



**AUDIT REPORT
ON
THE ACCOUNTS OF
PETROLEUM DIVISION
AND
OIL AND GAS REGULATORY
AUTHORITY
AUDIT YEAR 2018-19**

AUDITOR-GENERAL OF PAKISTAN

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ABBREVIATIONS AND ACRONYMS

ADP	Annual Development Programme
AG	Accountant General
AGP	Auditor-General of Pakistan
AGPR	Accountant General Pakistan Revenues
APPM	Accounting Policies and Procedures Manual
ARPSE	Audit Report Public Sector Enterprises
BESOS	Benazir Employees Stock Option Scheme
BOC	Burmah Oil Company
BoD	Board of Directors
BoM	Board of Management
BoQ	Bill of Quantity
BPS	Basic Pay Scale
CAGM	Composite Associated Gas Mixture
CAO	Chief Accounts Officer
CCI	Council of Common Interest
CEC	Credit Evaluation Committee
CEO	Chief Executive Officer
CF	Credit Finance
CFO	Chief Financial Officer
CGA	Controller General Accounts
CMS	Consumer Meter Station
CNG	Compressed Natural Gas
CNIC	Computerized National Identity Card
CPO	City Police Officer
CSR	Corporate Social Responsibility
DGA, PNR	Director General Audit, Petroleum and Natural Resources
DG (PC)	Director General Petroleum Concession
DGM	Deputy General Manager
DMD	Deputy Managing Director
DRS	District Regulator Station
DST	Drill Surface Test
ECC	Economic Co-ordination Committee
EFP	Engineering Field Party

EOBI	Employees' Old-Age Benefits Institution
ERR	Estimated Revenue Requirement
E&P	Exploration & Production
EPC	Engineering Procurement Construction
FBR	Federal Board of Revenue
FC	Frontier Corps
FCA	Federal Civil Account
FCB	Frontier Constabulary of Balochistan
FCF	Federal Consolidated Fund
FD	Finance Division
FED	Federal Excise Duty
FGCP	Field Gathering and Construction Party
FIA	Federal Investigation Agency
FSRU	Floating Storage and Re-gasification Units
FRR	Final Revenue Requirement
FY	Financial Year
GDS	Gas Development Surcharge
GFR	General Financial Rules
GHPL	Government Holding Pvt. Limited
GIC	Gas Internally Consumed
GIDC	Gas Infrastructure Development Surcharge
GM	General Manager
GoB	Government of Balochistan
GoP	Government of Pakistan
GPPs	Government Power Producers
GSD	Gas Security Deposit
GSP	Geological Survey of Pakistan
GST	General Sales Tax
HBA	House Building Advance
HBL	Habib Bank Limited
HHU	Hand Held Unit
HSD	High Speed Diesel
HoD	Head of Department
HR	Human Resource
HSFO	High Sulphur Furnace Oil

IA	Implementation Agreement
IAS	International Accounting Standards
IGFC	Inspector General Frontier Corps
IPC	Inter Provincial Coordination
IPPs	Independent Power Producers
ISGS	Inter State Gas System
JCR	Job Completion Report
JJVL	Jamshoro Joint Venture Limited
JV	Joint Venture
KM	Kilometer
KMI	Key Monitoring Indicator
KPID	Key Point Installation Division
KPMG	Klynveld Peat Marwick Goerdeler
LAC	Land Acquisition Collector
LAC	Land Assessment Committee
LCDCL	Lakhra Coal Development Company Limited
LD	Liquidity Damages
LDC	Lower Division Clerk
LMKR	Land Mark Resources
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
LSA	LNG Service Agreement
MCF	Metric Cubic Feet
MD	Managing Director
MEPCO	Multan Electric Power Company
MFDAC	Memorandum for Departmental Account Committee
MMBTU	Million Metric British Thermal Unit
MMCF	Million Metric Cubic Feet
MMSCF	Million Standard Cubic Feet
MNA	Member National Assembly
MoA	Memorandum of Agreement
MOE-PD	Ministry of Energy-Petroleum Division
MP	Management Position
MPCL	Mari Petroleum Company Limited
MQTU	Mobile Quality Testing Unit

MRDL	MCC Resource Development (Pvt.) Limited
MT	Metric Ton
MTBF	Medium-Term Budgetary Framework
NFR	Non Fuel Retailers
NGL	Natural Gas Liquids
NGRA	Natural Gas Regularity Authority
NHA	National Highway Authority
NICL	National Insurance Company
NITB	National Information Technology Board
NIT	National Investment Trust
NLC	National Logistic Cell
NOC	No objection Certificate
OCAC	Oil Companies Advisory Council
OEM	Original Equipment Manufacturer
OGDCL	Oil and Gas Development Company Limited
OGRA	Oil and Gas Regulatory Authority
OMCs	Oil Marketing Companies
PAC	Public Accounts Committee
PAO	Principal Accounting Officer
PB&MC	Procurement Budget & Material Control
PBG	Performance Bank Guarantee
PCA	Petroleum Concession Agreement
PCR	Petty Cash Report
PD	Project Director
PDC	Price Differential Claim
PEC	Pakistan Engineering Council
PHA	Parks and Horticulture Authority
PICIC	Pakistan Industrial Credit and Investment Corporation
PIDC	Pakistan Industrial Development Corporation
PLL	Pakistan LNG Limited
PLTL	Pakistan LNG Terminal Limited
PMDC	Pakistan Mineral Development Corporation
PO	Purchase Order
POL	Petrol, Oil and Lubricant
PPEPCA	Pakistan Petroleum Exploration & Production Companies Association

PPL	Pakistan Petroleum Limited
PPRA	Public Procurement Regulatory Authority
PPRs	Public Procurement Rules
PSEs	Public Sector Enterprises
PSO	Pakistan State Oil
RLNG	Re-gasified Liquefied Natural Gas
R&D	Research & Development
RoA	Return on Assets
ROs	Regional Offices
RoW	Right of Way
RRC	Rate Running Contract
SA	Supplementary Agreement
SAP	System application and Product
SBP	State Bank of Pakistan
SCP	Supreme Court of Pakistan
SECP	Securities and Exchange Commission of Pakistan
SGM	Senior General Manager
SLIC	State Life Insurance Corporation
SML	Saindak Metals Limited
SMS	Service Meter Station
SNGPL	Sui Northern Gas Pipelines Limited
SOP	Standard Operating Procedure
SRO	Statutory Regulatory Order
SST	Sindh Sales Tax
SSGC	Sui Southern Gas Company Limited
TBS	Town Border Stations
T&D	Transmission and Distribution
UFG	Un-accounted For Gas
VDR	Vehicle Daily Report
WACC	Weighted Average Cost of Capital
WHT	Withholding Tax
WIO	Working Interest Owner
WPPF	Working Profit Participation Fund

Preface

Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973 read with Sections 8, 12 and 15 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001 require the Auditor-General of Pakistan to conduct audit of the receipts and expenditure from the Federal Consolidated Fund, Public Account and that of Government Commercial Undertakings and of any Authority or Body established by the Federation.

This report is based on audit of the accounts of Ministry of Energy (Petroleum Division) of Government of Pakistan and all the organizations under this Ministry for the financial year 2017-18. The report also includes results of audit of Oil and Gas Regulatory Authority under Cabinet Division. The Director General Audit Petroleum and Natural Resources, Lahore, conducted audit during the period from August 27, 2018 to November 30, 2018 on a test check basis, with a view to report significant findings to the relevant stakeholders. The main body of the Audit Report includes the systemic or significant issues and audit findings of material nature. Relatively less significant issues have been listed in the Annex-I (MFDAC). The audit observations listed in the Annex-I shall be pursued with the relevant Principal Accounting Officers (PAOs) of the Divisions at Departmental Accounts Committee (DAC) level.

Most of the observations included in this report have been finalized in light of the discussions held in Departmental Accounts Committee meetings.

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

Dated: 11 February 2019

(Javaid Jehangir)
Auditor-General of Pakistan

EXECUTIVE SUMMARY

The office of the Director General Audit, Petroleum and Natural Resources, Lahore (DGA, PNR) carries out audit and evaluation of Ministry of Energy (Petroleum Division), Public Sector Enterprises under the Ministry and Oil & Gas Regulatory Authority under Cabinet Division. Sections 8, 12 & 15 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 empowers the Auditor-General of Pakistan to conduct audit of Public Sector Enterprises. The audit was carried out on test check basis in accordance with Financial Audit Manual. In order to undertake the Audit for FY 2017-18, a total of 13,385 man days have been allocated for field audit activity.

The annual budget of the Director General Audit, Petroleum & Natural Resources Lahore allocated for audit for the year 2018-19 amounted to Rs 136.660 million. This report contains results of audit inspection and evaluation of financial performance of entities under the jurisdiction of this office for the financial year 2017-18 conducted during the year 2018-19.

This report also contains comments on the audited annual accounts of 9 Public Sector Enterprises (7 pertain to the financial year 2017-18 and 2 to the previous year). However, comments on accounts of 7 organizations (**Annex-2**) could not be included in this report as the concerned management failed to submit their audited accounts by the prescribed date i.e. December 31, 2018.

a. Scope of Audit

The jurisdiction of DGA, PNR, Lahore extends to revenue and expenditure of Ministry of Energy (Petroleum Division) (MOE-PD), fifteen Public Sector Enterprises under this Ministry and Oil & Gas Regulatory Authority under Cabinet Division. As per Audit Plan 2018-19, the DGA, PNR, Lahore audited the accounts of 7 Public Sector Enterprises for the year 2017-18.

The total budget of organizations under the preview of DGA, PNR, Lahore was Rs 2,523.41 billion. The budget of entities audited by DGA, PNR, Lahore, during the year 2018-19 was Rs 1,872.539 billion. The same was included in audit coverage of selected entities.

b. Recoveries at the instance of audit

The audit observations in this report pointed out a total recovery of Rs 708,568 million. A recovery of Rs 9,297 million has already been made till finalization of this report. Out of this amount recovery of Rs 4,417 million has been made on the pointation of Audit whereas an amount of Rs 4,880 million was expedited by Audit.

c. Audit Methodology

The audit of the accounts for the year 2017-18 of the audited organizations started from audit planning which included consulting and updating the permanent files. Desk audit and in-house audit planning sessions were held to develop understanding of the entities and define core objectives for the subject audit exercise. Accordingly, high risk areas based on financial and managerial significance with reference to each entity were identified. Sources of information such as Government's regulations / BoD proceedings and other related events relevant to the audited organizations were used as reference. Audit checks were applied keeping in view the nature of transactions, accounting standards and best auditing practices and the audit exercise was conducted on a sample selection basis of relevant types of transactions in accordance with the guidelines provided in Financial Audit Manual.

d. Audit Impact

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

- A decision was made by Law Division for clarification of indexation of rates of rent on license and lease due to the issue raised by Audit. Law Division had upheld the view point of Audit which is likely to enhance revenue substantially.
- On pointation of Audit, the Law Division has clarified that the share of Production Bonus of state owned companies like GHPL will be borne by other sharing companies of the same concession area. So the share of all companies will be recovered which will enhance the collection of Production Bonus.
- The management of SNGPL changed his policy on advice of audit regarding inclusion of income tax in capitalization cost of land.
- On advice of Audit the management of SNGPL revised procedure for fixation of reserve price for disposal of scrap lots.

e. Comments on Internal Controls

Internal controls in any organization take the form of policies, procedures, rules, regulations and monitoring mechanisms etc. These controls help to prevent fraud, waste, inefficiency and enhance confidence level of the management. Internal controls are essential part of management's efforts to

achieve its objectives and goals. A number of internal control weaknesses were observed during the audit and communicated to the respective management accordingly. A few instances are as follows:

- **Employment of Human Resources**

It was noticed that the Public Sector Enterprises were not observing regulations while making fresh appointments, re-employment of personnel and appointment of consultants etc. For example in case of MoE-PD, PPL, PSO, SNGPL and SSGC shortcomings in the hiring process were identified.

- **Financial Management**

Certain financial management weaknesses were noticed in MoE-PD that no mechanism was in place for monitoring the assessment / collection of revenue receipts, recovery of arrears of GDS, GIDC, Petroleum Levy and Royalties. In the case of PSO, PPL, SNGPL and SSGC, fraudulent practices and financial lapses were also noticed.

f. Key audit findings

- i. Non-production of record was reported in 4 cases.¹
- ii. Mis-procurement of purchases and hiring of services in violation of PPRA Rules, 2004, Procurement Manual and non-recovery of liquidated damages were reported in 27 cases amounting to Rs 5,873.792 million.²
- iii. Non-recovery of Non-Tax Receipts under different head of accounts was reported in 15 cases amounting to Rs 136,107.383 million.³

¹ Para 2.4.4.1, 2.5.4.1, 2.6.4.1, 3.1.4.1

² Para 2.1.5.13, 2.2.4.3, 2.2.4.4, 2.2.4.15, 2.2.4.16, 2.3.4.4, 2.3.4.9, 2.3.4.11, 2.4.4.2, 2.4.4.3, 2.4.4.4, 2.4.4.9, 2.4.4.12, 2.4.4.13, 2.4.4.15, 2.4.4.17, 2.5.4.31, 2.5.4.33, 2.5.4.42, 2.5.4.56, 2.6.4.11, 2.6.4.16, 2.6.4.20, 2.6.4.24, 2.6.4.25, 2.6.4.26, 3.1.4.8

³ Para 2.1.5.1, 2.1.5.2, 2.1.5.3, 2.1.5.4, 2.1.5.5, 2.1.5.10, 2.1.5.11, 2.1.5.12, 2.1.5.14, 2.1.5.15, 2.1.5.16, 2.1.5.17, 2.1.5.19, 2.1.5.22, 2.1.5.25,

- iv. 14 cases of non-recovery from customers / consumers were noticed - Rs 174,149.203 million.⁴
- v. Loss on account of gas theft by various customers was reported in 2 cases amounting to Rs 7,334.694 million.⁵
- vi. Loss on account of UFG due to negligence and poor performance of the management were reported in 2 cases - Rs 22,536.49 million.⁶
- vii. Non-recovery of Late Payment Interest from various customers - Rs 82,805 million.⁷
- viii. Irregular appointments and fixation of exorbitant pay package were noticed in 16 cases amounting to Rs 1,408.094 million.⁸
- ix. Wasteful expenditure was notices in 7 cases amounting to Rs 9,764.759 million.⁹
- x. Irregularities relating to land acquisition were noticed in 5 cases - Rs 658.573 million.¹⁰
- xi. Non-completion of development works within stipulated time amounting to Rs 17,397.018 million.¹¹
- xii. Non-deduction / deposit of Income Tax / Sales Tax amounting to Rs 906.978 million were pointed out in 7 cases.¹²

⁴ Para 2.4.4.18, 2.4.4.19, 2.4.4.20, 2.4.4.21, 2.4.4.22, 2.4.4.23, 2.5.4.8, 2.5.4.12, 2.5.4.24, 2.5.4.35, 2.6.4.3, 2.6.4.4, 2.6.4.5, 2.6.4.26

⁵ Para 2.5.4.3, 2.6.4.8

⁶ Para 2.5.4.6, 2.6.4.5

⁷ Para 2.4.4.19

⁸ Para 2.1.5.29, 2.2.4.24, 2.3.4.3, 2.3.4.5, 2.3.4.8, 2.3.4.10, 2.3.4.12, 2.3.4.14, 2.3.4.16, 2.3.4.17, 2.3.4.18, 2.3.4.22, 2.3.4.23, 2.4.4.6, 2.5.4.30, 2.5.4.40

⁹ Para 2.2.4.1, 2.2.4.10, 2.2.4.14, 2.2.4.16, 2.2.4.20, 2.2.4.21, 2.2.4.22

¹⁰ Para 2.2.4.7, 2.2.4.18, 2.5.4.25, 2.5.4.49, 2.5.4.57

¹¹ Para 2.5.4.7

¹² Para 2.1.5.24, 2.2.4.2, 2.2.4.19, 2.2.4.20, 2.5.4.46, 2.5.4.58, 2.6.4.12

Recommendations:

- i. PAOs need to take disciplinary action against the person(s) responsible for non-production of record and take steps for timely provision of record in future.
- ii. PAOs are required to ensure compliance of PPRA Rules, 2004, and Procurement Manuals and recover the liquidated damages immediately.
- iii. Petroleum Division was required to take steps for early recovery of Non-Tax Receipts under different heads.
- iv. The management of respective organizations is required to take necessary steps to recover the outstanding dues from customers / consumers.
- v. The management should have made extra efforts to prevent the escalating trend of theft besides fixing the responsibility on the persons at fault.
- vi. Key Monitoring Indicators, as approved by OGRA, should be implemented in true letter and spirit to reduce UFG losses.
- vii. The management of PSO should make vigorous efforts to recover the Late Payment Interest from various customers.
- viii. Appointments may be made in transparent manner and according to the respective HR policies of the organization with due regard to government policies on the matter.
- ix. The management may devise a policy for proper planning to avoid wastage of public resources.
- x. The management may take steps for acquisition of land under respective laws.
- xi. The management of SNGPL should complete the jobs within stipulated time and ensure appropriate action against the contractors who failed to complete the jobs.
- xii. The management of PSEs should ensure to put in place adequate internal checks for implementation of Federal / Provincial Tax Laws.

SUMMARY TABLES AND CHARTS

Table 1: Audit Work Statistics

(Rs in million)

Sr. No.	Description	No.	Budget
1	Total PAOs in Audit Jurisdiction	2	2,523,417
2	Total formations in Audit Jurisdiction	77	2,523,417
3	Total PAOs Audited	2	1,872,539
4	Total formations Audited	48	1,872,539
5	Audit Inspection Reports	48	1,872,539
6	Special Audit Reports	3	-
7	Performance Audit Reports	1	-
8	Other Reports		-

Table 2: Audit observations regarding Financial Management

(Rs in million)

Sr. No.	Description	Monetary value of audit observations
1	Unsound asset management	9,856
2	Weak financial management	480,364
3	Weak internal controls relating to financial management	325,661
4	Others	47,159
	Total	863,040

Table 3: Outcome Statistics

(Rs in million)

Sr. No.	Description	Expenditure on acquiring Physical Assets (Procurement)	Civil Works	Receipts	Others	Total current year	Total last year*
1	Outlays Audited	207,372	153,120	1,267,731	244,316	1,872,539	-
2	Monetary value of audit observations	13,991	6,015	700,747	142,287	863,040	-
3	Recoveries Pointed out at the instance of Audit	12,152	4,680	652,775	38,961	708,568	-
4	Recoveries Accepted / Established at the instance of Audit	2	45	640,197	7,204	647,448	-
5	Recoveries Realized at the instance of Audit	-	-	9,297	-	9,297	-

* This office was created on July 16, 2018.

Table 4: Irregularities pointed out

(Rs in million)

Sr. No.	Description	Monetary value of audit observations
1	Violation of rules and regulations and violation of principle of propriety and probity in public operations.	32,233
2	Reported cases of fraud, embezzlement, thefts and misuse of public resources	33
3	Accounting Errors (accounting policy departure from IAS, misclassification, over or understatement of account balances) that are significant but are not material enough to result in the qualification of audit opinions on the financial statements	656
4	Weaknesses of internal control systems	178,963
5	Recoveries and overpayments, representing cases of established overpayment or misappropriation of public money	647,441
6	Non-production of record	0
7	Others, including cases of accidents, negligence etc.	3707
Total		863,040

Table 5: Cost-Benefit

(Rs in million)

Sr. No.	Description	2017-18
1	Outlays Audited	1,872,539
2	Expenditure on Audit	109
3	Recoveries realized at the instance of Audit	9,297
4	Cost-Benefit Ratio	1:85

Chapter-1

Public Financial Management

1.1 Issues related to AGPR and M/o Energy (Petroleum Division)

Significant paras framed during Certification Audit of Non-Tax receipts of Ministry of Energy (Petroleum Division) and Geological Survey of Pakistan for FY 2017-18 are as under:

1.1.1 Delayed transfer of revenue to provinces due to late payment of Royalties on oil and gas by E&P companies - Rs 1,395 million

According to the Mines and Oil fields and Mineral Development (Government Control) Act 1948, read with Rule 36 of Pakistan Petroleum (Exploration and Production) Rules 1986 and Rule 35 of Pakistan Petroleum (Exploration and Production) Rules 2001, holder of a lease shall pay a Royalty at the rate of 12.5 per cent of the wellhead value of the petroleum produced and saved within 10 days (Rules 1986 *ibid*) and 45 days (Rules 2001 *ibid*) of the expiry of the calendar month in question.

During Certification Audit of receipts administered by Ministry of Energy (Petroleum Division), Islamabad for the FY 2017-18, it was observed that the E&P companies late deposited the government dues on account of Royalty on crude oil amounting to Rs 410 million and on natural gas amounting to Rs 985 million aggregating to Rs 1,395 million. The delay ranged from 7 to 226 days. Royalty on oil and gas is transferred directly to Provinces, therefore, any delay on part of E&P companies leads to delayed transfer to Provinces.

Audit was of the view that absence of provision of fine on late payment for the fields governed under E & P Rules, 1986 and weak monitoring by DG (PC) led to late deposit of Royalty.

The matter was reported to the PAO on November 09, 2018. The management in its reply dated December 06, 2018 explained that procedures for payment of Royalty by non-operators took approximately 25 days and it was not

possible for fields governed under E&P Rules, 1986 to make payment within 10 days.

The DAC in its meeting held on December 11, 2018 directed the management to provide evidence of efforts made for timely recovery of dues from E&P Companies. No further progress was reported till finalization of the report.

Audit recommends initiating effective measures for timely recovery of Royalty from E&P companies.

[MR-7]

***1.1.2 Loss of revenue due to late notification of petroleum levy on LPG
Rs 1,144.590 million***

According to Para 13(iii) of System of Financial Control and Budgeting, 2006 dated September 13, 2006, the estimates of Tax Revenues, Non Tax Revenues and Capital Receipts shall also first be coordinated and scrutinized by the Chief Finance and Accounts Officer and submitted with the approval of the Principal Accounting Officer to the Financial Adviser for approval. The estimates, as approved and verified by the Financial Adviser, shall be furnished to the Finance Division (Budget Wing) in accordance with the instructions contained in the Budget Call Circular. According to Finance Division Office Memorandum No. F 1(2)-BR-II/2013-580 dated July 14, 2017, budget estimates of Non-Tax Receipts showed that an amount of Rs 2,000 million was estimated to be collected under the head C03917-Petroleum Levy on LPG.

During Certification Audit of receipts administered by Ministry of Energy (Petroleum Division), Islamabad for the FY 2017-18, it was observed that the Petroleum Division could not impose Petroleum Levy on LPG timely in order to achieve the budget targets. It was imposed in November, 2017 after the lapse of 4 months which resulted in irrecoverable loss to the government to the extent of Rs 1,144.590 million calculated on the basis of production from July to October 2017.

Audit was of the view that late notification of Petroleum levy on LPG by DG (LGs) resulted in loss of Rs 1,144.590 million to government.

The matter was reported to the PAO on November 19, 2018. DAC in its meeting held on December 11, 2018 directed the Petroleum Division to conduct a fact finding inquiry regarding authorization for fixation of rate for petroleum levy on LPG and ascertain the reasons for delay in notification by DG (LGs). No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC.

[MR-10]

1.1.3 Significant deviation of actual collection with Budget Estimates

According to Para 13(iii) of System of Financial Control and Budgeting 2006, the estimates of Tax Revenues, Non-Tax Revenues and Capital Receipts shall first be coordinated and scrutinized by the Chief Finance and Accounts Officer and then submitted, with the approval of the Principal Accounting Officer, to the Financial Adviser. The estimates, as approved and verified by the Financial Adviser, shall be furnished to the Finance Division (Budget Wing) in accordance with the instructions contained in the Budget Call Circular.

During Certification Audit of receipts administered by Ministry of Energy (Petroleum Division), Islamabad for the FY 2017-18, it was observed that the Petroleum Division failed to realize the Gas Development Surcharge and Gas Infrastructure Development Cess as per the targets fixed in budget estimates and revised budget estimates. There was a significant difference between budget estimates and actual collection. The detail is as under:

(Rs in million)

Head of Account	Budget estimates	Revised budget estimates	Actual collection	Variation	Actual collection as percentage of budget estimates	Actual collection as percentage of revised budget estimates
GDS C03902	43,000	30,062	24,212	5,850	56.31%	80.54%
GIDC C03916	110,000	75,588	15,169	60,419	13.79%	20.07%

Audit was of the view that failure to prepare budget estimates on realistic basis led to non-achievement of budgeted targets by Petroleum Division.

The matter was reported to the PAO on November 19, 2018. The management in its reply dated December 07, 2018 stated that budget estimates were prepared by taking into account the sales volumes of gas companies. The companies made their best efforts for realization of GIDC but due to litigation budget targets were not achieved. The variance in GDS was due to circular debt issue.

The DAC in its meeting held on December 11, 2018 directed the management to pursue the court cases vigorously related to GIDC. DAC also directed to pursue recovery of GDS with the concerned authorities. No further progress was reported till finalization of this report.

Audit recommends to prepare the budget estimates on realistic basis by considering all relevant factors.

[MR-1]

1.1.4 Misclassification of Gas Infrastructure Development Cess, Natural Gas Development Surcharge and Petroleum Levy

According to Correction Slip No. 276 of Controller General of Accounts dated February 18, 2014, new detailed object heads of Account under element "B-Tax Revenue" are opened in Chart of Accounts. Consequently the GIDC, GDS and Petroleum levy were allotted heads of B03083, B03084 and B03085 respectively. Previously GIDC, GDS and Petroleum levy were dealt under the heads of C03916, C03902 and C03901.

During Certification Audit of receipts administered by Ministry of Energy (Petroleum Division), Islamabad for the FY 2017-18, it was observed that the Petroleum Division failed to realize the receipts under new heads of accounts despite lapse of considerable time. The Petroleum levy was being deposited by the companies in both heads of accounts.

Audit was of the view that non-opening of accounts or dealing the receipts in both heads of accounts showed weak monitoring by Petroleum

Division and resulted in deposit of the Tax Receipts as Non-Tax Receipts. As at the end of financial year, revenues were distributed among provinces according to the prescribed parameters and misclassification could impact the disbursement of revenues.

The matter was reported to the PAO on November 9 & 19, 2018. The DG (Gas) in its reply dated December 07, 2018 informed that matter of misclassification of head of accounts was being taken up with Finance Division. The DG (Oil) in its reply dated December 06, 2018 reported that intensive efforts had already been made for ensuring the realization of receipts under new head of accounts but still receipts were being realized in both new and old head of accounts. They further contended that Petroleum Levy was ultimately deposited in the Federal Government Treasury.

The DAC in its meeting held on December 11, 2018 directed the Petroleum Division to take up the matter with Finance Division and AGPR to resolve the issue. No further progress was reported till finalization of the report.

Audit recommends compliance of the decision of DAC besides taking up the matter with AGPR for booking of the receipts in correct heads of accounts.

[MR-3 & 6]

1.1.5 Non-reconciliation of receipts administered by DG Oil with AGPR

According to Para 5(d) of System of Financial Control and Budgeting, 2006 dated September 13, 2006, the Principal Accounting Officer shall make sure that the accounts of receipts shall be maintained properly and reconciled on monthly basis. Further, as per Para 7(i), the Chief Finance and Account officer shall monitor the progress of the expenditure and receipts and furnish, with the approval of the Principal Accounting Officer, a monthly statement of departmental expenditure and receipts to Financial Adviser's Organization and the Finance Division (Budget and Accounts Section - Budget Wing) by the 10th and the reconciled statement of expenditure and receipts by the 25th of the month following the month to which it relates.

During Certification Audit of receipts administered by Ministry of Energy (Petroleum Division), Islamabad for the FY 2017-18, it was observed that DG (Oil), Islamabad failed to reconcile the receipts collected and booked during the FY 2017-18 with the Accountant General of Pakistan Revenues. Further, DG (Oil) did not report on monthly basis the actual collection of receipts to Finance Division (Budget and Accounts Section - Budget Wing). DG (Oil) reported figures of collection of receipts to Finance Division in September, 2018.

Audit was of the view that in the absence of actual figures of collection of receipts administered by DG (Oil), Audit could not verify the accuracy and completeness of receipts reported to Finance Division.

The matter was reported to the PAO on November 09, 2018. DG (Oil) in its reply dated December 06, 2018 explained that the requirements could not be fulfilled due to shortage of staff. However, reconciliation of final figures had been carried out with AGPR.

The DAC in its meeting held on December 11, 2018 directed the Petroleum Division to provide sufficient accounts staff to the Directorates. DAC also directed to fulfil all requirements mentioned in audit para. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC.

[MR-4]

1.1.6 Non-existence of system for assessing the due receipts

As per Para 5(e) of System of Financial Control and Budgeting, 2006 dated September 13, 2006, in the matter of receipts pertaining to the Ministry / Division, Attached Departments and Subordinate Offices, the Principal Accounting Officer is expected to ensure that adequate machinery exists for due collection and bringing to account of all receipts of any kind connected with the functions of the Ministry / Division(s) / Departments and Subordinate Offices under his control.

During Certification Audit of receipts administered by Ministry of Energy (Petroleum Division), Islamabad for the FY 2017-18, it was observed that there was no mechanism in the Petroleum Division for assessment and collection of receipts. The Division only relied on the information provided by the companies concerned only the following record was available in the Division:

- i. Payment challans of Windfall Levy on Crude Oil;
- ii. Payment challans of Discount Retained on Crude Oil; and
- iii. Cash payment receipts.

The Division only considered receipts which was revealed in the challans provided by the oil companies and did not evaluate the due receipts of the Division by itself.

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

The matter was reported to the PAO on November 09, 2018. DG (Oil) stated that system had been developed in consultation with the major OMCs and refineries, and circulated to them for implementation.

The DAC in its meeting held on December 11, 2018 directed the management to develop proper mechanism for cross checking of data provided by the companies. No further progress was reported till finalization of the report.

Audit recommends to develop adequate system for assessment of receipts.

[MR-5]

1.1.7 Non-opening of separate head of account for deposit of rent currently deposited under the head C-03808 (Other receipts)

According to Para 5(d) of System of Financial Reporting and Budgeting 2006 dated September 13, 2006, each Principal Accounting Officer is required to

make sure that the accounts of receipts are maintained properly and reconciled on monthly basis.

During Certification Audit of receipts administered by Ministry of Energy (Petroleum Division), Islamabad for the FY 2017-18, it was observed that an amount of Rs 319.240 million on account of rent was realized from E&P companies under the head C03808. This head of account was being used for miscellaneous receipts i.e., application fees, renewals fees and other miscellaneous receipts deposited by various organizations.

Audit was of the view that amount deposited and reconciled under the miscellaneous head C03808 could lead to misclassification and unauthentic receipts.

The matter was reported to the PAO on November 09, 2018. The Division informed that matter had been taken with CGA for opening of separate account.

The DAC in its meeting held on December 11, 2018 pended the para for want of reply from CGA regarding opening of separate account for rent. No further progress was reported till finalization of the report.

Audit recommends to expedite process for opening a separate head of account for depositing the lease and license rent or devise system to ascertain the actual rent realized under this head.

[MR-9]

1.1.8 Non-surrender of savings - Rs 1.723 million

According to Para 95 of GFR Vol-I, all anticipated savings should be surrendered to Government immediately they are foreseen but not later than 15th May of each year in any case, unless they are required to meet excesses under some other unit or units which are definitely foreseen at the time. However, savings accruing from funds provided after 15th May shall be surrendered to Government immediately they are foreseen but not later than 30th June of each year.

During the Certification Audit of Appropriation Accounts of Geological Survey of Pakistan for the FY 2017-18, it was observed that there were savings in all grants which were neither utilized nor surrendered in time as shown below:

(Rs in million)

Sr. No.	Grant No.	Type of grant	Final grant	Actual expenditure	Savings
1	88	Current	110.633	110.578	0.054
2	27C	Current	357.066	356.233	0.833
3	148	Development	2.496	2.468	0.027
4	141-A	Development	44.185	43.376	0.809
Total					1.723

Audit was of the view that funds amounting to Rs 1.723 million lapsed due to poor financial management.

The matter was reported to the PAO in December, 2018. DAC in its meeting held on December 11, 2018 directed the management to improve the system of utilization / surrender of budget. No further progress was reported till finalization of the report.

Audit recommends to improve the financial management of GSP.

[Para 1.1 MR-GSP]

1.1.9 Non-preparation of Bank Reconciliation Statement - Rs 8.478 million

According to Para 10 of GFR Vol-I, every officer incurring or authorizing expenditure from public funds should be guided by high standards of financial propriety. Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money. Further, as per Para 12 of GFR Vol-I, a controlling officer must see not only that the total expenditure is kept within the limits of the authorized appropriation but also that the funds allotted to spending units are spent in the public interest and upon objects for which the money was provided.

During the Certification Audit of Appropriation Accounts of Geological Survey of Pakistan for the FY 2017-18, a closing balance of Rs 10.201 million as

on June 30, 2018 was observed in the Bank Statement, whereas, savings according to the appropriation accounts were Rs 1.723 million. The account maintained by the organization was Assignment Account, therefore, the opening balance for the year was zero. This showed that there was a variation of Rs 8.478 million between the savings as per appropriation accounts and bank statement. It was also observed that no bank reconciliation statement was being prepared by the management to ascertain the bank transactions.

Audit was of the view that management did not initiate any effort to identify the discrepancy between bank statement and appropriation accounts resulting in a difference of Rs 8.477 million.

The matter was reported to the PAO in December, 2018. DAC in its meeting held on December 11, 2018 directed the management to prepare Bank reconciliation statement on monthly basis to identify the difference with the bank. No further progress was reported till finalization of the report.

Audit recommends to prepare bank reconciliation statement on monthly basis to timely identify any discrepancy between appropriation accounts and bank account.

[Para 1.3 MR-GSP]

1.1.10 Non-implementation of SAP system in Chief Accounts Office, GSP

According to Section 5(d) of Controller General Ordinance 2001, the Controller General of Accounts has responsibility for maintaining an environment which promotes adequate internal controls. Further, Para 2.2.2.8 of Accounting Policy and Procedures Manual (APPM) states that within self-accounting entities the Principal Accounting Officer (PAO) has been delegated the authority by the Ministry of Finance for the accounting functions and for preparing accounts for submission to the Accountants General. The PAO has the authority to control the financial management of the entity under him / her within the limits prescribed by the Government. They also reconcile accounts with the AG / AGPR offices.

During the Certification Audit of Appropriation Accounts of Geological Survey of Pakistan for the FY 2017-18, it was observed that:

- i. All claims submitted by GSP to CAO were processed manually and data was entered in SAP system only after making payments. This arrangement existed at all GSP offices located at Quetta, Karachi, Peshawar, Lahore, Islamabad and Muzaffarabad. This indicated that budget checks / internal controls, required to be exercised through SAP system were not in place;
- ii. Although staff of CAO was trained to use HR module of SAP, they were not using it for recording transactions;
- iii. No training of FI module was given to staff;
- iv. No personal numbers (unique numbers) were allocated to the employees; and
- v. Since no workflow was being executed through SAP thus, no vender numbers were created / allocated.

Audit was of the view that in the absence of SAP system, the aspects of accuracy, completeness, existence, validity and disclosure could not be obtained. Thus, the benefits of SAP system were not received despite incurring expenditure on its acquisition.

The matter was reported to the PAO in December, 2018. DAC in its meeting held on December 11, 2018 directed the management to pursue the matter vigorously. No further progress was reported till finalization of the report.

Audit recommends implementation of the SAP system at the earliest.

[Para 2.3 MR-GSP]

Chapter-2

Ministry of Energy (Petroleum Division)

2.1 Ministry of Energy (Petroleum Division)

2.1.1 Introduction

The Ministry of Energy was created in August 2017 after merging of Ministry of Petroleum and Natural Resources with the Power Division of the Ministry of Water and Power. The Ministry has two Divisions - Petroleum and Power, each being administered by a Federal Secretary. The Petroleum Division is responsible for coordinating the development of natural resources of energy and minerals in Pakistan. It aims to ensure, secure and make available sustainable energy supply for economic development as well as facilitate and promote exploration and production of oil, gas and mineral resources in the country. The Petroleum Division also collects a number of receipts of government of Pakistan through DG (PC), DG (Oil), DG (Gas) and DG (LGs). The DG (PC) deals with receipts of Royalty on oil and gas, rent of lease / licensed area, Marine Research Fee, Production Bonus etc. The DG (Oil) deals with Petroleum Levy, Discount retained on local Crude Oil price and Windfall Levy on crude oil. The DG (Gas) deals with Gas Development Surcharge and Gas Infrastructure Development Cess whereas DG (LGs) deals with the Petroleum Levy on LPG.

2.1.2 Comments on Budget and Accounts

The comments on revenue collection and expenditure for the year 2017-18 as compared to the previous years are tabulated below:

2.1.2.1 Revenue Collection vs Targets (Non-Tax Receipts)

A comparison of revised estimates and actual receipts of the Ministry for the FY 2017-18 is tabulated as follows:

(Rs in million)

Nature of Receipt	Original Target 2017-18	Revised Target 2017-18	Collection 2017-18	Difference from Revised Target	
				Absolute	Percentage
1	2	3	4	5 (4-3)	6
Petroleum Levy	160,000	170,000	178,874	8,874	5.22
Gas Development Surcharge	43,000	30,062.53	24,212.36	(5,850.17)	(19.46)
Royalty on Oil	19,127.480	16,811.310	20,568	3,756.69	22.35
Royalty on Gas	39,404.290	36,433.370	37,541	1,107.63	3.04
Discount Retained on Local Crude Oil Price	10,000	10,000	9,110	(890)	(8.90)
Windfall Levy	8,000	5,000	3,904	(1,096)	(21.92)
Gas Infrastructure Development Cess	110,000	75,588	15,169.21	(60,418.79)	(79.93)
Petroleum Levy on LPG	2,000	2,000	2,121.98	121.98	6.10
Others	350	350	319.24	(30.76)	(8.78)
Total	391,883.77	346,248.21	291,823.79	(54,425.42)	(15.72)

Explanatory Memorandum of Federal Receipts 2018-2019 and Financial Statements of Federal Government 2017-18

The Ministry collected Rs 291,819.790 million against revised estimates of Rs 346,248.21 million for the FY 2017-18. It showed less collection of Rs 54,425.42 million (15.72%) as compared with the revised estimates of the receipts.

