



**AUDIT REPORT ON  
THE ACCOUNTS OF  
KPOGCL  
(ENERGY & POWER DEPARTMENT,  
KHYBER PAKHTUNKHWA)  
AUDIT YEAR 2023-24**

**AUDITOR-GENERAL OF PAKISTAN**

SERVING THE NATION BY PROMOTING ACCOUNTABILITY,  
TRANSPARENCY AND GOOD GOVERNANCE IN THE MANAGEMENT  
AND USE OF PUBLIC RESOURCES FOR THE CITIZENS OF PAKISTAN



## **PREFACE**

Articles 169 and 170 of Constitution of the Islamic Republic of Pakistan, 1973 read with Section 15 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 require the Auditor-General of Pakistan to perform functions and exercise powers in relation to the audit including supplementary audit of the accounts of the public sector companies in accordance with the Companies Ordinance, 1984.

This Report is based on audit of the accounts of Khyber Pakhtunkhwa Oil and Gas Company Ltd. (KPOGCL) for the financial year 2022-23. The Directorate General Audit, Petroleum and Natural Resources, Lahore, conducted audit during May, 2024 on a test check basis, with a view to reporting significant findings to the relevant stakeholders. The main body of the audit report includes material audit findings. Relatively less significant issues have been listed in the **Annex-1** as MFDAC and will be pursued with the Principal Accounting Officer at Departmental Accounts Committee level and in all the cases where the PAO does not initiate appropriate action, the audit observation will be brought to the notice of the PAC through the next Year Audit Report.

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.

The observations included in this report have been finalized in light of discussion in the DAC meeting and written responses of the management.

There are certain audit findings which were also reported in the previous years' Audit Report for the financial years 2014-15 to 2020-21. Recurrence of such irregularities is matter of concern and needs to be addressed.

The Audit Report is submitted to the Governor of Khyber Pakhtunkhwa in pursuance of Article 171 of Constitution of the Islamic Republic of Pakistan, 1973, for causing it to be laid before Provincial Assembly.

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Islamabad  
Dated: February 25, 2025

(Muhammad Ajmal Gondal)  
**Auditor-General of Pakistan**



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## **ABBREVIATIONS AND ACRONYMS**

AY	Audit Year
BoD	Board of Directors
CCI	Council of Common Interest
CEO	Chief Executive Officer
CGU	Corporate Governance Unit
CIA	Chief Internal Auditor
COSA	Crude Oil Sale Agreement
DP	Draft Para
DAC	Departmental Accounts Committee
DGPC	Director General Petroleum Concession
E&P	Energy and Power
FBR	Federal Board of Revenue
FY	Financial Year
G&G	Geological and Geophysical
GSA	Gas Sale Agreement
HR	Human Resource
JV	Joint Venture
KP	Khyber Pakhtunkhwa
KPOGCL	Khyber Pakhtunkhwa Oil and Gas Company Ltd.
LMKR	LMK Resources Private Ltd.
MD	Managing Director
MFDAC	Memorandum for DAC
MPCL	Mari Petroleum Company Limited.
OCM	Operational Committee Meeting
OGDCL	Oil and Gas Development Company Ltd.
PAC	Public Accounts Committee
PAO	Principal Accounting Officer
PCA	Petroleum Concession Agreement
PPRA	Public Procurement Regulatory Authority
RTO	Regional Tax Office
SNGPL	Sui Northern Gas Pipeline Ltd.



## **EXECUTIVE SUMMARY**

The Directorate General Audit, Petroleum and Natural Resources, Lahore is responsible for conducting audit of the Ministry of Energy (Petroleum Division), its attached departments and Public Sector Entities.

The Directorate General has a human resource of 75 officers which spent 18,397 man days. The annual budget allocated for the audit activities amounted to Rs 209.467 million for the financial year 2023-24. This office carried out audit of KPOGCL under the administrative control of Energy and Power Department of Khyber Pakhtunkhwa for the Financial Year 2022-23, during May, 2024. The objective of the compliance audit of KPOGCL was to examine, whether company hired Human Resource in a transparent manner, internal controls were established and procurement was carried out according to applicable laws. Audit scrutinized record at the KPOGCL head office, Peshawar. Interviews with management were also conducted to develop better understanding of the entity.

### **a. Scope of Audit**

The Directorate General Audit, Petroleum and Natural Resources conducted compliance audit of KPOGCL under administrative control of Energy and Power Department, Government of Khyber Pakhtunkhwa. Audit was carried out for the Financial Year 2022-23.

