was held in 2018 and 2019.
- As per Rule 11(3) of the Corporate Governance Rules 2013, “if a situation arises where an actual or potential conflict of interest exists, there shall be appropriate identification, disclosure, and management of such conflict of interest”. Mr. Irshad Ali Khokar the director of the PMDC Board, is also serving as the CEO of the Earth resources developers. As his CV evinces, the company is carrying out site selection studies for rock salt, coal-based power, and bid evaluation of the mineral projects. All these activities are carried out by the PMDC. However, Mr. Irshad Ali Khokhar never identified and disclosed this conflicting interest while serving on the Board of PMDC.
- As against Rule 7 of the Corporate Governance Rules 2013, the audit observed that the Board did not formulate multiple policies like risk management policy, credit / discount policy, communication policy, grading mechanism policy, product portfolio policy, CSR policy, performance measurement policy, etc. Moreover, extremely important policies were never approved by the Board. The new investor policy and the raising contractor, for instance, were never approved by the Board.

(ii) Review of Management at PMDC

Complex and technologically dependent sectors, like mining, require managers who have excellent and up-to-date knowledge about potential challenges affecting their roles. The managers indicate and recommend robust policies to the Board which acts accordingly. After approval from the Board, these managers take ownership and implement these policies in the day-to-day operations of their organizations. As indicated in the previous head, the absence of relevant policies and procedures depict a lack of good management mechanism in the PMDC. The glaring management related issues identified by the audit are:

- Certain policies were poorly conceived and without any sound financial outlay. The medical reimbursement policy for retired officers, for instance, was started without actuarial planning and financial outlay forecasting. The Board, in its 119th meeting, approved the provision of Rs 2,500, which now stands at Rs 8,000 per employee per month, to the ex-officers as medical reimbursement. Resultantly, to date, PMDC has borne an expenditure of Rs 186.264 million for the liability. These payments were made in excess of financial liability acknowledged by the company when these officers were hired. Similarly, policies and procedures with regards to the appointment and promotions of officers, officials, and contingent staff require transparency.
- The performance of PMDC has mostly been restricted to the minerals and leases that were transferred to it from the erstwhile WPDIC. The product portfolio planning, as discussed later, allocation of capital and resources, identification of new business opportunities, and management of emerging risks were/are not being adequately handled.
- PMDC has not adequately safeguarded its property. The absence of a dedicated and experienced estate management department has resulted in encroachments on its land. PMDC's properties, bequeathed to it from WPIDC, in multiple areas of Sheikhupura, Khewra, Quetta, etc., have issues with regards to documentation and demarcation.
- With estimated reserves of more than 22.22 billion tons, PMDC has the world's largest pink rock salt mines. Further, the organization pioneered coal mining in the country. Owing to the nondevelopment of a comprehensive business and marketing plan, the organization, lost its competitive advantage in the salt and coal business. In the Multan sales office, for instance, delays of three to six months were observed in fulfilling dealers' orders for salt.
- Mechanization of mining operations through the use of technology is a neglected area. In absence of automated digital technologies, PMDC can not monitor exploration, site operations, and marketing operations promptly. To prevent lapses, the management needs to keenly monitor the volumes and quality of output and inventory. Automated site monitoring, using cameras and other paraphernalia, is still not available.

- Issues like the adoption of dual pay scale systems, where a large chunk of the employees are being paid as per the Government pay scales while a few enjoy market-based salaries, are creating angst among the rank and file. After hiring the CFAO, the CIA, and the company secretary, the Board, in its 196th meeting, decided to hire 12 personnel from the market at a hefty yearly expense of Rs 49.200 million. Having a dual pay scale structure without assessment of corresponding financial outlay can be baneful for the company. Similarly, the procedures regarding dual charge, acting charge, and promotions are against the instruction of the Establishment division
- Procedures regarding payments, as discussed in the internal control heading, need to be developed. Similarly, the practice of granting advances to multiple scribes like Akmal needs to be regulated through SOPs. Furthermore, the applicable Government taxes on spot purchases must be submitted in the Government kitty.
- For industrial consumers, the management needs to specify a time for lifting of sale proceeds from the depots. These sale proceeds need to be lifted on specified vehicles and maybe remotely monitored through tracking systems.
- The management needs to follow an austerity plan for the non-development expenditure. An analysis of medical expenses, for instance, paid to the employees in head office for the last three years indicates a hefty amount of Rs 33.697 million. Further, the expenditure was disproportionate as indicated in the following graph:



(iii) Review of Strategy and Risk management

The strategy provides a way to achieve the vision for a going concern. In order to sustain and prosper, PMDC needs to develop a strategy that can enhance its long-term value. However, the governance structures and the management have not developed an evidence base, coherent strategy. An orderly approach towards multifarious activities like risk management, demand & supply chain management, capital allocation, product portfolio planning, operational management, etc. remains a missing link. The company has failed to explore its lease areas to the fullest potential and remains confounded in its operations. Its business model vacillates between independent operations and the provision of incentives to other parties in the form of raising contractors and new investment programs. Resultantly, it could not utilize its assets in the maximum possible manner. From a sole proprietor of the rock, the company has been relegated to a mere 40% of the market share. Similarly, it now controls only 5% of the share of the domestic coal market.

To ensure its survival as a going concern, PMDC needs to demarcate its strategic objectives and then identify and manage risks hindering the achievement of those strategic objectives. As the custodian of Pakistan's natural resources, it needs to ensure enduring value creation for its multiple

stakeholders. It should focus on the automation of antiquated mining methods and reduction in its cost of sales. PMDC needs to broaden its product portfolio by investing in high-grade minerals. Inventory control mechanisms need to be robust with the introduction of the latest technology. The absence of a coherent risk management framework to cater to the multitude of risks facing the organization declines its resilience against potential negative events. PMDC is still in the process of creating an integrated risk framework to ensure the minimization of risks in governance, management, and control structures. The Board's Risk and Finance committee need to have a thorough exercise to contemplate the various risks facing the operations of the organization.

(iv) Review of Raising Contractors and New Investment Policy

Till 1998, PMDC used to operate its mines through registered miners. However, later it changed its mode of operations and started to operate by raising contractors for coal mines and new investors in the salt mines. Resultantly, 148 salt mines were allotted to the new investors to enhance their production and profitability. In the case of coal, there are 139 raising contractors, with entire production from when we juxtapose these operational models of PMDC with its vision- to affect actual development, exploration, mining, extraction, separation, smelting, processing, refining, all kinds of metallurgical operations, utilization, transportation, and marketing of minerals, metals, and precious stones-we face a stark truth. The truth is that instead of venturing into processes like smelting and refining PMDC has acquiescently lost its forte in exploration, mining, extraction to the private contractors. Apart from the main mines, the role of PMDC has been reduced to mere rent seeker in its fields.

Audit observed multiple issues with the transition to the new investor/raising contractor scheme. The transition not only changed the business model of the organization but also resulted in the intrusion of private parties in the mines operated by the PMDC. The new scheme was never approved by the Board of Directors and PMDC has no control over the mining operations running under this policy. Moreover, the intrusion of outsiders in the mines of PMDC resulted in multiple frauds in the form of erroneous incentives granted to the investors in salt, weightage scams, and large amounts of receivables from the raising contractors.

(v) Review of the Role of NMP, 2013 and Legal Framework Impacting PMDC

With high ambitious aims of attracting more private investment; mobilizing international investment; ensuring smooth operational and effective coordination between Federal and Provincial institutions; ensuring environmental sustainability, and encouraging small-scale mining the policy of 1995 gave way to the National Mineral Policy of 2013. However, Audit observed that DG (Mineral) failed to evoke a strong liaison among stake holders-despite the passage of a considerable time. Even non-occurrence of a single meeting of the Mineral Investment Board was a big question mark on the efficacy of NMP. Similarly, the GEO Data Centre of Pakistan, as envisaged in the NMP 2013, is still not established.

Minerals, as discussed above, fall under the provincial domain. PMDC, therefore, needs to adhere to the guidelines of the respective Governments. Audit observed that the following issues can cause potential regulatory enactments for the PMDC:

- New Investor Policy is legally not in line with the provisions of the Provincial Mining Concession Rules. The policy encourages subletting and the licensing Authority may cancel the lease on account of this violation.
- The procedure adopted while granting rights under the new investor policy is ambiguous. Contrary to the instructions of PPRA, which requires open bidding and prequalification of contractors for technical projects, the grant is made on the basis of a simple application. Additionally, this grant falls under the discretionary powers of the project management and the CEO. No newspaper advertisement is given before the intended grant and it results in devoiding the interested parties of their right to contest for the grant. A much better return in the form of net margin is possible as happened with the leasing of PMDC shops in Khewra. An overwhelming interest was observed in the leases of shops, which could not be rented for many years, after advertisement in newspapers.
- There is no third party to evaluate the accuracy of incentives provided under the grant. Moreover, the absence of segregation between the authorities awarding the contracts, incentives and monitoring the mines. This has undermined the objectivity of grants. Similarly, value for money can not be

ascertained from these contracts.

- In case of grant of coal leases, the provincial Government allowed PMDC to operate in the deep zones alone i.e. zones that lie below 1000 feet. The zones that were above the area allocated to the PMDC were operated by influential contractors. Owing to their influence, these raising contractors have had not allowed PMDC to operate freely .
- Determination of coal price by a single regulator is not there. Different bodies determine the price of coal independently - NEPRA does it for IPPs and Thar Coal Energy Board does it for the coal it produces. A comprehensive policy for determining coal prices was the missing subject that was causing rate uncertainty for the PMDC.