2.1.2.2 Comparison of actual receipts between the FYs 2016-17 and 2017-18

A comparison of actual receipts between the FYs 2016-17 and 2017-18 is tabulated as follows:

(Rs in million)

Nature of Receipt	Collection		Difference	
	FY: 2017-18	FY: 2016-17	Absolute	Percentage
1	2	3	4 (2-3)	5
Petroleum Levy	178,874	166,696	12,178	6
Gas Development Surcharge	24,212	73,262	(49,049)	(202)
Royalty on Oil	20,568	18,550	2,018	9
Royalty on Gas	37,541	35,340	2,201	5
Discount Retained on Local Crude Oil Price	9,110	9,097	13	0.14

Windfall levy	3,904	1,649	2,255	57
Gas Infrastructure Development Cess	15,169	42,149	(26,979)	(177)
Petroleum Levy on LPG	2,121	0	2,121	100
Others	319	0	319	100
Total	291,818	346,743	(54,923)	18%

Source: Financial Statements of the Federal Government for the FYs 2016-17 and 2017-18.

The table showed decrease in collection of Rs 54,923 million (18%) in receipts administered by the Ministry of Energy (Petroleum Division) during the FY 2017-18 as compared with receipts during FY 2016-17. The reasons for shortfall in collection of GDS were non-revision of prescribed price of natural gas by OGRA / Federal Government, circular debt and decline in production of indigenous natural gas production. The decline in collection of GIDC was due to subjudice cases.

2.1.3 Comments on targets set in MTBF

2.1.3.1 The original budget allocated to Ministry of Energy (Petroleum Division) Islamabad was Rs 1,467.392 million whereas actual expenditure remained Rs 922.295 million (62%) during the financial year 2017-18.

2.1.3.2 An amount of Rs 512.656 million was released for development projects against original budget of Rs 1,015.309 million. The Division could not secure release of funds to the tune of Rs 479.807 million to Geological Survey of Pakistan against two important projects i.e. acquisition of drillings rigs and ground water evaluation in Quetta.

2.1.3.3 Audit observed that the original target for carrying geological mapping was fixed at 3,320 square kilometres whereas as per Mid-Term Budgetary Performance Monitoring Form, mapping of 7,740 square kilometres was carried out thus, showing an increase of 112% compared to original target. On the other hand, the Ministry of Energy (Petroleum Division) demanded budget of Rs 1,015.309 million but only a sum of Rs 512.656 million was released i.e. 50% of the demand. Audit was of the view that more area was covered for geographical mapping (112% of the target) than planned despite 50% less budget release which showed that the budget estimation was not rational.

2.1.3.4 The target of 3D exploration of discovery of new oil, gas and coal fields was fixed at 5,200 square kilometres for which the budget of Rs 171.315 million was allocated. However, as per the performance report, the target achieved was only 1,118 square kilometres for which an amount of Rs 147.258 million was incurred. Thus, only 21% of the estimated target was achieved against expenditure of 86% of the actual budget. The reasons for under achievement of target in proportion to expenditure incurred may be appraised to Audit.

2.1.3.5 The Ministry also stated in the performance report that in following three cases, the targets were not achieved due to non-clearance of security:

- i. 3D exploration / discovery of new oil, gas and coal fields;
- ii. 2D exploration / discovery of new oil, gas and coal fields; and
- iii. Appraisal / development of wells (number).

The contention of Division was not valid as the security condition in targeted area was better than the previous years. Hence, under achievement was required to be investigated.

2.1.4 Compliance of PAC Directives:

The position of compliance with PAC directives in respect of Audit Reports was as under:

Audit Year	PAC Directives	Compliance received	Compliance not received	Percentage of compliance
1990-91	04	04	-	100
1991-92	01	0	01	0
1992-93	04	04	-	100
1993-94	01	0	01	0
1994-95	01	01	-	100
1995-96	01	01	-	100
1996-97	05	05	-	100
1997-98	03	01	02	33
1998-99	15	15	0	100
1999-00	04	04	-	100
2000-01	05	-	05	0
2001-02	01	-	01	0
2002-03	01	-	01	0
2003-04	01	01	-	100
2004-05	04	0	04	0

2005-06	02	01	01	50
2006-07	0	0	0	0
2007-08	04	0	04	0
2008-09	15	10	05	67
2009-10	07	-	07	0
2010-11	15	08	07	53
2011-12	27	05	22	19
2013-14	38	07	31	18
2014-15	24	08	16	33
2015-16	33	03	30	09
Total	216	78	138	36

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

2.1.5 Audit Paras

2.1.5.1 Non / short realization of Gas Development Surcharge (GDS) - Rs 30,088.612 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 the Petroleum Division for the FY 2017-18, it was observed that DG (Gas), Islamabad non / short realized Gas Development Surcharge from M/s MPCL, M/s PPL and M/s SSGC on the ground that the amount was not received from the consumers due to circular debt. This resulted in non / short realization of GDS amounting to Rs 30,673.269 million. It was further observed that M/s MPCL did not deposit GDS due while cost of gas, FED and sales tax were adjusted against current period.

Audit was of the view that lacklustre efforts by the Division to collect GDS resulted in non /short realization of Rs 30,673.269 million on that account.

The matter was reported to the PAO in November, 2018. DG (Gas) in its reply stated that matter was related to circular debt. However, an amount of Rs 47.887 million had been recovered whereas Rs 536.774 million were already deposited and verified by Audit.

The DAC in its meeting held on December 13, 2018 directed the PAO to resolve the issue of circular debt at the earliest. DAC also directed that company may be asked to deposit GDS in proportion to recovered amount from consumers. No further progress was reported till finalization of the report.

Audit recommends to recover outstanding amount. Audit also recommends to deposit GDS in proportion to the recovered amount.

[DP Nos. 12 &13-GDS, 16 to 25 &75/GDS-K/2017-18]

2.1.5.2 Short realization of GDS on fuel stock due to inadmissible adjustment of feed stock - Rs 2,253.644 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 the Petroleum Division for the FY 2017-18, it was observed that DG (Gas), Islamabad short realized the Gas Development Surcharge from MPCL in respect of gas sold to M/s Fatima Fertilizer Company Limited and M/s Fauji Fertilizer Company Limited (FFC-I, FFC-II and FFC-III). It was observed that GDS on fuel stock was paid after inadmissible adjustment of impact of sale price of feedstock. Audit held that since the sales prices for production of gas for fertilizer and power generation were different, therefore, the GDS of the two could not be adjusted. This resulted into short realization of GDS amounting to Rs 2,253.644 million.

Audit was of the view that weak internal controls in the Petroleum Division led to inadmissible adjustment of GDS amounting to Rs 2,253.644 million.

The matter was reported to the PAO in November, 2018. The DG (Gas) in its reply dated December 06, 2018 explained that the sale price realized from gas supplied to feed stock did not cover the prescribed price as the shortfall was covered from differential margin of fuel stock.

The DAC in its meeting held on December 13, 2018 directed DG (Gas) to initiate measures for recovery of GDS due on fuel stock from M/s MPCL. No further progress was reported till finalization of the report.

Audit recommends to recover outstanding amount besides fixing responsibility for illegal self-adjustment by the company.

[DP Nos. 06 & 09-GDS]

2.1.5.3 Non-recovery of GIDC - Rs 81,813.473 million

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

During audit of the Petroleum Division for the FY 2017-18, it was observed that DG (Gas), Islamabad did not realize GIDC from M/s MPCL in respect of gas sold to fertilizer sector, M/s PPL and from M/s SSGC for Rs 66,635.235 million and Rs 15,178.238 million respectively on the plea that said amount was not received from consumers due to stay orders from the Honorable Sindh High Court. The companies also took the plea that amount was not received from the buyers due to circular debt. This resulted in non-realization of GIDC amounting to Rs 81,813.473 million (Rs 66,635.235 million and Rs 15,178.238 million including markup accrued). Further, the Ministry was required to make rules under GIDC Act, 2015 but it failed to fulfill its responsibility.

Audit was of the view that the failure of Petroleum Division to determine the due collection of the government and advise OGRA to notify the realistic prices of gas as well to pursue court cases resulted in non-recovery of GIDC amounting to Rs 81,813.473 million

The matter was reported to the PAO in November, 2018. DG (Gas) in its reply dated December 06, 2018 stated that the amount was withheld by the

consumers of M/s MPCL due to stay order of the court. However, no response in respect of GIDC receivable from M/s SSGC was provided to Audit. It was also stated that non-realization occurred due to circular debt issue.

The DAC in its meeting held on December 13, 2018 directed to pursue the court cases vigorously. DAC also directed DG (Gas) to pursue the implementation of Section 3 (2&3) of GIDC, Act 2015 and that the company may be asked to deposit GIDC in proportion to recovered amount from customer along with resolution of circular debt issue at the earliest. No further progress was reported till finalization of the report.

Audit recommends to recover the outstanding amount besides resolution of circular debt issue. Audit also recommends immediate formulation of GIDC Rules and their passage from appropriate forum.

[DP Nos. 7, 8, 10, 11-GIDC 26 to 36, 74 & 73/GIDC-K/2016-17]

2.1.5.4 Non-realization of interest on late payment of Gas Development Surcharge - Rs 560.591 million

According to the 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. Under sub Section (3), interest @15% per annum shall be payable if the amount is not paid within the time specified for such period.

During audit of the Petroleum Division for the FY 2017-18, it was observed that DG (Gas), Islamabad failed to realize interest on late payment of development surcharge on gas sold by M/s Pakistan Petroleum Limited. This resulted in non-realization of interest amounting to Rs 560.591 million.

Audit was of the view that inefficiency of the Division led to non-realization of interest on late payment of GDS amounting to Rs 560.591 million.

The matter was reported to the PAO in November, 2018. The DG (Gas) in its reply dated December 13, 2018 stated that as per GDS Rules 1967, the payment of interest on late payment of GDS did not arise unless it was collected

from the consumer. The Division was of the view that the Rules were in conflict with GFR.

The DAC in its meeting on December 13, 2018 directed the DG (Gas) to pursue the matter with the Finance Division. No further progress was reported till finalization of the report.

Audit recommends to recover the outstanding amount besides fixing responsibility on person(s) at fault.

[DP No. 37-GDS-/K/2016-17]

2.1.5.5 Non-realization of interest on late payment of Gas Infrastructure Development Cess - Rs 302.386 million

According to Section 3 of the Gas Infrastructure Development Cess Act, 2015, every company is required to collect and pay Cess at the rate specified in the Second Schedule in respect of gas sold by it during a calendar month within two months of the close of that month. A mark up at the rate of four per cent plus KIBOR shall also be payable if the due amount is not paid within due date under sub Section (3).

During audit of the Petroleum Division for the FY 2017-18, it was observed that DG (Gas), Islamabad did not recover mark-up on late payment of Gas Infrastructure Development Cess amounting to Rs 302.386 million from M/s PPL.

Audit was of the view that inefficiency and non-compliance of rules by the Division led to non-realization of the mark up of Rs 302.386 million on GIDC.

The matter was reported to the PAO in November, 2018. It was reported that as per notification of amendment of GIDC Act, the late payment interest was waived till May 31, 2018. DAC in its meeting on December 13, 2018 noted that the DG (Gas) failed to notify the GIDC Rules in accordance with the GIDC Act, 2015. The DAC directed the DG (Gas) to pursue the matter and report the progress to Audit on monthly basis. DAC also directed to calculate and recover

mark-up from June, 1, 2018 to June, 30 2018 on the outstanding amount. No further progress was reported till finalization of the report.

Audit recommends to recover outstanding amount as per DAC discussion. Audit also recommends formulation and notifying GIDC Rules under GIDC Act, 2015.

[PDP No. 38-GIDC-/K/2017-18]

2.1.5.6 Non-realization of Petroleum Levy on LPG - Rs 94.218 million

According to Rule 9(1) of Petroleum Product (Development Surcharge), Rules 1967, every licensee shall deposit Petroleum Levy payable by it in respect of sale of LPG produced in Pakistan from its production facilities during the calendar month within seven days of the close of that month.

During audit of the Petroleum Division for the FY 2017-18, it was observed that DG (LGs), Islamabad did not recover Petroleum Levy from M/s SSGC on LPG uplifted by M/s JJVL. This resulted in non-realization of Petroleum Levy of Rs 94.218 million.

Audit was of the view that weak internal controls resulted in non-realization of Petroleum Levy on LPG amounting to Rs 94.218 million.

The matter was reported to the PAO in November, 2018. M/s SSGC in its reply dated November 26, 2018 stated that the honourable Supreme Court of Pakistan in its order dated November 16, 2018 directed JJVL to clear its undisputed outstanding dues to SSGC within 8 weeks. DAC in its meeting held on December 13, 2018 directed DG (LGs) to pursue the recovery. No further progress was reported till finalization of the report.

Audit recommends to pursue the recovery of outstanding amount.

[DP No. 01-LGs]

2.1.5.7 Non-realization of mark up on outstanding payment on Petroleum Levy - Rs 12.518 million

According to Rule 9(3) of Petroleum Product (Development Surcharge), Rules 1967, a mark-up at the rate of four percent above the three months KIBOR

shall be payable on any amount due under Sub-Rule (1), if the said amount is not paid within seven days of the close of that month.

During audit of the Petroleum Division for the FY 2017-18, it was observed that DG (LGs), Islamabad did not recover mark up on delayed payment of Petroleum Levy on the LPG sold. This resulted in non-realization of mark up of Rs 12.518 million.

Audit was of the view that weak internal control resulted in non-realization of mark up on late payment of Petroleum Levy on LPG.

The matter was reported to the PAO in November, 2018. DAC in its meeting held on December 13, 2018 directed to pursue the recovery. No further progress was reported till finalization of the report.

Audit recommends to recover the outstanding amount.

[DP No. 02-LGs]

2.1.5.8 Inadmissible price advice of LPG conveyed to OGRA

According to Clause 3.4.1 of LPG Production and Distribution Policy, 2016 and Rule 18 of LPG Production and Distribution Rules, 2001, OGRA will regulate and notify the prices of indigenous LPG including Producers Price, Margins of Marketing and Distribution Companies and Consumer Prices. On the other hand, the Petroleum Policies 1994, 1997, 2007 and 2009 contained the provisions for pricing of LPG and conferred the power to regulator for fixing the price of LPG subject to US\$ 175 per metric ton. As per Petroleum Policies 2001 and 2012 pricing of LPG will be determined by market under deregulated regime. Consequently PCAs are executed between President and Working Interest owners.

During audit of the Petroleum Division for the FY 2017-18, it was observed that DG (LGs), Islamabad linked the prices of local LPG with the price of LPG purchased from Saudi Arabia and conveyed the advice to the same effect to OGRA. Consequently, the local LPG was sold in the market at higher rates instead of price applicable keeping in view relevant policies. Moreover, the Division fixed the marketing / distribution margin at Rs 35,000 per Metric Ton

on the basis of working papers received from the Ministry and without considering the market analysis which was also objected by Audit. Audit held that the producer's price was to be determined on the basis of relevant Petroleum Policies and executed agreements and could not be linked be with Saudi Arabian contract price.

Audit was of the view that the Division did not convey admissible producers price to OGRA and allowed irrational marketing / distribution margin which resulted into overcharging of the locally produced sub-standard LPG.

The matter was reported to the PAO in November, 2018. DAC in its meeting held on December 13, 2018 directed DG (LGs) to submit comprehensive reply and get the position verified from Audit within one week. No further progress was reported till finalization of the report.

Audit recommends to justify linking of prices of local LPG with Saudi LPG prices besides rationalizing the marketing / distribution margin.

[DP No. 03-PL]

2.1.5.9 Policy in contravention of GIDC Act, 2015

As per Section 4(1) of the Gas Infrastructure Development Cess Act, 2015, cess shall be utilized by the Federal Government for or in connection with infrastructure development of Iran-Pakistan Pipeline project, Turkmenistan-Afghanistan-Pakistan-India Pipeline project, LNG or other ancillary projects.

During audit of the Petroleum Division / DG (LGs), Islamabad for the FY 2017-18, it was observed that Clause 3.4.3 of Liquefied Gas (Production & Distribution) Policy, 2016 was in contradiction with the Section 4(1) of the Gas Infrastructure Development Cess Act, 2015. As per Clause 3.4.3 of the said policy, Petroleum Levy on LPG or Gas Infrastructure Cess may be utilized to subsidize the LPG imported by Public Sector companies for bringing the prices equal to Local LPG prices for domestic sector supplies.

Audit was of the view that contradiction in the Policy and the Act of the Parliament raised question about legality of expenditure incurred.

The matter was reported to the PAO in November, 2018. DG (LGs) in its reply dated December 13, 2018 stated that the department agreed to amend the Clause 3.4.3 of Liquefied Gas (Production & Distribution) Policy, 2016.

The DAC in its meeting held on December 13, 2018 directed to take necessary steps for the amendment. No further progress was reported till finalization of the report.

Audit recommends revision of the Policy to strike out inconsistent clause.

[DP No. 05-LGs]

2.1.5.10 Non-realization of Petroleum Levy on sale of petroleum products - Rs 2,332.588 million

According to Section 3 of the Petroleum Products (Petroleum Levy) Ordinance 1961 as amended vide Petroleum Products Development Levy (Amendment) Ordinance 2009, every licensee shall pay a Petroleum Levy at such rates and in such manner as the Federal Government may by rules prescribe, on the quantity of petroleum products produced by the refinery or purchased by company for sale. According to Section 3-A of the Ordinance ibid and notification issued, petroleum levy is to be collected at rates notified by the DG (Oil) / OGRA in the same manner as excise duty is collected under the Federal Excise Act.

During audit of the Petroleum Division for the FY 2017-18, it was observed that DG (Oil), Islamabad failed to recover Petroleum Levy from M/s BYCO Karachi which resulted in non-realization of petroleum levy amounting to Rs 2,607.215 million.

Audit was of the view that weak monitoring and internal controls of the Petroleum Division led to non-realization of receipts.

The matter was reported to the PAO in November, 2018. DG (Oil) in its reply dated December 06, 2018 stated that an amount of Rs 274.627 million had been recovered and verified by Audit. Further, remaining amount would be recovered within two months.

The DAC in its meeting held on December 13, 2018 directed DG (Oil) to expedite recovery within two months. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC.

[PDP No. 01-PL/K/2017-18]

2.1.5.11 Non-payment of Windfall Levy on local Crude Oil price - Rs 413.086 million

According to Para 6.1.3 of the Petroleum Exploration & Production Policy 2009, Windfall Levy will be applicable on crude oil and condensate using the prescribed formula.

During the audit of the Petroleum Division for the FY 2017-18 it was observed that M/s PARCO, a field formation of DG (Oil), Islamabad, did not deposit Rs 413.086 million on account of Windfall Levy on purchase of local Crude Oil on various invoices in respect of 9 fields. This resulted in non-realization of Windfall Levy on crude oil.

Audit was of the view that weak monitoring resulted in non-realization of Windfall Levy amounting to Rs 413.086 million.

The matter was reported to the PAO in November, 2018. DAC in its meeting held on December 13, 2018 directed to submit the comprehensive reply and get the position verified from Audit. Further progress was not reported till finalization of the report.

Audit recommends to recover outstanding amount of Windfall Levy.

[PDP Nos. 42 to 50/PL-K/2018-19]

2.1.5.12 Non-finalization of issue of Royalty on LPG - Rs 3,385.869 million

According to Regulation of Mines and Oil fields and Mineral Development (Government Control) Act, 1948 read with Rule 36 of the Pakistan Petroleum (Exploration and Production) Rules, 1986, holder of a lease shall pay a Royalty at the rate of 12.5 per cent of the wellhead value of the petroleum

produced and saved. Further, as per Rule 38(a), market value of Petroleum shall be the price actually realizable on sale in the national market. The issue of charging the Royalty on LPG based on realizable value was discussed in PAC Sub-Committee meeting dated September 06, 2016 in which the PAO was directed to resolve the issue along with inclusion of the matter in the summary prepared for the consideration of Council of Common Interest (CCI).

During audit of the Petroleum Division for the FY 2017-18, it was observed that DG (PC), Islamabad did not comply with the direction of the PAC Sub-committee. Consequently, the matter regarding imposition of Royalty on LPG and determination of its value was still outstanding despite the lapse of two years since the direction of the PAC Sub-committee. This resulted in blockage of Royalty on LPG to the extent of Rs 3,385.869 million.

Audit was of the view that the Petroleum Division failed to follow up the case properly which resulted in blockage of Royalty on LPG of Rs 3,385.869 million.

The matter was reported to the PAO in November, 2018. DG (PC) in its reply dated December 06, 2018 stated that summary had been submitted to Inter Provincial Coordination (IPC) Division for consideration of Council of Common Interest (CCI), however the same had not been included in the agenda of CCI meeting. Further, after briefing the matter to Secretary Petroleum Division, reminder would be issued to IPC Division for inclusion of the same as agenda item for next CCI meeting.

The DAC in its meeting held on December 13, 2018 directed the DG (PC) to pursue the matter. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter vigorously to expedite recovery.

[DP No. 101-PC]

2.1.5.13 Non-realization of liquidated damages - Rs 2,777.863 million

According to Rule 28 of the Pakistan Onshore Petroleum (Exploration and Production) Rules, 2013, where upon the surrender or the expiry of a license,

the obligations pursuant to Rules have not been fulfilled, holder of a license shall:

- (a) pay to the Federal Government such sum by way of liquidated damages which correspond to the minimum expenditure of un-discharged work obligations as set forth in the license within a period of thirty days from the surrender or expiry of the license; or
- (b) Request the Authority, to allow transfer of un-discharged work obligation committed under Rules 21 and 22 to another area if it is demonstrated to the satisfaction of the Authority that there is no drillable prospect in the license area. Such transfer shall be subject to such terms and conditions as may be specified by the Authority on case to case basis.

During audit of the Petroleum Division / DG (PC), Islamabad for the FY 2017-18, it was observed that the holder of blocks surrendered the blocks but did not fulfil the minimum work commitment as stipulated in the license. However, the Petroleum Division did not realize or transfer un-discharged work commitment of blocks awarded under Petroleum Policy, 2012. This resulted in non-realization of liquidated damages amounting to Rs 2,777.863 million (US\$ 20.902 million).

The matter was reported to the PAO in November, 2018. DG (PC) in its reply dated December 06, 2018 stated that applications of the operators were pending with DG (PC) and would be finalized within six months.

The DAC in its meeting held on December 13, 2018 directed DG (PC) to specify the time frame in which such applications would be processed in future. No further progress was reported till finalization of the report.

Audit recommends to recover the amount or transfer the work commitment of the E&P company to another area as per rules.

[DP No. 102-PC]

2.1.5.14 Non-realization of Windfall Levy on Crude Oil and Condensate - Rs 2,008.776 million

According to Section 4.3 of Supplementary Agreements to Petroleum Concessions Agreements of Mirpurkhas and Khipro, Windfall Levy on Crude Oil and Condensate is applicable, using the prescribed formula, on production from discovery arising out of new exploration efforts commenced on or after August 30, 2012. Further, as per Ministry of Energy (Petroleum Division) letter No. DGPC-7(11)/Legal(MSA)/2017-Vol-III dated January 03, 2018, all E&P companies were advised to submit Supplemental Agreement (SA) in the light of amended Petroleum Policy, 2012 vide SRO 1290(I)/2017 dated December 27, 2017 for imposition of Windfall Levy on Oil / Condensate for the PCAs executed under Petroleum Policies 1994 and 1997 within 90 days, failing which working interest owners will not remain eligible for gas price incentive under Petroleum Policy, 2012.

During audit of the Petroleum Division for the FY 2017-18, it was observed that DG (PC) Islamabad failed to recover Windfall Levy on Crude Oil and Condensate imposed on blocks governed under policies prior to Petroleum Policy 2001. This resulted in non-recovery of government revenue amounting to Rs 2,008.776 million under head of Windfall Levy.

Audit was of the view that weak internal controls resulted in non-recovery of Windfall Levy amounting to Rs 2,008.776 million.

The matter was reported to the PAO in November 2018. DG (PC) in its reply dated December 06, 2018 stated that the matter was subjudice.

DAC in its meeting held on December 13, 018 directed to pursue the case vigorously. No further progress was reported till finalization of the report.

Audit recommends to pursue the case in the court of law vigorously.

[DP Nos. 93-PC & 41-PC/K]

2.1.5.15 Non-realization of Production Bonus - Rs 1,291.470 million

According to Provisions of various Petroleum Policies and Petroleum Concession Agreements executed accordingly, Production Bonus was payable to

the President of Pakistan on a concession area on commencement of commercial production or achieving the specific level of production.

During audit of the Petroleum Division for the FY 2017-18, it was observed that DG (PC), Islamabad did not recover Production Bonus from four E&P companies on account of seven blocks from where commercial production had commenced or company had achieved specific level of production. This resulted in non-realization of production bonus of Rs 2,067.240 million as detailed in the following table:

Sr. No.	Company	Block	Production Bonus realizable in US\$	Production Bonus realizable (Rs in million)
1	M/s MPCL	Sukkur	500,000	62.450
2	M/s UEPL	Mirpurkhas	5,000,000	623.250
3	M/s OMV	Latif	1,200,000	150.360
4	M/s OGDCL	Nashpa	8,000,000	1,002.400
5	M/s MPCL	Karak	600,000	76.260
6	M/s MPCL	Ghuari	600,000	76.260
7	M/s OGDCL	Bitrisim	600,000	76.260
Total			16,500,000	2,067.240

Audit was of the view that poor monitoring and lack of internal controls resulted in non-realization of production bonus amounting to Rs 2,067.240 million.

The matter was reported to the PAO in November, 2018. The DG (PC) in its reply dated December 06, 2018, stated that an amount of Rs 623.25 million had been recovered from M/s UEPL on account of Mirpurkhas block, while an amount of Rs 152.52 million had already been deposited by the company on accounts of Karak and Ghauri blocks and verified by Audit.

The DAC in its meeting held on December 13, 2018 directed to recover balance amount of Rs 1,291.47 million. No further progress was reported till finalization of the report.

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

[DP No. 87-PC]

2.1.5.16 Inadmissible transfer of Training Fund into DG (PC)'s Account instead of Public Account - Rs 545.331 million

According to Article 78(2) of the Constitution of Islamic Republic of Pakistan, all other moneys received by or on behalf of the Federal Government or received by or deposited with the Supreme Court or any other court established under the authority of the Federation shall be credited to the Public Account of the Federation. Further, as per Rule 537 of Treasury Rules, receipt at the treasury for deposit in the Public Account of the Federation are classified according to the department through which they are received, the usual classes being (1) Revenue Deposits, (2) Civil Court Deposits and (3) Criminal Court Deposits. Another important class is "Personal Deposits" of which the account kept at the treasury is of the nature of banking deposit account, the receipts and payments being recorded in personal ledgers.

During audit of the Petroleum Division / DG (PC), for the FY 2017-18, it was observed that Training Fund due from the E&P companies was being deposited into DG (PC)'s Account. Audit held that since it was a receipt realizable by virtue of agreement executed between President of Pakistan through Government of Pakistan and E&P Companies, hence it was a government receipt to be dealt in Public Account as per Article 78(2) of the Constitution. It was further observed that DG (PC) was dealing with these receipts in an account opened in HBL and its balance as on June 30, 2018 was Rs 545.331 million.

Audit was of the view that dealing of receipts in HBL account was irregular as it was against the spirit of the Constitution. Although according to Petroleum Policy, 2012, it was not government revenue, yet it a money received by the Federal Government. It should therefore be maintained in Public Account.

The matter was reported to the PAO in November, 2018. DG (PC) in its reply dated December 06, 2018 stated that according to Annexure 3 of Petroleum Policy 2012, the Training Fund was not a part of government revenue. Moreover, Training Fund did not fall under the scope of Article 78(2) of the Constitution of Pakistan because it was neither revenue deposit nor a civil court deposit.

The DAC in its meeting held on December 13, 2018 directed to place the matter before PAC.

Audit recommends to transfer the Training Fund into the Public Account.

[DP No. 89-PC]

2.1.5.17 Non-realization of Royalty on Crude oil and Natural Gas - Rs 186.690 million

According to the Regulation of Mines and Oil fields and Mineral Development (Government Control) Act, 1948 read with Rules 28, 36 and 35 of Pakistan Petroleum (Exploration and Production) Rules 1949, 1986 and 2001, 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. Prior to E&P Rules of 2001, no penalty for delayed payment was in the rules. In the case of Pakistan Petroleum (Exploration & Production) Rules, 2001, a fine at rate of Libor plus 2% shall be imposed.

During audit of the Petroleum Division for the FY 2017-18, it was observed that DG (PC), Islamabad failed to recover Royalty on Crude Oil and Natural Gas from seven E & P companies in 11 Blocks. Moreover, fine on delayed payment was also not realized from these companies. This resulted in non-realization of Royalty on Crude Oil and Natural Gas and fine amounting to Rs 254.215 million.

Audit was of the view that poor monitoring and lack of internal controls resulted in non-realization of Royalty on Natural Gas and Crude Oil as well as fine on delayed payment of royalty.

The matter was reported to the PAO in November, 2018. DG (PC) in its reply dated December 6, 2018 stated that an amount of Rs 45.572 million had been recovered and Rs 21.952 million had already been paid by the companies whereas recovery of remaining amount of Rs 186.619 million was being pursued. Audit verified recovery of an amount of Rs 45.572 and an amount of Rs 21.953 million was recovered prior to audit.

The DAC in its meeting held on December 13, 2018 directed to recover the balance amount. DAC also directed the management to ascertain whether the entire amount due during the year had been deposited. No further progress was reported till finalization of the report.

Audit recommends to recover the outstanding amount besides improving internal controls.

[DP Nos. 88, 96 & 103-PC]

2.1.5.18 Non-Realization of License and Lease Rent - Rs 118.870 million

According to various Petroleum Exploration and Production Policies read with Pakistan Petroleum (Exploration and Production) Rules 1986, 2001 and 2009, the licensee shall pay rent to the government annually in advance, at rates prescribed therein which have been indexed vide DG PC's letter No. Accounts-3(31)AR-2008-09 Vol-3Pt(Pre-audit) dated October 18, 2011 and so on for subsequent years. However, the honourable Sindh High Court directed to recover the rent at prevailing rate prior to issuance of above mentioned letter.

During audit of the Petroleum Division for the FY 2017-18, it was observed that DG (PC), Islamabad did not realize the rent on accounts of 46 licenses and 82 leases from 15 E&P companies. This resulted in non-realization of license and lease rent amounting to Rs 118.870 million.

Audit was of the view that non-realization of license and lease rent was due to weak monitoring over the collection mechanism of the Division.

The matter was reported to the PAO in November, 2018. The DG (PC) in its reply dated December 06, 2018 reported that an amount of Rs 3.24 million had been recovered whereas an amount of Rs 18.382 million had already been deposited. Recovery of remaining amount 97.248 was being pursued.

The DAC in its meeting held on December 13, 2018 directed to recover balance amount of Rs 97.248 million within one month. No further progress was reported till finalization of the report.

Audit recommends to recover the outstanding amount.

[DP No. 90-PC]

2.1.5.19 Inadmissible utilization of Training Fund - Rs 103.498 million

According to Annexure VII of Petroleum Policies, 1994, 1997 and 2001, training shall be provided annually by Foreign and Local E&P companies. As per Annexure 3 of Petroleum Policies 2007, 2009 and 2012, training shall be provided for capacity building of Pakistani employees and GOP officials by Foreign and Local E&P companies as per guidelines issued by DG (PC) from time to time. Further, the Petroleum Concession Agreements are also executed between Working Interest Owners and Government of Pakistan according to relevant policy in vogue.

During audit of the Petroleum Division for the FY 2017-18, it was observed that DG (PC), Islamabad incurred an expenditure of Rs 103.498 million on the legal cases and for the payment of TA / DA from the Training Fund. Incurrence of such expenditure was inadmissible as it was not covered under the petroleum policies.

Audit was of the view that weak internal controls resulted in irregular expenditure of Rs 103.498 million.

The matter was reported to the PAO in November, 2018. DG (PC) in its reply dated December 13, 2016 stated that provision for incurrence of litigation expenses out of training fund existed in policies.

The DAC in its meeting held on December 13, 2018 directed the management to get the expenditure regularized from the competent authority. No further progress was reported till finalization of the report.

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

[DP No. 98-PC]

2.1.5.20 Non / short deposits of social welfare obligation - Rs 61.550 million

According to Annexure VII of the Pakistan Petroleum (Exploration and Production) Policy, 1994 read with Clause 4 of revised Social Welfare Guidelines, 2017, E&P companies will open a joint bank account with DCOs /

DCs concerned and will deposit the Social Welfare Contribution Fund within one month of signing of PCA and subsequently by 31st January each year. The amount of social welfare funds, pledged by the companies in their respective agreement and deposited in the joint account opened for the purpose, are required to be utilized to give lasting benefits to the communities, where exploration is being carried out.

During audit of the Petroleum Division / DG (PC), Islamabad for the FY 2017-18, it was observed that nine E&P companies either did not deposit or short deposited social welfare obligation in the joint accounts with the concerned DCs with respect to 33 blocks. This resulted in non / short-realization of social welfare obligation of Rs 61.550 million (US\$ 463,132).

Audit was of the view that weak monitoring on part of the Petroleum Division resulted in short realization of social welfare obligation amounting to Rs 61.550 million.

The matter was reported to the PAO in November, 2018. DG (PC) in its reply dated December 06, 2018 explained that recovery was being pursued.

DAC in its meeting held on December 13, 2018 directed to expedite the recovery and report within one month to Audit. No further progress was reported till finalization of the report.

Audit recommends to recover the outstanding liabilities from the E&P companies besides improving the internal control mechanism.

[DP No. 99-PC]

2.1.5.21 Non-transfer of receipts of Database Management System in Public Account - Rs 55.030 million

According to Article 78(2) of the Constitution of the Islamic Republic of Pakistan, all other moneys received by or on behalf of the Federal Government or received by or deposited with the Supreme Court or any other court established under the authority of the Federation shall be credited to the Public Account of the Federation. Further, as per Rule 537 of Treasury Rules receipts at the treasury for deposit in the Public Account of the Federation are classified

according to the department through which they are received, the usual classes being (1) Revenue Deposits, (2) Civil Court Deposits and (3) Criminal Court Deposits. Another important class is 'Personal Deposits' of which the account kept at the treasury is of the nature of banking deposit account, the receipts and payments being recorded in personal ledgers.

During audit of the Petroleum Division / DG (PC), Islamabad for the FY 2017-18, it was observed that as per Section 5.10 of Project Grant Agreement executed between President of Pakistan and United States of America on July 23, 1990, the President of Pakistan provided an operating budget for DG (PC)'s recurring cost. It was further agreed to develop and implement a mechanism to generate at least a part of funds to meet these recurring costs through the sale of data to oil companies. Consequently, the DG (PC) opened Non-Lapsable Personal Ledger Deposit Account in 1991 with the approval of the President of Pakistan. However, in January 2015, on the instructions of Finance Division (Budget Wing), the DG (PC) started depositing the receipts of Database Management System in an account of National Bank of Pakistan. The balance in the account of National Bank stood at Rs 55.030 million as on June 30, 2018.

Audit was of the view that keeping the public money in National Bank was against the spirit of the Constitution and other relevant rules.

The matter was reported to the PAO in November, 2018. DG (PC) in its reply dated December 13, 2018 stated that the issue had already been taken up with CGA, but remained unresolved.

The DAC in its meeting held on December 13, 2018 directed the DG (PC) to get the issue resolved from CGA within one month. No further progress was reported till finalization of the report.

Audit recommends to resolve the matter on priority basis in line with the spirit of the Constitution.

[DP No. 91-PC]

2.1.5.22 Non-realization of Royalty on free of cost gas supply - Rs 53.954 million

According to the Regulation of Mines and Oil fields and Mineral Development (Government Control) Act, 1948 read with Rule 37(2) of Pakistan Petroleum (Exploration and Production) Rules 1949, the lessee shall pay a Royalty on Natural Gas at the rate of 12.5 per cent on wellhead value if sold by the lessee or utilized for any purpose other than the production of Petroleum.

During audit of DG (PC), Islamabad for the FY 2017-18, it was observed that the Petroleum Division did not realize Royalty from M/s OGDCL on account of Loti and Pirkoh leases on Natural Gas supplied to locality free of cost. This resulted in non-realization of Royalty on Natural Gas amounting to Rs 53.954 million.

Audit was of the view that weak monitoring resulted in non-realization of Royalty on Natural Gas amounting to Rs 53.954 million.

The matter was reported to the PAO in November, 2018. DG (PC) in its reply dated December 06, 2018 stated that the matter was pending with the Development Wing of the Petroleum Division.

The DAC in its meeting held on December 13, 2018 directed to provide a comprehensive reply in this regard within one week. No further progress was reported till finalization of the report.

Audit recommends to recover the outstanding amount. Audit also recommends allocation of gas supply on this account by the Ministry.

[DP No. 94-PC]

2.1.5.23 Non-securing of work commitment from M/s MPCL - Rs 34.684 million

According to Para 6.5 of Petroleum policy, 2012, DG (PC) shall require successful applicants for petroleum exploration licenses to furnish, in an acceptable form, a guarantee or guarantees, with respect to its work commitments on or before the execution of the petroleum exploration license. In

the event, the successful applicant elects to provide any guarantee other than a Parent Company Guarantee during exploration phase, the guarantee so provided would only be released in case all work obligations including but not limited to social welfare, training, data, rental etc., are fully discharged.

During audit of the Petroleum Division for the FY 2017-18, it was observed that DG (PC), Islamabad did not secure the work commitment of Block 3371-16 (Peshawar East) granted to M/s MPCL on February 21, 2014. The Division failed to secure the work commitment on the ground that as per Clause 3.8(c) of Model Petroleum Concession Agreement, as long as the Federal Government or Provincial Government held majority shareholding in any working interest owners, such working interest owners would not be required to provide parent company's bank guarantee. Audit held that at the time of granting block, the Government did not hold majority shareholding in M/s MPCL, therefore, non-securing of work commitment of block granted under Petroleum Policy, 2012 was questionable.

Audit was of the view that weak internal controls resulted in non-securing of work commitment of Rs 34.684 million through performance guarantee.

The matter was reported to the PAO in November, 2018. DAC in its meeting held on December 13, 2018 directed the Petroleum Division to initiate proceedings against the persons responsible for this lapse and report to Audit within 15 days. DAC also directed to secure Performance Guarantee as per Petroleum Exploration and Production Policy, 2012. No further progress was reported till finalization of the report.

Audit recommends to secure work commitment from M/s MPCL besides fixing responsibility on the person(s) responsible.

[DP No. 92-PC]

2.1.5.24 Non-deduction of Income Tax on payment made to non-resident company - Rs 12.534 million

According to Section 152(1) of Income Tax Ordinance, 2001, every person paying an amount of Royalty or fees for technical services to a non-

resident person that is chargeable to tax under Section 6 shall deduct tax from the gross amount paid at the rate specified in Division IV of Part I of the First Schedule which is 15% of gross amount of the fee. As per Article 13(2) of UK/Pakistan Double Taxation Convention, payment made on account of technical fee shall be taxed but tax rate shall not exceed 12.5% of gross payment.