### **b. Audit Methodology**

The audit methodology included review of documents including BoD proceedings, HR manual issued by KPOGCL, procurement documents and other related events relevant to the organization. Corresponding files were also scrutinised and different issues revealed were discussed with the management. Sampling was done on random basis in accordance with the guidelines provided in Financial Audit Manual. Recruitment process was checked in detail and initial procurement was scrutinized in the light of applicable laws, rules and regulations.

### **c. Audit Impact**

This audit aims to enhance transparency in financial Management and strengthening internal controls in the auditee organization through its findings.

Effective utilization of funds on its core activity were reinforced and further strengthened on the recommendation of Audit.

**d. Comments on Internal Controls and Internal Audit Department**

Internal controls in any organization comprise policies, procedures, rules, regulations, and monitoring mechanisms which help preventing fraud and wastage of resources while enhancing value for money, efficiency and transparency in the management processes. Internal controls are an essential part of management's tools for achieving its objectives and goals. A number of internal control weaknesses were observed during audit and communicated to the respective management.

**e. Key Audit Findings**

Major issues of PSE included weak financial management leading to accumulation of receivables, failure to pay cash calls to operator and selection of blocks. Instances of violation of PPRA Rules were also observed. Due to ineffective asset management, the management could not get transfer of ownership and possession of company's vehicles.

Key instances of such lapses are listed below:

- i. KPOGCL did not pay cash calls to operator in Orakzai and Tirah Blocks which resulted in exchange loss - Rs 902.399 million;<sup>1</sup>
- ii. KPOGCL failed to recover outstanding amount of receivables from SNGPL - Rs 3.987 million;<sup>2</sup>
- iii. Irregular registration of company owned vehicles in the name of Energy and Power Department of government of Khyber Pakhtunkhwa – Rs 59.219 million;<sup>3</sup>
- iv. Illegal allotment of vehicles to government of Khyber Pakhtunkhwa's Energy and Power Department and loss to the company due to non-recovery of vehicle retained by redundant employee;<sup>4</sup>

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<sup>1</sup> Para 1.4.1

<sup>2</sup> Para 1.4.3

<sup>3</sup> Para 1.4.4

<sup>4</sup> Para 1.4.6

- v. KPOGCL failed to take prudent decision for selection of Lakki Block;<sup>5</sup> and
- vi. The management irregularly awarded procurement contract of (Decision Space) software.<sup>6</sup>

**f. Recommendations**

- i. The management is required to ensure timely payment of cash calls to operator to avoid exchange loss;
- ii. The management needs to recover the outstanding amount from SNGPL;
- iii. The management needs to get transfer the ownership of all vehicles in the name of the company;
- iv. The management is required to take immediate action to get back vehicles used outside the company;
- v. Energy and Power Department of government of Khyber Pakhtunkhwa is required to inquire the matter of selection of Lakki Block; and
- vi. The management needs to rationalise expenditure on procurement keeping in view need assessment of the company.

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<sup>5</sup> Para 1.4.7

<sup>6</sup> Para 1.4.10



## Chapter-1

### Khyber Pakhtunkhwa Oil and Gas Company Limited

#### 1.1(A) Introduction

Khyber Pakhtunkhwa Oil & Gas Company Limited (KPOGCL) was incorporated as Public Company on February 08, 2013 under Company Ordinance, 1984 as a provincial holding company of the Government of Khyber Pakhtunkhwa. KPOGCL is a provincial oil & gas holding company based in Peshawar. The company has an authorized capital of Rs 3,000,000,000 consisting of ordinary share of Rs 10 each. KPOGCL issued 300,000,000 of Rs 10 each in favour of Government of Khyber Pakhtunkhwa.

The company was established to carry out exploration and development of oil and gas resources, including production and sale of oil & gas related activities in the province of Khyber Pakhtunkhwa. According to HR manual of KPOGCL, approved sanctioned strength is 64 employees. The BoD of KPOGCL consists of ten members which consists of five ex-officio members. The detail is tabulated below:

Grade	Designation	Approved strength	Available strength
10A-	CEO / MD	1	1
EG-I	General Manger	3	0
MG-I	Manager	3	2
PG-I	Assistant Manager	8	5
PG-II	Senior	30	26
PG-III	Assistant	4	2
P-I	Junior Executives	3	3
P-II			
P-III			
P-IV	Driver / Naib Qasid	12	12
<b>Total</b>		<b>64</b>	<b>51</b>