(vi) Review of Corporate Social Responsibility

PMDC did not develop a comprehensive CSR policy. A coherent approach in solving social and environmental concerns can help the company to build its relationships. The absence of this social license has resulted in a halt of soapstone production in the Daradar area. Similarly, the cancellation of PMDC's leases in Balochistan, in 2009, depicts its lack of liaison with the stakeholders. The long-term success of the company depends on its ability to earn and maintain the trust of locals. Without a coherent CSR approach, PMDC will face issues in the renewal / expansion of its leases. Resultantly, its access to capital, resources, and markets will be hampered. The PMDC Board need to develop a comprehensive CSR policy that needs to be aligned with its strategy.

4.2.8.2.3 Significant Audit Observations

Efficient HR Structure

(i) According to Establishment Division's D.O.No.6 (28)2011-DG-II, dated March 08, 2011, the Secretary and the Head of the Department / Organization will take measures to authenticate the degree/certificate of employees of all Federal organizations/autonomous bodies and corporations. The degrees will be authenticated to ensure the genuineness of the degree/other documents required for induction into the respective posts.

The management of PMDC did not get the degrees/certificates of their employees verified from the concerned Boards / Universities / HEC in violation of above referred instruction.[40]

(ii) According to the PMDC's Establishment Office Notification No: PMDC/EST-22/5196, dated November 01, 2016, special pay on current charge / additional charge of identical post shall be 20 % of basic pay subject to a maximum of Rs 12,000 per month and special pay on current charge / additional charge of non-identical post shall be 10 % of basic pay subject to a maximum of Rs 12,000 per month. Further, according to Sl. No. 123 of the establishment code additional charge appointments should be made as a temporary measure and should not ordinarily be made for more than 6 months. Further, as per Sl. no 125, immediately on the expiry of six months of the full additional charge of the particular vacant post, the post shall be treated as having been abolished and its duties automatically becoming part of the normal duties of the other existing posts.

The management of PMDC allowed the additional charge to officers for periods greater than three months without requisite approval and in disregard to PMDC's Establishment Office Notification No. PMDC/EST-22/516, dated November 01, 2016. Grant of irregular additional charge resulted in inadmissible payments amounting to Rs 2.955 million.[41]

(iii) According to Rule 19(2) of the Corporate Governance Rules, 2013 Directors remuneration packages shall encourage value creation within the company, and shall align their interests with those of the company". Further, as per Rule 19 (1) of the Corporate Governance Rules 2013, there shall be a formal and transparent procedure for fixing the remuneration packages of individual directors. No director shall be involved in deciding his remuneration.

The profits of the company declined by 3.5% from 2018 to 2019, the remuneration of the Board increased by 325%. Contrary to the instruction in the rules, the Board of directors, in its 200th meeting, enhanced their meeting fee from Rs 54000 net to Rs 62,500 (Rupees sixty-two thousand and five hundred only) net of taxes. Similarly, in its 198th meeting the Board raised its chairman fees to Rs 100,000, even though the cooperation fee of Rs 25,000 was set by the

[40] Para 2.8.2.4.16 of AR 2021-22
[41] Para 2.8.2.4.15 of AR 2021-22

Petroleum Division. All of this resulted in cumulative Board remuneration from Rs 3.010 million (FY 2018-19) to Rs 12.813 million (FY 2019-20).[42]

(iv) According to Rule 5(2) of the Corporate Governance Rules 2013, the Board shall evaluate the candidates based on the fit and proper criteria and the guidelines specified by the Commission for appointment to the position of the chief executive, and recommend at least three individuals to the Government for appointment as chief executive of the Public Sector Company.

The Ministry had changed six MDs since February 02, 2015. Moreover, the Board, in its 83rd meeting, scrapped the entire exercise of selecting a CEO on the plea that three candidates' quorum was not complete. The Board could have easily nominated a candidate in waiting to prevent the delay in the appointment of a regular MD.[43]

(v) As per Finance Division letter dated April 30, 1980 the posts of Chairman and Directors of PMDC fall within the Management Grades M-II & M-III respectively. Finance Division (Regulation Wing) revised the rental ceiling of Management Scale officers w.e.f. January 01, 2008 vide letter dated July 24, 2008.

PMDC management paid house rent ceiling in excess of the prescribed rates prevailing from time to time to its Managing Director, having equivalency of Management Scale M-III. Which resulted in over payment of house rent ceiling amounting to Rs 1.331 million.[44]

Operational Excellence

(vi) According to office orders bearing no C.NO.SWM/ M.NO.47/ Jansuukh / 3610 and C.NO.SWM/M. NO.49/Jansuukh /4205, mines 47 and 49 were allotted to Mr. Rahat Iqbal and Mr. Shahid Iqbal respectively. These mines were allotted under the new investor policy for the excavation of salt for five years.

PMDC management allotted two new mine Nos. 47 & 49 to two contractors for its development. The contractor of mine No. 47 rehabilitated the old mine No. 34 and showed the same as new one to get the benefit of incentive-based excavation rate of new mine. Second contractor of mine No. 49 illegally

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[42] Para 37 of AIR F-09-2021
[43] Para 38 of AIR F-09-2021
[44] Para 18.7.4.5 of AR-2011-12

included the area of old mine no. 8 in mine No. 49 and similarly get the benefit of the incentive-based rate of new mine. Owing to these manipulations, PMDC suffered a loss of Rs 16.917 million.[45]

(vii) In terms of Rule 4 of Public Procurement Rules, 2004 the 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.

PMDC floated tender in March, 2011 for transportation of rock salt from Khewra Mine to Salt Depot Khewra and M/s ICI Dissolving Basin. Three contractors participated in the tender whose bids were opened on March 28, 2011. M/s Shafqat Hussain quoted the lowest rate of Rs 108 per M. ton which was recommended for approval by the committee constituted for the purpose. The Project Manager Salt Mines Khewra also recommended the case to PMDC for approval on April 07, 2011 and again through fax dated May 02, 2011. Meantime, the existing contractor M/s Ashan Ali submitted an application on March 28, 2011 and showed his willingness for transportation of rock salt @ Rs 106 per M. ton on May 03, 2011. The management declared the tender as scrapped and awarded contract for transportation of 360,000 M. ton to the existing contractor @ Rs 106 per ton for a period of one year from May 02, 2011 to June 30, 2012.[46]

(viii) As per Clause 24 of the contract dated March 29, 2005 executed with coal raising contractor, the contractual period was extendable for further three years with the consent of both the parties and successful negotiations on excavation rate.

PMDC awarded a contract to M/s S.A. Latif contractor for raising of coal from Sor Range Collieries for a period of three years from November 01, 2001 to October 31, 2004 on profit sharing basis which was extended time and again up to October 31, 2010. The contractor requested on October 01, 2010 to change type of contract from profit sharing to fixed rate of return, or allow him an increase of Rs 1,600 per ton. Instead of floating tenders through press and getting approval of the BoD for change in policy, the management awarded contract

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[45] Para 2.8.2.4.10 of AR 2021-22
[46] Para 18.7.4.2 of AR 2011-12

dated October 31, 2010 to the party restricting PMDC to a fixed return of Rs 720 per ton (excluding GST and Royalty) and at the same time allowing the contractor free reign to benefit him from the high market rates of coal. Even the issue of change in policy was not framed as agenda item for BOD's meeting held in November 2010, January and March 2011. Thus, PMDC suffered a loss of Rs 8.594 million during November 01, 2010 to October, 2011.[47]

(ix) As per Clause 8 of agreement of supply order, 100% payment will be made on submission / production of Inspection Certificate issued by the consignees' representative, Guarantee Certificate and Receiving Report.

During audit of PMDC for the FY 2017-18, it was observed that the management issued supply order to M/s Mak & Mak, Islamabad on July 13, 2015 for purchase of Diesel Generator for PMDC Collieries, Sor-Range Quetta. The management, however, made 75% advance payment in violation of agreement which resulted in irregular payment of Rs 16.875 million.[48]

(x) According to Rule 5 of Punjab Sales Tax on Services (withholding) Rules 2015, a withholding agent shall withhold the whole amount of Sales Tax shown in the tax invoice. Further, according to Rule 14 of Punjab Sales Tax on Services (withholding) Rules 2015, a withholding agent shall be considered defaulter and personally liable to pay the amount of tax to the Government.

During the audit of PMDC for the FY 2017-18, it was observed that the management at Khewra paid an amount of Rs 146.508 million on account of excavation services hired from the contractor without withholding the amount of provincial Sales Tax @ 16%. This resulted in loss of revenue to the Government amounting to Rs 20.207 million.[49]

IT & ERP

(xi) According to Para 3 (vi) & (vii) of section X of the accounting manual for Projects & Companies of West Pakistan Industrial Development Corporation (adopted), read with Para 3 of section VIII, discrepancies in inventory due to pilferage or theft should be fully explained and the responsibility for shortages be fixed.