During audit of the Petroleum Division for the FY 2017-18, it was observed that DG (PC), Islamabad made payment of Rs 100.27 million to M/s Allen and Overy, a UK based non-resident company, for arbitration between Pro Gas Group of Companies and Islamic Republic of Pakistan. However, DG (PC) failed to deduct income tax as required under the law which resulted in a loss of Rs 12.534 million.

Audit was of the view that weak financial controls resulted in non-deduction of withholding income tax of Rs 12.534 million.

The matter was reported to the PAO in November, 2018. DG (PC) in its reply dated December, 06 2018 stated that as per agreement, M/s Allen and Overy was exempt from payment of Income Tax. However, no exemption was shown to Audit.

DAC in its meeting held on December 13, 2018 directed DG (PC) to initiate disciplinary proceeding against the persons at fault. It was also directed that income tax due may be deposited in Government treasury. No further progress was reported till finalization of the report.

Audit recommends to initiate disciplinary proceeding against the persons at fault besides deposit of income tax in government treasury.

[DP No. 95-PC]

2.1.5.25 Non-approval of Memorandum of Agreement resulting in non-payment of lease extension bonus on gas - Rs 10,768.415 million

According to Clause 6 of Memorandum of Agreement (MoA) signed on May 20, 2016 between the Ministry of Petroleum and Natural Resources and the Government of Balochistan, subject to the approval of respective forum this MoA should come into force on June 1, 2015. The MoA requires conversion of

Mining Lease granted on June 1, 1955 and renewed on June 1, 1985 to May 31, 2015 into Development & Production Lease under and pursuant to the Petroleum Exploration & Production Policy, 2012 and the Pakistan Onshore (Petroleum & Production) Rules, 2013. Clause 2 N provides lease extension bonus @10% of wellhead value to the Government of Balochistan.

During audit of the Petroleum Division for the FY 2017-18 it was observed that M/s PPL a field formation of DG (PC), Islamabad made provision of lease extension bonus @ 10% of wellhead value payable to the government of Balochistan from June 1, 2015 to June 30, 2018. However, DG (PC) failed to get the agreement finalized from the competent forum, therefore, an amount of Rs 10,768.415 million on account of payment of bonus remained unpaid.

Audit was of the view that weak monitoring and lack of interest in finalization of agreement resulted in non-payment of lease extension bonus on gas amounting to Rs 10,768.415 million.

The matter was reported to the PAO in October, 2018. DAC in its meeting held on December 13, 2018 directed DG (PC) to finalize and approve the Memorandum of Agreement and recover the amount involved. No further progress was reported till finalization of the report.

Audit recommends to finalize the agreement besides recovery of the outstanding amount.

[DP No. 40/PL-K]

2.1.5.26 Non-utilization of Training Fund

According to Annexure VII of Petroleum Policies, 1994, 1997 and 2001, training shall be provided annually by Foreign and Local E&P companies. As per Annexure 3 of Petroleum Policies 2007, 2009 and 2012, training shall be provided for capacity building of Pakistani employees and GOP officials by Foreign and Local E&P companies as per guidelines issued by DG (PC) from time to time.

During audit of the Petroleum Division for the FY 2017-18, it was observed that DG (PC) Islamabad did not arrange any training during the period

under audit. The balance of Training Fund account as per bank statement was Rs 545.330 million as on June 30, 2018. By not arranging the training, the management failed to fulfil its responsibility leading to non-utilization of Training Fund.

Audit was of the view that absence of guidelines regarding non-utilization by DG (PC) resulted in non-utilization of Training Fund.

The matter was reported to the PAO in November, 2018. DG (PC) in its reply dated December, 06 2018 explained that the new training guidelines were being prepared for which Secretary, Petroleum constituted a committee in 2017. The proper mechanism of utilization of training fund would also be addressed by the committee.

The DAC in its meeting held on December 13, 2018 directed the Division to ensure proper utilization of funds at the earliest. No further progress was reported till finalization of the report.

Audit recommends to utilize the Training funds for its core purpose.

[DP No. 104-PC]

2.1.5.27 Weak internal controls

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

During audit of the Petroleum Division / DG (PC), Islamabad for the FY 2017-18, it was observed that adequate machinery did not exist to ensure that all due collection had been properly realized and deposited into proper heads of accounts. During the course of audit some receipts were not shown to be deposited, but later on it was established that the same had already been

deposited but no record of deposit was available. Similarly, some receipts were shown to be deposited but credit verification was not available.

It was further observed that the Petroleum Division did not have any mechanism to ensure timely payment of all their obligations by the Companies. The Division rely on the data and statements provided by the Oil & Gas Companies. Even the personnel from the client Companies are hired in order to perform regulatory functions.

Audit was of the view that inaction on the part of Division resulted in weak monitoring and internal control systems.

The matter was reported to the PAO in November, 2018. DG (PC) in its reply dated December 06, 2018 explained that lapse occurred due to shortage of manpower and non-furnishing of deposit documents by the company. They further explained that credit verification of the deposited amount had also been carried out to some extent.

The DAC in its meeting held on December 13, 2018 directed DG (PC) to improve its internal control system. No further progress was reported till finalization of the report.

Audit recommends to probe the matter regarding non-availability of the relevant documents during audit besides strengthening internal controls.

[DP Nos. 105 & 106-PC]

2.1.5.28 Non-recovery of utility charges - Rs 1.054 million

As per Rule 10 Volume-I of General Financial Rules, every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

During audit of the Petroleum Division for the FY 2017-18, it was observed that M/s LMKR (Land Mark Resources), a commercial organization, was occupying office space since November 2015 in Petroleum House, Islamabad. However, no amount was recovered on account of utility charges.

Policy Wing issued a Final Notice to the Manager LMKR for payment of electricity charges vide letter dated March 9, 2018 but no amount was deposited by LMKR. The amount payable by LMKR was Rs 0.922 million on account of electricity and Rs 0.133 million on account of gas charges aggregating to Rs 1.054 million.

Audit was of the view that failure by the Division to pursue the matter vigorously led to non-recovery of utility bills amounting to Rs 1.054 million.

The matter was reported to PAO in October, 2018. DAC in its meeting held on December 27, 2018 directed the Ministry to recover the due amount from the company within one month if exemption was not provided in the rent deed. No further progress was reported till finalization of the report.

Audit recommends recovery of the utility charges including arrears for the period prior to June 2017.

[DP No. 04-MOE-Exp]

2.1.5.29 Irregular appointment to various posts - Rs 2.774 million

As per Establishment Division OM No. 1/13/96-R-6, dated August 10, 2016, it was decided henceforth that qualifying of the following courses from the National Information Technology Board (NITB) shall be a pre-condition both for promotion and initial appointment:

Sr. No.	Designation & BPS of the post	Additional condition for promotion/initial appointment
1	Assistant (BPS-15)	6 weeks Basic IT Training Course (including MS Office) conducted by NITB.
2	Upper Division Clerk (BPS-11)	3 weeks Basic IT Training Course (including MS Office) conducted by NITB.
3	Lower Division Clerk (BPS-09)	3 weeks Basic IT Training Course (including MS Office) conducted by NITB.

Furthermore, as per recruitment mechanism circulated by Establishment Division vide letter No. F.53/1/2008-SP, dated January 16, 2015 regarding recruitment policy for the Federal Services / Autonomous Bodies / Corporations,

the interview committee will interview the short listed applicants after verification of academic / professional credentials and testimonial.

During audit of the Petroleum Division for the FY 2017-18, it was observed that Division made recruitments against various positions of Assistants, Stenos and LDCs through Balochistan Testing Service during August and September 2016. It was further observed that the conditions mentioned in Establishment Division notification and published in the advertisement were removed while finalizing the appointments.

Audit was of the view that undue favour was extended for making appointments in violation of prescribed and published criteria. This resulted in irregular payment of pay and allowances of Rs 2.774 million.

The matter was reported to the PAO in October, 2018. DAC in its meeting held on December 27, 2018 directed the Ministry to probe the matter and fix the responsibility for irregular appointments within one month and share the findings with Audit. No further progress was reported till finalization of the report.

Audit recommends to investigate the matter and fix responsibility.

[DP No. 06-MOE-Exp]

2.2 Oil and Gas Development Company Limited

2.2.1 Introduction

Oil and Gas Development Company Limited (OGDCL) was established in 1961 as a public sector corporation which was converted into a public limited joint stock company on October 23, 1997 under the Companies Ordinance, 1984. In October 2003, Government of Pakistan (GoP) divested 4.98% of its shareholding in the Company through an Initial Public Offering (IPO). OGDCL is listed on all the three stock exchanges of Pakistan. In December, 2006, GoP further divested 9.5% of the total share of the Company through Secondary Offering in the form of Global Depository Shares (GDSs) to international institutional investors. GDSs are listed on London Stock Exchange. Therefore, the OGDCL has become the first Pakistan Exploration & Production (E&P) Company listed on London Stock Exchange. In addition, Government of Pakistan also divested 0.50% of the total shares to the general public in Feb 2007. Currently the GoP holds 74.97% of paid up capital of the Company as on June 30, 2018. The registered office of the Company is located at OGDCL House, Plot No. 3, F-6/G-6 Blue Area Islamabad. The Company is engaged in the exploration and development of oil and gas resources, including production and sale of oil and gas and related activities.

2.2.2 Comments on Audited Accounts

2.2.2.1 The financial results of the Company for the year 2017-18 as compared to the previous years are tabulated below:

(Rs in million)

	2017-18	% Inc / (Dec)	2016-17	% Inc / (Dec)	2015-16
Sales	205,335.00	19.50	171,829.36	6.00	162,866.58
Royalty	21,970.95	18.64	18,518.98	2.43	18,078.77
Operating expenses	60,213.46	6.41	56,585.21	3.00	(54,986.25)
Transportation charges	1,670.85	(2.85)	1,720.98	(10.00)	(1,912.02)
Gross Profit	121,479.74	27.87	95,004.19	8.00	87,889.54
Exploration and	16,190.50	22.02	13,268.58	(9.00)	14,548.30

prospecting Expenditure					
General & Admin. Expenses	4,087.86	(3.58)	4,239.64	12.00	3,770.60
Finance cost	1,729.89	14.21	1,514.63	(12.00)	1,717.89
Workers Profit Participation Fund (WPPF)	5,927.72	26.35	4,691.45	11.00	4,237.23
Other income	16,008.12	(0.08)	16,020.33	8.96	14,702.97
Share of profit in associate-net of taxation	3,074.87	68.28	1,827.24	(16.52)	2,188.90
Profit before taxation	112,626.76	26.35	89,137.46	10.72	80,507.39
Taxation	33,890.46	33.77	25,334.06	23.36	20,536.59
Profit for the year	78,736.30	23.40	63,803.40	6.39	59,970.80
Earnings per share	18.31	23.47	14.83	6.38	13.94

(Source: Annual Audited Accounts)

2.2.2.1 The company's exploration portfolio spread over 114,581 sq. km in 2016-17 which reduced to 89,745 sq. km in 2017-18. The reasons for reduction in spread needs to be explained with full facts and figures.

2.2.2.2 The company acquired 2,073 line kilometres of 2D seismic data in 2017-18 as compared to 4,034 line kilometres in 2016-17. Similarly, company acquired 792 sq. km of 3D seismic data in 2017-18 as compared to 1,153 sq. km in the previous year. The management may explain the reasons for reduction in the said activity.

2.2.2.3 Seismic survey activities conducted by the company decreased during the year 2017-18. Seismic survey-2D decreased to 2073 line km (2016-17: 4034) whereas 3D seismic survey decreased to 792 sq km (2016-17:1,153). In order to augment the present resources of oil and gas, management must accelerate its efforts on the seismic survey.

2.2.2.4 The company spudded 26 wells (12 exploratory and 14 development) in 2015-16 whereas only 20 wells (12 exploratory and 8 development) could be spudded in 2017-18. The management is required to explain the reasons for

reduction in the said activity and enhance the core activities to achieve self-sufficiency in Oil and Gas demand.

2.2.2.5 The gross profit margin of the company was 71% in 2012-13 which decreased to 59% in 2017-18. The management is advised to enhance the activities on the subject to explore more fields.

2.2.2.6 As per horizontal analysis shown at page 41 of the Annual Report for 2017-18, the net sales of the company for the year decreased by 92% as compared to 2012-13 but operating expenses increased by 164% during the same period. Further, the general and administrative expenses also increased by 170% for the same period which showed loose control of the management over expenses. The management is advised to exercise proper control over operating, general and administrative expenses.

2.2.2.7 The company spent 7.9% of sales on exploration and prospecting in 2017-18 which were 8.9% in 2015-16. The management is advised to enhance the activities on the subject to explore more fields.

2.2.2.8 The company's current assets rose to Rs 405,857.91 million as on June 30, 2018 which were 61% of the total assets. The said figures was at 32.4% in 2012-13. Further, the debtor's turnover was 158 days in 2012-13 which increased to 251 days in 2017-18. The company is advised to improve the assets management by investing more in fixed assets besides recovering the outstanding amount.

2.2.2.9 The return on average capital employed was 32% in 2012-13 which declined to 15% in 2017-18. Similarly, the total return over assets was 59% in 2012-13 which also wilted to 32% in 2017-18. The management is advised to improve its operations regarding control over expenditure to maintain the healthy return as achieved previously.

2.2.2.10 Loan and advances included an amount of Rs 187.835 million on account of provision for doubtful debts. Same amount appeared in the financial statements of preceding years. Efforts are required to recover the long outstanding dues at an early date to avoid the conversion of doubtful debts into the bad debts.

2.2.2.11 The company paid an amount of Rs 172.278 million in excess of the amount payable to the Workers' Profit Participation Fund during the year 2017-18. Resultantly the payable balance converted into receivable balance at the close of year. Circumstance due to which this excess amount was paid to fund may be explained to Audit.

2.2.2.12 The projects like Nashpa, Nashpa Compression, Mela and Jhal Magsi were started several years ago i.e. from 2011 onwards but could not be completed which needs explanation with facts and figures.

2.2.3 Compliance of PAC Directives:

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras	% of compliance
1994-95	19	14	05	19,21,26,27,31	74
1995-96	13	11	02	16,17	85
1998-99	09	04	05	143,144,145, 152,156	44
1999-00	11	08	03	196,197,3.7&3.7.1(PER-154)	73
2000-01	29	23	06	176,179,186,187,190,196	79
2001-02	04	03	01	200	75
2002-03	05	03	02	202.2,204	60
2003-04	15	08	07	164&164.1,164.5&164.6,164.9,166,167,168,170	53
2004-05	04	03	01	106	75
2005-06	23	19	04	193.9,193.10,193.12,194	83
2006-07	30	29	01	171	97
2007-08	17	10	07	138.4,139,140, 142, 145,146, 148,	59
2008-09	13	10	03	189,190,191	77
2010-11	21	07	14	18.5.4.30, 18.5.4.35, 18.5.4.36, 18.5.4.37, 18.5.4.41, 18.5.4.44, 18.5.4.46, 18.5.4.47, 18.6.1.5, 18.6.1.16, 18.6.2.4, 18.6.4.6, 18.6.4.12, 18.6.4.14	33
2013-14	28	10	18	13.6.2.4, 13.6.2.5, 13.6.4.3, 13.6.2.7, 13.6.4.1, 13.6.4.6, 13.6.1, 13.6.2.2,	36

				13.6.2.3, 13.6.2.6, 13.6.2.8, 13.6.2.10, 13.6.2.13, 13.6.4.4, 13.6.4.8, 13.6.4.9, 13.6.4.10, 13.6.4.12,	
2016-17	41	03	38	13.6.4.16, 13.6.4.18, 13.6.4.14, 13.6.4.22, 13.6.4.8, 13.6.4.12, 13.6.4.23, 13.6.4.17, 13.6.4.11, 13.6.4.27, 13.6.4.5, 13.6.4.9, 13.6.4.10, 13.6.1 13.6.2, 13.6.2.2, 13.6.2.3, 13.6.2.4, 13.6.2.5, 13.6.2.6, 13.6.2.7, 13.6.2.8, 13.6.2.9, 13.6.2.10, 13.6.2.11, 13.6.2.12, 13.6.2.13, 13.6.3, 13.6.4.1, 13.6.4.2, 13.6.4.3, 13.6.4.4, 13.6.4.6, 13.6.4.13, 13.6.4.15, 13.6.4.21, 13.6.4.24, 13.6.4.25, 13.6.4.26,	7
Total	282	165	117		59

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

2.2.4 Audit Paras

2.2.4.1 Wasteful expenditure on procurement of amine unit for Sinjhor – Rs 987.970 million

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 OGDCL Islamabad for the FY 2017-18, it was observed that amine unit plant procured for Euro 6.272 million (equivalent to Rs 987.970 million) for Sinjhor field for sweetening of natural gas was lying unutilized. Purchase of plant was based on a study conducted by the consultant, M/s ENAR,

who subsequently conducted another study wherein significant financial benefits were forecasted on installation of a redundant equipment i.e., Skid Membrane lying at Qadirabad site. Thereafter, Skid Membrane was installed on site and installation of amine unit was dropped.

Audit was of view that due to defective planning of the management the expense incurred on the purchase of amine unit amounting to Rs 987.97 million had gone waste.

The matter was reported to the PAO / Management on December 6, 2018. The management in its reply dated December 11, 2018 stated that the study carried out by consultant M/s ENAR recommended for utilization of available Membrane of Qadirpur at Sinjhora and Amine unit for Soghri.

DAC in its meeting held on January 4, 2019 directed the Petroleum Division to probe the matter regarding procurement and share the results with Audit within two months. No further progress was reported till finalization of the report.

Audit recommends to investigate the matter and fix responsibility.

[DP No. 19-OGDCL/ISB/2017-18]

2.2.4.2 Irregular retention of Income Tax deducted from contractor - Rs 714.100 million

Under Section 160 of Income Tax Ordinance 2001, any tax that has been collected shall be paid to the Commissioner of Income Tax by the person making the collection or deduction within time and the manner as may be prescribed.

During audit of OGDCL, Islamabad for the FY 2017-18, it was observed that a contract of US\$ 148 million was awarded to M/s Hong Kong Huihua Global Technology Limited. An amount of US\$ 110.207 million pertained to supply of stores and the balance of US\$ 37.79 million was to be paid against services rendered by the contractor. During execution of the contract, payment against 65 invoices was made, on which Income Tax @ 7% amounting to US\$ 6.172 million (equivalent to Rs 714.100 million) was deducted and retained by the management but was not deposited in government treasury.

Audit was of the view that the retention of deducted income tax amounting to Rs 714.100 million was a violation of Income Tax Ordinance, 2001 and thus, considered irregular.

The matter was reported to the PAO on December 6, 2018. The management in its reply dated December 11, 2018 stated that contractor was in litigation with FBR before Islamabad High Court, where the court had granted stay and ordered to maintain status quo. Para stands till final outcome of the court case.

DAC in its meeting held on January 4, 2019 directed the management to pursue the matter vigorously. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC.

[DP No. 22-OGDCL/ISB/2017-18]

2.2.4.3 Mis-procurement due to discrimination clause - Rs 545.385 million

As per Rule 23(3) & 32 of PPRA Rules, no procuring agency shall introduce any condition, which discriminates between bidders or that is considered to be met with difficulty. Moreover, any information, that becomes necessary for bidding after the issue of bidding documents to the prospective bidders, shall be provided in a timely manner and on equal opportunity basis. Further, as per Clause 20(a) of the general terms & conditions of the contract, if the contractor fails to deliver any or all of the goods within the time period(s), the Purchaser shall deduct from the contract price/Bank Guarantee as liquidated damages, a sum up to maximum extent of 5% of the contract value.

During audit of OGDCL, Islamabad for the FY 2017-18, it was observed that in the press tender dated May 06, 2016 for the purchase of drill pipes, the prospective bidders were required to have 25 years' old registration with the American Petroleum Institute (API). On the basis of this condition, 2 out of 4 bidders were disqualified, and procurement of drill pipes valuing US\$ 5.295 million (equivalent to Rs 545.385 million) was made from M/s Vallourec Drilling Product, France vide contract dated January 26, 2017. The condition of 25 years' old registration with the API was discriminatory and difficult to fulfil. Moreover,

the bid specifications of drill pipes relating to internal plastic coating or equivalent was changed in the purchase order from IPC-207 to IPC-207/TK34P in violation of PPRA Rules. In addition, numerous other changes like waiver of two OGDCL professionals witness on Third Party Inspection, enhancement of shipment intimation time, documents negotiation period and declaration time to insurance company were also made. Moreover, the contractor failed to observe the delivery period but LD charges of Rs 27.269 million were not imposed. Thus, the procurement process of drill pipes valuing Rs 545.385 million was held irregular. Further, LD charges were also not recovered.

Audit was of the view that non-observance of PPRA Rules resulted in mis-procurement of drill pipes.

The matter was reported to the PAO on December 6, 2018. The management in its reply dated December 11, 2018 stated that requirement of 25 years' API Certification for manufacturer was floated to assure procurement from experienced manufacturer. Moreover, Third Party Inspection was duly witnessed.

DAC in its meeting held on January 4, 2019 directed the management to provide the record for verification in support of their contention within one week. No record was provided for verification till the finalization of the report.

Audit recommends to investigate the reasons for mis-procurement, recover the LD charges and fix responsibility.

[PDP No. 38/OGDCL/Isb/2017-18]

2.2.4.4 Loss due to non-deduction of liquidated damages - Rs 437.230 million

As per Clause 10(a) of the contract with M/s Hong Kong Huihua Global Technology Limited, subject to force majeure, if the contractor fails to complete the project within the time period specified, the company shall deduct LD charges a sum not more than 0.5% of the contract price per week or part thereof for the first four weeks, 1% per week for next four weeks and 1.5% per week exceeding four weeks upto maximum extent of 10% of the contract value.

During audit of OGDCL, Islamabad for the FY 2017-18, it was observed that a contract was made with M/s Hong Kong Huihua Global Technology

Limited amounting to US\$ 148 million for acquiring the services of EPCC contractor for gas processing, LPG recovery plan and allied facilities at Nashpa field. It was observed that the work was still in progress even one year after expiry of the contract. However, LD charges amounting to US\$ 3.779 million (equivalent to Rs 437.230 million) were not deducted from the running bills of the contractor.

Audit was of the view that delay in completion of contract adversely affected the production activities of field, hence, non-deduction of LD charges of Rs 437.230 million was undue favour to the firm.

The matter was reported to the PAO on December 6, 2018. The management in its reply dated December 11, 2018 stated that once the plant was properly tested and handed over to OGDCL, the LD would be adjusted accordingly.

DAC in its meeting held on January 4, 2019 directed the management to work out the exact amount of LD Charges at the time of finalization of the contract and share it with Audit. No further progress was reported till finalization of the report.

Audit recommends to calculate and recover the full amount of LD charges from the firm.

[DP No. 25-OGDCL/ISB/2017-18]

2.2.4.5 Irregular expenditure without planning & budgeting - Rs 419.822 million

As per Para 1, Part-I of approved OGDCL CSR Policy 2015, main purpose is to incur expenditure under Corporate Social Responsibility (CSR) for the betterment of society residing in and around operational areas and it contributes to fulfil the aspirations and expectations of the communities by providing access to basic amenities, thus improving the quality of their lives, poverty alleviation and transferring project responsibilities to the communities for security, sustainability and improvement. Further as per Para 1, Part-II *ibid*, expenditure was to be incurred through sector wise allocation of budget.

During audit of OGDCL for the FY 2017-18, it was observed that under CSR obligation, an expenditure of Rs 419.822 million was incurred on CSR. Audit held this expenditure irregular on certain grounds. There was no planning to allocate district wise and sector wise budget for undertaking schemes, nor was any survey or research done to identify and prioritize areas requiring special attention in each district. The projects were initiated based on receipt of proposals from random quarters rather than an organized and holistic approach. Resultantly, incurrence of expenditure for Rs 419.822 million out of CSR Funds without observing the prescribed procedure and lack of planning was held irregular. Moreover, in most cases funds were released in advance to various entities to conduct CSR initiatives and recorded as final expenses. It was not possible to verify that the funds were utilized for the purpose these were granted.

Audit was of the view that lack of planning and financial controls, and taking the advance as final expense resulted in irregular expenditure of CSR funds of Rs 419.822 million.

The matter was reported to the PAO on December 6, 2018. The management in its reply dated December 11, 2018 stated that all the CSR schemes under own initiative executed during 2017-18 were in and around OGDCL operational and concessional area.

DAC in its meeting held on January 4, 2019 directed the management to make proper planning / need assessment for timely utilization of funds under the head to avoid discrimination and fix responsibility for incurrence of expense without proper budgeting. No further progress was reported till finalization of the report.

Audit recommends to investigate the reasons for utilization of CSR funds without proper budgeting and accounting controls, besides fixing responsibility. Audit also recommends that a proper and equitable criteria is established to scrutinize the requests for CSR schemes from locals.

[DP No. 56 B/OGDCL/Isb/2017-18]

2.2.4.6 Extra payment for pipeline installation work - Rs 364.743 million

As per 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 his responsibilities include 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 OGDCL for the FY 2017-18, it was observed that a contract dated July 23, 2014 was awarded to M/s AKS & FC (JV) for installation of Flow Lines and Well Head Assemblies of 13 Wells at Sinjoro Field at a total cost of Rs 951.032 million. During execution of work certain changes were made in the layout plan of flow lines resulting in decrease in length of line from 184.5 km to 145.7 km i.e. 79% of the original BOQ. However, net quantity of line pipe issued from the store and installed was shown as 143.184 km

Land acquisition is based on pipeline to be laid, therefore, land is also measured in linear km. The land required for 143,184 km pipe was therefore, 143.184 km in length. The route survey was done only for 41% of the land and only 33% of land i.e. 61.36 km of the required length was finally acquired. Just as in the case of land, very nominal quantity of other directly related work was done. As per Regional Coordinator certificate dated July 18, 2017, land for 11 wells was acquired. Third party inspection company completion certificate showed completion of 12 wells instead of 13 well as per contract. However, the management issued completion certificate to the contractor on September 05, 2017 for satisfactory performance of 13 wells. Third party for inspection of the project was also hired but payment of 50% of the approved cost of inspection was made which showed that complete inspection was not carried out. On the basis of partial acquisition of land and other direct work done, Audit held that work done was only for 61.36 km making payment of Rs 364.743 million as extra payment.

Audit was of the view that due to these discrepancies, the expenditure of Rs 364.743 million on account of pipeline works was considered unjustified and extra payment.

The matter was reported to the PAO on December 6, 2018. In DAC meeting held on January 4, 2019, the management stated that payment was made

to contractor on actual work done basis. The matter was investigated by FIA, cleared and closed. DAC directed the management to provide all supporting record related to work done by contractor and OGDCL to reconcile the payments on account of equipment, land and services with actual work done by the contractor. No further progress was reported till finalization of the report.

Audit recommends to investigate the reasons for unjustified expenditure and fix responsibility, besides making recovery of overpayment. Audit also recommends to provide original drawings on the basis of which BoQ was prepared and got approved.

[DP No. 53/OGDCL/Isb/2017-18]

2.2.4.7 Loss due to delay in de-hiring of leased land - Rs 189.972 million

As per Rule 5(5) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety, especially with respect to handling of public funds.

During audit of OGDCL for the FY 2017-18, it was observed that the management acquired land measuring 4,304 acres on lease prior to 2001 for Uch Gas Field without conducting any survey by the OGDCL Land Assessment Committee (LAC). In July, 2015, the LAC conducted assessment of land and found that the actual requirement of land was only 1,400 acres. Accordingly de-hiring notices were issued on November 13, 2015. However, instead of handing over excess land possession, fresh lease agreement was signed on January 14, 2016 for a period of three years effective from January 01, 2015 including even those lands for which de-hiring notices had already been issued. Later on, land measuring 2,930 acres was actually de-hired on February 15, 2017.

Audit was of the view that rental payment for 2,930 acres land amounting to Rs 189.972 million for the period from November 13, 2015 (Notice date) to February 15, 2017 was made without any cogent reason. Thus, a loss to that extent was sustained by OGDCL.

The matter was reported to the PAO on December 6, 2018. In DAC meeting held on January 4, 2019, the management stated that 2,930 acres of land had been de-hired since February, 2017. The matter was now subjudice as the tribal leader of Dera Bugti filed a petition in Islamabad High Court against de-hiring. DAC directed the management to pursue the court case vigorously and share the final decision with Audit. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for acquisition of excess land than required and delay in de-hiring of land. The court case may also be pursued vigorously.

[DP No. 49/OGDCL/Isb/2017-18]

2.2.4.8 Irregular expenditure due to pre-qualification of bidder on the basis of fake record - Rs 139.558 million

As per Rule 18 of PPRA Rules 2004, the procuring agency shall disqualify a supplier or contractor if it finds, at any time, that the information submitted by him concerning his qualification as supplier or contractor was false and materially inaccurate or incomplete.

During audit of OGDCL for the FY 2017-18, it was observed that in response to pre-qualification notice through press, M/s Shelozon Movers (Pvt.) Limited applied as services provider for rig shifting in May, 2015 and was pre-qualified along with six other firms. The company provided requisite copies of its annual accounts for the financial years 2012 to 2014 in addition to a list of 27 Nissan Trucks and 06 Cranes along with photocopies of its registration books showing the ownership in the name of the company. Most of the vehicles were registered prior to 2014. However, none of the vehicles were shown in the balance sheet / financial statements of the company which proved that the company did not own the vehicles, and further implied that the vehicle registration books submitted were fake. It was observed that the same company was pre-qualified for three years up to December 31, 2017 and then further pre-qualified for another three years. Numerous rig shifting contracts valuing Rs 139.558 million were awarded to the company up to June 30, 2018. The pre-qualification of the

company on the basis of fake documents, and subsequent execution of service contracts was irregular.

Audit was of the view that defective technical evaluation resulted in irregular pre-qualification of bidder on the basis of fake record and subsequent payment of Rs 139.558 million.

The matter was reported to the PAO on December 6, 2018. In DAC meeting held on January 4, 2019, the management stated that in this particular case the following actions had already been taken in response to the audit observation i) to undertake fresh pre-qualification ii) review the evaluation criteria iii) to conduct an internal inquiry into the previous pre-qualification to ascertain any irregularity. DAC directed to hold an independent inquiry by the PAO and share the results of inquiry along with change in process of pre-qualification with Audit within two months. No further progress was reported till finalization of the report.

Audit recommends to investigate the matter and fix responsibility, besides black-listing the company. Audit also recommends installing a system of verification of antecedents and documents of bidders before award of contracts.

[DP No. 50/OGDCL/Isb/2017-18]

2.2.4.9 Loss due to delayed recovery of cash call from JV partners - Rs 117.534 million

As per Article 17.2 of PCA read with Article 1(3) of the General Provisions of the Joint Operating Agreement, at least thirty (30) days prior to the first day of each calendar quarter, the operator shall submit an itemized estimate of expenditures for each month of the quarter and each Working Interest Owner (WIO) shall pay to the Operator its proportionate share of such estimated expenditures in monthly instalments. If not so paid, the WIO in default will pay an additional sum calculated on the unpaid balance at the rate of 1.5% per month or any fraction of a month until paid.

During audit of OGDCL for the FY 2017-18, it was observed that monthly cash call amount was not being paid by different JV Partners in full

within the stipulated period. An average amount of Rs 652.968 million was lying outstanding during the year from the JV Partners. However, no penalty was imposed on delayed payment of cash call which resulted in a loss of Rs 117.534 million for the period under review.

Audit was of the view that weak internal controls led to non-recovery of late payment charges amounting to Rs 117.534 million.

The matter was reported to the PAO on December 6, 2018. The management in its reply dated December 11, 2018 stated that OGDCL was a JV Partner and Operator in different operated joint venture blocks. Therefore, for smooth joint operations, default provisions were seldom invoked in E&P industry.

DAC in its meeting held on January 4, 2019 directed the management to provide all supporting record to Audit for verification to work out the party wise receivable/payables and work out the net impact within one week. No record, however, was provided to work out the net impact till finalization of the report.

Audit recommends to recover the outstanding amount besides fixing responsibility for non-recovery.

[DP No. 41/OGDCL/Isb/2017-18]

2.2.4.10 Unnecessary purchase of hot oil equipment - Rs 116.124 million

According to Rule 5(5)(a) of 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.

During audit of OGDCL, Islamabad for the FY 2017-18, it was observed that indent dated September 27, 2011 was raised for supply of hot oil package for Sinjhor plant by July 30, 2012. Consequently a contract valuing US\$ 1.127 million was entered into with M/s Interman Trading LLC UAE, which delivered the store on March 05, 2014. An amount of US\$ 1.107 million (equivalent to

Rs 116.124 million) was paid to the supply firm against this contract. The plant however, remained uninstalled.

Audit was of the view that the payment of US\$ 1.107 million had gone waste due to non-installation / commissioning of the plant.

The matter was reported to the PAO on December 6, 2018. The management in its reply dated December 11, 2018 stated that hot oil heater package was actually utility part of amine unit and would be utilized in conjunction with amine unit.

DAC in its meeting held on January 4, 2019 directed the Petroleum Division to probe the matter regarding procurement and share the results with Audit within two months. No further progress was reported till finalization of the report.

Audit recommends to probe the matter and fix responsibility for unnecessary purchase besides sharing result of inquiry with Audit.

[DP No. 30-OGDCL/ISB/2017-18]

2.2.4.11 Non-payment of Royalty on loss of Crude Oil recovered from transporters - Rs 107.749 million

According to Exploration & Production Rules 1949, 1986, 2001, 2007, 2009, 2013, Royalty shall be paid at the rate of 12.5% of the wellhead value of the Petroleum produced and saved.

During audit of OGDCL for the FY 2017-18, it was observed that for the purpose of Royalty calculations only those quantity of crude oil were recognized as sales which were received by Refineries. The cost of crude oil lost during delivery was recovered from the transporters and recognized as revenue. However, Royalty was not paid on the quantity lost by transporters. This deprived the GoP of the share on Royalty which was to be paid on the value of petroleum produced and saved. This resulted in non-payment of Royalty on loss of Crude Oil recovered from transporters amounting to Rs 107.749 million during FYs 2008 to 2018.

Audit was of the view that the management was withholding government share in Royalty since its imposition without justification.

The matter was reported to the PAO on December 6, 2018. The management in its reply dated December 11, 2018 stated that the Royalty on recovery of Crude Oil lost during transport amounting to Rs 107.749 million had been deposited into government treasury.

DAC in its meeting held on January 4, 2019 directed the management to provide the record, since applicability of the Royalty, on recovery of losses and deposit the same along with interest on delayed payments in Government treasury within two months. No further progress was reported till finalization of the report.

Audit recommends to deposit the remaining amount of Royalty since its imposition including interest accrued thereon.

[DP No. 42/OGDCL/Isb/2017-18]

2.2.4.12 Un-verifiable expenditure on lease rental due to incomplete record - Rs 77.804 million

As per Article 5 & 14 of OGDCL Policy / Procedure 1988, the acquisition of land was required to be made through negotiation based on the Revenue Department approved rate of concerned District based on copies of Register Haqdarani, Aks Shijra and Khasra Girdawari duly attested by Halqa Patwari.

During audit of OGDCL for the FY 2017-18, it was observed that the management acquired land on lease along a length of 61,360 meters (185 Acre) through contractor M/s AKS & FC (JV) to install the flow lines of thirteen wells at Sinjhor Field. Hence, an amount of Rs 54.242 million at the rate of Rs 884 per meter including one year rental in addition to crop compensation was paid. Later on, an expenditure of Rs 22.881 million was incurred on account of rental charges of said land for the years 2016 to 2018. However, copies of Register Haqdarani, Aks Shijra and Khasra Girdawari duly attested by Halqa Patwari, linked with list of owners of land was neither found on record nor provided on demand. In the absence of such basic documents, the ownership as well as the total area of land valuing Rs 77.123 million acquired on lease could not be verified and hence, payment made on that account was considered irregular. It was also found that

only 185 Acres land was acquired on lease, however, expenditure on account of lease rental was incurred for excess land resulting in an overpayment of Rs 0.681 million during 2016 to 2018.

Audit was of the view that weaknesses of internal controls resulted in such irregularities.

The matter was reported to the PAO on December 6, 2018. The management in its reply dated December 11, 2018 submitted the copies of lease agreements and Fards of the owners for verification.

DAC in its meeting held on January 4, 2019, directed the management to provide the copy of Aks Shajira with reference to Fards involved in the instant case within two months. No further progress was reported till the finalization of the report.

Audit recommends to investigate the reasons for irregular expenditure, fix responsibility and effect the recovery of overpayment.

[DP No. 47/OGDCL/Isb/2017-18]

2.2.4.13 Loss due to hiring of sub-standard DST services - Rs 68.468 million

As per Clause 15.1 of the contract dated February 26, 2014, in the event of default by the contractor, the company shall have the right to terminate the contract for cause, by giving written notice effective ten (10) days after the date of such notice. The company shall be entitled to recover all actual damages, costs and losses incurred by the company as a result of default by the contractor.

During audit of OGDCL, Islamabad for the FY 2017-18, it was observed that a service contract dated February 26, 2014 was made with M/s China National Logging Corporation (CNLC) valuing US\$ 1.629 million for provision of DST services at 20 wells. During the operational activities, different problems of malfunctioning and failure of tools were observed on the part of M/s CNLC. Ultimately, the contract was terminated in August, 2016 after encashment of their Performance Bank Guarantee (PBG) of US\$ 0.163 million (Rs 17.028 million). Consequently, the accumulated loss sustained by OGDCL on this account was US\$ 0.658 million (equivalent to Rs 68.468 million).

Audit was of the view that due to hiring of sub-standard services and subsequently non-observance of provision of contract, company sustained loss of Rs 68.468 million.

The matter was reported to the PAO on December 6, 2018. The management in its reply dated December 11, 2018 stated that there was no failure on the part of contractor as it happened due to unexpected well conditions. Audit contended that revoking performance guarantee was a proof that OGDCL was not satisfied with the services provided by contractor.

DAC in its meeting held on January 4, 2019 directed the PAO to conduct technical inquiry to determine the extent of loss occurred and whether any action could be taken against the contractor apart from the actions already taken. No further action was reported till finalization of the report.

Audit recommends to expedite the technical inquiry and fix responsibility, besides, effecting recovery of loss from the quarter concerned.