(Source: Information provided by KPOGCL)

The appointing and terminating authority for various positions as detailed below:

<b>Position</b>	<b>Appointing Authority</b>	<b>Terminating Authority</b>
CEO	Government of KP on recommendation of Board of Directors	Government of KP on recommendation of Board of Directors
CFO and Company Secretary	Board of Directors on recommendation of the HR Committee	Board of Directors on recommendation of the HR Committee
Chief Internal Auditor	Board of Directors on recommendation of the Audit Committee	Board of Directors on recommendation of the Audit Committee
General Manager and Below	CEO	CEO

(Source: HR Manual of KPOGCL)

KPOGCL is acting as operator and non-operator in the following blocks:

<b>Sr. No.</b>	<b>Block name</b>	<b>Operator Name</b>	<b>Share of KPOGCL</b>
<b>Joint Venture Blocks up to 2.5%</b>			
1	Pezu	OGDCL	1.62%
2	Kulachi	OGDCL	2.05%
3	Baratai	OGDCL	2.50%
4	Peshawar East	MPCL	1.84%
5	Paharpur	KUFPEC (Relinquished)	2.43%
6	Karak North	Tallahassee Res Inc.	2.50%
7	Wali West	MPCL	2.50%
8	Orakzai	OGDCL	20%
9	Tirah	OGDCL	15%
<b>KPOGCL (Self operator)</b>			
10	Miran (Lakki Block Swapped with Miran)	KPOGCL	100%

(Source: Financial Statements of KPOGCL)

## (B) Comments on Budget and Accounts

Financial performance of the company is given below:

(Rs in million)

Details	2023	2022	2021	2020	2019	2018
Turnover	138.94	86.03	80.30	0.650	-	3.628
Royalty / cost of services	(57.09)	(53.44)	(48.44)	(15.607)	-	(0.424)
operating expenses	-	-	-	-	-	-
Gross loss	81.85	32.11	31.85	(14.95)	-	3.204
E&P expenditure	(97.34)	(927.69)	(7.19)	(31.894)	(27.086)	(39.036)
General and Administration expenses	(224.30)	(312.90)	(225.09)	(241.750)	(236.598)	(312.149)
Other income	(293.17)	56.40	37.70	104.545	91.170	84.061
Finance cost/Taxation	(8.27)	(3.20)	(1.90)	(2.714)	-	(0.223)
Loss before tax	(541.24)	(1155.28)	(164.62)	(156.598)	(172.515)	(264.143)

(Source: Financial Statements of KPOGCL)

## 1.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 971.817 million were raised in this report during audit of KPOGCL. Summary of audit observations classified by nature is as follows:

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Financial Management	910.812
B	Asset Management	59.219
C	Operations Management	-
D	HR/Employees Related Irregularities	1.786
E	Corporate Governance Related Issues	-

## 1.3 Compliance of PAC Directives

The company was incorporated in 2013 and only one audit report was printed by this Directorate. The report yet has to be discussed in PAC.

## **1.4 Audit Paras**

### **Financial Management**

#### ***1.4.1 Non-payment of cash calls to operator in Orakzai and Tirah Blocks - Rs 902.399 million***

According to Clause 3.1(C) of the Orakzai (20%) and Tirah (15%) Block's Farm Out Agreement, "KPOGCL undertakes to pay to OGDCL past cost in equivalent to Pakistan Rupees (at the exchange rate prevailing on the date of payment) as duly expended by OGDCL within 21 days from the date of receipt of executed Deed of Assignment by KPOGCL, being it proportionate working interest of past cost of each block respectively".

During audit of KPOGCL for the FY 2022-23, it was observed that the management signed a Farm out Agreement with OGDCL wherein KPOGCL agreed to accept 20% & 15% share of the assigned interest under the concession documents of Orakzai Block and Tirah Block respectively from OGDCL through a deed of assignment. The first cash call was sent by OGDCL on October 6, 2022 for payment of Rs 902.399 million (US\$ 3.267 million of Orakzai and US\$ 1.141 million of Tirah @ Rs 204.72/US\$). The cash calls were payable within 21 days i.e. on October 27, 2022. However, the same was outstanding as on June 30, 2023. This resulted in non-payment of cash calls amounting to Rs 902.399 million and exchange loss of Rs 362.249 million due to increase in dollar rate Rs 286.90 calculated as on June 30, 2023.