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[47] Para 18.7.4.4 of AR 2011-12
[48] Para 2.7.6.12 of AR 2019-20
[49] Para 2.7.6.14 of AR 2019-20

During the audit of PMDC, it was observed that on January 20, 2017, the management of PMDC appointed Mr. Faisal Ahmad Shah as Project Manager, Salt Mines, Warcha. Later on, he was transferred on September 30, 2018 as Project Manager of Salt Mines, Kalabagh. In compliance with the decision of the management, Mr. Faisal Ahmad Shah secured the clearance certificate bearing No SMW/2-ET/2017/1315, dated October 01, 2018, and handed over the charge to his successor. Later, during stock-taking of salt on October 29, 2018, a shortage of 5212 tons was pointed out. The fact-finding committee in its report also endorsed the shortage of stock. This resulted in a loss of Rs 5.587 million (Salt 5212 tons X @ Rs 1,072 per M. Ton as average sale proceeds of Koryan Salt).[50]

(xii) According to Chapter III, Section II of para 1 (ii & iv), of accounting procedure of accounting manual for Projects & Companies of West Pakistan Industrial Development (adopted), the corporation accountant in charge should entrust the writing of the main cash book to an assistant other than the cashier. He should ensure that no member of accounts staff other than the cashier is allowed to receive cash on behalf of the project and all receipts are deposited in the Bank.

During the audit of PMDC, it was observed that Mr. Niaz Akhtar, Assistant Manager (Accounts) at Lakhra Coal Mining Project, entered various fake journal vouchers. The entries were made to fraudulently reconcile the computerized cash book with the bank statement. As a tool to reconcile the cash book with the bank balance, he edited the journal voucher No. 99 for 19 times. However, the required cash was never deposited in the bank. Resultantly, the short depositing of cash into two bank accounts resulted in embezzlement of Rs 58.068 million.[51]

Excel in Sale & Marketing

(xiii) According to Clause 5.1 of the agreement between PMDC and MRDL, the final profit accruing from the project shall be appropriated between MRDL and PMDC in the ratio of 80:20 Further, according to Para 15.3 of the agreement ibid, an independent firm of chartered accountants will be selected for auditing the project in consultation with PMDC. Moreover, MRDL shall sell products in

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[50] Para 2.8.2.4.5 of AR 2021-22
[51] Para 2.8.2.4.2 of AR 2021-22

accordance with generally accepted international business practices at the best available prices and on terms compatible with prevailing world market conditions.

During the audit of PMDC, it was observed that for the calendar year 2020, the MRDL got their annual accounts audited from a chartered firm, which was selected without consultation with PMDC. The audited accounts were issued on February 08, 2021. In the final audited accounts, MRDL showed a complete discharge of its full long-term liability and interest due thereon. The audited accounts depict Rs 495.278 million (US$ 3,084,880) as the profit-sharing amount payable to PMDC. However, the management of the PMDC did not make any effort to recover its share in the profit of the project.[52]

(xiv) During the audit of PMDC, it was observed that the management of the Warcha Project did not ensure the reconciliation of MD-8 dispatch slips with the sales register. The audit observed that there were differences in quality and quantity between the MD8 slips and the sales register. This was done to provide undue benefit to the dealers or companies. The fraudulent practice resulted in a loss of revenue amounting to Rs 55.582 million.[53]

Others

(xv) According to Rule 3(1) of the Corporate Governance Rules 2013 (1) "the Board shall consist of executive and non-executive directors, including independent directors and those representing minority interests with the requisite range of skills, competence, knowledge, experience, and approach so that the Board as a group includes core competencies and diversity considered relevant in the context of the Public Sector Company's operations".

During the audit of PMDC, it was observed that the Boards of PMDC comprised members with an inadequate skillset in strategy formulation and execution, portfolio planning, capping investment opportunities, long-term scenario planning, financial management, risk management, and recent industry expertise whereas the executive directors, appointed by the Government, are civil servants and generally don't possess industry expertise, the skill set of the independent directors like knowledge, experience, and approach that can enable

[52] Para 2.8.2.4.1 of AR 2021-22
[53] Para 2.8.2.4.3 of AR 2021-22

the Board to collectively oversee a mining company lags the industry requirements.[54]

(xvi) According to Rule 11(3) of the Corporate Governance Rules 2013, "in order to acquaint the Board members with the wider scope of responsibilities concerning the use of public resources, to act in good faith and the best interests of the Public Sector Company, at least one orientation course shall be arranged annually on specified courses".

During the audit of PMDC, it was observed that the Board Members did not attend orientation courses held during the year financial years 2018 and 2019. Moreover, only one director submitted the certificate of successful completion of the course in 2021 To acquaint the Board Members with the wider scope of responsibilities concerning the use of public resources, to act in good faith and the best interests of the Public Sector Company such trainings should be a regular feature.[55]

(xvii) According to Rule 5b(iv) a "register of interests" is maintained to record all relevant personal, financial, and business interests, of directors and executives who have any decision-making role in the company, and the same shall be made publicly available. Such interests may include, for instance, any significant political activity, including office holding, elected positions, public appearances, and candidature for election, undertaken in the last five years. Further, Rule 6 and rule 7 require the development of corporate strategy and policies on communication, marketing, credit sales, bad debts, CSR, etc.

During the audit of PMDC, it was observed that no register of interests was maintained to record all relevant personal, financial, and business interests of directors and executives and publicly available. Moreover, the Board did not formulate corporate strategy and policies on communication, marketing, credit sales, bad debts, CSR, etc. In the absence of these policies survival of PMDC as a going concern is in the doldrums.[56]

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[54] Para 41 of AIR F-09-2021
[55] Para 39 of AIR F-09-2021
[56] Para 40 of AIR F-09-2021

4.2.9 Departmental Responses

(i) Management in its reply dated November 24, 2021 stated that verification of the degree/certificate of Officers working in BPS-17 to BPS-20 has been started. Degrees/certificates of 78 officers were verified, out of which 37 officers are still in PMDC service. However, verification process of degrees / certificates of remaining officers and officials will be completed on priority basis.

(ii) Management in its reply dated January 13, 2021 stated that PMDC Board was competent authority to take decisions without the requirement of taking approval from the Government. Further, PMDC Board approved the annual increment of 10% to Chief Internal Auditor on the recommendation of Audit Committee. The reply is not tenable as Government rules are applicable where PMDC HR Rules are silent and Chief Internal Auditor was appointed on lumpsum payment as per contract. Therefore, salary of the contractual employee could not be increased during the tenure of the contract.

(iii) No reply was received till finalization of this report.

(iv) No reply was received till finalization of this report.

(v) Management in its reply dated January 03, 2012 stated that due to difficulty in hiring of house within admissible rental ceiling the Board increased the rent ceiling as a stop gap arrangement.

(vi) Management in its reply dated November 24, 2021 stated that recovery letters were issued to the persons involved (contractors). As per provisions of the contract, on applications by the contractors, the case was referred to the PMDC Board of Directors for Arbitration. Moreover, the case had also been taken up by FIA Crime Circle, Sargodha which was under investigation.

(vii) Management in its reply dated January 03, 2012 stated that award of contract to M/s Ashan Ali was in the best interest of the PMDC.

(viii) Management in its reply dated January 03, 2012 stated that excavation charges were increased due to increase in price of diesel, rail-line, timber, steel rope and labour charges.

(ix) Management in its reply dated January 2, 2020 stated that the matter was sub-judice in the court. Moreover, a departmental inquiry in this regard was being carried out and its report would be submitted to Audit within one month.

(x) Management in its reply dated January 2, 2020 stated that it had now complied with the applicable provisions of Provincial Sales Tax, since July, 2019. The reply is not tenable as the amount pointed out by audit was not recovered from the contractor.

(xi) Management in its reply dated November 24, 2021 stated that a detailed inquiry was conducted by the company and recovery from the concerned officers / staff was in progress. Recovery amounting to Rs 0.550 million had been made till date.

(xii) Management in its reply dated November 24, 2021 stated that PMDC had now set up an internal control system as per legal requirement under the Public Sector Companies (Corporate Governance) Rules, 2013. After due inquiry, PMDC fixed responsibility for the embezzlement in question and suspended the main accused Mr. Niaz Akhter due to involvement of huge amount, the case was referred to National Accountability Bureau (NAB), which later on referred the matter to Federal Investigation Agency (FIA) Crime Circle, Hyderabad and now the case is under trial at Anti-Corruption Court, Hyderabad.

(xiii) Management in its reply dated November 24, 2021 stated that the profit had been recorded in the financial statement of PMDC for the FY 2020-21. The matter regarding payment of profit share had been taken up with MRDL's management and remittance procedure was being settled. The amount would be received in near future. The matter of appointment of statutory auditors of MRDL in consultation with PMDC was also being pursued as per agreement.

(xiv) Management in its reply dated November 24, 2021 stated that under the direction of PMDC Board of Directors and its Audit Committee, the Chief Internal Auditor carried out verification of MD-8 dispatch slips and sales record for the last five years (July 01, 2015 to June 30, 2020) at Warcha Salt Mines. As per recommendations of Chief Internal Auditor, further action for fixing responsibility was under process.

(xv) No reply was received till finalization of this report.

(xvi) No reply was received till finalization of this report.

(xvii) No reply was received till finalization of this report.

4.2.10 Recommendations

The revamping of the mineral sector in Pakistan (PMDC) depends on a series of interrelated steps to be carried out by the following stakeholders:

i. Ministry of Energy

- The ministry should proactively engage the provincial Governments for achieving objectives enshrined in the NMP, 2013.
- Similarly, the GEO Data Centre of Pakistan, as envisaged in the NMP 2013, is required to establish.
- The ministry may alter the present composition of the Board, andappoint right person for the right job. Accordingly, the ministry, being the sole shareholder, needs to objectively review the remuneration package being given to the Board of directors in light of deviances observed by the Audit and relating the same to the key performance indicators,
- The DG mineral needs to be manned appropriately to play proactive role for the integration of efforts in mineral development, and

ii. The Board of PMDC

- The appointment of full-time CEO/MD should be the top priority for the Board.
- PMDC needs a Board that can fulfill its role in the formulation of multiple policies like risk management policy, credit/discount policy, communication policy, grading mechanism policy, product portfolio policy, CSR policy, performance measurement policy, etc. The development of comprehensive policies will help the company in successfully navigating contemporary systemic and business threats.
- The internal control system may be integrated to cover various aspects identified by Audit concerning the control environment, risk assessment, control activities, communication, and monitoring.
- Board needs to articulate a prescient business and marketing plan that can ensure the growth of the corporation in both the short and long term. Moreover, financial and operational ramifications for all policy initiatives

like the adoption of dual-pay structures, medical reimbursement policy for retired officers, etc. need to be discussed beforehand.