[DP No. 35/OGDCL/Isb/2017-18]

2.2.4.14 Loss due to ill-planned procurement for Soghri Field - Rs 65.888 million

According to Revised Production Profile for Soghri-I, regular updating of profile was required at least twice a year to determine future expected quantities based on the actual production and pressure performance of planned as well as already drilled wells in the field.

During audit of OGDCL, Islamabad for the FY 2017-18, it was observed that in March 2015, the management decided for the development scheme for Soghri Field by installation of gas processing facilities comprising of Amine unit and purchased machinery worth Rs 65.888 million. As per revised Production Profile for Soghri-I, the field had a stable gas production of 15 MMCFD per annum from 2015 to 2018. Thereafter, gas production had to register a steep decline @ 10% per annum from 15 MMCFD to 1.1 MMCFD in 2026. Keeping in view the present production of Soghri-I and expected production of Soghri-II, the management decided to shift the plant purchased for Sinjhor to Soghri. The

plant could not be installed and it was subsequently decided that with the current production profile, gas from all three fields i.e. Dakhni, Soghri and Jand could be combined to be processed at Dakhni. However, machinery valuing Rs 65.888 million could not be utilized due to abandonment of Soghri.

Audit was of the view that due to ill planning and hastily procurement by the management, machinery amounting to Rs 65.888 million was lying unutilized.

The matter was reported to the PAO on December 6, 2018. The management in its reply dated December 11, 2018 stated that procurement was made to enhance the flow to 35 MMCFD in the light of well 2 at Soghri which unfortunately failed and now well 3 was under progress. It was further stated that equipment /material for Rs 37 million had already been utilized at different project and remaining would be utilized for upcoming projects.

DAC in its meeting held on January 4, 2019 directed the Petroleum Division to probe the matter regarding procurement before the results of second well and share the results with Audit within two months. No further progress was reported till finalization of the report.

Audit recommends to probe the matter at Ministry level and fix responsibility for ill-planned procurement besides verification regarding utilization of equipment worth Rs 37 million.

[DP No. 18-OGDCL/ISB/2017-18]

2.2.4.15 Irregular procurement of vehicles without clearance from austerity committee - Rs 61.534 million

According to Finance Division OM dated July 26, 2017 forwarded by the Ministry of Energy (Petroleum Division) on August 1, 2017 to OGDCL for information and compliance, complete ban was imposed on procurement of all types of vehicles with approval from austerity committee.

During audit of OGDCL for the FY 2017-18, it was observed that the management procured 43 vehicles at a total cost of Rs 61.534 million without

obtaining clearance from the austerity committee. Thus, the expenditure incurred on this account was held irregular by Audit.

Audit was of the view that non-observance of the Government orders resulted in irregular procurement of vehicles amounting to Rs 61.534 million.

The matter was reported to the PAO on December 6, 2018. In DAC meeting held on January 4, 2019, the management stated that out of 43 vehicles, 12 were for entitled officers. The rest of the vehicles were the replacement vehicles for operations all over the country. DAC directed the management to take up the matter with Finance Division through PAO for clarification regarding implementation of the instruction and share it with Audit within one months. No further progress was reported till finalization of the report.

Audit recommends to get the matter clarified form the Finance Division at the earliest. Audit also recommends that government representatives on the Board of PSEs should ensure implementation of government instructions during board meetings.

[DP No. 51/OGDCL/Isb/2017-18]

2.2.4.16 Wasteful expenditure on procurement of generator set - Rs 53.511 million

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 ODGCL, Islamabad for FY 2017-18, it was observed that Project Department raised indent dated September 07, 2012 for design, manufacture, supply, supervision of installation, commissioning and testing of gas engine driven power generator of 1,000 KW. The generator set was procured from M/s GE Jenbacher Austria at a cost of US\$ 0.375 million (Rs 39.375 million). Local portion of the generator set was supplied by M/s Orient Energy Ltd., for Rs 14.136 million. However, generator set was yet to be installed which rendered expenditure to be wasteful.

Audit was of the view that non-installation of the generator set resulted in wasteful expenditure of Rs 53.511 million.

The matter was reported to the PAO on December 6, 2018. The management in its reply dated December 11, 2018 stated that gen-set was procured to meet the power requirement of amine unit to be installed at Sinjhor.

DAC in its meeting held on January 4, 2019 directed the Petroleum Division to probe the matter regarding procurement and share the results with Audit within two months. No further progress was reported till finalization of the report.

Audit recommends to probe the matter and fix responsibility for wasteful expenditure on procurement of generator.

[DP No. 24-OGDCL/ISB/2017-18]

2.2.4.17 Non-utilization of CSR funds - Rs 51.030 million

As per Para 1, Part-I of approved OGDCL CSR Policy 2015, main purposes to incur expenditure under Corporate Social Responsibility (CSR) are for the betterment of society residing in and around operational areas and it contributes to fulfil the aspirations and expectations of the communities by providing access to basic amenities, thus improving the quality of their lives, poverty alleviation and transferring project responsibilities to the communities for security, sustainability and improvement.

During audit of OGDCL for the FY 2017-18, it was observed that the management allocated total budget of Rs 805.074 million (including PCA and CSR Trust requirement) for the CSR activities to be undertaken during the period under review. There was no planning to allocate district wise and sector wise budget for undertaking schemes, nor was any survey or research done to identify and prioritize areas requiring special attention in each district. This was primarily due to the passive modus operandi of the management whereby projects were initiated based on receipt of proposals from random quarters rather than an organized, holistic approach. Thus, absence of planning resulted in non-utilization of available CSR funds of Rs 51.030 million at the year end, out

of which Rs 50 million was transferred to CSR Trust having no operational activities.

Audit was of the view that lack of planning and financial controls resulted in non-utilization of CSR funds of Rs 51.030 million for the prescribed purposes.

The matter was reported to the PAO on December 6, 2018. The management in its reply dated December 11, 2018 stated that all the CSR schemes under own initiative executed during 2017-18 were in and around OGDCL operational and concessional area.

DAC in its meeting held on January 4, 2019 directed the management to make proper planning / need assessment for timely utilization of funds under the head to avoid discrimination and fix responsibility for incurrence of expense without proper budgeting. No further progress was reported till finalization of the report.

Audit recommends to investigate the reasons for non-utilization of CSR funds and fix responsibility.

[DP No. 56 A/OGDCL/Isb/2017-18]

2.2.4.18 Irregular expenditure on account of lease rental and compensation - Rs 37 million

As per OGDCL approved Policy / Procedure, the acquisition of land was required to be made through negotiation based on the Revenue Department approved rate of concerned District. In case, it becomes difficult to get the consent of the land owners, the same will be done through Land Acquisition Collector.

During audit of OGDCL for the FY 2017-18, it was observed that the management had to install flow lines of thirteen wells at Sinjhorro Field. For this purpose, land was acquired through M/s AKS & FC (JV) vide contract dated July 23, 2014 @ Rs 884 per meter including one year rental, crop compensation etc. However, no in-house survey report was prepared to ascertain the quantum of crops and trees on the land. Against a BOQ of 184,500 meters, only 61,360 meters (185 Acres) were hired and an amount of Rs 54.242 million was paid to

the contractor. The average rate of Rs 293,200 (Rs 54.242 million for 185 acres) per acre was paid. It was observed that OGDCL approved rate of said District was Rs. 40,000 per acre per annum. Further, the land was hired without keeping in view the rates notified by the Revenue Department. The maximum average rate of such land should not have been more than Rs 93,200 per acre. Thus an expenditure of Rs 37 million (185*200,000) was incurred in excess.

Audit was of the view that weak internal controls led to loss to the company amounting to Rs 37 million.

The matter was reported to the PAO on December 6, 2018. The management in its reply dated December 11, 2018 stated that tender enquiry was floated through press for installation of flow line and well head assemblies inclusive of land acquisition. Accordingly, contract was made with technically responsive and financially lowest bidder.

In DAC meeting held on January 4, 2019, the management stated that FIA investigated the award of contract and cleared the case. DAC directed the management to provide the agenda item for hiring the land through M/s AKS & Fazal as contractor within one week. No further progress was reported till the finalization of the report.

Audit recommends to investigate the reasons for loss to fix responsibility and make good the same by effecting recovery.

[DP No. 46/OGDCL/Isb/2017-18]

2.2.4.19 Loss due to short deduction of income tax from employees - Rs 24.030 million

According to Section 153 of Income Tax Ordinance 2001, the management was required to deduct income tax at source from the salaries of employees according to the tax slabs applicable for the year 2017-18.

During audit of OGDC Islamabad, for the FY 2017-18, it was observed that income tax was less deducted from the annual gross salary of 149 employees resulting in a short deposit of Rs 24.030 million into government treasury.

Audit was of the view that poor financial management resulted in less deduction of income tax amounting to Rs 24.030 million.

The matter was reported to the PAO on December 6, 2018. The management in its reply dated December 11, 2018 stated that tax credits had been allowed to the respective employees in line with the provision of Section 149 of Income Tax Ordinance, 20.

DAC in its meeting held on January 4, 2019 directed the management to check the implications in the light of audit observations and take final action accordingly within one month. No further progress was reported till finalization of the report.

Audit recommends to pay income tax payable within one month.

[DP No. 14-OGDCL/ISB/2017-18]

2.2 .4.20 Irregular refund of Income Tax - Rs 21.655 million

According to Section 160 of Income Tax Ordinance, 2001, any tax that has been collected shall be paid to the Commissioner of Income Tax by the person making the collection or deduction within time and the manner as may be prescribed. Further, as per Section 170, refund can only be allowed by the commissioner of income tax on application of tax payer.

During audit of OGDCL, Islamabad for the FY 2017-18, it was observed that a contract of US\$ 37.79 million was awarded to M/s Hong Kong Huihua. The contractor requested for reimbursement of excess deducted tax amounting to US\$ 0.205 million on June 01, 2017. The management reimbursed the amount of US\$ 0.133 million (equivalent to Rs 14.056 million) while US\$ 0.072 million (equivalent to Rs 7.6 million) was retained (total amount Rs 21.655 million).

Audit was of the view that refund of withheld tax of Rs 21.655 million was made in violation of the rules.

The matter was reported to the PAO on December 6, 2018. The management in its reply dated December 11, 2018 stated that tax was withheld

@ 12% from the contractor as clarity regarding tax filing status of the contractor was required at that point in time.

DAC in its meeting held on January 4, 2019 directed the management to produce the record to ascertain the date of deduction and status of filer in the same month. No further progress was reported till finalization of the report.

Audit recommends to produce the record to ascertain the date of deduction and status of filer in the same month.

[DP No. 23-OGDCL/ISB/2017-18]

2.2.4.21 Inadmissible expenditure on account of CSR - Rs 18.274 million

As per Para 1 of Part-I of the OGDCL CSR Policy 2015, Corporate Social Responsibility (CSR) practices involve voluntary contribution for the betterment of society residing in and around operational areas and contribute to:

- i. Promote an enabling environment between the local communities and OGDCL;
- ii. Fulfil the aspirations and expectations of the communities residing in and around operational areas by providing access to basic amenities, thus improving the quality of their lives;
- iii. Undertake poverty alleviation efforts among marginalized communities;
- iv. Follow the laws, regulations and other policy mechanisms concerning environmental issues; and
- v. Transferring project responsibilities to the communities for security, sustainability and improvement.

During audit of OGDCL for the FY 2017-18, it was observed that the management funded 24 different projects / schemes and incurred an expenditure of Rs 18.274 million thereof. None of the projects / schemes were covered under the approved purposes of CSR. Moreover, in most cases, these projects / schemes were not even undertaken in the locality of operational areas. These initiatives were geared towards generating publicity for the company itself, and lacked any

aspect of public welfare, uplift, and integration of local communities and thus, held inadmissible.

Audit was of the view that non-observance of the provisions of approved CSR policy resulted in incurrence of inadmissible expenditures.

The matter was reported to the PAO on December 6, 2018. The management in its reply dated December 11, 2018 stated that CSR Policy covered the broad spectrum and included welfare activities to support good social and noble cause for the people of OGDCL Operational, Concessional and other areas. The reply was not tenable being general in nature and not specific to the para.

DAC in its meeting held on January 4, 2019 directed the management to get the expenses ratified from the BoD. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for inadmissible expenditure.

[DP No. 48/OGDCL/Isb/2017-18]

2.2.4.22 Infertuous expenditure on consultancy services - Rs 17.50 million

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 OGDCL Islamabad for the FY 2017-18, it was observed that a consultancy contract of Rs 18 million was awarded to M/s ENAR for study, design, tender and evaluations pertaining to Soghri and Dakhni fields. The subject study, recommending expansion activities, was approved and bidding process initiated. After final evaluation of bids, case was presented before procurement committee for approval. During the meeting, the committee observed that production profiles used by the consultant were outdated and advised to obtain fresh production profiles of Dakhni, Soghri and Jand wells. The revised production profiles revealed that new plant at Dahkni was not required. Thus, the production directorate suspended activities of Soghri

development project on December 14, 2017, but by that time, the consultant had already been paid an amount of Rs 17.50 million.

Audit was of the view that due to failure of management to provide the latest production profiles to the consultant, the expense of Rs 17.50 million on consultancy was wasted.

The matter was reported to the PAO on December 6, 2018. The management in its reply dated December 11, 2018 stated that it was a failure of Soghri Well 02 due to which project activities were put on hold.

DAC in its meeting held on January 4, 2019 directed the Petroleum Division to probe the matter regarding consultancy obtained on the basis of old production profiles and share the results with Audit within two months. No further progress was reported till finalization of the report.

Audit recommends to probe the matter at Ministry level and fix the responsibility for loss.

[DP No. 20-OGDCL/ISB/2017-18]

2.2.4.23 Non-deduction of income tax on sale of vehicles to employees below the fair market value - Rs 15.127 million

According to Section 13(11) of Income Tax Ordinance, 2001, where, in a tax year, property is transferred or services are provided by an employer to an employee, the amount chargeable to tax to the employee under the head "Salary" for that year shall include the fair market value of the property or services determined at the time the property is transferred or the services are provided, as reduced by any payment made by the employee for the property or services

During audit of OGDCL, Islamabad for the FY 2017-18, it was observed that 101 vehicles valuing Rs 123.899 million were sold to employees for Rs 16.568 million on book value which was much lower than the fair market price of these vehicles. Whereas Considering a value of 50% of cost price, the fair market value of these vehicles was Rs 61.949 million. The management was required to determine fair value and deduct income tax as prescribed under Section 13(11) from the employee as withholding agent. Non-deduction of

income tax resulted in a revenue loss of Rs 15.127 million ($61.949 - 16.568 = 45.381 * 30\%$) to the government exchequer.

Audit was of the view that due to weak financial control, vehicles were sold to the employees below fair market value and non-deduction of income tax of Rs 15.127 million.

The matter was reported to the PAO on December 6, 2018. The management in its reply dated December 11, 2018 stated that vehicles were sold to entitled employees in line with the approved policy of the company.

In DAC meeting held on January 4, 2019 Audit contended that management should fix responsibility for non-determination of fair market value of vehicles as per prevailing income tax rules and deposit due income tax to government treasury. DAC directed the management to finalize the inquiry and share the findings with Audit within one month. DAC further directed to frame the procedure for determination of fair market value of the vehicles. No further progress was reported till finalization of the report.

Audit recommends to probe the matter, fix responsibility for non-determination of fair market value of vehicles, deposit the due income tax which company was required to withhold as withholding agent since the promulgation of relevant Sections of income tax and frame proper procedure for future.

[DP No. 33-OGDCL/ISB/2017-18]

2.2.4.24 Irregular enhancement in pay of GM - Rs 8.96 million

As per appointment letter dated November 23, 2011, General Manager was hired on contract basis for two years as at a lump sum package of Rs 450,000 per month.

During audit of OGDCL, Islamabad for the FY 2017-18, it was observed that the General Manager (Logistic Support) was hired for a period of two years on lump sum contract basis. The contract was extended three times for period of two years each. After completion of third extension of two years, his pay structure was converted to that of regular employee w.e.f November 27, 2012. Audit observed that the contract officer was paid annual increment, house rent

and utility charges during the contract period. This resulted in irregular payment of Rs 8.96 million to him on account of annual increment, house rent and utility allowances during contract period.

Audit was of the view that undue favour was granted by allowing the irregular payment of Rs 8.96 million in excess of entitlement.

The matter was reported to the PAO on December 6, 2018. The management in its reply dated December 11, 2018 stated that the Managing Director / CEO approved formula for determining the basic pay of contractual officers on the analogy of the approval accorded by Board of Directors in its 128th meeting held on April 27, 2011. The reply was not tenable as specific approval of the Board was not sought in this case.

DAC in its meeting held on January 4, 2019 directed the management to provide a copy of the Board approval entitling the contract employees annual increments. DAC further directed to share the detail of annual increment given to GM (Logistic Support) every year and data on the basis of which performance was evaluated. No further progress was reported till finalization of the report.

Audit recommends to recover the amount paid irregularly on account of Conveyance Allowance.

[DP No. 17-OGDCL/ISB/2017-18]

2.2.4.25 Un-justified payment for hydrostatic test of pipeline work - Rs 2.852 million

As per 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 his responsibilities include 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 OGDCL for the FY 2017-18, it was observed that a contract dated July 23, 2014 was awarded to M/s AKS & FC (JV) for the installation of Flow Lines and Well Head Assemblies of 13 Wells at Sinjhora Field at a total cost of Rs 951.032 million. During execution of work certain

changes were made in the layout plan of flow lines resulting in decrease in length of line from 184.5 Km to 145.7 Km i.e. 79% of the approved BOQ. Accordingly the hydrostatic testing of the same length of flow line was to be carried out. But as per actual work done statement dated August 09, 2017 the quantity of hydrostatic testing was shown as 156.251 Km. This showed that the quantity of hydrostatic testing was over & above the total quantity of flow line by 10.751 Km. Hence, a payment of Rs 2.852 million (10.751 Km x Rs 265,232) on account of excess quantity was not justified.

Audit was of the view that lack of internal control resulted in unjustified payment of Rs 2.852 million.

The matter was reported to the PAO on December 6, 2018. In DAC meeting held on January 4, 2019, the management stated that payment was made to contractor on actual work done basis. The matter was investigated by FIA, cleared and closed. DAC directed the management to provide all supporting record related to work done by contractor and OGDCL to reconcile the payments on account of equipment, land and services with actual work done by the contractor. No further progress was reported till finalization of the report.

Audit recommends to investigate the reasons for unjustified expenditure and fix responsibility, besides making recovery of overpayment.

[DP No. 54/OGDCL/Isb/2017-18]

2.3 Pakistan Petroleum Limited

2.3.1 Introduction

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

PPL's history can be traced back to the establishment of a public limited company in June 1950, with major shareholding by Burmah Oil Company (BOC) of the United Kingdom for exploration, prospecting, development and production of oil and natural gas resources. In September 1997, BOC disinvested from the Exploration and Production (E&P) sector worldwide and sold its equity in PPL to the Government of Pakistan (GoP). Subsequently, the government reduced its holding through an Initial Public Offer in June 2004, which was further decreased with the initiation of the Benazir Employees Stock Option Scheme (BESOS) in August, 2009 when PPL employees were allotted 12 percent shares from the government's equity. More recently, GoP further disinvested its 5 percent shares, around 3.55 percent of the total paid-up capital, in PPL through Secondary Public Offering in 2014. Currently, the company's shareholding is divided between the government, which owns about 68 percent, PPL Employees Empowerment Trust that has approximately 7 percent and private investors, who hold nearly 25 percent shares. The Company is listed on the Pakistan Stock Exchange.

Pakistan Petroleum Limited is the second largest exploration and production company in terms of both production and reserves. Presently, PPL contributes around 26 % of the country's total natural gas production besides producing crude oil/ Natural Gas Liquids (NGL) and Liquefied Petroleum Gas (LPG). Sui and Kandhkot gas fields are two of the major PPL operated fields with 100% ownership.

2.3.2 Comments on Audited Accounts

2.3.2.1 The working results of the company for the financial year 2017-18 as compared to previous years are given below:

(Rs in million)

	2017-18	% Inc/ (Dec)	2016-17	% Inc/ (Dec)	2015-16
Sales	126,209.61	7.88	116,986.30	45.96	80,151.21
Field Expenditure & Royalties	65,718.11	(0.52)	66,064.01	21.95	54,171.21
Operating Profit	60,491.49	18.79	50,922.29	96.00	25,979.99
Total Other Operating Expenses	5,930.61	(16.90)	7,136.77	76.98	4,032.44
Other Income	9,318.99	93.97	4,804.23	11.38	5,418.13
Profit before Taxation	63,436.31	31.80	48,128.67	88.21	26,706.72
Taxation	17,748.67	42.55	12,450.03	31.54	9,464.70
Profit after Taxation	45,687.63	28.05	35,678.64	106.92	17,242.02

(Source: Annual Audited Accounts)

2.3.2.2 Sales revenue increased to Rs 126,209.61 million during the year 2017-18 as compared to Rs 116,986.30 million previous year, registering an increase of 7.88%. The increase in sales was mainly due to increase in international oil prices. Whereas, company's average production of gas and oil declined by 1.9% and 2.6% respectively as compared to the previous year. Efforts may be made to improve the exploration of natural gas and oil reserves.

2.3.2.3 Although, other income increased from Rs 4,804.23 million in 2016-17 to Rs 9,318.99 million in 2017-18, registering an increase by 93.97%, the profit of the company did not increase up to this extent. Efforts may be made to increase profitability of the company by controlling its expenses.

2.3.2.4 The trade debts increased from Rs 99,283.854 million during the year 2016-17 to Rs 142,636.089 million during the year 2017-18 registering an increase of 43.66%. Increase in the trade debts indicated unsatisfactory position with regards to recovery of outstanding dues. Necessary measures may be adopted to effect recovery of outstanding dues expeditiously.

[DP Nos. 57 & 74-PPL/K/2018-19]

2.3.2.5 Debtors turnover (days) reflected adverse position of 281 days in 2017-18 against 187 days in 2016-17. This is unusual increase in debtors turnover and reflected 50.26% increase over the previous year. Concrete efforts may be made to significantly reduce blockage in trade debts time cycle.

2.3.2.6 The management did not get the prior approval of AGP for appointment of external auditor as required vide FD directives dated March 25, 1981.

[DP No. 70-PPL/K/2018-19]

2.3.3 Compliance of PAC Directives:

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
2009-10	2	2	-	-	100
2010-11	11	9	2	18.1.4.2 & 18.1.4.3	82
2011-12	7	7	-	-	100
2012-13	5	5	-	-	100
2013-14	10	6	4	13.1.2.3, 13.1.3, 13.1.4.1 & 13.1.4.2	60
2014-15	12	12	-	-	100
2015-16	7	6	1	15.2.1, 15.2.2.1, 15.2.2.2, 15.2.2.3, 15.2.2.4, 15.2.3, 15.2.4.1 & 15.2.4.2	86
Total	54	47	7		87

The overall compliance of PAC directives was 87%, which may be improved further.

2.3.4 Audit Paras

2.3.4.1 *Loss due to non-recovery of long outstanding dues from M/s BYCO - Rs 2,469.107 million*

According to standard Petroleum Concession Agreement, the refinery shall pay the sellers' invoices for all condensate delivered by the sellers in the preceding calendar month at the relevant condensate price, plus any duties, taxes, levies, duties or charges payable by the refinery. If not so paid by the 30th day of the invoice date, late payment surcharge shall be payable. In the event that the Buyer fails to make payments due to the Sellers, than the sellers shall have the right to terminate supply of condensate forthwith.

During audit of PPL for the FY 2017-18, it was observed that PPL made supply of condensate to M/s BYCO and an amount of Rs 1,204.290 million was outstanding for the period from December 2009 to January 2011. The condensate was sold to M/s BYCO without any agreement and all supplies were made on the direction of M/o P&NR. However, no payment was made by M/s BYCO. PPL made a number of requests to M/s BYCO and Ministry of Petroleum & Natural Resources for the payment of outstanding dues. Later on, the company declared the amount of Rs 1,181.220 million as doubtful debts and subsequently made provisions of doubtful allowance in the annual accounts for the year 2011-12. The company also filed two law suits against M/s BYCO for recovery of the said dues which were still pending.

Audit was of the view that the management of PPL continued the supply of condensate to M/s BYCO without any agreement resultantly, outstanding amount of Rs 2,469.107 million could not be recovered yet.

The matter was reported to the PAO in December, 2018. In DAC meeting held on January 01, 2019, the management stated that the matter was subjudice before Sindh High court. DAC directed the management to pursue the matter. No further progress was reported till finalization of the report.

Audit recommends to pursue the case in the court vigorously.

[DP No. 79-PPL/K/2018-19]

2.3.4.2 Non-settlement of insurance claims - Rs 1,635.940 million

According to Clause 19.6 of Accounting and Internal Control Manual of PPL, in case of an incident / accident or a natural disaster, the respective operating department / function / section field shall report the incident / accident to the Insurance Section. Insurance Section shall notify the insurance company about the incident / accident or natural disaster which shall appoint a surveyor and surveyor report shall be received from the surveyor on the basis of which amount of claim shall be agreed between management of the Company and the insurance company.

During audit of PPL for the FY 2017-18, it was observed that fifteen insurance claims amounting to Rs 1,903.58 million were outstanding as on June 30, 2018. The management failed to get outstanding insurance claims settled from National Insurance Company Limited even after lapse of 02 to 08 years of incurrance of accidents.

Audit was of the view that negligence on the part of management resulted in non-settlement of insurance claims worth Rs 1,903.58 million. This also rendered premium paid to insurance company infructuous.

The matter was reported to the PAO in December, 2018. In DAC meeting held on January 01, 2019 the management stated that an amount of Rs 267.640 million had been recovered in four cases and verified by Audit. DAC directed to pursue the remaining claims. No further progress was reported till finalization of the report.

Audit recommends to make strenuous efforts to get outstanding insurance claims settled.

[DP No. 72-PPL/K/2018-19]

2.3.4.3 Irregular Promotion of officers in violation of uniform Recruitment and Promotion Policy - Rs 951.112 million

According to Para D of Uniform Recruitment and Promotion Policy dated October 21, 2011, the promotion of employees to take place once or twice a year on merit and performance. Companies to have Performance Management

Process and Management by Objective Assessment System. Testing to be carried through testing agency. The candidate securing 60% marks in the written test are to be called for interview. Interview panel should consist of 3 to 5 members including Board HR members. Promotion to only take place in case of clear vacancies and budget positions as per job profile which have prior approval of the Board. Vacancies to be announced internally. A minimum service / qualifying period be determined at each grade in addition to job fulfilling job profile parameters etc.

During audit of PPL for the FY 2017-18, it was observed that management promoted 214 employees to higher Group in cadres from Group 04 to 12 without fulfilling codal formalities. The promotions of Junior & Mid-Career Level up to GM level were done without fulfilling the requirements in violation of Uniform Recruitment and Promotion Policy.

Audit was of the view that violation of criteria resulted in irregular promotion and subsequent pay and perquisites amounting to Rs 951.112 million drawn by the incumbents during 2017-18.

The matter was reported to the PAO on December, 2018. DAC in its meeting held on January 01, 2019 directed the management to take up the matter with Ministry for approval. DAC also directed the management to get it verified that all the promotions mentioned in the para were made in transparent manner. No further progress was reported till finalization of the report.

Audit recommends to withdraw promotions besides recovery of salary and fixation of responsibility on the person(s) at fault.

[DP No. 84-PPL/K/2018-19]

2.3.4.4 Irregular award of contract for hiring of security services - Rs 437 million

According to Rule 12(2) & (3) of PPRA Rules, 2004, all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. Further as per Rules 14(a) & 42 of *ibid*, deviation from the requirement is

permissible with the prior approval of the authority that proposed procurement is related to national security and its publication could jeopardize national security objectives. 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 as no other alternatives exists.

During audit of PPL for the FY 2017-18, it was observed that the management placed work order to M/s Frontier Corps (FC) Headquarters Balochistan, Quetta for provision of security services. FC provided security for drilling, work over wells and physical protection of gas installation at Sui Gas Field for the period from July 01, 2017 to June 30, 2018. However, the work was awarded on direct contracting by violating clauses of PPRA Rules, 2004.

Audit was of the view that violation of PPRA Rules resulted in irregular award of contract valuing Rs 437 million.

The matter was reported to the PAO in December, 2018. In DAC meeting held on January 01, 2019, the management could not clarify whether M/s Frontier Corps (FC) was a government organization or a security services agency. DAC directed the management to provide the copy of contract for verification. No further progress was reported till finalization of the report.

Audit recommends that the matter may be probed for violation of PPRA Rules beside fixing responsibility on the person(s) at fault.

[DP No. 80-PPL/K/2018-19]

2.3.4.5 Irregular appointments in violation of Uniform Recruitment and Promotion Policy - Rs 222.689 million

According to Para B(5) of Uniform Recruitment and Promotion Policy, dated October 21, 2011 testing is to be carried out using IBA, LUMS, National Testing Service or any authenticated, certified third party mechanism. Further, under Para 7 of the said policy, only those securing 60% in the written test are to be called for interview.

During audit of PPL for the FYs 2016-17 and 2017-18, it was observed that the management recruited 137 candidates in various cadres from Group 03

to 13 without conducting written test, which was a mandatory requirement for any appointment. The recruitment of junior and senior officers without fulfilling the requirement of test was in violation of Uniform Recruitment and Promotion policy and against the spirit of merit. Had tests been conducted the company would have selected more competent candidates through open competition.

Audit was of the view that violation of Policy resulted in irregular payment of Rs 222.689 million on account of salaries to the persons hired irregularly.

The matter was reported to the PAO in December, 2018. DAC in its meetings held on December 18, 2018 and January 01, 2019 directed the management to take up the matter with the Ministry for approval. DAC also directed the management to get the fact verified that all the appointments mentioned in the para were made in transparent manner. No further progress was reported till finalization of the report.

Audit recommends to conduct fresh recruitment process as per Uniform Recruitment and Promotion Policy besides fixing responsibility on persons at fault.

[DP Nos. 54 & 83-PPL/K/2018-19]

2.3.4.6 Irregular payment of donations and scholarship - Rs 199.502 million

As per Corporate Social responsibility (CSR) of PPL, the CSR entails corporate voluntary self-regulation is integrated into its business activity, business concern voluntarily embraces responsibility for a positive impact of their business activities towards the society in which it operates. Further, it is a continuing commitment of a business to contribute in return to socio-economic development of the society in which it operates and corporate sector is required to play its ethical role and apply its financial resources for social, economical and environmental uplift of the society in which it operates.

During audit of PPL for the financial year 2017-18, it was observed that the company made payments of Rs 199.502 million to different organizations as donations and sponsorship during 2016-17 and 2017-18 in violations of above

stated policy. The payment of such donations and sponsorships under CSR, however, were inconsistent with the objectives / operations of the organization as they were made to the organizations outside the area where PPL operates.

Audit was of the view that payment of donation and sponsorships in violation of PPL's own policy resulted in undue favour and irregular expenses of Rs 199.502 million.

The matter was reported to the PAO in December, 2018. DAC in its meetings held on December 18, 2018 and January 01, 2019 directed to submit the revised reply justifying that all these donations were as per the approved policy of the organization. DAC also directed the management to provide the details of donations and obligatory CSR expenditure. No further progress was reported till finalization of the report.

Audit recommends to justify the position in each case individually besides fixing responsibility on persons at fault.

[DP Nos. 48 & 67-PPL/K/2018-19]

2.3.4.7 Unjustified expenditure incurred on canteen contract – Rs 160.734 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 PPL for the FY 2017-18, it was observed that a contract was awarded for catering and tea services at Pakistan Petroleum Limited Head office and Islamabad office to M/s Western Global Services (Pvt.) Ltd, for the period of three years on actual per employee cost basis. Consequently, the officers of Group-3 to Group-13 were provided the meals free of any charge. An arrangement for this entertainment was extended to 520 staff members for Karachi and 30 staff members for Islamabad office. The yearly cost statement of

cafeteria as per rates given by M/s Western Global Services (Pvt.) Ltd and approved by PPL was as follows:

Description	Name of contractor	Rates per day (Rs)	Total Persons	Total per month (Rs)	Total per annum (Rs)
Lunch and Tea	Western Global Services	369	520+30= 550	550*369*22= 4,464,900	53,578,800

Audit was of the view that the management paid salary packages to their employees on market basis and their salary packages were also higher than other public sector companies. They also availed revision of basic pay every year. Therefore, free facility of lunch and tea was unjustified.

The matter was reported to the PAO in January, 2018. DAC in its meeting held on December 18, 2018 directed to revise the policy in order that senior managers and above are charged for lunch. No further progress was reported till finalization of the report.

Audit recommends to justify the expenditure on account of free food to the officers.

[DP No. 49-PPL/K/2018-19]

2.3.4.8 Loss due to favouritism in fixing Salary of MD / CEO of PPL at exorbitant rates - Rs 75.665 million

According to Government of Pakistan, Finance Division vide O.M No. F.3(7)-R.4/98 dated August 18, 1998, the salary package and perquisites for professionals appointed on contract basis against top Management Positions (MP) in the public sector organisations would be that the salary package and perquisites of MP-1, which is meant for professionals from the private sector proposed to be appointed on contract as Chief Executive in the public sector, the terms & conditions of professionals appointed from the private sector against top management position in the public sector may be regulated / determined within the scope of salary and perquisite under reference and the negotiated terms in each case may be submitted to the authority competent for formal approval. Further, no other benefits of any kind would be admissible or may be

considered for the contract appointments over and above those terms indicated in the perquisites packages under reference.

The salary package of MP-1 as revised from time to time by the Government of Pakistan, Finance Division was as under:

MP - I w.e.f	Basic pay	House Rent	Utilities
	minimum / maximum	minimum / maximum	minimum / maximum
18.08.1998	130,000 / 160,000	50,000 / 70,000	6,500 / 8,000
11.04.2007	195,000 / 240,000	75,000 / 105,000	9,750 / 12,000
01.01.2013	263,000 / 324,000	101,000 / 142,000	13,100 / 16,200
01.12.2016	289,300 / 355,300	101,000 / 142,000	13,100 / 16,200
14.07.2017	433,950 / 532,950	101,000 / 142,000	19,650 / 24,300

During audit of PPL for the year 2017-18, it was observed that the pay and allowances of the MD / CEO of PPL were higher than the laid down rates for MP-1. As per revised rates of 2017 maximum amount of Rs 0.699 million per month could be paid to an MP-1 officer whereas Rs 2.45 million was being paid to the MD / CEO of PPL. This resulted in excess payment of Rs 75.666 million in 38 months.

Audit was of the view that undue favour was extended to the MD / CEO in terms of salary. His salary was fixed at exorbitant rates, causing unnecessary burden of Rs 75.665 million on the Company. Therefore, it was held irregular.

The matter was reported to the PAO in December, 2018. In DAC meeting held on January 01, 2019, the management stated that the remuneration was fixed in accordance with requirements of the schedule 01 of the Public Sector Code of Corporate Governance Rules, 2013. DAC directed to keep the para pending for PAC.

Audit recommends recovery of excess amount of salary besides fixing of responsibility on the person(s) at fault.

[DP No. 85-PPL/K/2018-19]

2.3.4.9 Irregular award of contract for procurement of SAP Software license - Rs 64.845 million

According to Rule 39 of PPRA Rules 2004, the procuring agency shall require the successful bidder to furnish a performance guarantee which shall not exceed ten per cent of the contract amount.

During audit of PPL for the FY 2017-18, it was observed that the management entered into a contract with M/s Siemens (Pakistan) Engineering Co. Ltd, being sole proprietor for SAP in Pakistan, for procurement of SAP license for HANA migration on direct contact basis for Rs 64.901 million. It was further revealed that after negotiation two clauses i.e. Clause 3.2 according to which all payments should be made without deduction of withholding tax and Clause 4.3 related to waiver of liquidated damages were included in the contract agreement to extend undue favour to the supplier. Accordingly, Procurement Committee vide its meeting dated June 07, 2018 approved the procurement with waiver of submission of performance guarantee and imposition of liquidated damages. Hence, purchase order was awarded to M/s Siemens on June 25, 2018 for Rs 64.845 million.

Audit was of the view that the management extended undue favour to the supplier in violation of PPRA Rules and Income Tax Ordinance.

The matter was reported to the PAO in December, 2018. In DAC meeting held on January 01, 2019, the management stated that it would explore the matter further and provide a revised reply accordingly. DAC directed the management to get the relevant record verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to justify the position besides fixing responsibility on the person(s) at fault.

[DP No. 81-PPL/K/2018-19]

2.3.4.10 Irregular payment of bonus to MD / CEO - Rs 58.800 million

According to Finance Division (Regulations Wing) vide O.M No. F.3(5) R.12/80(R.14)/2002-154, dated March 18, 2002, the MD and members of BoDs will not be entitled to receive bonus. However, in case where it is applicable, bonus must be performance based, i.e., amount/rate of bonus must be determined on the basis of yearly performance.

During audit of PPL for the FY 2017-18, it was observed that BoD of PPL decided the amount of bonus at the time of fixation of salary of the MD. A

sum of Rs 58.800 million was paid to the MD / CEO as performance bonus during the financial years 2015-16 to 2017-18. Audit held that the bonus could not be fixed as privilege or as part of pay and allowances. Rather, it was to be determined on the basis of performance at the end of year. Nevertheless, the MD / CEO was not entitled to get bonus as per FD memo mentioned above. The payment was even more objectionable owing to the fact that the company had considerable receivables amounting to Rs 143,795 million as on June 30, 2018.

Audit was of the view that fixing of bonus amount at the time of recruitment was in violation of rules and the payment made was irregular.

The matter was reported to the PAO in December, 2018. In DAC meeting held on January 01, 2019, the management stated that the bonus was a part of the MD's contract of appointment approved by the Board with amount. DAC directed to keep the para pending for PAC.

Audit recommends to recover bonus of Rs 58.800 million.

[DP No. 86-PPL/K/2018-19]

2.3.4.11 Irregular award of contract for forensic audit - Rs 32.420 million

According to Rules 12(2) of PPRA 2004, all procurement opportunities over two million rupees should be advertised on the Authority's 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 PPL for the FY 2016-17, it was observed that the management awarded a service contract to M/s Deloitte Corporate Finance Company Limited for forensic audit of PPL Europe Limited formerly known as MND Exploration and Production Limited. The management of PPL was required to advertise the contract in two leading newspapers having wide circulation as well as on its own website, whereas, the management awarded the contract through quotations. The management paid an amount of US\$ 0.275 million as service charges and US\$ 0.049 million as out of pocket expenses equivalent to Rs 32.42 million in connection with the forensic audit.

Audit was of the view that said contract awarded to M/s Deloitte Corporate Finance Company Limited was irregular and in violation of PPRA Rules. Hence, the payment of Rs 32.420 million was considered irregular.