Audit is of the view that due to weak financial controls the management failed to pay the cash calls to OGDCL within due date

The matter was reported to the management in June, 2024. The management in its reply dated July 25, 2024 stated that delay in payments was due to shortage of funds with the Provincial Government and payments would be made as soon as funds were released to KPOGCL. The management provided documents about payment of Rs 500 million to OGDCL.

The DAC in its meeting held on November 6, 2024 directed the management to pay JV liabilities related to Orakzai and Tirah Blocks and verify the record related to payment made to the operator. No further progress was reported till finalization of the report.

Audit recommends to pay off the commitments/liabilities within due date to avoid exchange losses.

[DP No. 2872]

#### ***1.4.2 Non-payment of withholding tax - Rs 4.426 million***

According to Section 153(1(b) & (c) 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 or the rendering of or providing of services except where payment is less than thirty thousand rupees in aggregate, during a financial year on the execution of a contract, including contract signed by a sports person but not including a contract for the sale of goods or the rendering of or providing services, shall, at the time of making the payment, deduct tax from the gross amount payable (including sales tax, if any) at the rate specified in Division III of Part III of the First Schedule.

During audit of KPOGCL for the FY 2022-23, it was observed that FBR served a notice on October 3, 2023 to ascertain the factual position of tax deduction relating to various heads of accounts reflected in tax return which was adjourned on the request of KPOGCL. However, the management failed to provide reconciliation and FBR served second notice on October 12, 2023. On due date the KPOGCL submitted online reply to the notice. Upon which FBR cleared all heads except total tax payable under direct expenses and other indirect expenses heads aggregating to Rs 4.426 million. However, the management did not deposit the same to the government exchequer.

Audit is of the view that weak tax management of the company resulted in failure to comply with the provisions of the tax laws.

The matter was reported to the management in June, 2024. The management in its reply dated July 25, 2024 stated that application for stay was filed against recovery of demand initiated in pursuance of order u/s 161(1) of the Income Tax Ordinance, 2001 for tax year 2021 passed by the Assistant/Deputy Commissioner Inland Revenue, RTO, Peshawar. Last date of hearing was May 31, 2024.

The DAC in its meeting held on November 6, 2024 directed the management to pursue the case vigorously and intimate the decision of the FBR on the matter. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter with FBR vigorously.

[DP No. 2880]

#### ***1.4.3 Non-recovery of receivables from SNGPL - Rs 3.987 million***

According to Rule 4(3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Act and these Rules. His responsibilities include implementation of strategies and policies approved by the Board, 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. Further, as per invoices issued to SNGPL, the due date for payment against supply of gas is 30 days.

During audit of KPOGCL for the FY 2022-23, it was observed that the company sold gas of Dhok Hussain field to SNGPL amounting to Rs 44.985 million during July, 2020 to January, 2022 and recovered Rs 40.998 million. Management failed to recover the partial outstanding amount against supply of gas to SNGPL. Further, the invoices issued and amount received from SNGPL was also not properly reconciled. This resulted in non-recovery of Rs 3.987 million.

Audit is of the view that weak financial controls resulted in non-recovery of outstanding balance.

The matter was reported to the management in June, 2024. The management in its reply dated July 25, 2024 stated that an amount of Rs 40.998 million had been received from SNGPL and the remaining amount was outstanding due to dispute of off-spec issue. The recovered amount has been verified by Audit.

The DAC in its meeting held on November 6, 2024 settle the para, subject to the verification of recovered amount and take up the matter with SNGPL to resolve the matter of off-spec. No further progress was reported till finalization of the report.

Audit recommends to recover the balance amount from SNGPL.

[DP No. 2878]

## **Assets Management**

### ***1.4.4 Irregular registration of company owned vehicles in the name of Energy and Power Department– Rs 59.219 million***

According to Section 5(5)(a) of Public Sector (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.

During audit of KPOGCL for the FY 2022-23, it was observed that the 33 vehicles like, Toyota Vigo, Honda City, Suzuki Wagon-R purchased during years 2014 to 2017 reflected in the financial statements were got registered with Excise and Taxation Department under the ownership of Energy & Power Department of KP government instead of KPOGCL. This resulted in irregular registration of vehicles valuing Rs 59.219 million.