- The implementation of an effective communication policy with all the stakeholders, including employees, should be given due importance. All fact-finding reports may be communicated to the relevant sections for appropriate information.
- The Board needs to hire a third party to assess the relevance and objectivity of HR recruitments made in the organization during the last two decades. Moreover, the committee may look for anomalies in the promotions of employees, and once the report is analyzed corrective action may be taken as per rules.
- The Board needs to review the raising contractors/ new investors policy adopted by PMDC. Through these policies, the PMDC has acquiescently lost its forte in exploration, mining, extraction to the private contractors. Apart from the main mines, the role of PMDC has been reduced to mere rent seeker in its fields.
- To enhance its product portfolio, the Board of PMDC needs to have joint ventures with both local and international mining firms. These joint ventures will, naturally, enable PMDC to meet capital constraints and regulatory compulsions arising due to the non-exploration of leased areas.

iii. Management of PMDC

- The development of robust policy and procedures is a sin qua non of good management. However, the management has failed to develop adequate policies and procedures to ensure its sustainability. Policies and procedures relating to procurement, ethics, grading of outputs, risk, R&D, operations, procurements, credit sales, legal section, HR, etc are either not existing or are obsolete. The management needs to develop the relevant policies and procedures and present them to the Board for approval.
- The management of PMDC needs to revamp its HR induction mechanism to ensure objectivity. Merit-based performance measurement systems need to be developed and a policy of giving dual charges and acting charges should be discouraged.

- The management needs to introduce digital technology for improving productivity in its mines. Antiquated mining systems, where possible, need to be replaced with automated haulage, rail, trucks, and drilling. Predictive analytics may be used to reduce maintenance costs. Value chains need to be automated to reduce wastage and ensure safety.
- To prevent lapses, the management needs to keenly monitor the volumes and quality of output and inventory. Automated site monitoring, using cameras and other paraphernalia, is required.
- SOPs for ensuring the safety, economy, and efficiency of the filing system may be developed. Integration of noting and correspondence sides is a prime requirement. Moreover, a single file may represent a single subject. Similarly, SOPs for the processing of different claims may be formulated to ensure the audit trail.
- The management must take steps, in consultation with respective land record authorities, to address the issues of documentation and demarcation of its properties.
- A periodic review of internal controls may be carried out for all segments of operation. All tiers must be sensitized for risk assessments and corresponding control activities affecting their domain. Appropriate training may be provided to ensure the relevance of control structures. Further, a modern ERP system must be purchased to ensure the integrity and objectivity of financial and operational data.

4.2.11 Conclusion

To grow and sustain itself as a going concern, the PMDC needs a thorough transformative program that encompasses governance and management reforms, technology up-gradation, regulatory compliance, innovative joint ventures, and Government support. The program needs to be built on a series of strategic initiatives that can ensure product diversification, internal control augmentation, and risk management. The Audit believes that the program if implemented can turn around the projects, the profits can be exponentially enhanced by plugging in the pilferages and loopholes. It will enable the organization to organically grow and capture the myriad of opportunities propagated by contemporary industrial and urban growth in Pakistan and the neighbouring countries.

Annexure-1

MFDAC PARAS

(Rs in million)

Sr. No.	Formation	AIR File No.	Para No. / DP No.	Description	Amount
1	DG (Oil)	F-10-2021	13	Provisional pricing of crude due to non-finalization of COSAs	0
2	DG (Oil)	F-10-2021	14	Non submission of monthly returns to DG Oil	0
3	DG (Oil)	F-10-2021	15	Doubtful payment of govt due on imported HSD by PSO	0
4	DG (Oil)	F-10-2021	DPs -1459 & 1463	Non/Short-realization of Petroleum Levy on direct sales	1.673
5	DG (Oil) & (Gas)	F-15-2021	8	Failure of legal section in identifying the ambiguity in the drafts of the agreements as well as failure to pursue the case vigorously resulting in blockage of GSD	0
6	DG (Oil) & (Gas)	F-15-2021	2 & 3	Pendency of court cases since extra ordinary long time due to weak monitoring & failure to get the hearing of cases fixed in court	0
7	DoE	F-22-2021	3	Short realization of difference of fee from OMCs for ancillary facilities	2.065
8	DoE	F-22-2021	5	Non-existence of internal controls	0
9	DoE	F-22-2021	10	Non cancellation of license without valid lease agreements of 206 outlets/ petrol pumps of certain OMCs	0
10	DoE	F-22-2021	11	Non cancellation of license expired more than three years of duration	0
11	DoE	F-22-2021	12	Non-renewal of Form K and B-1 to PSO outlets despite fee for differential received for 2011-12	0
12	DoE	F-22-2021	13	No mechanism of inspection planned and conducted of license	0
13	DoE	F-22-2021	14	Non up-dation/ uploading of information on website	0

14	DoE	F-22-2021	2	Non-existence of default surcharge clause in Petroleum Rules 19337	0
15	GHPL	F-05-2021	25	Defective agreement and sale of LPG without open competition	0
16	GHPL	F-05-2021	3	Non realization of revenue from Chak-5 Dim South	4,619.069
17	GHPL	F-05-2021	4	Non realization of revenue from Chak-5 Dim (Mithrao) Sinjhoro Concession	3,424.125
18	GHPL	F-05-2021	20	Loss of Signature Bonus from TAY & irregular hiring of legal counsel	94.062
19	GHPL	F-05-2021	22	Non authenticity/ validation of Policies from Finance Division	0
20	GHPL	F-05-2021	24	Weak management resulted in loss of LPG revenue & risk of litigation	0
21	GHPL	F-05-2021	33	Loss due to non-forfeiture of Bid Money	12.375
22	GHPL	F-05-2021	53	Irregular appointment & fixation of salary by using irrational criteria for appointment of Accounts Executive	0
23	GHPL	F-05-2021	59	Lack of internal control on accounting system leads to poor decision making	0
24	GHPL	F-05-2021	57	Irregular annual increment and unjustified increase in Pay & allowance of employees in violation of Service Rules	0
25	GHPL	F-05-2021	56	Irrational use of additional charge during the employment	0
26	GHPL	F-05-2021	7	Loss due to curtailment of production	1,304.000
27	GHPL	F-05-2021	17	Loss of Signature Bonus from Jakhro field	218.700
28	GHPL	F-05-2021	DP-1596	Non-reconciliation between Quantity Produced and Sold	0
29	GHPL	F-05-2021	DP-1600	Loss due to un-economical operation of fields	754.697
30	GHPL	F-05-2021	DP-1604	Non-finalization of joint ventures accounts for the FYs 2018-19 to 2020-21	0
31	GHPL	F-05-2021	DP-1691	Non-realization of sale proceeds of natural gas from	42.369

				Nashpa Block	
32	GHPL	F-05-2021	DP-1715	Loss of revenue due to sale of LPG at lesser rate than determined by OGRA	1,028.005
33	GHPL	F-05-2021	DP-1595	Non-realization of sales proceeds of crude oil 11,725 BBLs	-
34	NRL	03-2021/Khi	1	Non-payment of windfall levy retained on local crude oil prices	145.554
35	NRL	03-2021/Khi	2	Non-payment of discount retained on local crude oil prices	153.667
36	NRL	03-2021/Khi	3	Non-payment of windfall levy retained on local crude oil prices	169.459
37	NRL	03-2021/Khi	4	Non-payment of discount retained on local crude oil prices	156.270
38	PARCO	01-2021/Khi	1	Non-payment of windfall levy retained on local crude oil prices	0.498
39	PARCO	01-2021/Khi	2	Non-payment of windfall levy retained on local crude oil prices	105.218
40	PARCO	01-2021/Khi	3	Non-payment of discount retained on local crude oil prices	39.655
41	PRL	05-2021/Khi	1	Non-payment of discount retained on local crude oil prices	2.784
42	PRL	05-2021/Khi	2	Non-payment of windfall levy retained on local crude oil prices	37.795
43	Byco	04-2021/Khi	10	Short-realization of petroleum levy on POL products	15,470.21
44	Byco	04-2021/Khi	13	Loss of revenue due to incorrect application of rate of petroleum levy on retail sale of petroleum products	4.834
45	OGDCL	F-14-2021	4	Unnecessary expenditure as professional fees paid to Advocates in litigation cases of fake degree / Certificate submitted by officials/ officers at the time of fresh Appointment	14
46	OGDCL	F-14-	18	Unlawful and Irregular hiring	45.040