The matter was reported to the PAO in December, 2018. In DAC meeting held on December 18, 2018, the management explained that PPRA urgency Clause was invoked based on BoD's instructions. Audit contended that said procurement did not fall in urgency clause. DAC directed the management to provide specific evidence justifying the urgency involved. The management was further directed to provide requisite documentary evidence regarding the declaration of fora invoking urgency clause. No further progress was reported till finalization of the report.

Audit recommends that the management justify the violation of PPRA Rules besides implementation of the decision of DAC.

[DP No. 45-PPL/K/2018-19]

2.3.4.12 Irregular appointment of consultant - Rs 25.682 million

According to Establishment Division, Government of Pakistan directives dated January 25, 2002, consultant should not be appointed to perform routine functions of an organization. Consultancy should be widely advertised indicating the requirements and the range of compensation package, and the applicants shall be shortlisted and prioritized by an in-house committee of the client organization.

During audit of PPL for the FY 2016-17, it was observed that PPL awarded a contract for specialized services for land related work in different PPL fields/ locations to M/s Mumtaz Hussain Baluch & Co. (a retired Chief Land and License officer of PPL) for Rs 8.561 million on April 23, 2015 for a period of one year w.e.f April 23, 2015 to April 22, 2016. The monthly package was Rs 0.713 million. Subsequently, after expiry of contract period, the contract was extended for further two years up to April 22, 2018. Consultancy contract should not have been given to perform routine work i.e. dealing with the court cases and negotiation with the parties. Thus management paid an amount of Rs 25.682 million which was irregular and unjustified expenditure. Moreover, the company

had an elaborate Land and License department for the same functions for which consultant was hired. There was no need to hire a consultant for the job for which an elaborate department was already working.

Audit was of the view that undue favour was extended by the management by hiring an ex-employee as the consultant to perform routine work in violation of rules and regulations. Hence, the appointment of the consultant was considered irregular and payment of Rs 25.682 million was unjustified.

The matter was reported to the PAO in December, 2018. In DAC meeting held on December 18, 2018, the management stated that the appointment of contractor was through open competitive bidding in line with PPRA Rules. DAC directed the Ministry to conduct an inquiry in the matter. No further progress was reported till finalization of the report.

Audit recommends to conduct inquiry in the matter and fix responsibility on person(s) at fault.

[DP No. 46-PPL/K/2018-19]

2.3.4.13 Irregular expenditure on function arranged for Prime Minister of Pakistan - Rs 9.800 million

According to Rules 12(2) & (3) of PPRA Rules 2004, all procurement opportunities over two million rupees should be advertised on the Authority's 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. In cases where the procuring agency has its own website it may also post all advertisements concerning procurement on that website as well.

During audit of PPL for the FY 2017-18, it was observed that the management organized a function during the visit of Prime Minister to inaugurate Kandhkhot Gas enhancement project at Khadhkot Gas Field on October 07, 2017. An amount of Rs 9.800 million was spent on the function. It was observed that the whole arrangements / expenditure incurred was made without adopting proper procedure of procurement under the PPRA Rules.

Audit was of the view that violation of PPRA Rules resulted in irregular expenditure of Rs 9.800 million.

The matter was reported to the PAO in December, 2018. The management in its reply dated November 22, 2018 stated that PPL organized the event to commemorate its achievements of production enhancement at Kandhkot field. However due to urgency, formal procedure of procurement was not followed. DAC in its meeting held on January 01, 2019 directed the management to provide record relating to declaration of urgency and post facto approval of the competent authority to the Audit. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC. The responsibility may also be fixed on the person(s) at fault.

[DP No. 92-PPL/K/2018-19]

2.3.4.14 *Unjustified payment of relocation package / allowance to employees hired from abroad - Rs 7.944 million*

According to clause 5(1) of 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 PPL for the FY 2017-18, it was observed that Rs 7.944 million was paid by the company on account of Relocation Allowance to their employees who joined the company from abroad as an initial appointment on the basis of the policy approved by the Board on February 16, 2016. The payment was held irregular on the grounds that the policy was made to provide undue benefit to the certain individuals.

Audit was of the view that the decision of the Board to allow Relocation Allowance to a few incumbents who joined PPL during the period from February 2016 to February 2017 was individual specific and hence, the payment of Rs 7.944 million was unjustified.

The matter was reported to the PAO in December, 2018. In DAC meeting held on January 01, 2019 the management stated that approval for relocation package had been taken to hire staff from overseas to attract foreign talent at a time when oil prices were low. Audit contended that the justification for the said policy was weak on the grounds that due to reduction in oil prices the layoff at international level would automatically push the talent back to Pakistan. The policy was also flawed as non-technical personnel were also provided the benefit. DAC directed to refer the matter to PAC.

Audit recommends fixing responsibility for undue favour to few individuals.

[DP No.76-PPL/K/2018-19]

2.3.4.15 Non-deposit of fees received in excess of prescribed limit – Rs 5.591 million

According to Finance Division SRO (1)/2013, dated November 20, 2013 “the allowance, fee honorarium etc., in excess of six hundred thousand rupees per annum received by a civil servant as member of the Board of Directors of any one or more statutory corporations, companies’ autonomous bodies, institutions, societies etc., whether fully or partially owned or controlled by the Federal government, shall be credited to the general Revenues.”

During audit of PPL for the FYs 2016-17 and 2017-18, it was observed that the Civil Servants on the Board of PPL received meeting fee in excess to Rs 600,000 in one year but the excess amount of Rs 5.591 million was not reimbursed by them.

Audit was of the view that the excess payment of Rs 5.591 million was required to be recovered in terms of SRO issued by FD.

The matter was reported to the PAO in December, 2018. In DAC meetings held on December 18, 2018 and January 01, 2019, the management stated that both the directors had been advised to deposit the excess director’s fee in government’s treasury. Further, one Director had already deposited the excess amount. DAC directed the management to approach the parent offices of the officers concerned for recovery.

Audit recommends to recover the excess paid director's fee and deposit in government treasury. Audit also recommends getting the amount deposited verified. It is also recommended that observance of FD's instructions should be watched at the Ministry level as officials get remuneration on this account from multiple organizations.

[DP Nos. 44 & 77-PPL/K/2018-19]

2.3.4.16 Unjustified payment of relocation package to employees appointed before announcement of policy - Rs 1.788 million

The Board in its meeting held on February 16, 2016 approved policy of relocation expenses for new staff joining company from overseas. The policy was applicable for a period of one year with effect from February 17, 2016. Under policy, economy class one-way air ticket for self and family and a relocation expenses of US\$ 5,000 to US\$ 10,000 were admissible to the staff joining company from overseas all over world after February 17, 2016.

During audit of PPL for the FY 2017-18, it was observed that the relocation allowance amounting to Rs 1.788 million was paid to the following officers who joined PPL prior to announcement of policy:

Sr. No.	Name	Designation	Date of Joining	Relocation from country	Amount of Relocation allowance paid (US\$)	Amount of Relocation allowance paid (Rs)
1	Mr. Abdul Waheed	Senior Manager (Subsurface)	19.10.2015	United Kingdom	7,000	735,350
2	Mr. Sohaib Qadar	General Manager (Legal & Commercial)	16.02.2016	Canada	10,000	1,052,500
Total					17,000	1,787,850

Moreover, the terms and conditions of employment were already accepted by them at the time of joining and at that time there was no condition of payment of relocation expenses.

Audit was of the view that since employees had already joined company before announcement of the said policy, they were not entitled for payment of

relocation allowance which was introduced after their appointment. Hence, payment of Rs 1.787 million was considered unjustified.

The matter was reported to the PAO in December, 2018. In DAC meeting held on January 01, 2019, the management stated that approval for relocation package had been taken to hire staff from overseas to attract foreign talent at a time when oil prices were low. Audit contended that the justification for the said policy was weak on the grounds that due to reduction in oil prices the layoff at international level would automatically push the talent back to Pakistan. If the rationale was to attract new talent, why was the favour extended to the people who had already joined. DAC directed to refer the matter to PAC.

Audit recommends to fix responsibility on the person(s) at fault besides recovery from the beneficiary of irregular payment.

[DP No. 93-PPL/K/2018-19]

2.3.4.17 Unjustified appointment of Managing Director / Chief Executive Officer on acting charge basis

According to Clause 7 (Schedule-1) of Public Sector Companies (Appointment of Chief Executive) Guidelines, 2015, (1) Upon concurrence of the competent authority, the Board shall appoint the chief executive and issue him a contract letter, with the requisite terms and conditions of appointment, signed by the Chairman, or other person authorized by the Board. (2) It shall be ensured that the appointment of chief executive is finalized at least thirty days before the date of expiry of the term of the incumbent chief executive so that the appointment is made by the Board within the period stipulated under sections 198 and 199 of the Ordinance.

During audit of PPL for the FY 2017-18, it was observed that an advertisement was floated on April 15, 2018 through head hunter / search firm i.e., M/s Executive Network International (ENI) for the position of Chief Executive Officer (CEO) of PPL. However, the Board in its 512th meeting held on June 29, 2018 approved the appointment of Mr. Saeed Ullah Shah, (Director of BoD) as Managing Director / Chief Executive Officer (CEO) for a term of three months or until the appointment of new Managing Director / Chief

Executive Officer w.e.f July 01, 2018. Accordingly, Ministry of Energy (Petroleum Division) issued Notification dated July 09, 2018 for said appointment. The period was further extended by the Board till December 31, 2018 in its meeting held on October 02, 2018.

Audit was of the view that the authorities failed to appoint a regular Chief Executive Officer / Managing Director despite a lapse of 9 months which showed negligence on the part of the Board. Moreover, non-appointment of a regular CEO was in violations of Public Sector Companies (Appointment of Chief Executive) Guidelines, 2015.

The matter was reported to the PAO in December, 2018. In DAC meeting held on January 01, 2019, the management explained that the process was handled by the Board in consultation with the Ministry. DAC directed to keep the para pending for PAC.

Audit recommends implementation of the decision of DAC.

[(DP No. 94-PPL/K/2018-19)]

2.3.4.18 Unjustified appointment of Board of Directors

According to Para H(2) of Uniform Recruitment and Promotion Policy, for the companies working under the control of the Ministry of Petroleum & Natural Resources circulated on October 21, 2011, regarding Board of Directors appointment, minimum age is 45 years and maximum is 65 years.

During audit of PPL for the FY 2017-18, it was observed that the four Directors of the PPL Board did not fulfil the prescribed criteria of age limit fixed by the Ministry as detailed below:

Sr. No.	Name	Age
1	Mr. Aftab Nabi	72
2	Mr. Imtiaz Hussain Zaidi	76
3	Mr. Muhammad Tariq	66
4	Mr. Muhammad Sajid Farooqui	42

Audit was of the view that members of BoD were appointed without following the age limit criteria prescribed by the Uniform Recruitment and Promotion Policy.

The matter was reported to the PAO in December, 2018. DAC in its meeting held on January 01, 2019 directed the management to refer the matter to the Ministry. No further progress was reported till finalization of the report.

Audit recommends to justify the non-compliance with the policy and fix responsibility.

[DP No. 96-PPL/K/2018-19]

2.3.4.19 Encroachment on PPL land

As per Rule 5(1) 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 interests of the company.

During audit of PPL for the FY 2017-18, it was observed that 19 locations of Sui Gas fields in Balochistan were encroached by the unauthorized person(s). The land was encroached for more than two decades but the management failed to get the properties vacated which showed negligence on the part of management.

Audit was of the view that negligence on the part of the management resulted in encroachment of land.

The matter was reported to the PAO in December, 2018. The management in its reply dated May 30, 2018 stated that the government functionaries advised that the land was situated at sensitive area. Before taking any action they would have to take on board the local influential person(s) through Grand Jirga of the notables. Moreover, management admitted in their reply that there were only partial encroachments on some locations and matter had been taken up from time to time at every level of Civil Administration i.e. AC, DC, Commissioner and Home Secretary as well as Home Minister. DAC in its meeting held on December 17, 2018 directed the management to involve the Federal Government through Petroleum Division for resolution of the issue. No further progress was reported till finalization of the report.

Audit recommends to make efforts to get the properties vacated from the encroachers.

[DP No. 53-PPL/K/2018-19]

2.3.4.20 Non-compliance of the Public Accounts Committee (PAC) Directives

Auditor-General of Pakistan, vide letter No. 1332/29/P&C/1-C/2011-12, dated December 12, 2012, forwarded the PAC directives that described that PAC Secretariat to write to all the Ministries / Divisions / Departments to ensure availability of latest minutes of meeting of the Board of Directors / Board of Governors / Board of Management on the official website of the organizations under their respective administrative control.

During audit of PPL for the FY 2017-18, it was observed that the management did not upload BoD minutes on its website. This showed clear violation of PAC directives by the PPL Management.

The matter was reported to the PAO in December, 2018. DAC meetings held on December 18, 2018 and January 01, 2019, directed the management to explain the matter before PAC.

Audit recommends implementation of the PAC directives.

[DP Nos. 64 & 66-PPL/K/2018-19]

2.3.4.21 Non-compliance of Public Sector Companies (Corporate Governance) Rules 2013

According to Rule 11(3) of Public Sector Companies (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 in the best interests of the Public Sector Company, at least one orientation course shall be arranged annually for the directors. Besides, other obligations Para H (13) of Uniform Recruitment and Promotion Policy, for the companies working under the control of the Ministry of Petroleum & Natural Resources circulated on October 21, 2011 regarding Board of Directors states that the Pakistan Institute of Corporate Governance and the SECP run 8 days courses and conduct examinations in order to certify eligibility to serve on the BOM/BOD. It must be mandatory for all prospective Directors to have

undergone the courses and to be duly certified in order to be considered for Board position.

During audit of PPL with the FY 2017-18, it was observed that the management neither complied the directives of the Ministry regarding mandatory training of the Directors of the Board from the Pakistan Institute of Corporate Governance and the SECP nor followed instruction of the Rule 11 (3) of Corporate Governance Rules 2013 regarding Board orientation and learning. The issue was also reported by the External Auditors in Annual Audit Accounts for the FY 2017-2018, with the remarks “annual orientation course for all the directors was not held. However, the new directors appointed during the year received a briefing / introductory session in this regard”.

Audit was of the view that non-compliance of the directives of the Ministry and SECP instructions shows negligence on the part of the management.

The matter was reported to the PAO in December, 2018. In DAC meeting held on January 01, 2019, the management stated that the compliance will be made and reported to Audit. DAC directed the management to pursue the matter. No further progress was reported till finalization of the report.

Audit recommends to fix the responsibility on the person(s) at fault.

[DP No. 95-PPL/K/2018-19]

2.3.4.22 Irregular appointment of Manager (Field Operations)

According to Para B(5) of Uniform Recruitment and Promotion Policy, dated October 21, 2011 testing to be carried out using IBA, LUMS and National Testing Service or any authenticated, certified third party mechanism. As per Para 7 of the said policy, those who secure 60% in the written test are to be called for interview. Further, according to Establishment Division O.M dated June 20, 2013 and July 25, 2013, Federal Government imposed ban on all recruitments in Federal Ministries / Divisions / Autonomous Bodies and Corporations.

During audit of PPL for the FY 2017-18, it was observed that the management published an advertisement for career opportunities on July 21, 2013 in daily “DAWN” for different posts / assignments including the post of production engineering professional with submission date of applications by August 09, 2013. The management via email dated August 12 & 13, 2013 called an ex-employee of PPL for interview on August 15, 2013 at Islamabad office of PPL (no record was available in file that when he applied for the said post). An interview was held on August 15, 2013 by a six-member committee where only one candidate was called and interviewed. Majority of panel of interview offered following remarks that:

- i. “he is politically well connected;
- ii. his inclination to use external contacts for personal gains;
- iii. he had tried to use external influence for seeking PPL foreign scholarship etc; and
- iv. he has made commitment that he will never use external influence”.

Further, it was revealed that appointment letter dated October 02, 2013 was issued with the remarks that “this offer will lapse if you do not accept it by October 07, 2013 and do not report for duty by November 04, 2013”. However, he joined PPL on November 18, 2013. A confirmation letter dated November 13, 2014 was issued with the remarks that appointment was subject to “your acceptance by signing and returning the duplicate copy of this letter and continuous agreement by November 21, 2014”. The acceptance and continuous agreement was received on February 03, 2015 after a lapse of three months.

Audit was of the view that the recruitment of above officer was made under dubious circumstances and during ban period and hence, considered irregular.

The matter was reported to the PAO in December, 2018. In DAC meeting held on January 01, 2019, the management agreed that the ban was applicable to PPL however, the vacancy was filled for operational needs because it was Manager field operation for Sui and Kandhkot fields and recruitment was made after the clarification dated July 25, 2013. DAC directed the management to provide promotion details and previous service record of concerned officer for

verification to Audit. DAC also directed to get the hiring process reviewed by Audit. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for making irregular appointment on the person(s) at fault.

[DP No. 91-PPL/K/2018-19]

2.3.4.23 Irregular and undue favour in appointment of Chief Internal Auditor - Rs 7.168 million

As per Uniform Recruitment & Promotion Policy of Ministry of Petroleum & Natural Resources, to eliminate recruitment due to nepotism or promotion of unsuitable/less qualified candidates, testing to be carried out using IBA, LUMS and National Testing Services or any other authenticated, certified third party mechanism and interview panel to consist of between 3 to 5 members including independent member from Board HR committee.

During audit of PPL for the FY 2016-17, it was observed that management floated an advertisement on February 14, 2016 for the position of Senior Audit Professionals (Chief Internal Auditor) in which a qualified Chartered Accountant was preferably required. In response, only one candidate was shortlisted for interview having CA (Inter) qualification. No written test was conducted by the management for the post. During the 1st interview conducted by Senior Manager (HR), Senior Manager (Finance) & Manager (Internal Audit) following observations / deficiencies were pointed out by the panel:

Sr. No.	Name	Remarks
1	Mr Muhammad Afzal Siddiqui, Senior Manager Human Resources	He could not respond to any question about contract award process and E&P operations. It appeared that due to his below average knowledge and potential. He has been assigned role of contract administration at ENI. (Not Recommended)
2	Mr. Muhammad Khalid, Senior Manager Finance	During interview he was unable to answer about reporting requirement for a listed company in Pakistan

Despite having moderate qualification and below average knowledge of exploration and production (E&P) contract process and lack of basic knowledge of reporting requirement of the listed company which was main operation of the company, the incumbent was shortlisted for 2nd interview. Further, interview rating sheet column was found blank, no in-house or outside candidate was shortlisted for 2nd interview as required under the Uniform Recruitment policy.

Consequently, the incumbent was appointed as Chief Internal Auditor w.e.f. October 03, 2016 and an amount of Rs 7.168 million was paid to him from October 03, 2016 to November 30, 2017 as salary and emoluments.

The management was required to re-advertise the post as no suitable candidate was available. Audit was of the opinion that undue favour was extended to the candidates. Therefore, the above appointments and payment of Rs 7.168 million in lieu of pay and perquisites were held irregular.

The matter was reported to PAO in December, 2018. DAC in its meeting held on December 18, 2018 directed the management to take up the matter with the Ministry for approval. DAC also directed the management to get it verified that all the appointments mentioned in the para had been made in transparent manner. No further progress was reported till finalization of the report.

Audit recommends that matter may be investigated besides fixing responsibility on the person(s) found at fault.

[DP No. 58-PPL/K/2018-19]

2.4 Pakistan State Oil Company Limited

2.4.1 Introduction

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

2.4.2 Comments on Audited Accounts

2.4.2.1 The working results of the Company for the year 2017-18 as compared with those of the previous years are given below:

(Rs in million)

Particulars	2017-18	% Inc/ (Dec)	2016-17	% Inc/ (Dec)	2015-16	% Inc/ (Dec)	2014-15
Net Sales	1,056,901	20.36	878,147	29.53	677,967	(25.75)	913,094
Cost of Products Sold	1,017,265	20.96	841,011	28.38	655,104	(26.41)	890,173
Gross Profit / (Loss)	39,636	6.73	37,136	64.87	22,525	(1.73)	22,921
Marketing & Administrative Expenses	11,929	6.15	11,238	6.92	10,511	(1.50)	10,672
Other Expenses	3,334	40.20	2,378	19.74	1,986	(43.47)	3,513
Operating Expenses	15,263	12.10	13,616	8.95	12,498	(11.93)	14,190
Other Operating Income	7,497	(32.71)	11,142	(12.94)	12,798	(8.18)	13,939
Operating Profit/(Loss)	31,870	(8.05)	34,662	51.85	22,826	0.69	22,670
Financial Charges	5,123	(13.51)	5,923	(17.16)	7,150	(35.45)	11,017
Profit / (Loss) before share of associate	26,747	(6.93)	28,738	83.33	15,676	34.45	11,659
Share of Profit of associates	413	(32.11)	608.38	(0.67)	612.50	63.33	375
Profit / (Loss) before Taxation	27,160	(7.45)	29,347	80.16	16,289	35.36	12,034
Taxation	11,699	5.20	11,121	84.86	6,016	18.01	5,098
Profit / (Loss) after Taxation	15,461	(15.17)	18,226	77.42	10,273	48.11	6,936

(Source: Annual Audited Accounts)

2.4.2.2 The gross profit ratio decreased to 3.75% in 2017-18 from 4.23% in 2016-17 which showed that PSO management failed to exercise proper control over cost of sales. Further, the net profit ratio decreased to 1.46% in 2017-18 from 2.08% in 2016-17 which showed that PSO management failed to exercise proper control over administrative and marketing expenses which needs to be explained with facts and figures.

2.4.2.3 The company earned a net profit of Rs 15,461 million in financial year 2017-18 while it was Rs 18,226 million in 2016-17 registering 15.17% decrease in profit from previous year. The management announced dividend of Rs 5,542 million (35.85% of the amount of profit after tax) during 2017-18 as compared to Rs 7,336 million in previous year which was (40.25% of the amount of profit after tax). Dividend per share decreased to Rs 47.4 in 2017-18 as compared to Rs 55.9 in previous year. The company was required to take action to increase the dividend percentage on profit to encourage more investment.

2.4.2.4 The income from Compressed Natural Gas (CNG) operators decreased to Rs 172.87 million in 2017-18 as compared to Rs 188.829 million in 2016-17 which needs to be explained.

2.4.2.5 The management incurred an amount of Rs 118.890 million in 2017-18 and Rs 50.141 million in 2016-17 on account of storage and technical services and legal and professional respectively which showed an increase of 50% and 74% respectively as compared to previous year. The extra ordinary increase needs to be justified.

2.4.2.6 The management made a payment of Rs 2,153 million in 2016-17 and Rs 1,694 million in 2017-18 on account of Workers' Profits Participation Fund. The respective law had become ineffective due to devolution of power to legislate on the subject upon the Provincial Governments hence, the payment was not covered under the existing labour laws. Moreover, the Provincial Government had not enacted any law on the subject. Therefore, huge payment on account of Workers' Profit Participation needs to be justified.

2.4.2.7 The return on shareholder's equity decreased to 14% in 2017-18 from 17.72% in 2016-17 and return on capital employed decreased to 27.92% from 31.79% in previous year, it showed that the management failed to properly

utilize the capital employed. Similarly, the return on assets decreased to 3.84% in 2017-18 from 4.64% in 2016-17 which showed that the management also failed to properly utilize its assets. The facts need to be clarified by the management.

2.4.2.8 Various power generation companies including WAPDA, KAPCO, HUBCO and K-Electric owed an amount of Rs 182,110 million to the Company. Government of Pakistan & K-Electric owed Rs 1,980 million & Rs 3,910 million respectively (totals Rs 5,890 million) on account of Price Differential Claim (PDC). This created acute financial crunch. Consequently, the company owed Rs 18,746 million to local refineries and Rs 98,200 million to international suppliers and hence, the Company had to resort to short term borrowings of Rs 89,847 million for its financial needs. Despite being profitable, the Company continued to face liquidity problems due to ever increasing receivables which increased from Rs 22,926 million in 2016-17 to Rs 33,018 million during the year 2017-18, registering an increase of 44.02%. Thus, the trade debts were 27% of total assets in 2012-13 which increased to 61% of total assets (Rs 247,566 million) in 2017-18 and needs justification along with details of efforts being made for recovery by the Company.

2.4.2.9 The management had made a provision on account of impairment for Rs 3,290.578 million as on June 30, 2018, which was outstanding for more than a year. The reasons for which the said amount could not be recovered needs to be explained with facts and figures. Further, a provision for impairment loss on account of other receivable had been made for Rs 8.143 million for the year which also needs to be explained.

2.4.2.10 Inventory was valuing for Rs 81,615 million piled up in stock-in-trade during the year 2017-18 as against Rs 66,333 million in the year 2016-17, showing an increase of 23.04%. Overstocking had blocked PSO's funds of Rs 15,282 million in inventory. Inventory turnover decreased to the tune of 12.46% during the financial year 2017-18 as compared to 12.68% in the previous year. Decrease in inventory turnover ratio revealed that the company was not moving its products through the marketplace quickly. The huge inventory in the stock was indicative of weak inventory management which required to be improved.

2.4.2.11 Management made a provision of impairment for stores and spares for Rs 32.274 million (12%) as on June 30, 2018 which showed the ineffective inventory management of the company and needs to be explained. Similarly a provision for Rs 21.456 million had been made under the head stock in trade which also needs to be explained.

2.4.2.12 The management has made a provision of impairment under note 16.6 for Rs 402.149 million, Rs 90.201 million and Rs 1,830.472 million under the head other receivable which also needs to be clarified.

2.4.2.13 Management showed an amount of Rs 1,350.961 million as import price differential on motor gasoline since 2007, but there seemed no hope for its realization as the amount had not been accepted by the GoP up till now. The latest position / status of claim needs to be explained. Similarly, receivable claims for Rs 3,908.581 and Rs 3,407.357 on account of price differential between the products Low Sulphur Furnace Oil (LSFO) and High Sulphur Furnace Oil (HSFO) was outstanding since 2003 and 1996 and needs to be explained with full facts and figures.

2.4.2.14 The management deposited an amount of Rs 1,100 million (2017: Rs 1,002.873 million) in a separate bank account in respect of security deposits received from the customers which did not carry any interest rate. The management is advised to keep the amount in term deposit accounts after proper study to benefit the customers.

2.4.2.15 Management has contributed an amount of Rs 3,371.441 million in 2016-17 and Rs 3,543.985 million on account of medical benefits. Keeping in view the huge contribution towards medical fund the management is advised to consider the option of medical insurance for its employees and their dependents to avoid such huge expense.

2.4.2.16 Company has a capacity to handle import of 70,000 Metric Ton whereas actual 46,205 Metric Ton were imported whereas, the average number of employees had increased from 1,828 as on June 30, 2017 to 1,953 as on June 30, 2018. The management is advised to rationalize its employment as per capacity utilization, regarding imports related to POL and future demand / supply scenario of the petroleum products being handled by it.

2.4.2.17 The management paid an amount of Rs 3,951.230 million on account of demurrages to various suppliers / contractors of petroleum products / LNG resulting in to extraordinary expenditure. The management may explain the reasons with justifications.

[DP No. 89/K/PSO/2018-19]

2.4.2.18 The targets of sale of POL products were fixed for the Division offices which could not be achieved resulting in short sale of POL products by Rs 14,010 million. The detailed reasons needed to be explained.

[DP Nos. 62, 64 & 69/K/PSO/2018-19]

2.4.3 Compliance of PAC Directives:

Audit Report Year	Total No. of Directives	Compliance reported	Compliance not received	Breakup of compliance awaited	%age of compliance
1988-89	5	2	3	486, 487 & 488	40
1993-94	7	4	3	18, 19 & 21	57
1995-96	7	2	5	29, 30, 32, 33 & 34	29
1996-97	6	5	1	26	83
1998-99	4	3	1	107	75
1999-00	7	5	2	150 & 155	71
2000-01	14	13	1	173 & 188	93
2002-03	6	3	3	190.1, 190.2 & 192	50
2003-04	11	9	2	151.3 & 151.5	82
2004-05	8	6	2	105 & 106	75
2008-09	4	2	2	169 & 171	50
2010-11	16	9	7	18.2.2.3, 18.2.4.1, 18.2.4.2, 18.2.4.3, 18.2.4.4, 18.2.4.5 & 18.2.4.6	56
2013-14	19	5	14	13.2.2.2, 13.2.2.3, 13.2.2.4, 13.2.2.5, 13.2.2.6, 13.2.2.7, 13.2.3, 13.2.4.2, 13.2.4.3, 13.2.4.4, 13.2.4.6, 13.2.4.7, 13.2.4.8, 13.2.4.9 & 13.2.4.10	26
Total	114	68	46	-	60

The overall compliance of PAC directives was 60% which need to be improved.

2.4.4 Audit Paras

2.4.4.1 Non-production of record

According to Section 14(2&3) of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001, the officer-in-charge of any office or department is required to afford all facilities and provide record for audit inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition. Any person or authority hindering the auditorial functions of the Auditor-General regarding inspection of accounts is subject to disciplinary action under relevant Efficiency and Discipline Rules.

During audit of PSO for the FYs 2016-17 & 2017-18, it was observed that management did not provide requisitioned auditable record related to annual accounts including Annual Internal Audit Plan, information regarding paid dividend and tanker losses during carrying PSO products despite multiple requests by Audit.

Audit was of the view that poor management resulted in non-production of record.

The irregularity was pointed out to the PAO on December 10, 2018 but no compliance was observed. DAC in its meeting held on December 17, 2018 & January, 01 2019, directed the management to identify the persons responsible for non-production or slow production of record. No further progress was reported till finalization of the report.

Audit recommends to investigate the matter of non-production of record and fix responsibility.

[DP Nos. 03 & 101/K/PSO/2018-19]

2.4.4.2 Splitting of expenditure to avoid bidding - Rs 155.786 million

According to Rules 9 of Public Procurement Rules, 2004, a procuring agency shall announce in an appropriate manner all proposed procurements for

each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned.

During audit of PSO for the FY 2016-17, it was observed that 6,578 spreader boards were replaced at various PSO outlets at a cost of Rs 155.786 million. The management awarded the huge work directly to various vendors who were already working with PSO. This action of the management resulted into splitting of expenditure without observing competitive bidding process for procurement of Rs 155.786 million.

Audit was of the view that splitting of expenditure was made to avoid bidding in violation of PPRA Rules and hence, the expenditure of Rs 155.786 million was considered irregular.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on December 17, 2018, management stated that since the activity was carried out on extreme urgency basis because of the advice by Ministry of Energy (Petroleum Division) vide letter dated September 05, 2016 to import high RON fuel from next import / tender cycle, hence, the activity was to be completed at a very short notice as the next cargo was scheduled for October, 2016. Accordingly, the procurement was carried out as per PPRA Rule 42(b) & (d)(iii). Audit contended that the procurement was made in violation of PPRA Rules 2004. DAC directed to further probe the matter at Ministry level. No further progress was reported till finalization of the report.

Audit recommends to probe the matter and fix responsibility.

[DP No. 19/K/PSO/2018-19]

2.4.4.3 Procurement without tender - Rs 85.50 million

As per Rule 12(2) of the Public Procurement Rules, 2004, all procurement opportunities over two million rupees should be advertised on the Authority's 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 PSO for the FY 2017-18, it was observed that the management awarded a contract valuing Rs 161.428 million for supply of plastic cans to M/s CBM Plastics Pvt. Ltd. Afterwards, 15% additional quantity was ordered due to which value of the contract reached to Rs 185.642 million. Later on, another requisition of Rs 85.50 million was also included in contract due to which value of the contract reached to Rs 271.142 million. This resulted in irregular procurement without tender amounting to Rs 85.50 million.

Audit was of the view that addition of Rs 85.50 million in a running contract was against PPRA Rules and hence held irregular.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 01, 2019, management stated that quantities were increased as per the terms and conditions of the tender documents and also shared the reasons for increase in quantities. DAC directed the management to conduct an internal inquiry and get the stated facts verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for procurement in violation of PPRA Rules.

[DP No. 80/K/PSO/2018-19]

2.4.4.4 Irregular renewal of contract - Rs 8.100 million

As per Rule 12(2) of the Public Procurement Rules, 2004, all procurement opportunities over two million rupees should be advertised on the Authority's 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. Further, as per Clause 12 of the contract agreement of PSO with M/s Pearl Engineering, PSO had the right to extend the validity of this service order for further 3 months, at same rates and terms & conditions.

During audit of PSO for the FY 2017-18, it was observed that the management awarded a service contract for Rs 8.100 million to M/s Pearl Engineering on April 17, 2018. As per record, the contract was in continuation of

previous contract with a gap of 7 months. The management failed to invoke clause 12 of the expired agreement and renewed the contract on higher rates which was irregular and unjustified. This resulted in irregular procurement without tender of Rs 8.100 million.

Audit was of the view that award of contract as a repeat order at higher rates was against PPRA Rules and hence held irregular.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 01, 2019, management stated that the supplier was the sole authorized agent of M/s SAAB Rosemount radar gauge. DAC directed the management to get the stated facts verified from Audit. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC.

[DP No. 93/K/PSO/2018-19]

2.4.4.5 Non-recovery of stamp duty on the amount of contract / purchase orders - Rs 8.632 million

According to Section 3(15)(a) of the Stamp (Sindh Amendment) Ordinance, 2002, any instrument in the nature of memorandum or agreement made or entered into by a contractor with Government, a corporation, local body, local authority, commercial or industrial concern, whether singly owned or run through partnership, body registered under the Company Law, a cooperative society or any other organization to execute any works or to supply or to undertake cartage of stores and materials and to provide engineering consultancy services or any other services covered under above documents including a purchase order, work order, cargo bill, a railway ticket, a running rate contract and other levies and taxes pertaining to local bodies, stamp duty at the rate of twenty paise for every hundred rupees or part thereof of the amount of the contract.”

During audit of PSO for the FY 2017-18, it was observed that the management awarded various contracts and services without deducting the stamp duty. A test check of the contracts / purchase orders was conducted and found

that no contract / purchase order was made on stamp paper to recover the stamp duty as prescribed under the law. In 575 cases of contracts / purchase orders valuing Rs 4,315.873 million, stamp duty at above prescribed rates was worked out to be Rs 8.632 million.

Audit was of the view that weak financial management resulted in non-recovery of stamp duty amounting to Rs 8.632 million.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 01, 2019, the management stated that the matter was being reviewed with the Legal Department to find out its applicability and extent. DAC directed to recover the amount from the contractors / vendors. No further progress was reported till finalization of the report.

Audit recommends to recover outstanding amount on account of the stamp duty besides fixing responsibility for lapse.

[DP No. 82/K/PSO/2018-19]

2.4.4.6 Irregular payment of gratuity to Managing Director - Rs 3.783 million

According to Para 10 of the standard terms and conditions of the contract appointment circulated vide Establishment Division O.M No.F.10/55/82-R.2 further amended vide No.10/52/95-R.2 dated June 25, 2001, service rendered under this contract shall not qualify for a pension or gratuity. Further, as per Para 2 of the Section (Gratuity Entitlements), all eligible employees will be paid gratuity in the event of death or voluntary, premature or compulsory retirement from Company's service.

During audit of PSO for the FY 2017-18, it was observed that Rs 3.783 million was paid to the serving Managing Director on account of gratuity in the month of September, 2017. He was a contract employee, so gratuity was not admissible to him as per Establishment orders quoted above. Further, the said employee was alive, and serving as MD, therefore, payment of gratuity amounting to Rs 3.783 million, which was admissible to permanent employees on death or retirement, was irregular.

Audit was of the view that weak internal controls led to irregular payment of gratuity to the MD serving on contractual basis.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 01, 2019, management stated that payment of gratuity had been made in accordance with the pay package as notified by the Ministry and the matter may be referred to concerned authorities / Ministry for advice. DAC directed that the rules in this regard were clear and there was no need of advice or clarification. DAC further directed the management to recover the amount from Ex-MD as existing rules and standard contract issued by Establishment Division did not allow gratuity to contractual employee. No further progress was reported till finalization of the report.

Audit recommends immediate recovery of the amount from the official concerned.

[DP No. 85/K/PSO/2018-19]

2.4.4.7 Violation of Public Sector Companies (Corporate Governance) Rules, 2013

As per Clause 8(2) of Public Sector Companies (Corporate Governance) Rule, 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.

During audit of PSO for the FY 2016-17, it was observed that the performance assessment of senior management was not undertaken by the Board of Management for evaluation. The purpose of this evaluation was to assess their performance in the light of objectives and goals set and achieved. However, BoM failed to discharge its duties to assess / evaluate the performance of senior management.

Audit was of the view that this was a serious violation on the part of BoM as the performance assessment of senior management was mandatory under the rules.

The matter was reported to the PAO on December 10, 2018. During the DAC meeting held on December 17, 2018, the management informed that due process was followed and the MD assessed the performance of the senior management and presented it in detail to the Board for their consideration. DAC directed to provide minutes of Board and performance evaluation submitted by MD in respect of senior management to Audit. No further progress was reported till finalization of the report.

Audit recommends implementation of Corporate Governance Rules in letter and spirit.

[DP No. 02/K/PSO/2018-19]

2.4.4.8 *Non-recovery / adjustment of loan for purchase of car - Rs 45.562 million*

As per Chapter 13 of Company Car Policy (Essential Mobility) dated August 1, 2016, eligible employees shall be disbursed an amount equivalent to the cost of brand new Suzuki Cultus to facilitate car purchase. This is a one-time assistance to be amortized over a period of 5 years and 80% finance to be borne by the Company and 20% by the employees. Further, as per Para 5.2 of the policy *ibid*, employees shall arrange to book a car under this option within a period of 15 working days from issuance of remittance by the company. In case of failure, the facility shall be cancelled and the amount given will be recovered through employee's salary / provident fund. Moreover, as per para 5.3, the company will bear the cost of comprehensive car insurance for the actual amount sanctioned to the employee, however, car has to be insured at full value and the excess premium will be recovered through employee's salary. Employee shall get the tracker installed in the car at his own cost.

During audit of PSO for the FY 2017-18, it was observed that in 272 cases, the management provided assistance to the employees to purchase cars to meet business needs. However, in 47 cases no deduction from the salary of the employees could be started even after the lapse of one to four years. During discussion, it was stated by the management that the deduction of instalments was started when the employee had booked the car which meant that in these 47 cases, the employees failed to book the car within 15 working days of issuance

of remittances. Resultantly, Rs 45.562 million remained un-adjusted / unrecovered. Further, evidence of insurance of total 272 cars at full cost along with the evidence of installation of trackers by the employees at their cost was also required to be provided.