Audit is of the view that weak internal control and ineffective management deprived the company from the ownership of vehicles

The matter was reported to the management in June, 2024. The management replied that KPOGCL is a Provincial Holding Company and fully owned by the Government of Khyber Pakhtunkhwa under the umbrella of Energy & Power Department KP. It was a common practice within the province that autonomous and semi-autonomous bodies register their vehicles under the name of their parent departments. The reply of the management was not tenable as an asset purchased by KPOGCL, whether tangible or intangible, were owned by the company must be registered under the ownership of company instead of shareholders or administrative directors.

The DAC in its meeting held on November 6, 2024 directed the management to transfer the ownership of vehicles to the name of the company

(KPOGCL) in Excise and Taxation record at earliest. No further progress was reported till finalization of the report.

Audit recommends that ownership of all vehicles may be transferred in the name of the company at earliest.

[DP No. 2873]

#### ***1.4.5 Loss due to non-recovery of vehicle retained by redundant employee***

According to Clause 14.5(v) of Fixed Assets Policy, “in case of item in custody of officers / staff of the KPOGCL, recovery of its value shall be made from their payroll by Finance Department as per their SOP and approval / recommendation of CEO and upon termination of services, all department to sign the clearance form, final settlement shall be made after any deduction /recovery of assets”.

During audit of KPOGCL for the FY 2022-23, it was observed that Chief Field Geologist redundant from service on September 5, 2023 under right sizing policy duly approved by the BoD in its 64<sup>th</sup> meeting. However, a vehicle (Honda City) bearing registration No. AA-3825 allotted to him for official duty was not received back by the company which resulted in loss to the company.

Audit is of the view that due to weak internal control the management failed to recover the company vehicle from the redundant employee.

The matter was reported to the management in June, 2024. The management in its reply dated July 25, 2024 stated that KPOGCL’s Legal Department submitted an application before Police Station Tehkal dated November 13, 2023 for recovery of the vehicle from Chief Field Geologist who got stay order. As soon as the case was decided by the Court, the said vehicle would be recovered.

The DAC in its meeting held on November 6, 2024 directed the management to ensure the recovery of vehicle from the redundant employee as per law besides pursuing the court case vigorously. No further progress was reported till finalization of the report.

Audit recommends to recover the vehicle besides pursuing the Court case vigorously.

[DP No. 2877]

#### ***1.4.6 Illegal allotment of vehicles to KP government's Energy and Power Department***

According to Rule 4(3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Act and these rules. His responsibilities include implementation of strategies and policies approved by the Board, 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 KPOGCL for the FY 2022-23, it was observed that company had 39 vehicles (33 Cars and 6 Motor bikes) out of which 15 vehicles were in un-authorized use of Energy & Power Department, Government of KP. Most of these vehicles were in custody with the E&P department since 2016 to onward. Audit holds that the Management KPOGCL failed to safeguard the company's assets. Moreover, misuse of vehicles showed that management was not playing its role effectively.

Audit is of the view that weak internal control and ineffective management of the company led to misuse of company's vehicles by the Energy & Power department Government of KP.

The matter was reported to the management in June, 2024. The management in its reply dated July 25, 2024 stated that the vehicles are being used by the administrative department for official purposes. However, in light of the Board decision KPOGCL intends to dispose-off the surplus vehicles.

The DAC in its meeting held on November 6, 2024 directed the management to recover the vehicles from Energy and Power Department at earliest. No further progress was reported till finalization of the report.

Audit recommends that the management take an immediate action to get back vehicles used outside the company immediately.

**Note:** The issue was reported earlier also in the Audit Report for Audit Year 2021-22 vide para number 1.4.23 having financial impact of Rs 0.337 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2888]

## **Operations Management**

### ***1.4.7 Imprudent decision for selection of Lakki Block***

According to Rule 4(3) of the Public Sector Companies (Corporate Governance) Rules, 2013, “the Chief Executive is responsible for the management of Public Sector Company and for its procedure in financial and other matter, subject to oversight and directions of the Board, in accordance with the ordinance and these rules”.