		2021		of advocates and payments of professional fee	
47	OGDCL	F-14-2021	14	Ineffective legal actions / steps to recover mobilization advance upon failure of contractor in plantation and maintenance of 800,000 trees in two districts of Sindh despite lapse of 25 years	2.828
48	OGDCL	F-14-2021	12	Payment of different fee in the court cases of same nature	0
49	OGDCL	F-14-2021	11	Failure to get the cases finalized pending since extra-ordinary long period pf time resulting in blockage of revenue	64.509
50	OGDCL	F-14-2021	8	Un due favour to an advocate by awarding majority of Supreme Court cases	0
51	OGDCL	F-14-2021	16	Non-reply / Compliance of internal audit reports from 2010 onwards and also non-production of the same by the Legal Service Department	0
52	OGDCL	F-14-2021	1	Non recovery of money in the cases decided by the courts in favour of the OGDCL from 1996 to 2008	25.577
53	OGDCL	F-14-2021	5	Payment of fee to lawyers in pending cases in which even date of hearing in the court of law could not got be fixed	12.854
54	OGDCL	F-14-2021	6	Non-professional & dubious practice of non-finalization / settlement of lawyer’s professional fee, at the time of award of cases, during their court proceeding and even in cases that stands decided by the court	0
55	OGDCL	F-14-2021	3	Pendency of litigation cases from 2006 onward in different courts, also in spite of incurring huge legal expenses	796.154
56	OGDCL	F-14-2021	2	Unjustified payment / settlement of professional fees to lawyers without any criterial / justification	0

57	OGDCL	F-14-2021	19	Non framing of Standard Operating Procedures (SOP)	0
58	OGDCL	F-11-2021	2	Defective sale contract with UCH Power Plant-II resulting in less off take of low-pressure gas	8,935.000
59	OGDCL	F-13-2021	2	Irrational delay in procurement of proprietary items	36.599
60	OGDCL	F-13-2021	5	Non initiation of fact-finding inquiry on serious allegation against ED Petro Services	59.680
61	OGDCL	F-11-2021	11	Reduction in gas & LPG production due to delay in procurement of gas turbine as standby arrangement	6,220.000
62	OGDCL	F-12-2021	2	Mismanagement in procurement process regarding construction of Nashpa residential camp resulted extra cost to company	374.335
63	OGDCL	F-12-2021	1	Irregularity in tendering process due to the discriminatory clause regarding experience	108.417
64	OGDCL	F-13-2021	8	Non re-injecting of permeate gas from Badarpur Field resulting in wastage of gas	851.834
65	OGDCL	F-17-2021	18	Non-payment of Govt dues and loss to company due to non-registration of vehicles	2.205
66	OGDCL	-	DP-1486	Irregular payment without valid lease agreement	18.110
67	OGDCL	-	DP-1511	Recognition of non-extent assets - P&L account -	1.534
68	OGDCL	-	DP-1543	Irregular payment of bonus and award to the employees against whom disciplinary proceedings were in progress	10.933
69	OGDCL	-	DP-1485	Irregular award of contract for transportation of crude oil	1,798.113
70	OGDCL	-	DP-1540	Delay in procurement of Gun Barrel Tanks and cooling tower	74.810
71	OGDCL	-	DP-1537	Non-resolution legal issues arising in the disposal of official business of various entities of the Federal Government	24,527.00

72	OGDCL	-	DP-1513	Loss due to non-fulfilment of terms and conditions of insurance policy	374.000
73	OGDCL	-	DP-1517	Un-justified charge of depreciation against un-serviceable asset	53.812
74	OGDCL	-	DP-1574	Non- deduction of Provincial Sale Tax on payment regarding law services	12.012
75	OGDCL	-	DP-1578	Decrease in exploration and drilling activities	-
76	OGDCL	-	DP-1576	Non deduction of Income Tax from advance payment of house rent allowance	1,356.553
77	OGDCL	-	DP-1520	Loss due to un-justified delay in auction and non-auction of unserviceable /scrap/obsolete items	321.699
78	OGDCL	-	DP-1533	Un-justified fixation of lower Auction Reserve Price of store items	123.743
79	OGDCL	-	DP-1509	Incorrect recognition of plot and non-materialization the possession of lease hold land	104.060
80	PPL	F-03-2021/khi	1	Loss due to suspension of well namely Mamikhel Deep-1 / Tal	1,412.410
81	PPL	F-04-2021/khi	2	Unjustified expenditure incurred by (PPL) on Drilling in Partner-Operated fields	31,268.00
82	PPL	F-04-2021/khi	8	Storage of Petroleum Products without having the Storage license	-
83	PPL	F-07-2021/khi	8	Unjustified expenditure on supply of Free Gas to Sui village	716.902
84	PPL	F-07-2021/khi	10	Imprudent expenditure incurred on legal consultants	3.824
85	PPL	F-07-2021/khi	11	Irregular appointments of Advocates / Legal Counsel	58.945
86	PPL	F-07-2021/khi	12	Non-compliance of the directives of Public Accounts Committee (PAC)	-
87	PPL	F-07-2021/khi	13	Unjustified appointment of the Board of Director against recruitment policy	-
88	PPL	F-07-2021/khi	14	Non-Compliance of Corporate Governance Rules, 2013	-
89	PPL	F-07-	15	Irregular payments of fee to	35.86

		2021/khi		Advocates / Legal Counsel	
90	PPL	F-07-2021/khi	16	Unjustified appointment of Board of Directors	-
91	PPL	F-03-2021/khi	2	Inadmissible Payment of Production Bonus in respect of Additional Kandhkot D& P Lease	451.265
92	PPL	F-04-2021/khi	6	Favouritism towards Mirza Muhammad Jawaz Baig, Senior Lands & Licenses Officer involved in serious violations of SOPs, delay in project & award of contract at exorbitant rates	-
93	PPL	F-04-2021/khi	8	Unjustified booking of liability on account of lease extension bonus	24.932
94	PPL	F-07-2021/khi	1	Non-recovery of trade debts from GENCO-II	8,852.530
95	PPL	-	DP-1723	Loss due to rejection of insurance claim	19.060
96	PSO	-	DP-1640	Excess receipt of Exchange loss incurred on FE-25 loans	608.163
97	PSO	-	DP-1641	Non-utilization of ITFC financing facility for import LNG and petroleum products causing extra burden on foreign exchange	0
98	PSO	-	DP-1646	Loss due to payment of demurrages charges on oil vessels	495.755
99	PSO	-	DP-1651	Irrational capping of less amount of Port charges for 15 years long term contract than that of fixed for other contracts and spot cargos	1620
100	PSO	-	DP-1653	Loss due to incorrect revision in price resulting in procurement of less quantity	10.801
101	PSO	-	DP-1654	Irregular award of contract for procurement of material for Nestle coffee / tea machines	10.781
102	PSO	-	DP-1665	Non-payment of Sindh Infrastructure Cess	6,438.869
103	PSO	-	DP-1664	Irregular appointment of Chief Internal Auditor	-
104	PSO	-	DP-1644	Excess payment on account of WPPF into Fund Account	232.214

105	PSO	-	DP-1648	Loss due to payment of demurrages charges on LNG cargoes	344.145
106	PSO	-	DP-1652	Non-delivery of 68 fuel tanks by the contractor	46.734
107	PSO	-	DP-1659	Non-Commissioning of 06 New Developed Storage Tanks	1,743.833
108	PSO	-	DP-1661	Irregular transfer of petroleum products on loan basis	1,359.156
109	PSO	-	DP-1663	Non-filling of regular key posts	-
110	SNGPL	F-15-2021	48	Non-compliance of OGRA's directive regarding Unjustified increase in HR cost over the years	-
111	SNGPL	-	DP-1631	Compromise by the employee of SNGPL with consumer	0
112	SNGPL	-	DP-1584	Unjustified payment of overtime beyond 25% limit	42.302
113	SNGPL	-	DP-1613	Conflict of interest in related party transactions by a Director of BoD	573.187
114	SNGPL	-	DP-1579	Excess Revenue Requirement due to less recognition of other income Rs 702 million	702.000
115	SNGPL	-	DP-1623	Understatement of Other Income	78.800
116	SNGPL	-	DP-1588	Cost overrun in GOP funded jobs due to delay in completion of jobs	114.970
117	SNGPL	-	DP-1625	Non-recording of provision in financial statement regarding disputed tax amount	3,328.600
118	SNGPL	-	DP-1686	Non-recovery of gas pilferage charges from M/s Tariq Aziz Box Factory	2,193.430
119	SNGPL	-	DP-1752	Unjustified expenditure in violation of OGRA's directives	2,706
120	SNGPL	-	DP-1580	Non-recovery of cost of RLNG from SSGC	23,661.29
121	SSGC	F-05-2021/khi	21	Irregular adjustment of gas development surcharge recovered from the consumers	17,677.00
122	SSGC	F-05-2021/khi	25	Irregular appointment & promotion of Chief Manager	0
123	SSGC	F-05-2021/khi	32	Irregular award of service contract to un-authorized dealers on account of repair of	1.742

				vehicles	
124	SSGC	F-05-2021/khi	30	Irregular promotion of Chief Manager (Internal Audit)	0
125	SSGC	F-05-2021/khi	23	Irregular re-employment of executive despite acceptance of his resignation from the same post	0
126	SSGC	F-05-2021/khi	3	Loss due to non-insurance of company mobile	0.359
127	SSGC	F-02-2021/khi	6	Loss of pipes due to theft	0.485
128	SSGC	F-01-2021/khi	11	Loss of to the company due to theft of vehicle	0.685
129	SSGC	F-05-2021/khi	17	Non capitalization of cost incurred on Gas Distribution Network	0
130	SSGC	F-05-2021/khi	19	Non continuation of facility of waiving of Monthly Service Charges by PSO resulting into loss to the company	0
131	SSGC	F-01&-02-21/khi	02,02,14	Non identification of actual gas losses at Town Border Station (TBS)	0
132	SSGC	F-01-2021/khi	16	Non initiation of disciplinary action against the employee involved in malpractice	0
133	SSGC	F-01-2021/khi	9	Non- maintenance and calibration of meters installed at TBS resulting into measurement errors contributing to UFG	0
134	SSGC	F-05-2021/khi	34	Non realization of Gas Infrastructure Development Cess	7,035.550
135	SSGC	F-05-2021/khi	1	Non realization of transportation charges from OGDCL due to expiry of contract	293.280
136	SSGC	F-05-2021/khi	2	Non realization of transportation charges from SNGPL due to expiry of contract	1,917.190
137	SSGC	F-05-2021/khi	4	Non recovery of Eid advance from 3rd party	5.060
138	SSGC	F-02-2021/khi	36	Non replacement of industrial old meters aging more than 05 years	0
139	SSGC	F-02-	38	Non replacement of meter	0