Audit was of the view that the ignorance and inaction of the management resulted in non-recovery or non-adjustment of car advances.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 01, 2019, the management stated that partial recovery had been made. DAC directed the management to fix the responsibility for not recovering the amounts paid as car loan, and recover the amount in minimum instalments (1/3 of basic salary) under intimation to Audit. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for failure to make timely recovery and expedite the same along with interest. Audit also recommends that the system be put in place to ensure that this financing facility is used for its intended purpose only.

[DP No. 92/K/PSO/2018-19]

2.4.4.9 Irregular payment to blacklisted contractor - Rs 1.621 million

As per Rule 5(5) of the Public Sector Companies (Corporate Governance) Rules 2013, the board shall establish a system of sound internal control. Which would 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 PSO for the FY 2016-17, it was observed that the management made payment of Rs 1.621 million to M/s New Tech Engineering despite the fact that the contractor did not have valid Pakistan Engineering Council (PEC) Certificate and the PPRA had blacklisted the contractor. Audit also noticed that management of PSO did not have any procedure for verifying the testimonials during evaluation of bidders as M/s New Tech Engineering was

working with PSO for 20 years with fake PEC certificate. This resulted into irregular payment to a black listed contractor for Rs 1.621 million.

Audit was of the view that award of contract to blacklisted contractor showed the negligence on the part of management.

The matter was reported to the PAO in January, 2018. In DAC meeting held on December 17, 2018, the management explained that the action was taken against the contractor, however, the payment of already received services was made after due diligence and necessary approvals. DAC directed the management to fix the responsibility for making payment after the contractor was blacklisted by PSO itself and recover the penalty amount. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC.

[DP No. 27/K/PSO/2018-19]

2.4.4.10 Non-referral of cases for blacklisting - Rs 160.235 million

According to Rule 19 of the Public Procurement Rules, 2004, the procuring agencies shall specify a mechanism and manner to permanently or temporarily bar, from participating in their respective procurement proceedings, suppliers and contractors who either consistently fail to provide satisfactory performances or are found to be indulging in corrupt or fraudulent practices. Such barring action shall be duly publicized and communicated to the Authority.

During audit of PSO for the FY 2017-18, it was observed that the management awarded contracts valuing Rs 160.235 million to such companies which either failed to perform the service orders or had not performed well in the previous contracts and penalty was imposed on them. In one case, the management cancelled the service order, forfeited the security deposit and debarred the defaulting contractor to participate in future tenders of PSO. In two other cases, the management imposed penalty on contractors due to low quality of labels and late delivery but later on, another contract was awarded to the same firm instead of referring the name of the contractor for blacklisting. This resulted

into non-referral of cases for blacklisting and irregular award of contractors to blacklisted suppliers.

Audit was of the view that non-referral of cases to PPRA for black listing showed negligence on the part of the management.

The matter was reported to the PAO in November, 2018. In DAC meeting held on January 01, 2019, the management stated that in one case blacklisting process was completed and communicated to PPRA for further necessary action. In other cases, penalty was already deducted from M/s Pakistan Paper Product and M/s Arfeen Enterprises and blacklisting was not required. DAC directed the management to get the stated facts verified from Audit. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC.

[DP Nos. 78 & 98/K/PSO/2018-19]

2.4.4.11 Advance payment of Customs Duty - Rs 400 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.

During audit of PSO for the FY 2017-18, it was observed that an amount of Rs 400 million was paid as advance Customs Duty by the management to the Customs Authorities although the customs duty. This was not only against the interest of the company but also reflected misleading figures of revenue of FBR.

Audit was of the view that due to weak financial management, advance Customs Duty was paid without any valid reason.

The matter was reported to the PAO on December 10, 2018. DAC in its meeting held on January 01, 2019 directed the Ministry to take up the matter with FBR regarding the undue advance Customs Duty. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC.

[DP No. 102/K/PSO/2018-19]

2.4.4.12 *Mis-procurement in award of contracts - Rs 147.459 million*

As per Rule 42 sub-clause (c)(ii) of PPRA Rules, 2004, a procuring agency shall engage in direct contracting if only one manufacturer or supplier exists for the required procurement. Provided that the procuring agencies shall specify the appropriate fora, which may authorize procurement of proprietary object after due diligence.

During audit of PSO for the FY 2016-17, it was observed that 4 contracts valuing Rs 147.459 million were awarded to different contractors on proprietary basis without specifying the appropriate fora for direct contracting.

Audit was of the view that the award of contracts by the management on direct contracting basis in violation of PPRA Rules was considered mis-procurement by Audit.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on December 17, 2018, the management explained that procurements were made through PPRA Rule 42(c) (i) & (iii). DAC directed the management to provide the initial contracts and get it verified from Audit within 15 days alongwith production of the details of the main contract with M/s Marshall for “cards end to end solutions”. No further progress was reported till finalization of the report.

Audit recommends that the BOM specify the level of responsibility to declare urgency in terms of PPRA Rules. Audit also recommends to make compliance in identified cases regarding justification of declaration of urgency.

[DP Nos. 13, 14, 15 & 25/K/PSO/2018-19]

2.4.4.13 *Technical disqualification of bidders without recording reasons - Rs 52.762 million*

According to Rule 35 of Public Procurement Rules, 2004, “procuring agencies shall announce the results of bid evaluation in the form of a report

giving justification for acceptance or rejection of bids at least ten days prior to the award of procurement contract”.

During audit of PSO for the FY 2016-17, it was observed that the management awarded a contract to M/s First Treet Manufacturing for supply of corrugated cartons for packing of lubricant cans for two years. Out of three bidders, two bidders were technically disqualified but proper justifications and reasons for disqualification of bidders were not recorded in technical evaluation report. Moreover, the procurement was neither included in the annual procurement plan for the year 2016-17, nor announced on PPRA website by the management which resulted into mis-procurement in awarding contract for Rs 52.762 million.

Audit was of the view that violation of PPRA Rules and poor planning resulted in award of irregular contract valuing Rs 52.762 million.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on December 17, 2018, the management explained that revised reply on the basis of facts would be provided later on. No further progress was reported till finalization of the report.

Audit recommends to probe the matter and fix responsibility for violation of PPRA Rules.

[DP No. 24/K/PSO/2018-19]

2.4.4.14 Award of contracts after negotiation in violation of PPRA Rules - Rs 70.934 million

As per Rule 23(3) read with Rules 4, 31(1) & 40 of Public Procurement Rules, 2004, any information that becomes necessary for bidding or for bid evaluation, after the invitation to bid or issue of the bidding documents to the prospective bidders, shall be provided in a timely manner and on equal opportunity basis. Where notification of such change, addition, modification or deletion becomes essential, such notification shall be made in a manner similar to the original advertisement. No bidder shall be allowed to alter or modify his

bid after the bids were opened. However the procuring agency may seek and accept clarifications to the bid that do not change the substance of the bid.

During audit of PSO for the FYs 2016-17 & 2017-18, it was observed that the management awarded 3 contracts after negotiation with the contractors which were not permitted under the rules. In one case, the offer of the lowest bidder was rejected by the management on the plea that the bidder verbally refused to provide bank guarantee and contract was awarded to the second lowest bidder. In another case, the contract was awarded to the second lowest bidder after negotiation who finally agreed to reduce the bid price subject to reduction in minimum requirement of 22 workers as prescribed in the terms & conditions of bidding documents to 18 workers. This resulted in mis-procurement in award of contract by the PSO.

Audit was of the view that weak internal controls and violation of PPRA Rules resulted in mis-procurement valuing Rs 70.934 million.

The matter was reported to the PAO on December 10, 2018. In DAC meetings held on December 17, 2018 & January 01, 2019, the management stated that in one case, minor quantities were reduced as per the tender documents while in other case, first lowest bidder denied to provide services and his bid money was forfeited and the tender was awarded to the second lowest bidder. In case of PDP No.94, the management stated that the contract was awarded in accordance with PPRA Rules, no negotiation was carried out rather clarification was sought from the bidder as per PPRA Rule 31(1). DAC directed to provide relevant record as per working paper and get the stated position verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to probe the matter of violation of PPRA Rules and fix responsibility.

[DP Nos. 20, 28, 29 & 94/K/PSO/2018-19]

**2.4.4.15 Inordinate delay in awarding / cancellation of contracts -
Rs 51.188 million**

According to Rule 9 of Public Procurement Rules, 2004, within one year of commencement of these rules, 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. Further, as per Section 2.2.2 of revised Purchase Manual of PSO, the allowed period for procurement of locally manufactured items is 4 to 6 weeks.

During audit of PSO for the FY 2016-17, it was observed that the management awarded 03 contracts valuing Rs 49.255 million to 03 different contractors in which the tender process was completed in 14 to 19 months. In another case, cancellation process of a contract valuing Rs 1.933 million was inordinately delayed upto 22 months by the management. This showed negligence and laxity on the part of PSO in awarding as well as cancellation of contracts valuing Rs 51.188 million.

Audit was of the view that the management failed to observe the relevant rules and section of purchase manual of PSO.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on December 17, 2018, the management stated that in one case, procurement was completed within 5 months and in the other case there was no loss, as no payment was made to the contractors. DAC directed the management to look into the causes of unusual delay in the cases and to probe the matter at Ministry level for delay in finalizing the procurement

No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC.

[DP Nos. 05, 12, 21 & 26/K/PSO/2018-19]

**2.4.4.16 Inadmissible payment without indication of job location -
Rs 1.605 million**

According to Clause 2 of Purchase Order dated August 11, 2017 awarded to M/s Blue Sky Advertising, the contractor was bound for manufacturing and countrywide installation/placing of 180,000 Flex Skins and 150,000 structures at 275 to 300 places (Approx.) in all 14 divisions of PSO.

During audit of PSO for the FY 2017-18, it was observed that the management awarded a contract to M/s Blue Sky Advertising valuing Rs 10.525 million for placing of Flex Skins and structures in all of its 14 divisions of the country. The contractor claimed the amounts vide four bills. In first three bills, valuing Rs 8.920 million, the contractor indicated the names of 14 divisions with 327 locations where flexes and structures were placed. Job Completion Reports (JCRs) were also available with these three bills. However, in the fourth/last bill, valuing Rs 1.605 million, only quantity and price were shown but neither name of divisions were indicated nor JCRs were available with the bill. Hence, payment of Rs 1.605 million in the absence of requisite information and documentation was considered inadmissible by Audit.

Audit was of the view that payment of Rs 1.605 million to the contractor without proof of placement of flexes and structures as well as indication of job locations in the bill was due to poor financial management.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January, 01 2019, the management replied that complete JCRs along with location of the work was pulled out from the record and copy of the same would be provided. The provided copies of JCRs were signed without mentioning dates and in some documents mentioned dates were of the period after the time of invoice. The DAC directed the management to get the stated facts verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for non-maintenance of proper record besides ascertaining correctness of subject payment.

[DP No. 86/K/PSO/2018-19]

2.4.4.17 Non-observance of the Annual Procurement Plan

According to Rule 8 read with Rule 9 of the Public Procurement Rules, 2004, within one year of commencement of these rules, 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. Accordingly, Pakistan State Oil Company prepared “Annual Procurement Plan 2018” to run the business in a smooth-way and to keep the budgetary figures in control.

During audit of PSO for the FY 2017-18, it was observed that the management approved such amounts for procurement of certain items/services which were much lower than in the Annual Procurement Plan. A few goods/services were procured which were not in the Procurement Plan. As a result goods in excess to that planned were procured. This reflected poor planning and existence of weak internal controls within the organization. Detail of 24 cases is in the following table:

(Rs in million)

Sr. No.	Descriptions	No. of cases	Planned value	Value of contracts	Difference
1	Cases where procurement in excess to that planned	6	168.78	333.033	(164.253)
2	Cases where procurement was less than planned	7	2819.64	1185.52	1634.12
3	Cases where items were planned but no procurement was made	6	320.70	0	320.70
4	Cases where items were procured without Plan.	5	0	131.65	(131.65)
	Total Cases	24			

As per annual procurement plan 2018 of PSO, 767 cases of procurement, with an amount of Rs14,694.933 million, were planned but the procurement was made for Rs 5,559.87 million (37.84%) leaving a balance of Rs 9,135.06 million (62.16%) un-used.

Audit was of the view that non-utilization of 62% budgeted amount reflects poor planning and exaggerated figures in the annual plan.

The matter was reported to the PAO on December 10, 2018. DAC in its meeting held on January 01, 2019 directed the management to get the relevant record verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to take extreme care while preparing the procurement plan and make procurements by strictly adhering to this plan as far as possible. Audit recommends a variation of $\pm 10\%$ from the plan.

[DP No. 99/K/PSO/2018-19]

2.4.4.18 Non-recovery of outstanding balances from various customers - Rs 224,472.441 million

According to clause 5(1) of 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 PSO for the FY 2017-18, it was observed that the management failed to recover the outstanding amount of Rs 224,472.441 million from various customers of retail, industrial consumers, Pakistan Railways, Independent Power Plants (IPPs), PIA and other customers which was recoverable on supplies of furnace oil / HSD / PMG and other products by the company.

Audit was of the view that non-recovery of receivable / trade amounts from various customers since long showed non-existence of effective recovery procedure and it was also creating risk of conversion of these receivables into bad debts.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on December 17, 2018 & January 01, 2019, the management reported recovery of Rs 33.89 million and informed that efforts were being made

for recovery of the balance amount. In respect of M/s BYCO, it was stated that after reconciliation, net receivable amount was Rs 13 million. It was further added that some cases were pending with FIA. DAC directed the management to get the recovered amount verified from Audit and to pursue the cases of recovery as well as cases which were with FIA. It was also directed by DAC that the management get the reconciled amount of M/s BYCO verified from Audit for settlement of issue on urgent basis. No further progress was reported till finalization of the report.

Audit recommends early implementation of the decision of DAC besides production of reconciliation statement in respect of M/s BYCO as amount pointed out was Rs 746.441 million whereas as per management's explanation, only Rs 13 million were reconciled as recoverable.

[DP Nos. 107,109,110,115,122,127 & 151]
[DP Nos. 10,16 & 100/K/PSO/2018-19]

2.4.4.19 Non-recovery of late payment interest from various customers - Rs 82,805 million

As per Clauses 7.1 of Agreement dated January 30, 2002 for aviation fuels supply between PSO and Pakistan International Airlines Corporation (PIAC), seller shall submit the invoice to the buyer on the first business day of every seventh day for all deliveries of the fuels made during the same week by the seller. Further, Clause 7.2 of *ibid*, the buyer shall process the invoice(s) submitted by the seller and make payments on the seventh day of receipt of the invoice(s). Furthermore, Clause 9.1.5(iii) of the fuels supply Agreement between PSO and WAPDA (GENCO-III) the delay in payment from GENCO-III will attract financial charges @ KIBOR plus 2% beyond stipulated period. Moreover, according to Contract Agreement dated June 13, 2017 between Pakistan Railways and PSO, Pakistan Railways is required to clear the payment of bills within ten days after receipt of firm's bill. Financial charges shall incur on any bill that exceeds the due period of 30 days and financial charges shall be applicable at prevailing discount rates of State Bank of Pakistan.

During audit of PSO for the FY 2016-17, it was observed that an amount of Rs 82,805 million was receivable on account of late payment interest from 5 customers i.e. WAPDA (GENCO), HUBCO, KAPCO, PIA and Pakistan

Railways. Moreover, the late payment interest amount had to be updated at the time of actual payments. Due to heavy amounts as account receivables, the company was facing acute financial crunch and had to resort to short term borrowings.

Audit was of the view that non-recovery of late payment interest was inefficiency on part of the management and was further causing financial burden in the shape of commercial borrowing.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on December 17, 2018 & January 01, 2019, the management informed that this was a circular debt related LPI and some recovery up to Rs 3,200 million in FY 2017-18 had been made. DAC directed the management to get the recovered amount verified from Audit and pursue the remaining recovery. No further progress was reported till finalization of the report.

Audit recommends permanent resolution of the issue of non-recovery.

[DP Nos. 111, 114 & 9/K/PSO/2018-19]

2.4.4.20 Non-recovery of outstanding dues against Credit Sales from card holders - Rs 236.540 million

According to SOP issued by the PSO Head office Karachi for issuance of fleet cards to individuals / Corporate sector and its payments, the PSO Card Finance (CF) will prepare receivables portion for effecting recoveries. In case of default or non-payments, the accounts are blocked. A Credit Evaluation Committee (CEC) shall review the status and aging schedule of receivables portion on quarterly basis and their recovery position. Customers other than government accounts will be blocked in case of dishonoured payments.

During audit of PSO for the FY 2017-18, it was observed that an amount of Rs 236.540 million was outstanding against 1,285 customers on account of credit card sales since long.

Audit was of the view that due to weak monitoring the management failed to make recovery from various card holder customers.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 01, 2019, the management stated that out of Rs 220 million belonging to 1280 customers, recovery of Rs 51.80 million from 373 customers had been made, Rs 42 million was on account of late payment surcharge and the delay in clearance was due to reconciliation of amount. In addition, management had the security deposits of Rs 14.3 million and deduction of withholding tax could be adjusted after reconciliation. The remaining amount was under recovery which included 5 customers against which PSO had filed legal suits involving an amount of Rs 15 million. DAC directed the management to get the record amount verified by Audit and pursue the remaining recovery. No further progress was reported till finalization of the report.

Audit recommends expeditious recovery of the outstanding amount. Audit also recommends to identify the persons responsible for accumulation of such huge outstanding recovery.

[DP Nos. 113, 118, 123, 152, 61 & 84/K/PSO/2018-19]

2.4.4.21 Non-recovery of outstanding dues from Non Fuel Retailers (NFR) - Rs 4.609 million

According to Rule 5(1) of 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 in the best interest of the company.

During audit of PSO for the FY 2017-18, it was observed that in 4 cases, an amount of Rs 4.609 million was recoverable from Non-Fuel Retailers (NFR) since the year 2011, but the management failed to recover the same upto June 30, 2018.

Audit was of the view that inefficiency on part of the management of the company resulted in non-recovery of outstanding dues of Rs 4.609 million from the Non-Fuel Retailers.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 01, 2019, the management stated that the matter was under settlement for M/s Techno Industries while balance amount was under recovery. DAC directed the management to provide details of arbitration to Audit and expedite the recovery. No further progress was reported till finalization of the report.

Audit recommends to take action for early finalization of the settlement /arbitration besides recovery of the outstanding amount.

[DP No. 87/K/PSO/2018-19]

2.4.4.22 Non-recovery of outstanding dues from Ex-employees - Rs 2.054 million

According to Rule 5(1) of 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 in the best interest of the company.

During audit of PSO for the FY 2017-18, it was observed that an amount of Rs 2.054 million was recoverable from 37 ex-employees of the company. The outstanding amount was required to be recovered well before the retirement of the employees, but the management failed to recover the outstanding amounts which resulted into non-recovery of Rs 2.054 million pending since November 19, 2007.

Audit was of the view that non recovery of outstanding dues of Rs 2.054 million from the ex-employees was negligence on the part of the management.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 01, 2019, the management replied that in most cases the amount was minimal, however, continuous efforts were being made to recover the amount from these ex-employees. DAC directed to get the stated position verified on case to case basis from Audit. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for negligence on the person(s) at fault and recover the amount.

[DP No. 83/K/PSO/2018-19]

2.4.4.23 Negligence towards violations and loss incurred during transportation of petroleum products by carriage contractors

According to Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing), Rules, 2016 clause 39, “every oil marketing company shall be responsible to ensure correct measurement in supply of petroleum products of the laid down specifications at its retail outlets and shall maintain quarterly profile of such checks for the examination of the authority as and when called for”.

During audit of PSO for the FY 2017-18, it was observed that in 48 cases, the contractors failed to provide safe transportation of POL products as the products were allegedly stolen, as quantities at destination were less than dispatched. Further, irregularities were also committed including transportation of other companies’ products, decanting / dumping the product at illegal oil agencies etc. However, as per details provided by the management, in cases of shortage of quantities, due to Seals / bolts / chamber of carriage lorry found tampered, penalties were imposed but cost of product remained unrecovered which resulted into loss of huge amount.

Audit was of the view that the PSO failed to report serious violations to OGRA. Further, in cases of theft of petroleum products, criminal proceedings should have been initiated against the culprits.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 01, 2019, the management stated that the actions had been taken in identified cases as mentioned in Annex 97A. DAC directed to get the stated facts verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to look into the matter and forward the cases to OGRA for imposition of heavy fines where OMCs were involved in giving its

products to other OMCs' petrol pumps. Intimate accurate recoverable to Audit. Moreover, replies in respect of explanation letters may also be produced to Audit for verification.

[DP No. 97/K/PSO/2018-19]

2.4.4.24 Non-realization of distribution margin from the dealers - Rs 28.865 million

According to dealership license agreement, a dealer shall be bound to place indents for such minimum quantities of each PSO motor fuels and lubricating oils as is prescribed by PSO prior to the beginning of each month (the Monthly Minimum). Where PSO does not advise dealer of the Monthly Minimum, the last advised by PSO to dealer shall be applicable. If in any month during a quarter, dealer fails to purchase from PSO the relevant Monthly Minimum, the dealer shall be bound to pay PSO the distribution margin on the shortfall.

During audit of PSO for the FY 2017-18, it was observed that in 21 cases the dealers/outlets failed to purchase the Monthly Minimum of POL products as prescribed by PSO. The dealers/outlets were required to pay PSO the distribution margin in case of their failure to purchase the prescribed POL products. However, the record did not show the recovery of the distribution margin from the defaulting dealers/outlets amounting to Rs 28.865 million.

Audit was of the view that non-recovery of distribution margin of Rs 28.865 million was inefficiency on part of the management of the company.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 01, 2019, the management stated that appropriate action had been taken against each outlet on case to case basis. DAC directed the management to get the stated position verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to take corrective action.

[DP No. 71/K/PSO/2018-19]

**2.4.4.25 Non-pursuance of insurance claim for loss of fuel -
Rs 15.751 million**

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 for its procedure in financial matter and other in accordance with Ordinance and Rules. He is responsible for implementation of strategies and policies, approved by the Board, making appropriate arrangements to exercise that funds and resources are properly safe guarded and are used economically, efficiently and in accordance with all statutory obligations.

During audit of PSO for the FY 2017-18, it was observed that a fire accident occurred at Sihala Installation Rawalpindi due to hitting of NHA's shovel machine with the pipeline. Resultantly, the fuel pipe line ruptured between ARL-PSO. A quantity of 165,000 litre petrol valuing Rs 14.470 million was lost in addition to pipeline damage of Rs 1.281 million aggregating to Rs 15.751 million. PSO had to bear an extra cost of Rs 0.172 million as well for emergency repair of pipeline. Audit inquired regarding progress of insurance claim lodged to the insurance company. However, only a form of National Insurance Company (Ltd) Karachi dated May 15, 2018 was provided that was not acknowledged by the insurance company. Moreover, insurance policy was also not provided.

Audit was of the view that weak asset management resulted in non-pursuance of insurance claim for loss of Rs 15.751 million by the management.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 01, 2019, the management stated that the case was immediately reported to NICL and was being actively followed up. Further, as loss occurred due to activity of NHA, PSO was also pursuing the matter with NHA. DAC directed the management to expedite the settlement of insurance claim. No further progress was reported till finalization of the report.

Audit recommends to vigorously pursue insurance claim for its settlement.

[DP No. 154]

2.4.4.26 Excess payment of profit to landowner due to non-deduction of monthly rent of land and other expenditure - Rs 2.890 million

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 in accordance with Ordinance and Rules. He is responsible for 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 in accordance with all statutory obligations.

During audit of PSO for the FY 2017-18, it was observed that the management paid share of profit to City Police Officer (CPO), Faisalabad in light of profit sharing agreement between PSO and CPO as Government land owner. The month wise profit was to be shared at 80:20 i.e. 80% share to Police and 20% to PSO. Further, according to the lease agreement, the land was acquired by PSO on monthly rent of Rs 0.295 million which was paid regularly during FY 2017-18, in addition to above profit. Further, PSO was also paying Rs 0.072 million per year rent for advertisement to PHA Faisalabad. The monthly profitability reports and calculation and payment of profit shares on quarterly basis to CPO showed that the expenditure of monthly rent of land of petrol pump and rent paid by PSO to PHA Faisalabad for advertisement were not taken into account for calculation of net profit. Audit held that due to such lapse an amount of Rs 3.612 million was not included in the monthly expenditure for 2017-18. Resultantly, an excess amount of Rs 2.890 million was paid to CPO Faisalabad on account of profit share.

Audit was of the view that negligence on the part of management resulted in excess payment of Rs 2.890 million.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 01, 2019, the management intimated that as per industry practice and PSO's retail business model, rent of the land lord as per the terms and conditions agreed in the lease agreement had no relation with profitability. After lease agreement, dealer was appointed by PSO who was entitled to dealer

commission. In return, PSO had entitlement to agreed percentage of dealer's profitability. Therefore, rent of the site and payment to PHA was responsibility of PSO (not dealer) and as such could not be charged to dealer's profitability. DAC directed the management to get the stated position verified from Audit. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC.

[DP No. 121]

2.5 Sui Northern Gas Pipelines Limited

2.5.1 Introduction

Sui Northern Gas Pipelines Limited (SNGPL) was incorporated as a private limited Company in 1963. It was converted into a public limited company in January 1964 under the Companies Act 1913 (now Companies Act, 2017). The Company is listed in Pakistan Stock Exchange Limited. It is involved in the business of purchase, transmission, distribution and supply of natural gas. Shares directly held by GoP are 31.68%. Other major shareholders are NIT (4.04%), PICIC (2.00%), SSGC (0.38%), Sindh Bank Ltd (0.71%), SLIC (4.33%), EOBI (3.57%), PIDC (6.02%), NBP (5.41%), SNGPL employees' empowerment Trust (4.32%) and MCB Bank Ltd (6.66%). However, direct and indirect shareholding of GoP is more than 58.14%.

The Company operates under a regulatory regime governed by Oil and Gas Regulatory Authority (OGRA). Gas sales price and cost of gas are regulated / fixed by OGRA. Most of the gas purchase agreements are linked with US dollars and international crude oil prices.

SNGPL is Pakistan's largest gas company serving more than 6.24 million consumers in Northern and Central Pakistan through an extensive network of pipeline in Punjab, Khyber Pakhtunkhwa and Azad Jamu & Kashmir. Whereas in other two provinces i.e. Sindh and Balochistan, Southern Gas Company Limited (SSGC) is providing the same service. SNGPL has over 55 years of experience in operation and maintenance of high-pressure gas transmission and distribution systems. It has also extended its activities as Engineering, Procurement and Construction (EPC) Contractor to undertake the planning, designing and construction of pipelines, for both itself and other organizations.

2.5.2 Comments on Audited Accounts

2.5.2.1 The annual accounts were to be provided to Audit for review. But the management did not provide audited accounts for the FY 2017-18 till December 31, 2018.

Audit recommends that accounts of past year be provided immediately and timely submission be ensured in future, besides fixing responsibility (Annex-2).

[Sr. No.1 of DP No. 266]

2.5.3 Compliance of PAC Directives:

Audit Year	Total Paras	Full compliance	Partial compliance	Pending Paras No.	Percentage of compliance
1991-92	15	09	06	390,392,393,394,395,400	60
1992-93	16	15	01	43	94
1993-94	12	10	02	33,34	83
1995-96	10	08	02	45,50	80
1996-97	16	15	01	38	94
1998-99	10	09	01	157	90
2000-01	20	15	05	207,208,213,217,218	75
2001-02	09	06	03	201,204,206	67
2003-04	07	06	01	173	86
2006-07	12	10	02	166,167	83
2007-08	18	15	03	130,131,137.4	83
2008-09	22	20	02	185,186	91
2010-11	55	35	20	18.5.4.1, 18.5.4.2, 18.5.4.3, 18.5.4.4, 18.5.4.5, 18.5.4.7, 18.5.4.8, 18.5.4.11, 18.5.4.15, 18.5.4.16, 18.5.4.17, 18.5.4.23, 18.5.4.19, 18.5.4.19&18.5.4.9, 18.5.4.20, 18.5.4.22, 18.5.4.23, 18.5.4.25, 18.5.4.29	64
2013-14	19	12	07	13.7.2.4, 13.7.2.8, 13.7.4.2, 13.7.2.5, 13.7.2.10, 13.7.4.4, 13.7.4.6	63
2016-17	41	0	41	13.8.4.11,13.8.2.15,13.8.4.5,13.8.4.1,13.8.4.13,13.8.4.14,13.8.4.6, 13.8.4.16,13.8.4.7,13.8.4.3,13.8.4.12,13.8.4.17,13.8.4.4,13.8.4.15, 13.8.4.18,13.8.4.8,13.	-

				8.4.10,13.8.1&13.8.2.1,13.8.2.13,13.8.2.8,13.8.2.8,13.8.1&13.8.2.2,13.8.2.3,13.8.2.4,13.8.2.5,13.8.2.6,13.8.2.7,13.8.2.9,13.8.2.10,13.8.2.11,13.8.2.12,13.8.2.14,13.8.2.16,13.8.2.17,13.8.2.18,13.8.2.19,13.8.2.20,13.8.2.21,13.8.3,13.8.4.2,13.8.4.9,	
Total	282	185	97		66

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

2.5.4 Audit Paras

2.5.4.1 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, otherwise disciplinary action will be initiated against person(s) responsible for the delay under Section 14(3) of the Auditor-General's Ordinance, 2001.

During audit of SNGPL for the FY 2017-18, the following record / information was requisitioned for audit scrutiny but the same was not produced despite repeated verbal and written requests:

Sr. No.	Description of Record / information
1	Draft/ final Annual Accounts (Management Accounts) / financial statements for 2017-18
2	Soft copy of General Ledgers (Payable) at Company level for the period
3	Soft of copy of trial balance of each cost centre as on June 30, 2018

4	Reconciliation reports of pending / outstanding payments of gas bills (monthly billed amount vs monthly collections) received by respective banks but not received in SNGPL bank accounts
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Note: Details of remaining requisitioned record given in **(Annex-3)**

Audit was 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. This attitude of the management was tantamount to concealment of facts due to which authenticity of expenditure could not be ascertained.

The matter was reported to the PAO on December 14, 2018. In DAC meeting held on January 7, 2019, the management stated that record was provided against 19 items of requisition. DAC directed the management to provide the remaining items within a week positively. No further progress was reported till finalization of the report.

Audit recommends to produce the requisite auditable record besides fixing responsibility.

[DP No. 266]

2.5.4.2 Fake payments to contractors - Rs 42.394 million

According to Clause 9.4.4.1.2 of the Accounts Manual of SNGPL, the Area Accountant is bound to ensure, before releasing the payments to contractors, that quantities and rates in PPC / FPC are according to the Work Orders / Contracts, the quantities in Daily Site Reports (DSRs) and Summary thereof are in line with the quantities claimed in PPCs / FPCs, prepare and authorize tax voucher/ challan for deposit of Income Tax in the Government Treasury. The Area Accountants will send copy of the Contractors Day Book to the Head Office Accounts Department to post the transaction in general journal.

During audit of SNGPL for the FY 2014-15, it was observed that certain executives were found involved in fraudulent payments to the contractors for ditching, welding, laying of pipes and other maintenance works during the period from October, 2012 to April, 2013. In May, 2013, the management made an internal enquiry against fraudulent claims of seven contractors which were

based on 141 fake FPCs. Resultantly, five employees of Area Office Lahore were dismissed from their services, whereas, one employee superannuated on April 04, 2013. The case was referred to FIA in September, 2013 and the FIR against all the ex-employees and 7 contractors was lodged with Police Station Galib Market, Gulberg Lahore. The FIA advised the management in November/December, 2013 to conduct a special audit of the transactions of the Lahore Area for the last five years which was not initiated yet. Audit also observed that no remedial measure was adopted by the management to identify such payment on timely basis.

Audit was of the view that weak internal controls resulted in fake payments of Rs 42.394 million to the contractors.

The matter was reported to the PAO on November, 2015. The management in its reply dated December 06, 2018 stated that an inquiry committee comprising of senior executives was constituted, which recommended the termination of executives/ employees found involved, which was acted upon. Furthermore, the concerned contractors were blacklisted from SNGPL for further jobs and their payments were frozen. Moreover, criminal proceeding were initiated against the culprits for recovery of amount involved. Para was not discussed in the DAC meeting.

No further progress was reported till finalization of the report.

Audit recommends to recover the fake payments and strengthen the internal controls to avoid such instances in future.

[DP No. 579-2015-16/MFDAC]

2.5.4.3 Non-recovery of theft charges within stipulated time - Rs 5,866.762 million

As per Clause 19.2 of Billing Manual of SNGPL, recovery suits must be filed within period of limitation of three years against the disconnected defaulters. Further, as per Clause 18.13 of Billing Manual, when a tampering of meter is established gas supply shall be disconnected immediately (within 24 hours).

During audit of SNGPL for the FY 2017-18, it was observed that the 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 recovery suits by Billing Department and other within stipulated period in 438 cases. Resultantly, theft cases of Rs 5,866.762 million became time barred which resulted in loss to the Company. The region-wise detail is as follows:

(Rs in million)

Sr. No.	Region	No. of cases	Date of Disconnection (Range)	Amount recoverable
1	Lahore	149	07.10.2000 to 13.11.2015	1,639.548
2	Sheikhupura	64	16.03.2010 to 12.04.2017	1,211.654
3	Faisalabad	50	01.10.2009 to 09.10.2015	1,064.076
4	Gujranwala	69	15.04.2009 to 20.01.2017	748.393
5	Rawalpindi	38	18.01.2011 to 02.08.2017	320.640
6	Multan	13	01.06.2011 to 26.08.2016	183.530
7	Sargodha	11	08.02.2012 to 25.10.2014	167.355
8	Sialkot	13	26.07.2011 to 18.06.2015	144.515
9	Peshawar	15	24.09.2015 to 16.12.2015	105.748
10	Other Regions	16	07.08.2010 to 09.11.2015	281.306
Total		438		5,866.762

Audit was of the view that inaction on the part of management in filing of suits for recovery resulted in loss of Rs 5,866.762 million.

The matter was reported to the PAO on November 16, 2018. In DAC meeting held on December 27, 2018, the management stated that recovery suits were initiated. DAC directed the management to provide the copies of recovery suits in respect of consumers pointed out by Audit within a week and pursue the court cases vigorously. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC besides taking remedial measures to avoid recurrence of such lapses in future. Moreover, persons responsible for delay may also be identified.

[DP No. 56]

2.5.4.4 Non-recovery of gas charges from active and disconnected consumers / defaulters - Rs 18,252.320 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 Billing Manual, 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 2017-18, it was observed that the management failed to recover outstanding gas charges of Rs 18,252.320 million from 1,621 active consumers and 4,509 disconnected consumers aggregating to 6,130 consumers. Further, the management did not retain sufficient security deposits covering the gas charges of anticipated consumption. Concrete efforts were not made by the management to recover the arrears of gas charges.

Audit was of the view that due to lenient attitude and negligence of the management, the outstanding dues could not be recovered from the defaulters resulting in non-recovery of Rs 18,252.320 million.

The matter was reported to the PAO on December 10, 2018 and December 14, 2018. In DAC meeting held on January 07, 2019, the management stated that Rs 19.72 million was recovered and in cases of Rs 27.914 million, recovery suits were initiated. DAC reduced the para to the extent of amount recovered and directed to pursue the recovery cases of Rs 27.914 million vigorously. The committee further directed the management to provide the consumer-wise status of recovery in remaining cases within a month. No further progress was reported till finalization of the report.

Audit recommends to intimate the reasons for non-recovery from the defaulters and intimate the measures being taken in this regard.

[DP Nos. 165,174, 180 & 245]

2.5.4.5 Unjustified installation of new gas connections to consumers ignoring the turn / merit policy

According to Clause 28.2 of Sales Manual of SNGPL, sales section in-charge shall arrange processing of domestic applications on ‘turn / merit’ basis. To facilitate the public, due dates (region-wise) for installation of new meters are also displayed on company’s website.

During audit of SNGPL for the FY 2017-18, it was observed that the management installed 18,672 new gas meters by ignoring the turn / merit policy as displayed (region-wise) on SNGPL website (as detailed in **Annex-4**). This showed that management extended undue favour to selected consumers by installing new meters prior to due dates which was unjustified.

Audit was of the view that due to non-observance of merit policy, gas connection could not be provided to such consumers who met the requirement of the merit policy thus, they were deprived of their legitimate right.

The matter was reported to the PAO on December 14, 2018. In DAC meeting held on January 07, 2019, the management stated that the main reasons for mismatch with merit dates displayed on website were connections of worship places i.e. Masajids, Madrassas & Churches, government residences, first 200 / 300 gas connections in newly commissioned localities and free gas facility connections of company employees. The DAC directed the management to provide consumer-wise justification for early provision of connection in Faisalabad & Sheikhpura regions and get it verified from Audit within three months. No further progress was reported till finalization of the report.

Audit recommends to justify installation of meters without observing the merit policy besides fixing responsibility. Moreover, the measures taken to avoid such instances in future may also be put in place.

[DP No. 252]

**2.5.4.6 Loss due to loose control over sales meter stations (SMS) -
Rs 10,445.485 million**

According to UFG Manual of SNGPL, the gas in distribution system was measured at sales meter station (SMS) and then was transferred to town border stations (TBSs), from where the gas was provided to end consumers (consumer meter stations-CMS). Reconciliation at each stage was required, to know the actual point of leakages / misuse / loss of gas. Further, as per Rule 9 of UFG Manual, compilation of monthly gas sales reconciliation reports (SMS / region wise), 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 SNGPL for the FY 2017-18, it was observed that the management failed to control UFG losses ranging from 6.85% to 92 % in respect of certain Sales Meter Stations. The management was required to focus on areas / SMSs which were prone to high UFG losses as advised in 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. Resultantly, company suffered a loss of Rs 10,445.485 million due to extraordinary UFG losses. Audit could not find evidence that corrective measures were taken by the management or enhanced vigilance was employed for the areas / SMSs prone to high UFG. This showed that the management was not serious in controlling the UFG losses.

Audit was of the view that weak managerial control and inter looping of SMS(s) in cities resulted in high UFG losses.

The matter was reported to the PAO on November 16, 2018 and December 10 & 14, 2018. In DAC meeting held on December 27, 2018, the management stated that in cities gas was being supplied through three to five SMS only which were also inter-looped with each other. Further, OGRA revised the Key Monitoring Indicators' in February, 2018. Audit contended that areas / SMS(s) prone to high UFG were required to be focused but inter-looping of SMS(s) was responsible for non-identifying areas with high losses. DAC directed the management to share the modified KMI's with Audit along with its

implementation status within one week. No further progress was reported till finalization of the report.

Audit recommends to implement the DAC directives and focus on areas / SMS prone to high UFG losses besides removing the looping of the SMS(s) in cities for better control of UFG.