During audit of KPOGCL for the FY 2022-23, it was observed that management of KPOGCL requested the Ministry of Petroleum & Natural Resources for allocation of new block in Khyber Pakhtunkhwa. On April 8, 2016, KPOGCL requested the DGPC for provision of technical (seismic and well) data and same was purchased from LMKR for issuance of reconnaissance permit for Lakki Block. The company requested for equity investment of Rs 3.85 Billion showing probability of success 14.4% and IRR 29.4%. Meanwhile, the Council of Common Interest (CCI) in its 34<sup>th</sup> meeting held on November 24, 2017 decided one time relaxation to award one block to each Provincial Holding Company in its Province without competitive bidding. The management of KPOGCL opted Lakki Block with commitments of 750 work units and proceeded for Petroleum concession Agreement which was signed on September 12, 2018. The company offered for farm-in to E&P companies for Joint Venture but no one opted the opportunity. Later on the summary was moved by KPOGCL through Energy and Power Department to swap the Lakki Block with Miran Block with same work units and the CCI decided to swap the Lakki Block with Miran Block. This resulted in wastage of time and resources for selection of non-prospective block with 750 work units translated into huge financial exposure.

Audit is of the view that as per CCI decision, KPOGCL was bestowed with a golden opportunity to evaluate all the available open acreages and choose the best out of the potentially prospective block, but due to imprudent decision regarding selection of block resulted in wastage of time and resources.

The matter was reported to the management in June, 2024. The management in its reply dated July 25, 2024 stated that the applications submitted for Lakki Block, Shekh Budin (Gul Imam) and Surghar ranges, DGPC awarded the Lakki Block only to KPOGCL on September 12, 2018. After analysis of G&G data purchased from LMKR, it was concluded that all the structures in Lakki Block were less potential / high risk except the Sheikh Budin (Gul Imam) structure. The reply of the management was not tenable as the 25<sup>th</sup> Amendment of Constitution of Pakistan received assent from President of Pakistan on May 31, 2018, while the DG (PC) awarded the Lakki Block to KPOGCL on September 12, 2018.

The DAC in its meeting held on November 6, 2024 directed to inquire the matter by Energy and Power Department of KP through appropriate forum regarding the para. No further progress was reported till finalization of the report.

Audit recommends to inquire the matter and fix the responsibility.

[DP No. 2875]

#### ***1.4.8 Non-transfer of undischarged work units of relinquished blocks***

According to Rule 28 of the Pakistan Onshore Petroleum (Exploration and Production) Rule, 2013, each working interest owner shall either pay the liquidated damages corresponding to its share in un-discharged work unit or transfer its respective share of undischarged work unit to other blocks in which the party has an existing interest in.

During audit of KPOGCL for the FY 2022-23, it was observed that operator of Paharpur Block relinquished / surrendered the block on February 24, 2020 and informed the DG (PC) that out of total 950 work units 754 work units were discharged and 196 work units remained undischarged. KPOGCL wide letter dated July 16, 2020 also communicated to DG (PC) for relinquishment / surrender and requested to transfer its share of 4.762 work units to Peshawar East Block. Similarly, in Operation committee in meeting held on October 20, 2020, resolutions were passed that there was no lead / prospect in Kulachi Block which warrant to be further evaluated / tested. Therefore, operator recommended and JV Partner agreed to relinquish Kulachi Block with effect from January 7,

2021. KPOGCL's 14.12 work units was unconsumed which required to be transferred to another block. The management did not follow the case for transfer of the un-discharged work units to Peshawar East. The company had also declared Force Majeure over Peshawar East. This resulted in slack follow up the case with DG (PC) for transfer of undischarged work units.

Audit is of the view that due to weak project management of the company resulted non-transfer of work units.

The matter was reported to the management in June, 2024. The management in its reply dated July 25, 2024 stated that the matter was pending with DG (PC).

The DAC in its meeting held on November 6, 2024 directed the management to pursue the matter with Regulator.

Audit recommends that case for transfer of undischarged work units regarding relinquished / surrendered blocks be followed with Regulator.

[DP No. 2894]

#### ***1.4.9 Non-finalization of COSA and GSA of Dhoke Hussain field***

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

During audit of KPOGCL for the FY 2022-23, it was observed that KPOGCL supplied gas to Sui Northern Gas Pipeline and Crude oil to Attock Refinery Limited from Dhok Hussain field. However, Gas Sales Agreement (GSA) and Crude Oil Sale Agreement (COSA) of the Dhok Hussain field were not finalized by the respective authorities since commercial discovery i.e. June, 2020. This resulted in sale of petroleum product without agreements.

Audit is of the view that due to weak contract management the management failed to pursue the finalization of GSA and COSA.

The matter was reported to the management in June, 2024. The management in its reply dated July 25, 2024 stated that the GSA had been

executed while the Operator & KPOGCL were already in liaison with DG (Oil), Petroleum Division for approval of COSA.