		2021/khi		getting nil or minimum bills more than one year	
140	SSGC	F-02-2021/khi	35	Non replacement of old Electronic Volume Corrector (EVC)	0
141	SSGC	F-02-2021/khi	37	Non replacement of undersized meters resulted into high UFG in the region	0
142	SSGC	F-05-2021/khi	5	Non utilization of quantity of 13,115 pipe resulting into unusable items at Khadeji scrap yard	0
143	SSGC	F-05-2021/khi	28	Non-completion of inquiry within stipulated period resulting into violation of service rules	0
144	SSGC	F-05-2021/khi	31	Non-compliance of the Public Accounts Committee (PAC) Directives	0
145	SSGC	F-01&-02-21/khi	07, 15, 29 & 12	Non-conduct of Internal Audit	0
146	SSGC	F-01-21/khi	14	Non-Disposal of retired vehicles	0
147	SSGC	F-05-2021/khi	6	Short deduction of Income Tax on salary due to non-inclusion of amount of POL	5.129
148	SSGC	F-05-2021/khi	18	Slow pace of recovery of outstanding amount resulting into conversion of Bad debts	0
149	SSGC	F-05-2021/khi	13	Un-authorized use of pool vehicles by senior executives	0
150	SSGC	F-05-2021/khi	29	Undue favour in appointment of Manager (Information Technology)	0
151	SSGC	F-05-2021/khi	22	Unjustified approval of foreign currency rate due to non-signature of authorized member of the committee	0
152	SSGC	-	DP-1697	Poor performance due to non-achievement of Key Monitoring Indicators (KMIs)	0
153	SSGC	-	DP-1731	Un-authorized Re-connection of domestic meters	4.510
154	SSGC	-	DP-1742	Wasteful expenditure on purchase of vehicles	16.996
155	SSGC	-	DP-1744	Unjustified payment of petrol allowance with salary to	24.528

				executives	
156	SSGC	-	DP-1692	Non-initiation of disciplinary action against the employees involved in malpractice / misappropriation	80.780
157	SSGC	-	DP-1741	Irregular promotion of Acting Deputy Managing Director to Deputy Managing Director from Grade-IX to Grade-X	-
158	SSGC	-	DP-1743	Irregular payment of acting charge allowance beyond permissible limit	8.114
159	PMDC	F-09-2021	DP-1465	Potential loss due to failure to start construction on allotted land	341.403
160	PMDC	F-09-2021	DP-1474	Wasteful Expenditure on construction/installation of shed at PMDC Salt mines Khewra	3.064
161	PMDC	F-09-2021	DP-1477	Non-recovery of interest on gratuity fund investment	33.434
162	PMDC	F-09-2021	DP-1703	Non-charging of taxes on sale of vehicles to the employees	1.529
163	PMDC	F-09-2021	11	Irregular promotions without completing the mandatory incumbency period	20.366
164	OGRA	F-18-2021	23	Irregular issuance of well head gas price notification of Sui Mining lease without agreement	0
165	OGRA	F-18-2021	DP-1493	Non-realization of License Renewal Fee from LPG marketing companies	8
166	OGRA	F-18-2021	DP-1502	Short-realization of Annual Fee from M/s MPCL	11.945
167	OGRA	F-18-2021	DP-1522	Short-realization of Annual Turnover Fee of RLNG from SSGC	65.340
168	OGRA	F-18-2021	DP-1524	Non-realization of Annual Regulatory Fee from LPG refuelling / dispensing stations	0.600
169	OGRA	F-18-2021	DP-1525	Irregular retention of CCP fee	47.193

Annexure-2(i)

Audit profile of Ministry of Energy (Petroleum Division)

(Rs in million)

Sr. No.	Description	Total Nos.	Audited	Expenditure involved FY 2020-21	Revenue / Receipts involved FY 2020-21
1	**MoE (PD)/Bodies/Dep.**				
	Audited MoE (PD)/Bodies/Dep.				
(i)	Ministry of Energy (PD)	1	1	**-**	**555,684.000**
(ii)	Department of Explosives	1	1	86.920	661.543
	Sub-total	**2**	**2**	**86.920**	**556,345.543**
	Un-audited MoE (PD) / Bodies				
(i)	Ministry of Energy (PD)			374.189	0
(ii)	GSP	1	-	640.144	0
(iii)	HDIP (expenditure & receipts)	1	-	111.000	0
	Sub-total	**2**	**-**	**1,125.333**	**0**
	Profile of MoE (PD)/Bodies/Dep.	**4**	**2**	**1,212.253**	**556,345.543**
2	**Autonomous Bodies / PSEs etc. under the PAO**				
	Audited Autonomous Bodies / PSEs etc. under the PAO				
(i)	OGDCL	1	1	207,732.017	290,888.118
(ii)	PPL	1	1	119,679.530	176,563.017
(iii)	PSO	1	1	1,203,035.556	1,443,656.694
(iv)	SNGPL	1	1	814,993.349	857,956.154
(v)	SSGC	1	1	346,578.408	14,247.641
(vi)	PLL	1	1	318,792.825	169,586.367
(vii)	GHPL	1	1	51,747.437	85,658.708
(viii)	PMDC	1	1	2,617.272	3,077.968
		8	**8**	**3,065,176.394**	**3,041,634.667**
3	**Un-Audited Autonomous Bodies / PSEs etc. under the PAO**				
(i)	ISGS	1	-	415.392	311.660
(ii)	LCDCL	1	-	0	0
(iii)	SML	1	-	2,062.542	3,433.611
(iv)	MPCL	1	-	74,597.188	86,945.171
(v)	PARCO	1	-	0	0
		6	**-**	**77,075.122**	**90,690.442**
	Profile of autonomous Bodies / PSEs etc. under the PAO	**14**	**8**	**3,142,251.516**	**3,132,325.109**

(PLTL merged into PLL. LCDCL is not performing its function due to non-renewal of Lakhra lease by Sindh Government which was under litigation. PARCO refused to get audited and audited accounts were not available)

Annexure-2(ii)

Audit profile of OGRA under Cabinet Division

(Rs in million)

Sr. No.	Description	Total Nos.	Audited	Expenditure audited FY 2020-21	Revenue audited FY 2020-21
1	**OGRA**	**1**	**1**	**1,123.784**	**1,601.192**

Annexure-3

Non-Submission of Annual Audited Accounts by PSEs

Annual audited accounts of Public Sector Enterprises for the financial year 2020-21 were to be provided to the Directorate General Audit, Petroleum and Natural Resources, Lahore by December 31, 2021. Despite requests, the below mentioned organizations did not provide their annual audited accounts for the year 2020-21 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
Petroleum Division		
1	SNGPL	2020-21
2	SSGC	2019-20 & 2020-21
3	LCDCL	2018-19 to 2020-21
4	PLL	2020-21
5	ISGS	2020-21
6	KPOGCL	2019-20 & 2020-21
7	PMDC	2020-21
8	GHPL	2020-21
Cabinet Division		
9	OGRA	2020-21

Annexure-4
(Para 2.1.4.8)

Non / short-deposit of Social Welfare Obligation - Rs 68.898 million

Sr. No.	Name of E&P company	Block	Outstanding amount (US$)
1	MOL	Margalla	1,365
2	MPCL	Sujawal	85
3	MPCL	Wali West	30,000
4	MPCL	Taung	30,000
5	MPCL	Block-28	30,000
6	MPCL	Sharan	5,667
7	OGDCL	Latamber E.L	7,500
8	OGDCL	Fateh Jang	137
9	OGDCL	Orakzai	10,233
10	OGDCL	Tirah	8,507
11	OGDCL	Pezu	25,902
12	OGDCL	Sujawal South	5,753
13	OGDCL	Suleiman	5,753
14	OGDCL	Killa Saifullah	5,753
15	OGDCL	Lilla	5,753
16	OGDCL	Jhelum	5,753
17	PEL	Kandara ML	20,000
18	PEL	Salam	20,000
19	PEL	Badin-IV South (Ayesha-Aminah)	40,000
20	PEL	Badar	20,000
21	PEL	Block-22 (Hasan)	20,000
22	PPL	2467-12 (Jungshahi)	15,000
23	PPL	2870-5 (Sadiqabad)	3,329
24	PPL	2566-4 (Bela West)	11,589
25	PPL	2566-4 (Hab)	10,685
26	PPL	2569-5 (Khipro East)	10,110
27	PPL	2866-4 (Margand)	25,110
28	PPL	3272-18 (Karsal)	11,589
29	Zaver	Sari South	2,500
30	KPOGCL	Lakki	30,000
		Total	**418,073**
		Total (Rs in million)	**68.898**

Annexure-5
(Para 2.1.4.15)

Major components of Petroleum Sector circular debt

(Rs in million)