[DP Nos. 83, 164 & 246]

2.5.4.7 *Non-completion of development works within stipulated time - Rs 17,397.018 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. Further, according to work orders issued to contractors, jobs were required to be completed within three months of issuance of pipe and jointing materials.

During audit of SNGPL for the FY 2017-18, it was observed that 1,697 development jobs amounting to Rs 17,397.018 million were started from the years 2010-11 to 2017-18 but the management failed to complete the jobs despite lapse of considerable time. In most of the cases, the work orders were issued for ditching & backfilling, laying of pipeline and construction of TBS to the contractors and material was also issued to them. Moreover, the management did not take any penal action against the contractors found responsible for delay. As a result jobs valuing Rs 17,397.018 million were lying incomplete.

Audit was of the view that due to weak managerial controls, work orders were not got executed from the contractors and respective jobs remained incomplete. Moreover, due to defective tender documents and absence of penal clauses, the management could not penalize the contractors.

The matter was reported to the PAO on December 10 & 14, 2018. In DAC meeting held on January 7, 2019, the management stated that 165 jobs had been completed and 147 jobs were lying outstanding prior to 2016 whereas remaining 1,385 jobs were started in the FYs 2016-17 & 2017-18. The DAC directed the management to provide the job-wise justification / status of 147 jobs lying outstanding prior to 2016 and share the jobs completion reports in respect of 165 completed jobs within a month and expedite the completion of the remaining jobs. No further progress was furnished till finalization of the report.

Audit recommends to justify the non-completion of jobs within stipulated time and ensure expeditious completion of jobs besides taking action against the contractors who failed to complete the jobs.

[DP Nos. 159, 161, 186, 214 & 261]

2.5.4.8 Non-recovery of RLNG cost from GPPs and IPPs - Rs 13,627 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 2017-18, it was observed that the management failed to recover the cost of RLNG from the following companies:

(Rs in million)

Sr. No.	Name of Consumer	RLNG Cost Receivable as on September, 2018	Remarks
1	Qaid-e-Azam Thermal Power Ltd.	4,876	Receivable exceeded from held security
2	Gatwala Thermal Power Station (GTPS), Faisalabad	254	No security held
3	Thermal Power Station (TPS)	43	No security held

	Muzaffargarh		
4	Nandipur Power	724	Receivable more than 50% of held security
5	Fauji Kabirwala Power Company Ltd (KPCL)	643	No data provided
6	Kot Addu Power CO	6,433	Receivable more than 50% of held security
7	National Power Parks Management Company (NPPMC)	654	No data provided
	Total	13,627	

Audit was of the view that the management could not obtain sufficient security from the Power Sector consumers resulting in accumulation of huge receivables on account of RLNG cost. Further, SNGPL had to make payments to PSO and PLL against their invoices despite non-recovery from the consumers which may put extra financial burden on the company.

The matter was reported to the PAO on December 14, 2018. In DAC meeting held on January 7, 2019, the management stated that out of Rs 13,627 million, only Rs 4,206 million were outstanding and remaining amount of Rs 9,421 million was recovered from the respective consumers. DAC directed the management to provide the record / billing history in support of reply, get the recovery verified within a week and expedite the recovery of remaining amount. No further progress was reported till finalization of the report.

Audit recommends early implementation of the decision of DAC besides expediting recovery and obtaining sufficient security to avoid such instances in future

[DP No. 257]

2.5.4.9 Non-utilization of funds received as Government share - Rs 11,807.076 million

According to Para 2(vi) of Revised Procedure for Operation of Assignment Accounts of Federal Government, the officers holding assignment accounts will ensure that no money is drawn from these accounts unless it is required for immediate disbursement. Moneys will not be drawn for deposit in

bank account. A certificate to this effect will be recorded on the schedule of payment.

During audit of SNGPL for the FY 2017-18, it was observed that the management made disclosure regarding jobs-in-progress valuing Rs 22,463 million under deferred credit (government grants) as per note 9 of audited Financial Statements for the FY 2016-17. Further, funds of Rs 1,434 million were also withdrawn from Assignment Account during the FY 2017-18. Whereas, schedules of jobs completed and CWIP showed that jobs worth Rs 4,199.994 million were completed and jobs worth Rs 7,889.93 million were in progress since 2007 onwards. The remaining funds of Rs 11,807.076 million were not utilized and were lying in the company's bank accounts at the end of FY 2017-18. The cost of completed / CWIP jobs included both the company / government share. This showed that excess funds (GoP share) were withdrawn from assignment account which were not required for immediate disbursements.

Audit was of the view that violation of Procedure for Operation of Assignment Account of Federal Government resulted in withdrawal of excess government funds which also remained unspent in company's bank account.

The matter was reported to the PAO on November 16, 2018. In DAC meeting held on December 27, 2018, the management explained that jobs in progress under deferred credit (Govt. Grants) showed that an amount of Rs 6,099 million pertained to Power Plant projects and projects of Rs 6,100 million were not sanctioned by the management. Audit contended that jobs related to Power Plant projects had already been completed and savings were to be surrendered to Government and an amount of Rs 6,100 million were withdrawn against the jobs which were not sanctioned by the management. DAC directed the management to provide the details of projects / jobs in progress and surrender the savings relating to completed Power Plants projects to the concerned authorities and start the process for early sanction / completion of the projects for remaining funds. No further progress was reported till finalization of the report.

Audit recommends to justify the excess withdrawal of unspent funds besides ensuring prompt utilization of funds and completion of respective gas schemes.

[DP Nos. 49 & 263]

**2.5.4.10 Non-approval of jobs despite receipt of funds from government -
Rs 3,746.806 million**

According to office order issued vide No. 1800 dated June 21, 2017, the BoD accorded administrative approval for the Capital & Revenue Budgets for the FY 2017-18. Further, 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 FY 2017-18, it was observed that the management sanctioned gas schemes and assigned the same to the regional offices for execution. Later on Regional management submitted 132 job requests to the head office for approval. However, these jobs were not approved which resulted in non-initiation of work of Rs 3,746.806 million.

Audit was of the view that due to weak project management and negligence, approval of jobs were not accorded despite receipt of funds from government.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 7, 2019, the management explained that out of 132 jobs, 28 job approvals were issued and 58 jobs could not be approved due to non-completion of supply mains because distribution network and TBS were constructed after completion of supply mains. Copies of 28 job approvals were provided. DAC directed the management to provide the record in support of reply for verification within a week and expedite the process for issuance of remaining 46 jobs. No further progress was reported till finalization of the report.

Audit recommends to take necessary action for approval of jobs and fix responsibility on the persons for delay.

[DP No. 160]

**2.5.4.11 Recurring loss due to theft in law and order affected areas -
Rs 2,803 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 SNGPL for the FY 2017-18, it was observed that the management failed to halt theft of 8,987 MMCF of natural gas through direct tapping from the main lines in some areas. It was also reported that these were areas affected by law & order. As per Para 3.3.1.9 of Estimated Revenue Requirement for the FY 2017-18, OGRA directed the management to develop legal network to control UFG losses but the management failed to do the same. Hence, the company incurred loss on account of stolen gas amounting to Rs 2,803 million.

Audit was of the view that non-laying of legal network despite direction of OGRA resulted in recurring loss of Rs 2,803 million annually owing to gas theft. The accumulated loss under this head was Rs 20,108.805 million till June 30, 2018.

The matter was reported to the PAO on November 16, 2018. In DAC held on December 27, 2018, the management replied that a fresh survey was carried out in consultation with MNA of the area and cost estimates were submitted to Secretary Energy, Government of Khyber Pakhtunkhwa for release of funds of Rs 4,585 million. The project would be undertaken after approval of the project by the Federal Cabinet and release of funds by Government of Khyber Pakhtunkhwa. DAC directed the management to provide the data regarding survey for laying of network and share the progress of the case with Audit within a week. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC besides taking measures to prevent theft of gas in law and order affected areas.

[DP No. 71]

***2.5.4.12 Non-recovery of decreed amount from the defaulting consumers -
Rs 2,688.587 million***

According to Clause 3.13 of Billing Manual of SNGPL, timely / maximum recovery of gas dues from all categories of consumer is required to be arranged. Special attention is to be paid to recover gas dues from big industrial and general industrial consumers which contribute major share of our sales revenue.

During audit of SNGPL for the FY 2017-18, it was observed that the court issued decrees in favour of SNGPL against the defaulter of gas bills in 1,477 cases. However, the management failed to recover decreed amount of gas charges amounting to Rs 2,688.587 million even after courts orders. It is pertinent to mention here that the management did not have sufficient details of assets of those defaulters hence, process for the attachment of assets could not be initiated.

Audit was of the view that negligence on the part of management resulted in non-recovery of dues amounting to Rs 2,688.587 million.

The matter was reported to the PAO on November 16, 2018. In DAC meeting held on December 27, 2018, the management replied that Company had approached Revenue Department / SECP with the request to provide necessary information but the response was lukewarm. The Company, with a view to search and trace tangible / intangible assets, was hiring the services of an asset tracing firm. DAC directed the management to expedite the recovery process and intimate the outcome to Audit. No further progress was reported till finalization of the report.

Audit recommends to recover outstanding dues and probe the matter to fix responsibility. Audit also recommends verification of the fact that the defaulting connections have not been re-connected without first recovering the defaulted amount.

[DP No. 86]

**2.5.4.13 Over-estimation in order to obtain excessive government funds -
Rs 3,858.60 million**

In Ministry of Petroleum & Natural Resources, Directorate General Gas No.NG(I)-16(91)/2005-Imp dated June 2, 2005, the criteria was approved by Cabinet Committee on Energy CCE in 1992, which was subsequently revised by the ECC of the Cabinet vide decision dated July 15, 2008 for supply of gas to new areas / towns. The portion of funds equal to the requirement over the criteria specified for undertaking the schemes shall be provided by Federal Government whereas cost within criteria shall be borne by Company from its own resources.

During audit of SNGPL for the FY 2017-18, it was observed that the management prepared the cost estimates of gas schemes on the basis of survey conducted and unit construction cost of MS pipe where PE pipes were actually laid. Hence, government funds were released on the basis of estimated cost of gas schemes. The management completed 258 jobs by incurring Rs 3,869.13 million against estimated cost of Rs 7,727.73 million. Thus there was huge variation between the estimated cost and the actual cost incurred on these jobs which were completed within 3% to 76% of the budgeted costs. This showed that jobs were over-estimated to the tune of Rs 3,858.60 million to obtain excessive funds from government.

Audit was of the view that due to over-estimation of cost of jobs, GoP share was inflated and excess funds amounting to Rs 3,858.60 million were claimed by the management.

The matter was reported to the PAO on November 16, 2018 and December 14, 2018. In DAC meeting held on January 7, 2019, the management stated that the schemes were estimated on standard cost basis while actual cost occurred was based on actual material used and physical laying conditions. Any saving in standalone job could not be declared as final saving until the completion of the project. Audit contended that job costing standards were not finalized keeping in view the ground realities causing excessive saving in each job. DAC directed the management to provide the details of schemes / jobs started, completed and pending in the last five years along with estimated vs

actual expenses within three months. No further progress was reported till finalization of the report.

Audit recommends to investigate the reasons for preparation of inflated estimates, fix responsibility and surrender the savings to the government.

[DP Nos. 157, 198, 202, 208 , 228 & 241]

2.5.4.14 Non-installation of meters despite deposit of demand notices by applicants

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 the audit of SNGPL for FY 2017-18, it was observed that the management failed to install 47,789 meters despite receiving fees of demand notices amounting to Rs 286.734 million from the applicants as on June 30, 2018. Audit held that non-installation of meters despite deposit of demand notice which was the last step for installation of the meter was tantamount to negligence on the part of the Company.

Audit was of the view that negligence of the management resulted in non-installation of meters despite deposit of demand notice.

The matter was reported to the PAO on November 16, 2018 and December 10 & 14, 2018. In DAC meeting held on January 7, 2019, the management submitted general reasons for non-installation without giving justification on case to case basis. DAC directed the management to provide consumer-wise reasons of delay in respect of Islamabad and Rawalpindi regions for non-provision of connections within four months. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC, take effective measures for installation of meters and fix responsibility.

[DP Nos. 59, 183 & 243]

2.5.4.15 Inadmissible treatment of WPPF as operating expenditure in FRR-Rs 1,803 million

According to the Supreme Court of Pakistan vide its judgment of 2016 dealing with Workers Welfare Laws, after the 18th amendment in the Constitution of Islamic Republic of Pakistan, the labour law regime has devolved on the provinces as the concurrent legislative list was deleted.

During audit of SNGPL for the FY 2017-18, it was observed that the management claimed WPPF of Rs 970 million & Rs 833 million (aggregating to Rs 1,803 million) as other operating expenses in final revenue requirement for the FY 2016-17 & estimated revenue requirement for the FY 2017-18 without making any payment to the employees. The labour laws regime was devolved to the provinces, but the Punjab Government had not yet legislated the labour laws. Hence, no payment on the account of WPPF was required to be made to employees until introduction of workers welfare laws by the Government of the Punjab.

Audit was of the view that the deduction of WPPF as an operating expense without making any payment to employees and in the absence of any legislation was inadmissible. Moreover, payment of WPPF could not be treated as other operating expenditure as it would have to be paid from net profit.

The matter was reported to the PAO on November 16, 2018. In DAC meeting on December 27, 2018, the management replied that WPPF was allowed as other operating expense by OGRA in FRR / ERR for the FYs 2016-17 & 2017-18. DAC decided that matter may be taken up with OGRA by the management for clarification in the light of audit observation and intimate the result to Audit. No further progress was reported till finalization of the report.

Audit recommends to justify incorrect treatment of WPPF as operating expenditure and make adjustment of the amount of WPPF in FRR for the FY 2017-18.

[DP No. 39]

2.5.4.16 Unjustified allocation of HR cost to natural gas consumers - Rs 1,205 million

As per Policy Guidelines of the GoP conveyed vide M/o P&NR's letter dated February 10, 2016, advised the OGRA that RLNG pricing will be ring fenced and directly attributable costs will be charged / recovered from RLNG consumers without affecting consumers relying on domestically produced gas.

During audit of SNGPL for the FY 2017-18, it was observed that the management claimed full amount of HR cost relating to its operations amounting to Rs 1,205 million as cost associated with natural gas operations. The same was allocated as such by OGRA while determining FRR for the FY 2016-17 and ERR for the FY 2017-18. As per policy stated above, the HR costs should have been charged to consumers of RLNG and natural gas in proportion to their consumption. Charging of full amount of HR costs to natural gas consumers instead of charging it proportionately was unjustified.

Audit was of the view that unjustified claim of HR cost by SNGPL resulted in undue burden on natural gas consumers.

The matter was reported to the PAO on November 16, 2018. In DAC meeting held on December 27, 2018, the management replied that OGRA while determining RLNG prices vide paragraph No. 4.2.16 of its decision dated March 18, 2016, had chalked out the principle that only incremental costs, if any, incurred by gas companies in connection with RLNG arrangements would be recovered from RLNG consumers. Audit contended that consumers of natural gas were overcharged by allocation of 100% HR cost to them which was in contravention to Policy Guidelines of the Federal Government. DAC directed the Management to take up the issue with OGRA in light of audit observation and share the outcome within a month. No further progress was reported till finalization of the report.

Audit recommends to recover / adjust over-determined costs from RLNG consumers and fix responsibility.

[DP No. 72]

2.5.4.17 Non-maintenance of database of non-consumers - Rs 1,192.792 million

As per Clause(e) of OGRA's letter dated August 16, 2005 regarding procedure for dealing with theft of Gas cases, 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 2017-18, it was observed that the management failed to control theft of huge volume of 3,791 MMCF gas valuing Rs 1,192.792 million by non-consumers. It was found that no database regarding non-consumers was maintained. There was no check to review whether earlier non-consumers were applying for new connections.

Audit was 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. / Individuals' CNIC etc., to maintain a blacklist.

The matter was reported to the PAO on November 16, 2018. In DAC meeting held on December 27, 2018, the management stated that non-consumers had no contractual obligation with the company and as such details of CNICs and property documents of gas pilferers could not be gathered from site as they never provided such critical details to SNGPL. DAC directed the management to share the data related to non-consumers up till June 30, 2018. DAC further, directed to take up the matter for recovery with OGRA / Federal Government and other concerned agencies and results be shared with Audit. No further progress was reported till finalization of the report.

Audit recommends to justify the non-maintenance of data base for non-consumers besides fixing responsibility and early implementation of the decision of DAC.

[DP No. 51]

2.5.4.18 Irregular inclusion of transmission mains for RLNG based power plants in operating fixed assets - Rs 5,458 million

The Policy Guidelines of the GoP conveyed vide M/o P&NR's letter dated February 10, 2016 advised OGRA that RLNG projects will be included in the asset base of gas companies subject to condition that RLNG pricing will be ring fenced and all directly attributable costs will be charged / recovered from RLNG consumers without affecting consumers relying on domestically produced gas.

During audit of SNGPL for the FY 2017-18, it was observed that the management included RLNG related transmission assets of Rs 5,458 million in the fixed assets pertaining to natural gas. Being RLNG related, these assets were not allowed to avail the guaranteed rate of return under tariff regime of natural gas. Further, these assets were financed by consumers on 100% cost sharing basis and were to be placed under deferred credit and not allowed to be included in the fixed assets for determination of guaranteed rate of return.

Audit was of the view that incorrect inclusion of fixed assets (RLNG related) increased the amount of average net operating fixed assets and company availed excess return on fixed assets to the tune of Rs 955.15 million (Rs 5,458 million @ 17.5%).

The matter was reported to the PAO on November 16, 2018. In DAC meeting held on December 27, 2018, the management stated that RLNG related assets constructed through cost sharing basis did not qualify for ROA and grouping of such assets in any segment did not make any impact on tariff. DAC directed the management to segregate the assets related to RLNG to calculate the financial impact on FRR for the FY 2016-17 and FY 2017-18. No further progress was reported till finalization of the report.

Audit recommends to justify the inclusion of RLNG related fixed assets for ROA besides depositing / adjusting the excess return availed on RLNG based fixed assets.

[DP Nos. 45 & 82]

2.5.4.19 Unjustified inclusion of 10-C Bonus in HR Cost - Rs 768 million

According to the Industrial and Commercial Employment (Standing Orders) Ordinance, 1968, 10-C bonus shall be paid by every employer making profit in any year to the workmen who have been in his employment in that year for a continuous period of not less than ninety days in addition to the wages payable to such workman. Further, according to Para 10 of the Supreme Court of Pakistan judgment of 2016, after the 18th amendment in the Constitution of Islamic Republic of Pakistan, the labour law regime was devolved on the provinces as the concurrent legislative list was deleted and vested in provincial regime.

During audit of SNGPL for the FY 2017-18, it was observed that the management claimed 10-C bonus of Rs 768 million as operating expenditure for the purpose of determination of FRR for the FY 2016-17 and ERR for the FY 2017-18 without making any payment to the employees. The labour laws had been devolved on the provinces and federal labour laws were not applicable whereas Government of the Punjab had not enacted labour laws. Hence, there was no law under which payment of bonus could have been made and inclusion of 10-C bonus in HR cost was not justified.

Audit was of the view that inclusion of 10-C bonus of Rs 768 million in HR cost / operating expenditure without existence of any provincial legislation on the subject and without making any payment to employees was not justified.

The matter was reported to the PAO on November 16, 2018. In DAC meeting held on December 27, 2018, the management stated that 10-C Bonus was allowed as other operating expense by OGRA in FRR / ERR. DAC directed to take up the matter with OGRA for clarification in the light of audit observation. No further progress was reported till finalization of the report.

Audit recommends to justify the inclusion of 10-C bonus in HR cost and make corresponding adjustment in FRR for the FY 2017-18 or DERR for the FY 2018-19 besides excluding 10-C bonus from the HR cost in future.

[DP No. 55]

**2.5.4.20 Un-justified expenditure under “Miscellaneous head” -
Rs 36.266 million**

According to Rule 14(1) 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 SNGPL for the FY 2017-18, it was observed that the company incurred the expenditure under head “miscellaneous expenses” during mutation of lands acquired by the company. It was further revealed that these expenses were paid to revenue officials for mutation of land over and above Government dues without proper supporting receipts. However, these expenses were also included in the cost of land resulting in capitalization of that cost. This resulted in unjustified miscellaneous expense and over capitalization of Rs 36.266 million.

Audit was of the view that due to weak financial management, the unjustified expenditure of Rs 36.266 million under head “miscellaneous expense” was incurred and capitalized as well.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 7, 2019, the management stated that miscellaneous expenditure of incidental nature were incurred in the process of purchase of land. As per IAS-16 all the expenditure directly incurred for the acquisition of assets were capitalized. DAC directed the management to take up the case to BoD in the light of audit observation. No further progress was reported till finalization of the report.

Audit recommends to investigate the incurrence of miscellaneous expense without any supporting bills and inclusion of the same in the cost of land and reverse the booking / capitalization of miscellaneous expenses since the practice was started.

[DP No. 195]

2.5.4.21 Unjustified increase in salaries and award of performance bonus to executive staff - Rs 582 million

According to Agenda Item 5690-C & Item-N (iv) of 498th BoD meeting dated November 11, 2017, the BoD accorded approval for increase / upward revision of basic salaries @ 20% w.e.f July 01, 2017 to all career term executives. The Board further accorded approval for award of performance bonus to all career term executives having minimum six months career term service and active as on June 30, 2017 (Grade I-III, 4.5 months' salaries, Grade IV-VI, 4 salaries and VII-X, 3.5 salaries).

During audit of SNGPL for the FY 2017-18, it was observed that as per minutes of F&PC meeting, keeping in view the excellent financial performance of the company in last two years, the management awarded the performance bonus and 20% increase in basic salaries of all career term executives w.e.f July 01, 2017 on account of saving available in HR Cost. Further, the management did not fill 2,452 vacant posts of executive / subordinate staff whereby the saving of Rs 582 million was achieved. However, neither the aforesaid saving in HR cost nor award of such performance bonus / increase in salaries of executive staff was brought to the notice of OGRA.

Audit was of the view that being part of HR cost, such award / payment of performance bonus and increase in salaries (executive staff only) would be borne by the consumers.

The matter was reported to the PAO on November 16, 2018. In DAC meeting held on December 27, 2018, the management stated that increase in salary and performance bonus was well within the benchmark fixed by OGRA. DAC directed the management to provide complete justification and criteria for increase in salaries and award of bonus submitted to the BoD within a week. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for non-surrendering of saving in HR cost and non-safeguarding the interest of consumers.

[DP No. 52]

2.5.4.22 Wasteful expenditure on UFG reduction plan - Rs 7,923 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 has been 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 2017-18, it was observed that the management failed to control the UFG losses despite incurring an expenditure of Rs 1,052 million as shown in FRR for the FY 2016-17. Further, the management did not fully implement the KMIs and did not furnish the complete information as required by OGRA in UFG study. UFG losses at overall company level increased from 38,407 MMCF (7.85%) in 2016-17 to 47,049 MMCF (10.38%) in 2017-18 thus, there was an increase of 8,642 MMCF. Moreover, the management spent an amount of Rs 6,871 million on two UFG reduction plans but UFG losses remained 11% to 13% from the FYs 2010-11 to 2016-17 resulted in huge loss of Rs 105,736.756 million due to excessive UFG losses.

Audit was of the view that UFG reduction plan, UFG control and KMIs implementation activities were carried out ineffectively which resulted in wasteful expense of Rs 7,923 million in addition to huge UFG losses from 2010-11 to 2017-18

The matter was reported to the PAO on November 16, 2018. In DAC meeting held on December 27, 2018, the management stated that UFG losses were decreased in volume after taking into account the volumetric losses pertaining to law and order affected areas and non-consumers. DAC directed the management to share the actual data relating to UFG losses along with annual UFG / KMIs reports with back up data (company level) for the FY 2017-18 with Audit within a week. No further progress was reported till finalization of the report.

Audit recommends to justify the wasteful expense incurred on the UFG reduction plan, UFG control activities and KMI implementation with full facts and figure.

[DP Nos. 41, 262 & 212-MFDAC/ARPSE/2017-18]

2.5.4.23 Excess determination of HR cost on account of club membership / subscription - Rs 33.079 million

According to Para 8.3.5 of FRR / DERR for the FY(s) 2016-17 & 2017-18, OGRA directed SNGPL to submit, at the time of FRR, HR certificate duly signed by its statutory auditors that HR cost assigned to T&D cost is relevant for the operating activities, based on fair allocations and comprises only the salaries of its regular employees. Further, as per Para 3.3.6 of FRR, interveners raised substantive points regarding lavish increase in HR cost which is ultimately borne by the consumers.

During audit of SNGPL for the FY 2017-18, it was observed that the management claimed HR cost including club membership / subscription of Rs 33.079 million which was also allowed by OGRA in FRR for the FYs 2015-16 & 2016-17 and ERR for FY 2017-18. Expenditure on account of club membership / subscription was not only lavish but also not directly related for operating activities and should have been borne by the company rather than to pass on to the consumers.

Audit was of the view that incorrect inclusion of club membership / subscription of Rs 33.079 million in HR cost, increased the T&D cost which were passed on to the consumers.

The matter was reported to the PAO on November 16, 2018. In DAC meeting held on December 27, 2018, the management stated that the club membership / subscription was included in the HR cost allowed by OGRA. DAC directed the management to take up the matter with OGRA for clarification in the light of audit observation. No further progress was reported till finalization of the report.

Audit recommends to justify the inclusion of cost of club membership / subscription in HR cost and make corresponding adjustment.

[DP No. 38]

2.5.4.24 Non-adjustment of long outstanding advances issued for purchase of land - Rs 581.979 million

According to Clause 3.2.1 of Project Manual of SNGPL, after publication of notification under Section 17(4) & (6) and agreement under Section 41 and 42 of the Land Acquisition Act 1894, Land Acquisition Collector issues notices under Section 9 & 10 of Act *ibid*, to the person(s) interested and acquiring agency for hearing of objections if any on the measurements and cost of land determined by the District Collector. Thereafter, award is announced by the land acquisition collector, a copy of which is sent to SNGPL for getting the amount adjusted against advance of relevant line.

During audit of SNGPL for the FY 2017-18, it was observed that management paid advances for purchase of land which remained unadjusted for the period ranging from 1 year to 20 years. But no timely action was taken for adjustment of these outstanding advances of Rs 581.979 million by the management.

Audit was of the view that laxity and negligence on part of the management resulted in non-adjustment of outstanding advance amounting to Rs 581.979 million.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 7, 2019, the management stated that an amount of Rs 180.95 million was adjusted. DAC directed the management to get the adjusted amount verified by Audit within a week and expedite the adjustment of the remaining amount. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC and to expedite the adjustment of remaining advances.

[DP Nos. 207 & 233]

2.5.4.25 Non-mutation of land in favour of company - Rs 302.150 million

According to Clause 3.2.1 of Project Manual of SNGPL, award is announced by the land acquisition collector, a copy of which is sent to SNGPL

for getting the amount adjusted against advance of relevant line. After receiving award from acquisition collector, mutation in favour of company shall be carried out.

During audit of SNGPL for the FY 2017-18, it was observed that management did not complete the process of mutation of land in favour of company in a case of advance issued to land acquisition collector and in other case direct payment was made to the owners of land. These advances of Rs 302.150 million were adjusted by the company however, mutation of land was not carried out.

Audit was of the view that the negligence on part of the management resulted in non-mutation of land in favour of company despite adjustment of advances of Rs 302.150 million.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 7, 2019, the management stated that an amount of Rs 88.336 million was adjusted and land had been mutated in the name of company. DAC directed the management to get the record verified within a week and expedite the mutation / adjustment of the remaining amount. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC and fix responsibility.

[DP Nos. 211& 212]

2.5.4.26 Non-finalization of job completion reports of commissioned jobs – Rs 91.158 million

According to Clause 3.2(v)(a) of the budget instructions circulated through Office Order No. 1772 dated January 25, 2017, job holder will be responsible for the timely completion and submission of the completion report to Finance Department within 60 days of completion of job or its commissioning.

During audit of SNGPL for the FY 2017-18, it was observed that management did not finalize the job completion reports of 29 completed jobs worth Rs 277.468 million.

Audit was of the view that due to weak internal controls and monitoring, the management could not finalize the job completion reports despite completion of work on these jobs.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 07, 2019, the management stated that 22 job completion reports were finalized and 07 JCRs of Rs 91.158 million were pending . Keeping in view the reply of the management, the DAC settled the para to the extent of 22 JCRs completed and directed to expedite the remaining 7 JCRs. No further progress was reported till finalization of the report.

Audit recommends to finalize the job completion reports besides fixing the responsibility on the persons at fault.

[DP No. 158]

2.5.4.27 Unjustified capitalization of previous years' adjustments on account of addition in plant & machinery - Rs 544 million

As per Rule 14(1) of the 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 SNGPL for the FY 2017-18, it was observed that the management claimed excess capitalization of Rs 544 million on account of previous years adjustments under the head "plant, machinery, and other assets" on the basis of addition in fixed assets i.e. IT / MIS, construction equipment, furniture & fixture, plant & machinery and telecommunication equipment as per Para 7.6.2 of FRR for the FY 2016-17. OGRA allowed the addition in assets under this head with the advice to remain within the budget in future.

Audit was of the view that due to weak financial controls, fixed assets valuing Rs 544 million could not be capitalized in the respective years and previous years' adjustments in fixed assets were made.

The matter was reported to the PAO on November 16, 2018. In DAC meeting held on December 27, 2018, the management stated that any necessary

expenditure pertaining to previous periods which could not be considered by OGRA in previous year may be considered in the current determination and consideration of previous adjustments by OGRA is well within their mandate as a regulator. DAC directed the management to provide the details of assets relating to previous years which could not be adjusted in respective years for verification on case to case basis within a week. No further progress was reported till finalization of the report.

Audit recommends to investigate the reasons of non-capitalization of fixed assets in respective years.

[DP No. 44]

2.5.4.28 Non-inclusion of “non-theft charges” and “Return on bank deposits” in other operating income - Rs 344.386 million

According to Para 1.4.4 & 1.4.5 of tariff regime for regulated natural gas sector in Pakistan, all indirectly generated revenues / income from an activity shall be shared between license and consumers as per Authority decision. The connection of an income as directly or indirectly inter-alia an operating / non-operating as a matter of principle shall be judged by the Authority based on the parameter relating to degree of relevancy with the regulated activity.

During audit of SNGPL for the FY 2017-18, it was observed that the management received Rs 83.386 million on account of “non-theft charges / sticky meter charges” from consumers and earned return of Rs 261 million on bank deposits comprising of security deposits of consumers. But the management did not include the same in “Other operating income” for the purpose of determination of revenue requirement. Both the receipts were generated during furtherance of the regulated activities for supply of natural gas and received from the consumers.

Audit was of the view that due to non-inclusion of non-theft charges and return on bank deposits amount in other operating income, the revenue requirement of the company was determined in excess, which was passed on to consumers.

The matter was reported to the PAO on November 16, 2018 and December 14, 2018. DAC in its meeting held on December 27, 2018 directed the management to take up the matter regarding “Return on bank deposits with OGRA in the light of audit observation and share the findings thereof with Audit within one month. Further, in DAC meeting held on January 7, 2018, the management stated that non-theft charges i.e. meter cost were booked under the head of meter rental and repair charges. DAC directed the management to provide the details of booking of non-theft charges along with supporting record / data for the FYs 2016-17 and 2017-18. No further progress was reported till finalization of the report.

Audit recommends treatment of non-theft charges and return on bank deposits as other operating income for the purpose of revenue requirement and to make corresponding adjustments.

[DP Nos. 58 & 256]

2.5.4.29 Non-installation of meters within 90 days despite receipt of urgent fee - Rs 115.975 million

According to OM No. GMS 910 dated June 30, 2016, the provision of gas connection on fast track / urgent fee was to be materialized within 90 days of receipt of urgent fee.

During audit of SNGPL for the FY 2017-18, it was observed that the management received urgent fee from 4,639 applicants at the rate of Rs 25,000 per applicant in addition to normal fee, for availing the fast track connection facility within 90 days. The aging of consumers showed that the management failed to deliver the service regarding installation of meters even after lapse of more than 4 to 16 months as detailed below:

Sr. No.	Delay in months		No of consumers
	From	To	
1	12	16	1,046
2	06	11	2,543
3	04	05	1,050
Total			4,639

Audit was of the view that due to weak internal controls, the management could not install the meters within 90 days as per policy.

The matter was reported to the PAO on November 16, 2018. In DAC meeting held on December 27, 2018, the management stated that gas connections could not be installed due to general reasons such as property dispute among owners, property situated in banned localities, house line not installed / completed etc. DAC directed the management to provide the reasons for non-connections on case to case basis and get it verified from Audit. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC besides expediting the installation of meters.

[DP No. 34]

2.5.4.30 Irregular appointment of GM (Law) - Rs 13.271 million

As per advertised criteria in national press dated May 25, 2017, for appointment of General Manager (Law), the candidate was required to have 20 years of experience including at least 10 years of working as in-house legal counsel at any financial institution / government organization / company. Further, as per SNGPL HR Manual Notes to Table 1 Sr. No. 4, the minimum qualification of Law Graduation / BBA (4 years) with 17 years' experience was required for appointment of Grade-VIII Officer. The verification of experience is mandatory and in case experience is not verified within the initial probation period, the period of probation be extended on grounds of sufficient cause. Further, as per Clause 4.2 of SNGPL HR Manual, appointment in Grade-V and above would be subject to condition that there is no third Division in the entire academic carrier.

During audit of SNGPL for the FY 2017-18, it was observed that the management appointed a candidate who had third division in FA and claimed experience of 10 years whereas, his actual experience was 5 years and 8 months which could not be verified as the said company wound up in September, 2006. Further, it was noticed that the said candidate was terminated from NBP as Vice President which was intimated vide their letter dated June 26, 2018 in response to

SNGPL letter dated June 21, 2018. Hence, a person having short experience, holding third Division in FA and terminated from NBP was appointed which was not covered under the relevant rules. Thus pay and allowances of Rs 13.271 million from July, 2017 onwards was considered irregular.

Audit was of the view that due to disregard of appointment criteria of SNGPL and press advertisement, appointment of the person was not justified as GM (Law).

The matter was reported to the PAO on November 16, 2018. DAC in its meeting held on December 27, 2018 directed the management to probe the matter regarding selection of person having short credentials and referred the para to the PAO to decide the genuineness of appointment as per rules in the light of audit observation within one month. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC.

[DP No. 63]

2.5.4.31 Non-recovery of late delivery charges - Rs 88.336 million

As per general terms to the contract with the suppliers, SNGPL shall be entitled to recover 1% or 0.5%, as the case may be, of the total value of the delayed part of material for each week of delay, by way of late delivery charges and not by way of penalty subject to a maximum of 10% of the total value of the delayed part of the material.

During audit of SNGPL for the FY 2017-18, it was observed that the management did not recover the late delivery charges from suppliers who were required to deliver items as per schedule stipulated in purchase contracts. It was worth mentioning that delay in supply was ranging from 1 to 9 months. This resulted in non-recovery of late delivery charges of Rs 88.336 million.

Audit was of the view that due to poor financial management and negligence on the part of management, late delivery charges of Rs 88.336 million could not be recovered.

The matter was reported to the PAO on November 16, 2018. In DAC meeting held on December 27, 2018, the management stated that recovery of late delivery charges of Rs 27 million had been made. DAC directed to recover the balance amount and get the recovery verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to recover late delivery charges at the earliest.

[DP Nos. 18 & 21]

2.5.4.32 Excess capitalization of jobs due to over-booking of contract payment - Rs 61.831 million

According to Clause 13.7.11.7.7.1 of Accounting Manual of SNGPL, for additions to movable assets at the end of year, the assets are transferred from Capital Work-in-Progress to the Fixed Assets Control Account in the General Ledger.

During audit of SNGPL for the FY 2017-18, it was observed that in 24 cases, the management booked expenditure of Rs 61.831 million under the head contract payments on accrual basis / development annual closing and in suspense account on June 30, 2018 without mentioning details of work order / FPCs i.e. number & date, contractor's name and details of work done etc. This unjustified booking on accrual basis resulted in over-capitalization of jobs.

Audit was of the view that due to booking of accruals without supporting documents, jobs were overcapitalized which would result in excess return on assets (ROA).

The matter was reported to the PAO on December 10 & 14, 2018. In DAC meeting held on January 7, 2019, the management explained that suspense account was cleared in July, 2018 and in other cases, copies of work orders were provided. Audit contended that no supporting evidence regarding clearance of suspense account was given and in other cases, work orders mentioned were not relevant to the capitalized amounts. DAC directed the management to provide

documents in support of clearance of suspense account and copies of relevant work orders / Appendix-D in each case to Audit within a week. No further progress was reported till finalization of the report.

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

[DP Nos. 220 & 242]

2.5.4.33 Hiring of offices accommodation without competition - Rs 47.732 million

According to Rule 12(1) & (2) of PPRA 2004, procurements over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency provided that the lower financial limit for advertisement on Authority's website for open competitive bidding shall be the prescribed financial limit for request for quotations under Clause (b) of Rule 42.

During audit of SNGPL for the FY 2017-18, it was observed that the management hired 54 office buildings of regional offices / sub area offices, complaint centres & customer service centres without any competition or advertisement in newspapers and authority / company web site in violation of PPRA Rules. This resulted in irregular hiring of office buildings and payment of rent valuing Rs 47.732 million.

Audit was of the view the buildings were hired by the management without advertisement in violation of the above mentioned PPRA hence, the payment of Rs 47.732 million was considered irregular.

The matter was reported to the PAO on December 10, 2018. DAC in its meeting held on January 7, 2019 directed the management to take up the matter with PPRA for specific exemption within one month. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility on the persons at fault for hiring of office space without competition.

[DP No. 167]

2.5.4.34 Non-recovery of detection charges from CNG Filling Station - Rs 41.194 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 the audit SNGPL for the FY 2017-18, it was observed that the management raided M/s Al-Saif Gas CNG filling station on March 14, 2012. The consumer was found involved in theft of gas through installation of fake service line for operating a compressor and a generator at line pressure. The Regional Detection and Evaluation Committee calculated the theft of 6,676.14 HM³ of gas for Rs 16.623 million. The Head Office Detection and Evaluation Committee in its meeting held on April 11, 2012 enhanced the theft charges to Rs 36.954 million on the plea that subject case pertained to pilferage of gas through direct use. The consumer defaulted in March, 2011 whereas meter was disconnected in January, 2013 resulting in enhancement of default to Rs 41.194 and not a single penny could be recovered thereafter up till December, 2018.

Audit was of the view that recovery of theft charges of Rs 41.194 million could not be effected due to lenient attitude of the management and delay in disconnection.