The DAC in its meeting held on November 6, 2024 directed the management to provide the GSA for verification and pursue the matter of COSA vigorously. No further progress was reported till finalization of the report.

Audit recommends to follow the matter with DG (Oil) regarding finalization of the COSA.

[DP No. 2890]

#### ***1.4.10 Irregular procurement of “Decision space software”***

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”.

During audit of KPOGCL for the FYs 2014-15 to 2020-21, it was observed that the management procured “Decision Space software” along with its annual maintenance and service charges for Rs 44.202 million in which discrepancies / short comings were noticed. The management did not procure the hardware for the installation of specialized software. However, Halliburton provided two laptops for the installation of software to KPOGCL. The management also overlooked the utilization of software for an initial period of three years. In a query, the management complained to the vendor for non-providing onsite support for which vendor informed that onsite support would be provided on request by licensee.

Further, after the installation of software, the management got revised quotation from the vendor i.e. M/s Halliburton on October 08, 2015. Purchase order was issued to Halliburton on August 13, 2015 and receiving was signed on November 26, 2015 with alteration of date. Vendor also claimed three years maintenances & services charges to activate the license for the period in which no active software was used by the management. The management procured software in haphazard without any need assessment and at the time of delivery technical evaluation was not done as well as goods were received by non-

technical officer. Due to these discrepancies procurement of “Decision space software” was held irregular.

Audit is of the view that irregular procurement of “Decision space software” was made without any need assessment resulting in wasteful expenditure.

The matter was reported to the PAO / management in June, 2020. The management in its reply dated June 02, 2022 stated that the matter of need assessment, procurement of software and its effective utilization was an agenda item and would be placed before the Technical Committee of the BoD in their next meeting for review and decision. The reply of the management was not tenable because the procurement of software was made without any need assessment.

The DAC in its meeting held on June 15, 2022 directed the Energy & Power department to refer the case to the Monitoring & Evaluation Cell of Planning & Development Department for inquiry. No further progress was reported till the finalization of the report.

Audit recommends to inquire the matter and share the report.

[DP No. 1797]

## **HR / Employees Related Irregularities**

### ***1.4.11 Inadmissible payment of gratuity to the employees – Rs 1.129 million***

According to clause 6.1 of HR Manual of the KPOGCL, all employees who have completed their 1 year of service shall be eligible for gratuity. Once the employee becomes eligible for gratuity fund, his gratuity shall be calculated retrospectively, i.e. from the date of joining as an employee of KPOGCL. For every completed year of service, one last drawn gross salary shall be paid as gratuity upon separation from the services. Service period equal to six months or exceeding six months in the respective year shall be deemed as a complete year of services for the purpose of gratuity. Service period less than 6 months shall not be taken in to account while calculating gratuity.

During audit of KPOGCL for the FY 2022-23, it was observed that three employees of the company who were only transitioned from one post to other

post within the company but did not leave the company and still serving. However, the management paid gratuity to these employees amounting to Rs 1.129 million.

Audit is of the view that due to weak financial management resulted in inadmissible payment of gratuity during continuous of service in the company.

The matter was reported to the management in June, 2024. The management in its reply dated July 25, 2024 stated that these employees were hired on the higher Grade / Pay through competitive process; they were neither transferred nor promoted through our internal policy.

The DAC in its meeting held on November 6, 2024 directed the management to conduct the departmental inquiry to ensure that the payments were made to daily wage and regular employee as per prevailing HR policy. No further progress was reported till finalization of the report.

Audit recommends to inquire the matter besides implementing the HR policy in true letter and spirit.

[DP No. 2892]

***1.4.12 Short-deduction of income tax due to non-inclusion of POL reimbursement in taxable salary – Rs 0.657 million***

According to Sections 12 & 13 of Income Tax Ordinance, 2001, salary means any amount received by an employee from any employment, whether of a revenue or capital nature, including 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, any perquisite, whether convertible to money or not.

During audit of KPOGCL for the FY 2022-23, it was observed that the management did not deduct the income tax on perquisites i.e. fuel reimbursement, while making payments of salaries to employees for the year 2021-22 and 2022-23. This resulted in less deduction of income tax amounting to Rs 0.657 million.

Audit is of the view that weak internal controls resulted in less deduction of Rs 0.657 million.

The matter was reported to the management in June, 2024. The management in its reply dated July 25, 2024 stated that FBR recently conducted audit of KPOGCL for the FY 2020 including the salary head and had declared all salary deductions as per law. The reply of the management is not tenable as all types of perquisites received by employer are taxable as per law.