Description	Amount
Major components of circular debt	
SNGPL receivables	
Power Sector-Indigenous Gas	28,453
Power Sector-RLNG	25,023
Fertilizer Sector	1,878
Cement Sector	321
Subsidy-Exports	33,716
RLNG Cost-SNGPL receivables from SSGC	64,560
Cost of Diversion of RLNG to Domestic Sector	116,621
SNGPL receivables-Cases under litigation / arbitration	26,962
Subsidy Fertilizer-SNGPL receivable	1,535
Others (Receivable from Industrial, Commercial & Domestic consumers on account of gas charges / theft & from others on account of theft etc., and Tariff adjustment (shortfall) / differential margin receivable from GoP)	362,279
Total-SNGPL	**661,351**
SSGC receivables	
Power Sector (including LPS)	8,104
SSGC receivables from HCPC and JJVL	15,687
Uniform Gas Price from SNGPL	15,818
LNG charges-SSGC receivables from SNGPL	33,298
SSGC receivables-Cases under litigation / arbitration (including KE & PSML)	101,032
Others-(Receivable from Industries, Commercial & Domestic consumers on account of gas charges / theft & from others on account of theft etc., and Tariff adjustment (shortfall) / differential margin receivable from GoP)	200,482
Total-SSGC	**374,421**
Direct sales to Power Sector by OGDCL, PPL and MPCL	**181,769**
Total-Gas related circular debt	**1,217,541**
Oil related circular debt	
Principal amount receivable from Refineries	17,316
LPS	35,305
Total–Oil related circular debt	**52,621**
Total-Circular debt (Gas and Oil)	**1,270,162**

Annexure-6
(Para 2.6.4.1)

Non-production of record of SSGC

(i) G.M Distribution (East), Karachi

Sr. No.	Requisition Dated	Documents requisitioned	Remarks
1	16.08.2021	Sanctioned strength with actual deployment of officers and staff	-
2	16.08.2021	TBS/PRS Gas Sales Reports	-
3	16.08.2021	Detail/record of pilferage complaints received during 2019-20 & 2020-21	-
4	16.08.2021	List/detail of application received, new connections installed and pending (Normal / Fast Track) in soft form excel format; as on 30.06.2020 and as on 30.06.2021	-
5	16.08.2021	Updated Meter reconciliation statement;	-
6	20.08.2021	Detail regarding meter installed on SMS as on June, 2020 & June, 2021 on following format;	-
7	20.08.2021	Detail of team deployment for leak detection during the FY 2019-20 & 2020-21	-
8	20.08.2021	Detail of Field Activity generated for leaks detected during survey and its status as per CC&B system;	-
9	20.08.2021	List of leaks complaints received (Category wise) along with its resolution and feedback of the customers during FY 2019-20 & 2020-21	Only summary was received.
10	20.08.2021	Detail of high theft prone areas industry / Commercial /Domestic	-
11	20.08.2021	No. of Cases planned for gas distribution pipeline (categories wise) as received from sales department along with its current status during the FY 2019-20 & 2020-21	-
12	20.08.2021	No. of cases dispatched to sales department for approval along with its current status during the FY 2019-20 & 2020-21	-
13	20.08.2021	No. of complaints received from CRD department along with resolution of the complaints during F.Y 2020-21	-
14	20.08.2021	Copy of deployment programme of the patrolmen for patrolling of pipeline network of the area along with its weekly reports	-

15	20.08.2021	Copy of annual material requirement of the Distribution Department for the FY 2019-20 & 2020-21	-
16	20.08.2021	Copy of consolidated Statement of Requirement (STR-44) for the FY 2019-20 & 2020-21	-
17	20.08.2021	Status of material/items received from R&D Section, KT Store during the FY 2019-20 & 2020-21	-
18	20.08.2021	No. of cases sent to Material Management Department on account of unsatisfactory performance by the supplier for encashment of Performance Bank Guarantee during the FY 2019-20 & 2020-21	-
19	20.08.2021	Copy of plan of Distribution Gas Demand for F.Y 2020-21	-
20	20.08.2021	Detail of gas leakage and low-pressure complaints received during F.Y 2020-21	-
21	20.08.2021	Copy of statement of reconciliation for gas supplied through SMSs to TBSs for FY 2019-20 & 2020-21	-
22	20.08.2021	Detail of pipeline network/Network Size (KMs)/(Dia-wise) in Distribution systems along with ageing	-
23	20.08.2021	Detail regarding meter installed on SMS as on June, 2020 & June, 2021 on following format	-
24	20.08.2021	Detail of team deployment for leak detection during the FY 2019-20 & 2020-21	-

(ii) G.M Distribution (West), Karachi

Sr. No.	Requisition Dated	Documents requisitioned	Remarks
1	16.08.2021	Sanctioned strength with actual deployment of officers and staff	-
2	16.08.2021	UFG detail (region wise/area wise) as well as Component Wise for the last three years i.e., 2018-19, 2019-20 & 2020-21 on the following format	-
3	16.08.2021	Detail of UFG Prone areas in TBS/SMS for the last three years i.e., 2018-19, 2019-20 & 2020-21	-
4	16.08.2021	TBS/PRS Gas Sales Reports	-
5	16.08.2021	Details of in house and outsource repair / maintenance of Plant, Machinery & Vehicles on the following format along with the breakup of expenditures incurred thereon	Only repair and maintenance of Vehicle was provided
6	16.08.2021	Detail of vehicles allocated to Distribution department showing POL consumption and its maintenance expenditure along with log books	-
7	16.08.2021	Detail/record of pilferage complaints received during 2019-20 & 2020-21	-
8	16.08.2021	Detail of FIR filed with regard to pilferage of gas by direct tapping	-
9	16.08.2021	List/detail of application received, new connections installed and pending (Normal / Fast Track) in soft form excel format; as on 30.06.2020 and as on 30.06.2021	-
10	16.08.2021	Details of consumers to whom Normal & fast track demand notices issued / deposited during the year 2020-21	-
11	16.08.2021	Updated Meter reconciliation statement	-
12	20.08.2021	Detail regarding meter installed on SMS as on June, 2020 & June, 2021 on following format	-
13	20.08.2021	Detail of team deployment for leak detection during the FY 2019-20 & 2020-21	-
14	20.08.2021	Detail of Field Activity generated for leaks detected during survey and its status as per CC&B system	-
15	20.08.2021	List of leaks complaints received (Category wise) along with its resolution and feedback of the customers during FY 2019-20 & 2020-21	Only summary was received
16	20.08.2021	Detail of high theft prone areas in Industry/Commercial/Domestic	-

17	20.08.2021	No. of Cases planned for gas distribution pipeline (categories wise) as received from sales department along with its current status during the FY 2019-20 & 2020-21	-
18	20.08.2021	No. of cases dispatched to sales department for approval along with its current status during the FY 2019-20 & 2020-21	-
19	20.08.2021	No. of complaints received from CRD department along with resolution of the complaints during F.Y 2020-21	-
20	20.08.2021	Copy of deployment programme of the patrolmen for patrolling of pipeline network of the area along with its weekly reports	-
21	20.08.2021	Copy of annual material requirement of the Distribution Department for the FY 2019-20 & 2020-21	-
22	20.08.2021	Copy of consolidated Statement of Requirement (STR-44) for the FY 2019-20 & 2020-21	-
23	20.08.2021	Status of material/items received from R&D Section, KT Store during the FY 2019-20 & 2020-21	-
24	20.08.2021	No. of cases sent to Material Management Department on account of unsatisfactory performance by the supplier for encashment of Performance Bank Guarantee during the FY 2019-20 & 2020-21;	-
25	20.08.2021	Copy of plan of Distribution Gas Demand for F.Y 2020-21	-
26	20.08.2021	Detail of gas leakage and low-pressure complaints received during F.Y 2020-21	-
27	26.08.2021	Sales data of TBS wise (East & West) from COGNOS system for the year 2020-21	-
28	26.08.2021	Sales reports of TBS wise from Billing Department (East & West) for the year 2020-21	-
29	26.08.2021	Please find enclosed herewith detail of meter installed at TBS (Distribution West).	-
30	01.09.2021	Copy of statement of reconciliation for gas supplied through SMSs to TBSs for FY 2019-20 & 2020-21	-

(iii) G.M Distribution (Central), Karachi

Sr. No.	Requisition Dated	Documents requisitioned	Remarks
1	06.09.2021	Organization Chart of Distribution	-
2	06.09.2021	Detail of pipeline network/Network Size (KMs)/(Dia-wise) in Distribution systems along with ageing	-
3	06.09.2021	Copy of map of network of the Distribution;	-
4	06.09.2021	Internal Audit Report of Department for the years 2019-20 & 2020-21;	-
5	06.09.2021	Copy of KMIs set by Head office for Distribution and its achievement for the years 2019-20 & 2020-21	Detail of achievement for FY 2020-21 provided
6	06.09.2021	UFG detail (region wise/area wise) as well as Component Wise for the last three years i.e., 2018-19, 2019-20 & 2020-21 on the following format	Only UFG (TBS) wise for FY 2020-21 provided
7	06.09.2021	Detail of UFG Prone areas in TBS/SMS for the last three years i.e., 2018-19, 2019-20 & 2020-21	-
8	06.09.2021	Copy of statement of reconciliation for gas supplied through SMSs to TBSs for FY 2019-20 & 2020-21	-
9	06.09.2021	Detail regarding meter installed on SMS as on June, 2021 on following format	-
10	06.09.2021	Updated Meter reconciliation statement	-
11	06.09.2021	Detail of new meter received (categories wise) from Sales department against Field Orders/ Requisition and processed during the FY 2019-20 & 2020-21	-
12	06.09.2021	Copy of annual material requirement of the Distribution Department for the FY 2019-20 & 2020-21	-
13	06.09.2021	Copy of consolidated Statement of Requirement (STR-44) for the FY 2019-20 & 2020-21	-
14	06.09.2021	Status of material/items received from R&D Section, KT Store/Store during the FY 2019-20 & 2020-21	-
15	06.09.2021	No. of cases sent to Material Management Department on account of unsatisfactory performance by the supplier for encashment of Performance Bank Guarantee during the FY 2019-20 & 2020-21	-