The DAC in its meeting held on November 6, 2024 directed the management to initiate the recovery from employees and issue notices to redundant employees and ensure compliance in future. No further progress was reported till finalization of the report.

Audit recommends to recover the income tax from concerned.

**Note:** The issue was reported earlier also in the Audit Report for Audit Year 2021-22 vide para number 1.4.19 having financial impact of Rs 2.820 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2881]

## **Corporate Governance Related Issues**

### ***1.4.13 Non-conducting the performance evaluation of the Board***

According to rule 8(1) of the Public Sector Companies (Corporate Governance) Rules, 2013, the performance evaluation of members of the Board including the chairman and the chief executive shall be undertaken annually by the Government for which the Government shall enter into performance contract with each member of the Board at the time of his appointment.

During audit of KPOGCL for the FY 2022-23, it was observed that performance evaluation of members of the Board including the Chairperson was not undertaken by the Government for which the government was to enter into performance contract with each member of the Board at the time of his or her appointment. This resulted in non-evaluation of performance of the Board members since April, 2022.

Audit is of the view that poor governance resulted in non-compliance of Corporate Governance Rules.

The matter was reported to the management in June, 2024. The management in its reply dated July 25, 2024 stated that former Board

performance assessment was conducted by the Corporate Governance Unit (CGU) of the Finance Department KP Whereas the incumbent Board performance had also been entrusted to the CGU which was under process.

The DAC in its meeting held on November 6, 2024 directed that the Energy and Power Department KP would pursue the matter with the Finance Department. No further progress was reported till finalization of the report.

Audit recommends to follow up the matter with the government for finalization of performance evaluation of Board members.

[DP No. 2884]

#### ***1.4.14 Non-conducting the performance evaluation of higher management and staff***

According to Rule 8(2) of the Public Sector Companies (Corporate Governance) Rules 2013, the Board shall monitor and assess the performance of senior management on a periodic basis, at least once a year, and hold them accountable for accomplishing objectives, goals and key performance indicators set for this purpose. Further, according to HR Manual of the company, performance reviews for all employees will occur at the end of each financial year by the respective Head of Department on the prescribed format.

During audit of KPOGCL for the FY 2022-23, it was observed that performance evaluation / appraisal of senior management including CIA, CFO and Company Secretary as required under the rules was not carried out during financial years 2021-22 and 2022-23. It was further observed that performance appraisal of all employees was also not conducted for the financial year 2022-23. This resulted in non-compliance of rules and HR policy.

Audit is of the view that due to poor corporate governance the management failed to conduct performance appraisal of senior management and other employees.

The matter was reported to the management in June, 2024. The management in its reply dated July 25, 2024 stated that performance appraisal of all employees including senior management had not been conducted for the financial year 2022-23 as there were no Key Performer Indicators (KPIs) While, KPIs based performance evaluation had been carried out for FY-2023-24.

The DAC in its meeting held on November 6, 2024 directed the management to seek the BoD endorsement of the management's assertion. No further progress was reported till finalization of the report.

Audit recommends that the performance evaluation of senior management and other employees be conducted.

[DP No. 2886]

## **ANNEXES**



**Annex-1****MFDAC PARAS**

(Rs in million)

<b>Sr. No.</b>	<b>Formation</b>	<b>Para No. / DP No.</b>	<b>Description</b>	<b>Amount</b>
1	KPOGCL	2870	Inadmissible adjustment of salary of Provincial Director in DG (PC) against training fund obligations- Rs 13.057 million	13.057
2	-do-	2879	Non-Disposal of security equipments lying idle since 2018 –Rs 11.259 million	11.259
3	-do-	2874	Irregular payment of stipend to internees without selection criteria -Rs 1.095 million	1.095
4	-do-	2882	Unauthorized payment of salary to employees posted with Provincial director office in DG (PC) Islamabad - Rs 0.547 million	0.547
5	-do-	2885	Non-conduct of Internal Audit for the FYs 2021-22 and 2022-23	-
6	-do-	2889	Irregular appointment of Chief Executive Officer on acting charge basis and non-appointment of regular CEO	-
7	-do-	2891	Non-registration of motor cycles with excise and taxation department – Rs 0.617 million	0.617
8	-do-	2893	Non-recovery of insurance claims submitted by employees -Rs 1.093 million	1.093
9	-do-	2895	Inefficient HR Policy resulted in high employee's turnover	-