Annexure-7
(Para 3.1.4.12)

Short-deduction of Income Tax from the salaries of employees

(Amount in Rs)

Sr. No.	Name of employee	Designation	Total payment	Income Tax paid	Income Tax due	Income Tax short paid
1	Mr. Noorul Haque	(F)/Chairman	7,228,350	800,000	1,003,536	203,536
2	Mr. Muhammad Arif	Member (Gas)	8,674,020	1,044,200	1,237,698	193,498
3	Mr. Anwar Ali Sheikh	Sr. Executive Director	7,347,747	1,001,892	1,116,640	114,748
4	Mr. Imran Ghaznavi	SED (C&MA)	7,515,834	838,610	1,154,460	315,850
5	Mr. Muazzam Hussain Ch.	Sr. Executive Director	8,681,211	1,100,000	1,416,669	316,669
6	Mr. Rizwan Ul Haq	Sr. Executive Director	7,049,700	795,100	1,049,580	254,480
7	Mr. Sarmad Aslam	Sr. Executive Director	8,914,287	1,045,500	1,469,112	423,612
8	Mr. Shahzad Iqbal	Sr. Executive Director	8,450,578	600,000	1,364,777	764,777
9	Mr. Sohail Ahmad Tariq,	Sr. Executive Director (Oil)	7,556,013	807,360	1,163,500	356,140
10	Mrs. Misbah Yaqub	Sr. Executive Director	7,515,834	813,300	1,152,210	338,910
11	Mr. Aamir Nusrat	Executive Director	6,981,285	785,000	1,031,273	246,273
12	Mr. Atif Sajjad	Executive Director	6,981,285	861,600	1,031,273	169,673
13	Mr. Muhammad Asad Latif	Secretary	6,415,041	826,500	903,868	77,368
14	Mr. Muhammad Imran Akhtar	Executive Director	6,336,900	618,350	886,287	267,937
15	Mr. Muhammad Murtaza Ch	ED (F&A)	6,201,091	693,950	855,729	161,779
16	Mr. Zahid Ghani Chishty	Executive Director	6,766,503	653,260	982,947	329,687
17	Syed Anis Haider Hamdani	Executive Director	6,336,900	779,600	881,787	102,187
18	Dr. Abdul Basit Qureshi	JED	4,735,503	586,500	617,101	30,601
19	Mr.Khalil Ahmad Sheikh	JED	4,941,984	628,440	658,397	29,957

20	Mr. Muhammad Jawad Jamil	JED	4,872,642	574,584	644,528	69,944
21	Mr. Abdul Rab Khan	Joint Executive Director	5,767,851	808,800	842,766	33,966
22	Mr. Aftab Alam Khan	JED	5,354,916	366,000	749,856	383,856
23	Mr. Altaf Hussain	CAO	4,683,692	586,389	606,738	20,349
24	Mr. Asmat Ullah Panezai	JED	4,529,046	529,350	575,809	46,459
25	Mr. Azhar Fareed Khan	JED	4,941,984	487,940	658,397	170,457
26	Mr. Aziz Ullah Khan	JED	4,529,046	545,029	575,809	30,780
27	Mr. Bilal Ahmed Sherpao	JED (Accounts)	4,982,164	550,413	666,433	116,020
28	Mr. Ejaz Ahmad Gohar	JED	4,286,418	439,350	527,284	87,934
29	Mr. Ghulam-e-Muhammad Shaheen	JED	4,529,046	550,350	575,809	25,459
30	Mr. Hammad Sajid Pirzada	JED	4,322,571	43,600	534,514	490,914
31	Mr.Hidayat Ullah,	JED	4,091,010	436,100	488,202	52,102
32	Mr. Iftikhar Mehmood	JED	4,941,984	628,440	658,397	29,957
33	Mr. Imran Aslam	JED	4,941,984	606,704	658,397	51,693
34	Mr. Jehanzeb Anwer	JED	4,529,046	550,350	575,809	25,459
35	Mr. Kamran Jamshaid	Joint Executive Director	5,561,373	707,400	796,309	88,909
36	Mr. Kashif Iqbal	JED	4,529,046	550,350	575,809	25,459
37	Mr. Khurram Naeem Khan	JED	4,322,571	497,300	534,514	37,214
38	Mr. Mubashar Ahmad	JED	4,529,046	534,200	575,809	41,609
39	Mr. Muhammad Abdul Rahim	JED	4,529,046	517,017	575,809	58,792
40	Mr. Muhammad Asif	JED	4,941,984	600,440	658,397	57,957
41	Mr. Muhammad Azhar Nizam	JED	4,941,984	628,440	658,397	29,957
42	Mr. Muhammad Iltaf	Joint. Executive	4,941,984	628,440	658,397	29,957

		Director				
43	Mr. Muhammad Iqbal,	JED	4,286,418	379,500	527,284	147,784
44	Mr. Muhammad Mudassir Siddiq	JED	4,941,984	628,440	658,397	29,957
45	Mr. Muhammad Raza	JED	4,529,046	450,350	575,809	125,459
46	Mr. Muzammil Awais	JED	4,941,984	628,440	658,397	29,957
47	Mr. Najaf Khan Malik	JED	4,529,046	550,350	575,809	25,459
48	Mr. Sajid Zahid Rauf	JED	4,941,984	428,440	658,397	229,957
49	Mr. Sajjad Hussain	JED	4,322,571	503,760	534,514	30,754
50	Mrs. Tayyaba Ahsan	JED (F)	4,683,692	495,899	606,738	110,839
51	Mrs. Uzma Ashfaq	JED	4,124,670	378,400	494,934	116,534
52	Ms. Kanwal Akmal	JED	4,286,418	473,600	527,284	53,684
53	Syed Ishtiaq ul Haq	JED	4,322,571	403,200	534,514	131,314
54	Mr. Arslan Ahmad Khan	Dy. Exe. Director	3,303,546	36,100	335,621	299,521
55	Mr. Aurangzeb,	DED	2,806,780	242,810	248,687	5,877
56	Mr. Hasib Akhtar	Dy. Exe. Director	3,303,546	315,900	335,621	19,721
57	Mr. Iftikhar Ahmed	Dy. Exe. Director	2,982,243	213,200	279,393	66,193
58	Mr. Iqbal Hassan	Dy. Exe. Director	2,837,937	132,425	254,139	121,714
59	Mr. Muhammad Asif	Dy. Exe. Director	2,948,595	253,600	273,504	19,904
60	Mr. Muhammad Fareed Sheikh	Dy. Exe. Director	2,837,937	235,350	254,139	18,789
61	Mr. Muhammad Shoaib Malik	Dy. Exe. Director	3,303,546	315,900	335,621	19,721
62	Mr. Naseer Muhammad,	DED (LPG)	3,415,263	246,450	355,171	108,721
63	Mr. Rahil Ihsan Pitafi	Dy. Exe. Director	3,303,546	259,600	335,621	76,021
64	Mr. Sallar Naveed	Dy. Exe. Director	3,303,546	277,700	335,621	57,921
65	Mr. Talat Ahmad Bhutta	Dy. Exe. Director	3,151,047	245,700	308,933	63,233
66	Mr. Usman Saif	Dy. Exe.	3,303,546	300,003	335,621	35,618

		Director				
67	Mr. Zeeshan Majeed	Dy. Exe. Director	3,303,546	315,900	335,621	19,721
68	Ms. Ayesha Waqar	Dy. Exe. Director	2,837,937	235,350	254,139	18,789
69	Kh. Muhammad Qasim	AED (F)	2,452,608	175,050	187,891	12,841
70	Mr. Abdul Qadeer Lehri	Assistant Registrar	2,452,608	174,750	187,891	13,141
71	Mr. Adnan	AED	1,832,540	76,650	94,881	18,231
72	Mr. Anees-ur-Rehman	AED	2,100,789	123,250	135,118	11,868
73	Mr. Asif Khalil	AED	2,321,220	104,910	168,183	63,273
74	Mr. Ateeq Aslam	AED	1,923,902	82,270	108,585	26,315
75	Mr. Ejaz Ahmad,	AED	2,343,760	125,800	171,564	45,764
76	Mr. Ijaz Ahmad Lodhi	AED	2,296,996	139,674	164,549	24,875
77	Mr. Imdad Ullah	AED	2,113,631	128,175	137,045	8,870
78	Mr. Muhammad Amin	AED	2,472,467	120,500	190,870	70,370
79	Mr. Muhammad Iqbal	AED	2,314,113	165,500	167,117	1,617
80	Mr. Muhammad Tariq	AED	2,516,831	173,850	197,525	23,675
81	Mr. Naser Hafeez Malik	AED	2,004,906	64,800	120,736	55,936
82	Mrs. Kiran Mahjabeen	AED	2,213,117	108,600	151,968	43,368
83	Sahabzada Zia Ud Din	AED	1,776,396	84,350	86,459	2,109
84	Syed Ali	AED	2,119,958	136,100	137,994	1,894
					Total	**9,110,190**