The matter was reported to the PAO on December 14, 2018. In DAC meeting held on January 7, 2019, the management stated that recovery suit against the defaulter had been filed. DAC directed the management to pursue the recovery suit vigorously. No further progress was reported till finalization of the report.

Audit recommends to justify the non-disconnection and fix responsibility.

[DP No. 260]

2.5.4.35 Non-deduction of retention money from final / progress payment certificates - Rs 31.519 million

According to Para 27 of general terms and conditions of the tender documents, retention money will be held from the PPCs @ 50 % of work done. However, while making payment against FPC, total of 5% of gross value of work done will be held from FPC as retention money excluding FPC of casual labour.

During audit of SNGPL for the FY 2017-18, it was observed that in 205 cases, management did not deduct retention money from the PPCs / FPCs while making payment to contractors. The retention money was required to be deducted as per general terms and conditions of the contract awarded to the contractors till successful completion of maintenance period.

Audit was of the view that due to weak internal control, management failed to deduct the retention money of Rs 31.519 million in 205 cases from the final / progress payment certificate.

The matter was reported to the PAO on December 10 & 14, 2018. In DAC meeting held on January 7, 2019, the management stated that retention money was applicable on FPC and the same was recovered against tendered jobs, whereas performance bond was obtained from the respective contractor against work orders. DAC directed the management to provide the detail of PPCs along with schedule of work done and in other cases where FPCs involved, details of retention money deducted be provided to Audit within a week. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC besides ensuring deduction of retention money in future.

[DP Nos. 199 & 248]

2.5.4.36 Unjustified expenditure on insurance for "Loss of profit"- Rs 67 million

As per condition No. 5.2 of the License, OGRA is to ensure 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 2017-18, it was observed that the management claimed insurance of Rs 67 million on account of “loss of profit” as per Para 9.3.26 to 9.3.38 of FRR for the FY 2016-17 against allowed limit of Rs 24 million as insurance for “loss of profit” in 2015-16 and 2016-17. The Authority observed that management did not provide adequate detail to substantiate its claim in terms of expected benefit from this kind of insurance along with the benefits attained last years.

Audit was of the view that the SNGPL was allowed to avail guaranteed rate of return / profit @ 17.5% hence there was no justification for insurance of the loss of profit and therefore, expenditure of Rs 67 million was unjustified.

The matter was reported to the PAO on November 16, 2018. In DAC meeting held on December 27, 2018, the management stated that insurance policy covered the gross profit component included in the gas lost or rupture of the pipeline. Any claim received from the insurance company was offered to OGRA as an operating income in FRR. DAC directed the management to provide the details of claims received from insurance companies on the subject and implement the recommendation of the OGRA within one month. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for the unjustified expenditure on insurance for “loss of profit” when guaranteed rate of return / profit was allowed by GoP and make corresponding adjustment.

[DP No. 80]

2.5.4.37 Wrong capitalization of adjustable withholding tax paid @ 2% on purchase of land - Rs 14.366 million

According to IAS 16.15-17, an item of property, plant and equipment should initially be recorded at cost. Cost includes all costs necessary to bring the asset to working condition for its intended use. Further, as per Section 236K of Income Tax Ordinance 2001, the advance tax paid under sub-section (1) of Section ibid shall be adjustable.

During audit of SNGPL for the FY 2017-18, it was observed that the management paid the withholding tax on purchase of land and subsequently, the withholding tax was adjusted in income tax return. On the other hand, the management capitalized the cost of land including the already adjusted withholding tax since 2011. Moreover, the management also claimed ROA on this amount of adjusted withholding tax. This resulted in overcapitalization of land of Rs 14.366 million.

Audit was of the view that the withholding tax paid under Section 236K of ibid was adjustable and should not have been added to the cost of asset.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 7, 2019, the management stated that as per practice, the amount of 2% withholding tax for purchase of land was capitalized along with cost of land. However, the withholding tax paid was not claimed in income tax return from FBR. Now from the current financial year, this withholding tax was being treated as adjustable tax and was not being capitalized. DAC directed the management to provide the documents in support of reply and take action as proposed by Audit within a month. No further progress was reported till finalization of the report.

Audit recommends implementation of decision of DAC directive and take remedial action to reduce the over capitalized amount of asset.

[DP No. 190]

2.5.4.38 Non-recovery of refundable security from NHA - Rs 13.600 million

According to Clause 3.2.3 of Project Manual of SNGPL regarding crossing permission, on receiving design drawings from P&D Department, the requests for pipeline crossing are raised and submitted to relevant department i.e. Railways, Highways, NHA, Irrigation, City District Government, TMA, Cantonment Board and others. The concerned department issues permission after the company pays the charges to them as per their scheduled rates which include refundable security.

During the audit of SNGPL for the FY 2017-18, it was observed that the management paid charges of Rs 13.600 million on account of refundable security to NHA for getting 28 crossing permissions @ Rs 0.500 million for each crossing. The jobs were completed but company did not initiate action for recovery of the refundable security of Rs 13.600 million.

Audit was of the view that this was gross negligence on the part of management which resulted in non-recovery of refundable securities from NHA.

The matter was reported to the PAO on December 23, 2018. The DAC in its meeting held on January 7, 2019 directed the management to expedite the process regarding recovery / adjustment of refundable security. No further progress was reported till finalization of report.

Audit recommends implementation of the decision of DAC and recover the same immediately.

[DP No. 191]

2.5.4.39 Non-deposit of fee received in excess of prescribed limit - Rs 11.35 million

As per amendment in Supplementary Rules dated November 25, 2013 the allowance, fee, honorarium, etc., in excess of six hundred thousand rupees per annum received by a civil servant as member of the Board of Directors of any one or more statutory corporations, companies, autonomous bodies, institutions, societies etc., whether fully or partially owned or controlled by the Federal Government, shall be credited to the General Revenue.

During audit of SNGPL for the FY 2016-18, it was observed that seven civil servants were BoD members of SNGPL who attended certain board and its committees' meetings during the years and Rs 16.750 million was paid to them. Resultantly, Rs 11.35 million (Rs 16.750 million - Rs 5.40 million) was paid to these board members in excess of the maximum prescribed limit of Rs 0.6 million each, which was required to be credited to government treasury. Disregard to OGRA advice regarding keeping expenditure on board's meetings at minimum level by convening the BoD / its Committees meetings on comprehensive agenda, excess expenditure under the head was incurred.

Audit was of the view that undue favour was granted to the BoD members by releasing the excessive amount than the prescribed limit.

The matter was reported to the PAO on December 8, 2017 and November 16, 2018. In DAC meeting held on December 27, 2018 and January 7, 2019, the management stated that it was the responsibility of the recipient to ensure that any amount received by him / her exceeding the limit of six hundred thousand rupees per annum was deposited in the General Revenue. The Company was not legally authorized to deduct / withhold any amount on this account. DAC directed the management to credit the amount paid to the Government employees in excess of the maximum limit to the Government treasury. No further progress was reported till finalization of the report.

Audit recommends to deposit the excess fee received by the Directors into government treasury.

[DP Nos. 48 & 211-MFDAC/ARPSE/FY2017-18]

2.5.4.40 Out of turn promotion and irregular increase in salary of Company Secretary - Rs 28.458 million

According to Rule 9.2 of HR Manual of SNGPL, for promotions from Grade-IV to VII, the potential assessment was mandatory and accelerated promotion to next higher grade will be given once in service. As per Rule 31.2 of the ibid, all increments are awarded on the basis of merit and are paid entirely at the discretion of the company. As per terms and conditions for promotion of employees in Grade-VII mentioned in Table I(A) of HR Manual, at least three years' service should be in Grade-VI.

During audit of SNGPL for the FY 2015-16, it was observed that the management appointed an executive law officer in Grade-IV in January 2008. She was promoted to Grade-V in December 2011 with basic pay of Rs 80,000 per month. In February, 2013, the officer was re-designated as Company Secretary and after four months on June 14, 2013 she was granted accelerated promotion in Grade-VI on monthly basic pay of Rs 0.105 million. After sixteen days, the management granted annual increment and enhanced basic pay to Rs 0.119 million. The management again granted increase in pay of Rs 0.050 million on January 30, 2014. The employee was allowed 2nd accelerated

promotion in Grade-VII on February 2015 in contravention of Rule 9.2.7 ibid and her basic pay was fixed at Rs 0.217 million. She was getting Rs 514,000 per month at the time of audit, whereas as per normal course she would be getting Rs 208,000 per month. The difference in salary paid in excess to the officer amounting to Rs 18.360 million ($0.514-0.208=0.322*60$), in addition to house rent benefit of Rs 8.262 million and utility allowance @ 10% amounting to Rs 1.836 million, aggregating to Rs 28.458 million was considered irregular.

Audit was of the view that the officer was granted undue favour through repeated increases in salaries, and two accelerated promotions in contravention to HR Manual which resulted in irregular expense of Rs 28.458 million.

The matter was reported to the PAO on November, 2017. In DAC meeting held on December 27, 2018, management stated that BoD was fully empowered to decide the career path / financial benefits of the employees. Audit contended that officer was granted undue favour and extra ordinary increase in basic salary. DAC referred the para to the PAO to decide the matter in the light of existing rules and audit observation within one month. No further progress was reported till finalization of the report.

Audit recommends to reconsider the repeated increases in salary and two accelerated promotions under the company rules.

[DP No. 267/FY 2015-16]

2.5.4.41 Unjustified payment to contractor due to revision of work orders - Rs 2.708 million

According to Clause 9.4.1 of Accounting Manual of SNGPL, work orders are issued at schedule rates by the Area General Managers with a completion period of three months. The schedule rates for each activity are approved / revised by the Company after every two years.

During audit of SNGPL for the FY 2017-18, it was observed that the management awarded work orders for laying of pipeline to contractors at schedule rates applicable during the FY 2016-17. But the contractors did not execute the previously issued work orders in anticipation of revision of schedule

rates which were revised / enhanced w.e.f. July 01, 2017. The management revised the earlier issued work orders by applying enhanced rates. In some cases, work orders were revised even after the lapse of completion period i.e. three months. In some other cases, previous work orders were cancelled after completion of partial work and new work orders were issued for left over quantity / work. This resulted in unjustified payment of Rs 2.708 million to contractors.

Audit was of the view that the work orders issued during the FY 2016-17 were revised by applying enhanced rates to extend undue favour to the contractors.

The matter was reported to the PAO on December 14, 2018. In DAC meeting held on January 7, 2019, the management stated that as per practice in vogue, the left over part of work was cancelled and new work orders were issued at revised / enhanced rates. DAC directed the management to revise the system and recover the amount from the contractors in the cases pointed out by Audit. No further was reported till finalization of the report.

Audit recommends to fix responsibility besides recovering the excess amount paid to the contractors.

[DP No. 254]

2.5.4.42 Hiring of vehicles without open competition - Rs 279.109 million

According to Rule 12(1) & (2) 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. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency provided that the lower financial limit for advertisement on Authority's website for open competitive bidding shall be the prescribed financial limit for request for quotations under Clause (b) of Rule 42.

During audit of SNGPL for the FY 2017-18, it was observed that the management hired 1,583 vehicles from individuals without open tender against payment of Rs 279.109 million.

Audit was of the view the vehicles were hired by the management without advertisement in violation of the above mentioned PPRA hence, the payment of Rs 279.109 million was considered irregular.

The matter was reported to the PAO on November 16, 2018 and December 10 & 14, 2018. In DAC meeting held on December 27, 2018, the management stated that three advertisements for prequalification of firms for hiring of vehicles were given but the tender could not be successful due to poor participation. DAC directed the management to take up the matter with PPRA for specific exemption. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility besides implementation of the decision of DAC.

[DP Nos. 78, 177, 219 & 244]

2.5.4.43 Non-recovery of detection charges from CNG Station – Rs 33.371 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 D-9 of *ibid*, testing of internal parts / operation of meter and flow proving shall be carried out in the laboratory and reported to the G.M of the region within five working days in case of industrial category.

During the audit of SNGPL for the FY 2017-18, it was observed that meter of M/s Raka Poshi Gas (Pvt) Ltd CNG, Faisalabad was replaced on September 24, 2012 and the meter body bar coded twist tight seal wire was found tampered. The consumer was habitual pilferer of gas as it remained involved in pilferage of gas three times during 2010-11. The regional detection and evaluation committee recommended the gas theft charges for Rs 8.266 million which was increased by head office detection and evaluation committee to Rs 33.371 million as on October 18, 2018. Neither the security was enhanced

equal to default amount nor the consumer was disconnected, thus the management failed to recover the amount due to improper pursuance.

Audit was of the view that recovery of theft charges could not be effected due to lenient attitude of the management and delay in disconnection resultantly Rs 33.371 million were stuck up for more than six years.

The matter was reported to the PAO on December 14, 2018. DAC in its meeting held on January 7, 2019 directed the management to pursue the execution petition vigorously for recovery of gas theft charges. No further progress was reported till finalization of the report.

Audit recommends to investigate the matter regarding delay in disconnection and finalization of gas theft charges besides fixing responsibility.

[DP No. 259]

2.5.4.44 Loss due to non-auction of timber - Rs 3.108 million

According to Rule 5(5) of Public Sector Companies (Corporate Governance) Rules 2013, the board shall establish a system of sound internal control. Which would 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 SNGPL for the FY 2017-18, it was observed that the management paid an amount of Rs 3.108 million to land owners against 477 trees while clearing the right of way for pipe laying. The company did not auction the wood / timber. The amendment made by company in its manual that “wood of tree to bulldoze to shape of debris and of no use except to be burnt out” was against the principle of propriety. This resulted in loss to company of Rs 3.108 million.

Audit was of the view that as a reasonable amount was paid to land owner for these trees. The timber obtained from the trees should had been sold to generate revenue for the company.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 7, 2019, the management stated that the revised clause of the manual was being submitted to BoD for approval. Audit contended that in DAC meeting held on May 18, 2015, the management informed during discussion on Para 18.5.4.37 of Audit Report PSE for the FY 2010-11 that relevant clauses of the manual were amended and same was being placed before Board for approval. DAC directed the management to explain the reasons for non-approval of the amendments in the manual by the BoD since 2015 within a week. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for non-auction of wood / timber against which payment was made.

[DP No. 215]

2.5.4.45 Cost overrun in GOP funded jobs - Rs 19.560 million

According to Clause 3.3 of capital and revenue budget instructions for FY 2017-18, in case of cost overrun in the expenditure with comparison to budget, where the HOD considers that the budget overrun in an expense head of temporary nature and manageable within the job total budget can be regularized after the approval of the respective SGM.

During audit of SNGPL for the FY 2017-18, it was observed that the estimated cost in 5 jobs was Rs 150.683 million but these were completed with actual expenditure of Rs 170.244 million. This resulted in cost overrun of Rs 19.560 million.

Audit was of the view that the cost overrun was not of temporary nature and not manageable within the same job. Thus, cost overrun of Rs 19.560 million in capital jobs was required to be brought to the notice of OGRA for necessary regularization but management failed to do so.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 7, 2019, the management stated that regarding 02 jobs, there was no overrun and excess actual cost was shown erroneously. Out of other 03 jobs, 01 job pertained to the FY 2014-15 and 02 jobs pertained to the FY 2016-17. As such unit rate was raised in those years and subsequent increase in

labour rates, salaries, wages, POL etc., caused the cost increase against these 03 jobs. DAC directed the management to share the documents in support of their contention along with revised job completion reports in respect of first 02 jobs within a week. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC besides fixing the responsibility for erroneous preparation of job completion reports.

[DP No. 225]

2.5.4.46 Non / short deduction of Provincial Sales Tax from suppliers / contractors - Rs 44.90 million

According to Section 3 of Punjab Sales Tax on Services Act, 2012 read with Second Schedule to the Act *ibid*, Sales Tax shall be levied @ 16% on taxable services provided by a person from his office or place of business in the Punjab in the course of an economic activity, including the commencement or termination of the activity.

During audit of SNGPL for the FY 2017-18, it was observed that in 2,318 cases, the management made payments to contractors for provision of services but did not deduct the Punjab Sales Tax on Services at leviable rates or deducted the Punjab Sales Tax on Services less than the actual due to wrong calculation. This resulted in non / short deduction of Punjab Sales Tax on Services of Rs 44.90 million.

Audit was of the view that due to weak financial controls, Provincial Sales Tax of Rs 44.90 million was neither withheld nor any proof of payment of provincial sales tax in government treasury from the contractors through monthly sales tax returns was obtained.

The matter was reported to the PAO on November 16, 2018 and December 10 & 14, 2018. In DAC meeting held on January 7, 2019, the management stated that affidavits regarding turnover not exceeding Rs 50 million were taken from the contractors. Audit was of the view that turnover of the contractors should be confirmed from the Punjab Sales Tax on Services returns filed by the contractors during the FY 2016-17. DAC directed the

management to provide the contractor-wise detail of payments and Punjab Sales Tax on Services deduction during the period within a month. No further progress was reported till finalization of the report.

Audit recommends to either provide the proof of payment of Punjab Sales Tax on Services from monthly Punjab Sales Tax on Services returns filed by the contractors or recover the amount of Provincial Sales Tax non / short deducted and deposit in the government treasury.

[DP Nos. 54, 182, 217, 232 & 239]

2.5.4.47 Extraordinary delay in installation of service lines and meters

As per Sales / Operational & Maintenance Manuals of SNGPL, no minimum / maximum period has been fixed for installation of meters after deposit of demand notices.

During audit of SNGPL for the FY 2016-18, it was observed that the management received connection fee from 62,294 applicants during 2016-17 and 317,525 applicants during 2017-18 against the demand notices issued to them, however, their meters were installed with a delay ranging from 4 to 185 months.

Audit was of the view that weakness of the system and negligence on the part of the management resulted in extraordinary delay in installation of 379,819 meters.

The matter was reported to the PAO on December 22, 2017 and November 16, 2018. DAC in its meetings held on December 27, 2018 and January 7, 2019 directed the management to provide the reasons for delayed connections on case to case basis and get it verified by Audit. No further progress was reported till finalization of the report.

Audit recommends to explain the reasons for extraordinary delay in installation of meters on case to case basis besides taking the measures to avoid such instances in future.

[DP Nos. 37 & 242-MFDAC/ARPSE/2017-18]

2.5.4.48 Abnormal delay in installation of meters after receipt of urgent fee

According to O.M No. GMS 910 dated June 30, 2016, the provision of gas connection on fast track / urgent fee is to be materialized within 90 days of receipt of urgent fee.

During audit of SNGPL for the FY 2017-18, it was observed that the management received urgent fee from 12,340 consumers for installation of gas connections after issuance of demand notices for fast track, however, their meters were installed after delay ranging from 4 to 49 month details as follows:

Sr. No.	Delay in months		Number of consumers which were provided gas connection in this range
	From	To	
1	31	49	56
2	20	30	179
3	13	19	617
4	08	12	1955
5	04	07	9533
	Total		12,340

From the above details it was clear that the management failed to deliver the service for installation of meters within 90 days to applicants who deposited urgent fee.

Audit was of the view that weakness of the system and negligence on the part of the management resulted in extraordinary delay in installation of 12,340 meters.

The matter was reported to the PAO on November 16, 2018. DAC in its meeting held on December 27, 2018 directed the management to provide the reasons for delayed connections on case to case basis and get it verified by Audit. No further progress was reported till finalization of the report.

Audit recommends to explain the reasons for delay in installation of meters after receipt of urgent fee on case to case basis besides taking measures to avoid such instance in future.

[DP No. 35]

2.5.4.49 Non-uptifting of old pipeline due to expansion of road - Rs 31.768 million

According to Rule 5(5) of Public Sector Companies (Corporate Governance) Rules 2013, the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety, objectivity, integrity and honesty and relationship with the stakeholders.

During audit of SNGPL for the FY 2017-18, it was observed that in 05 jobs relating to relocating the pipeline due to road expansion, the management did not uplift the old pipe from five sites. Cost of new pipe could have been saved by uplifting / re-coating of old pipe. This resulted in incurrance of excess cost of Rs 31.768 million.

Audit was of the view that due to weak project management, excess cost of new pipe was incurred instead of uplifting / re-coating of old pipe.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 7, 2019, the management stated that the removal of pipelines laid under blacktop was not feasible, cost effective as well as causes disruption of gas supply. DAC directed the management to share drawings, approval of competent authority and to prepare proper procedure for deleting such fixed assets from fixed assets inventory with Audit within three months. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC.

[DP No. 197]

2.5.4.50 Unjustified payment for purchase of land to irrelevant person - Rs 15.750 million

According to Clause 3.2.1 of Project Manual of SNGPL, once the cost of land is finalized, agreement is executed with the owner. Thereafter, management's approval is obtained and cheque, amounting to the cost of the land, is drawn in favour of land owner. Sale Deed is registered after making the

payment to the land owner. Accordingly Mutation, in favour of Company, is carried out.

During audit of SNGPL for the FY 2017-18, it was observed that the management purchased a piece of land at a cost of Rs 15.750 million and got it transferred in company's name for installation of SMS. On further scrutiny it was observed that the SMS was not installed on the purchase land but on a separate place which was not even acquired. This site was 400 ft away from the piece of land for which payment was made.

Audit was of the view that due to weak internal controls, the land section wrongly paid cost of land amounting to Rs 15.750 million to an irrelevant person.

The matter was reported to the PAO on December 10, 2018. DAC in its meeting held on January 7, 2019 directed the management to change the mutation from Khasra No 665 to 666 where the SMS was actually located and share the outcome with the Audit. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC and fix responsibility for making payment to irrelevant person.

[DP No. 204]

2.5.4.51 Unjustified capitalization of building of Regional Office Sahiwal - Rs 82 million

As per IAS 16.7 items of property, plant and equipment should be recognized as assets when it is probable that the future economic associated with the assets will flow to the entity.

During audit of SNGPL for the FY 2017-18, it was observed that the management capitalized an amount of Rs 82 million on account of construction of office building for regional office, Sahiwal against total allowed budget of Rs 200 million. OGRA while finalizing the FRR for 2016-17 vide Para 7.8.1 allowed capitalize cost of construction of office building for Sahiwal Region, which was not completed and could not be used for office work. Thus,

capitalization of office building which was not complete was unjustified as economic benefit of the fixed asset was not accruing.

Audit was of the view that incorrect capitalization of under-construction building would increase the amount of fixed assets resulting in excess rate of return.

The matter was reported to the PAO on November 16, 2018. In DAC meeting held on December 27, 2018, the management stated that SNGPL claimed the capital expenditure relating to civil works. But OGRA erroneously showed the amount against capitalization of Sahiwal building. Audit contended that construction work of Sahiwal building could not be initiated whereas its estimated cost was increased from Rs 275 million to Rs 563 million in last two years. DAC decided that matter may be taken up with OGRA by the management for rectification and share result with Audit. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC besides justifying the increase in estimated cost of construction of office building.

[DP No. 40]

2.5.4.52 Expenditure on different heads beyond OGRA limit - Rs 45 million

According to Para 8.3.100 of DERR for the FY 2017-18, the OGRA observed that expenses on “Recovery through Contractor, Annual Sports, Sports Cell and Sundries” are not directly associated with the petitioner’s core activities, yet the same are necessary and are part of established organizations. There is however dire need to incur the expenses under the head judiciously maintaining a consistent and prudent approach while spending under the head.

During audit of SNGPL for the FY 2017-18, it was observed that the management failed to keep the expense under the head “Recovery through Contractor, Annual Sports, Sports Cell and Sundries” at the level of DERR for the FY 2016-17 as detailed below:

(Rs in million)

Description of head of accounts	Allowed by OGRA	Actual expenditure	Expenditure over and above the allowed limit
Recovery through Contractor	23	26	3
Annual Sports	40	53	13
Sports Cell	48	72	24
Sundries	26	31	5
Total	137	182	45

Audit was of the view that expenses which were not directly related to core regulated activities should have been kept within allowed budget but management failed to do so. Resultantly, excess expenditure of Rs 45 million was incurred by the management than allowable limit.

The matter was reported to the PAO on November 16, 2018. In DAC meeting held on December 27, 2018, the management stated that the Authority's decision against the annual accounts for FY 2017-18 submitted for approval was awaited. DAC directed the management to exercise effective control to reduce the expenses on the subject heads as per advice of the OGRA. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC. Audit also recommends that expenditure above the allowed limits should be borne by the company instead of passing on to consumers.

[DP No. 77]

2.5.4.53 Unjustified engagement of 3rd party labour for performing core functions - Rs 1,378.080 million

According to agenda item No 1.5 of 110th meeting of HR & Nomination Committee held on September 26, 2017, the manpower study conducted by the company showed the following position:

Cadre	Approved	Held	Short / (Excess)
Executives	1,794	1,529	226
Subordinates-Full Time	9,789	7,827	145
Sub-Total (Permanent)	11,583	9,356	2,227
Executive Contractual		136	(136)
Subordinates Contractual		123	(123)
Subordinates-3 rd Party		7,656	(7,656)
Sub-Total (Non-Permanent)		9,831	9,831
Grand Total	11,583	19,187	7,604

During audit of SNGPL for the FY 2017-18, it was observed that the management engaged 7,604 casual / 3rd party labour through contractors. Most of this work was for carrying out field related activities such as vigilance & inspections, quality assurance, UFG control activities (replacement of old / sticky meters), rehabilitation of network and disconnections & reconnections etc. In some other cases, normal office duties such as stores handling, key punching, assistance in Accounts Department etc., were being performed by the 3rd Party labour. Despite, availability of sufficient permanent staff, the engagement of 7,604 labour through contractors for performing core functions for Rs 1,378.080 million was considered unjustified.

Audit was of the view that engagement of 3rd party labour in field related activities especially control of UFG losses was unjustified.

The matter was reported to the PAO on November 16, 2018. In DAC meeting held on December 27, 2018, the management stated that 3rd party labour was engaged in teams headed by company's regular employees. Audit contended that 3rd party labour was engaged for office duties and wrongly charged to jobs meaning their wages are included in capitalized costs. DAC directed the management to expedite the implementation of the recommendations of HR Study to reduce the number of daily wages on routine operational activity of the company. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC and discontinue the practice of performing core operational activities by contract labour.

[DP No. 76]

2.5.4.54 Unjustified apportionment of gas internally consumed in T&D cost - Rs 581 million

As per Rule 5(5) of the Public Sector Companies, (Corporate Governance) Rules 2013, the board shall establish a system of sound internal control, which would 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 SNGPL for the FY 2017-18, it was observed that in FRR for the FY 2016-17, the management claimed / availed half of Gas Internally Consumed (GIC) valuing Rs 916 million in T&D cost. The transmission and Distribution (T&D) cost is an allowable expense for calculation of FBR. The other half was booked against RLNG cost. Whereas in ERR for the FY 2017-18, out of total GIC of Rs 1,450 million, an amount of Rs 1,306 million (equal to 90%) was charged to T&D cost. Charging of 90% GIC to local gas consumers was disproportionate to its proportion to RLNG and therefore considered unjustified. This resulted in excess apportionment of GIC of Rs 725 million to natural gas consumers.

Audit was of the view that due to inconsistent practice / treatment of GIC by the management and OGRA, excessive GIC valuing Rs 581 million (1450×0.4) to T&D cost in DERR for the FY 2017-18 was charged which resulted in extra burden to consumer to the extent of 40% of the cost of GIC.

The matter was reported to the PAO on November 16, 2018. DAC in its meeting held on December 27, 2018 directed the management to provide the data regarding allocation of GIC to RLNG and natural gas in ERR / FRR 2017-18 within a week. No further progress was reported till finalization of the report.

Audit recommends to justify the excessive allocation of GIC and make corresponding adjustment / deduction in FRR for the FY 2017-18.

[DP No. 75]

2.5.4.55 Loss due to application of higher rates of line pipe - Rs 32.169 million

According to Rule 5(5) of Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety, objectivity, integrity and honesty and relationship with the stakeholders. Further, according to circular No. ACC-209 dated June 24, 2016, the unit construction cost of for laying pipe line of dia 8” is Rs 7,555 per meter.

During audit of SNGPL for the FY 2017-18, it was observed that in case of job No. 17/33/004621, relating to development phase, the management had applied higher per meter cost of Rs 9,322 at the time of budgeting / calculating the cost of this jobs for the same dia. Whereas in all other jobs the rate of Rs 7,555 per meter was applied during the year 2017. Moreover, the project was completed with the delay of 258 days.

Audit was of the view that the application of higher rate was unjustified which resulted in loss of Rs 32.169 million to public exchequer.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 7, 2019, the management stated that additional cost was charged on account of 15% cost sharing and railway & road crossing. Audit contended that no such payments were reflected in the drilldown / ledger of the particular job. DAC directed the management to share the built-in / built-as drawing with Audit within a week. The documents provided by SNGPL for verification did not prove that there was any crossing involved resulting in increase of cost.

Audit recommends to justify the difference of estimated cost for the line pipe of same dia.

[DP No. 222]

2.5.4.56 Mis-procurement of domestic gas meters - Rs 276.612 million

According to Clause 13.5 of Procurement Manual of SNGPL, the company may engage in negotiated tendering with one or more suppliers or contractors with or without prior publication of a procurement notification. This procedure shall only be used in extreme urgency brought about by events unforeseeable, the time limits laid down for open and limited bidding methods cannot be met. The circumstances invoked to justify extreme urgency must not be attributable to the company.

During audit of SNGPL for the FY 2017-18, it was observed that the management purchased 120,000 G-4 gas meters at the rate of US\$ 21.87 per meter through negotiated tendering from M/s Daesung Measuring Co. Ltd on the plea that the shortage of gas meters was expected during the months of September to November 2017. This supplier was selected from the bidders of a previous tendering process without calling fresh tenders. The reasons quoted by the company for purchase of G-4 gas meters did not manifest any urgency as the company should have planned the procurement of meters in advance. Therefore, it should have engaged in open competition to fetch competitive price. This resulted in mis-procurement of domestic gas meters amounting to US\$ 2.624 million leading to loss (equivalent to Rs 276.612 million) as competitive bidding during the same period fetched a rate of US\$ 18.34 per item.

Audit was of the view that due to poor planning on the part of the management, benefits of competitive bidding could not be fetched.

The matter was reported to the PAO on November 16, 2018. DAC in its meeting held on December 27, 2018 directed the management to reconsider the tendering process and maintain the suitable inventory level for smooth supply of meters and get the record verified in support of the contention. No further progress was reported till finalization of the report.

Audit recommends to improve the planning of procurement process besides fixing responsibility on the persons at fault.

[DP No. 20]

2.5.4.57 Loss due to late / non-initiation of process for land acquisition - Rs 97.683 million

According to Section 38 to 44 of Land Acquisition Act, 1894 read with Punjab Acquisition of Land Rules, 1983, company acquires the land as per prescribed procedure.

During audit of SNGPL for the FY 2017-18, it was observed that the management either late initiated or non-initiated the process of land acquisition despite completion of network since long. This caused loss due to price escalation of land of Rs 97.683 million. The management failed to initiate land acquisition process in 2005 when the project was started.

Audit was of the view that due to ill planning on the part of management the company had to suffer loss of Rs 97.683 million due to delay in the acquisition of land.

The matter was reports to the PAO on December 10, 2018. In DAC meeting held on January 7, 2019, the management stated that due to urgency of work the activity of laying the line with the mutual consent of the land owner was completed, there was no substantial change in DC rates. DAC directed the management to provide documents i.e. copy of SOP, documents regarding initiation of land acquisition process, prevailing DC rates in 2005 and actual rates paid by the Company within two weeks. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC and strengthen internal controls to avoid late acquisition of land.

[DP Nos. 188 & 213]

2.5.4.58 Short deduction of withholding tax - Rs 35.004 million

According to Section 153 of Income Tax Ordinance-2001, tax should be deducted from the persons rendering of or providing services at the rates from payment of goods and services as specified in Division III of the First Schedule.

During audit of SNGPL for the FY 2017-18 it was observed that the management made payments to contractors on account of services but did not

deduct withholding tax @ 10% under section 153(c). Further, correct amount of withholding tax was not paid on purchase of land. This resulted in short deduction / payment of withholding income tax of Rs 35.004 million.

Audit was of the view that management did not deduct / paid the withholding tax at correct rate resulting in short deduction of withholding of Rs 35.004 million.

The matter was reported to the PAO on December 10 & 14, 2018. In DAC meeting held on January 7, 2019, the management stated that ditching & backfilling and pipe laying did not come under the definition of services as per Income Tax Ordinance, 2001. Audit contended that Provincial Sales Tax leviable on services was being charged and paid. DAC directed the management to take up the case with Tax Authority for clarification on the subject within a month. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC.

[DP Nos. 166, 170, 181, 206, 231 & 250]

2.5.4.59 Non-follow up of hand held units (HHU) complaints

According to Clause 9.6 of Billing Manual of SNGPL, if a meter reader is unable to note meter reading due to any reason like meter not traceable, house locked, meter un-accessible due to stagnant water etc., a provisional gas bill will be issued to the consumer. He will report the above discrepancy to his In-charge who in turn will take necessary steps for rectification. In case of hand held units (HHU), respective code regarding provisional, minimum and complaints shall be entered in HHU for subsequent report generation and necessary action by concerned department.

During audit of SNGPL for the FY 2017-18, it was observed that the management failed to take timely action against 116,610 hand held unit complaints for rectification and age-wise analysis was as below:

Aging in months	No. of complaints
Upto 3	107,750
4	3,304
5	1,728
6	1,019
7	691
8	437
9	379
10	277
11	206
12 and above	819
Total	116,610

Audit was of the view that non-fixing the maximum time limit for rectification of reported complaints resulted in huge pendency of hand held units complaints.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 7, 2019, the management stated that HHU complaints were resolved on severity level i.e. cases regarding meter replacement, gas theft, and leakage rectification. Audit contended that out of total complaints, meters were replaced against 64 % complaints and 36 % complaints were wrong and meters were in working condition and no action was required. DAC directed the management to share the data of HHU complaints and initiate necessary action against the employees who misreported the meters as sticky within a month. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC and take necessary steps for timely follow up of HHU complaints.

[DP No. 179]

2.5.4.60 Unjustified capitalization of land for right of way for RLNG transmission lines - Rs 160 million

The Policy Guidelines of the GoP conveyed vide M/o P&NR's letter dated February 10, 2016 advised OGRA that RLNG projects will be included in

the asset base of gas companies subject to condition that RLNG pricing will be ring fenced and all directly attributable costs will be recovered from RLNG consumers without affecting consumers relying on domestically produced gas.

During audit of SNGPL for the FY 2017-18, it was observed that as per Para 7.8.1 & 7.8.2 of FRR for 2016-17, the management claimed capital cost on account of purchase of land for ROW of RLNG transmission lines valuing Rs 160 million incorrectly. The cost of land pertaining to RLNG business was ring fenced and company was not entitled for 17.5% guaranteed rate of return.

Audit was of the view that due to disregard to government policy, assets relating to RLNG projects for Rs 160 million were included in operating fixed assets only to avail excessive return of Rs 28 million.

The matter was reported to the PAO on November 16, 2018. In DAC meeting held on December 27, 2018, the management stated that OGRA had discussed the additions of Rs 160 million erroneously as “ROW for LNG”. DAC decided that matter may be taken up with OGRA for rectification and share result with Audit. No further progress was reported till finalization of the report.

Audit recommends to take up the matter with OGRA and adjust it from FRR 2017-18 or DERR 2018-19.

[DP No. 74]

2.5.4.61 Partial capitalization of incomplete commissioned jobs - Rs 131.951 million

According to IAS 16.7, items of property, plant, and equipment should be recognized as assets when it is probable that the future economic benefits associated with the assets will flow to the entity, and the cost of the asset can be measured reliably.

During audit of SNGPL for the FY 2017-18, it was observed that eight incomplete jobs valuing Rs 131.951 million were capitalized although work on these jobs was pending ranging from 18 % to 76%.

Audit was of the view that due to departure from IAS 16.7 and weak project management, the partially commissioned jobs was capitalized whereas the future economic benefit of the pipeline was not actualized for gas supply to the respective consumers.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 7, 2019, the management stated that capitalization made in accordance with IAS-16. The highlighted jobs were issued for multiple localities and execution was undertaken in phases leading to periodical commissioning of various legs and capitalization was carried out to that extent. DAC directed to provide the data regarding provision of connections on the respective localities / jobs within 15 days. No further progress was reported till finalization of the report.

Audit recommends to justify the capitalization of partially completed jobs and take corrective action for corresponding adjustment.

[DP No. 210]

2.5.4.62 Irregular payment of Overtime Allowance - Rs 924.523 million

As per approved Policy Guidelines issued by Managing Director regarding maintaining control on Overtime Allowance to subordinate employees issued vide letter dated December 10, 2013, it was mandatory to restrict the overtime expenditures in a manner that it did not exceed 25% of the monthly basic salary of subordinate employees.

During audit of SNGPL for the FY 2016-18, it was observed that an amount of Rs 924.523 million was paid on account of overtime which was in excess of 25% of basic salary of each department (**Annex-5**).

Audit was of the view that due to weak financial control, overtime was paid in excess of prescribed limit.

The matter was reported to the PAO on December 22, 2017 and December 14, 2018. DAC in its meeting held on January 7, 2019, directed the management to provide the specific approval from the competent authority in the

cases where limit of 25% was exceeded within two weeks. No further progress was reported till finalization of the report.

Audit recommends to investigate reasons for excess payment of over time allowance besides recoveries from the concerned employees.

[DP Nos. 265 & 217-MFDAC64 ARPSE2017-18]

2.6 Sui Southern Gas Company Limited

2.6.1 Introduction

Sui Southern Gas Company Limited (SSGC) is a public limited company incorporated in Pakistan and is listed in Pakistan Stock Exchange. The main activity of the Company is transmission and distribution of natural gas in Sindh and Balochistan. The Company is also engaged in certain activities related to the gas business including the manufacturing and sale of gas meters and construction contracts for laying of pipelines. SSGC is serving more than 2.910 million consumers in Sindh and Balochistan. The Company has over 60 years of experience in operation and maintenance of high-pressure gas transmission and distribution systems.

2.6.2 Comments on Audited Accounts

Annual audited accounts for the FY 2016-17 & 2017-18 were not finalized by the Company. Audit recommends that annual accounts of past years be provided immediately and timely submission be ensured in future, besides fixing responsibility.

[DP No. 138/SSGC/K/2018-19]

2.6.3 Compliance of PAC Directives:

Audit Year	Total No. of directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
1992-93	10	9	1	54	90
1994-95	2	1	1	66	50
2000-01	5	4	1	173	80
2002-03	8	7	1	195	88
2003-04	8	6	2	160 & 161	75
2006-07	13	10	3	158, 159 & 162	77
2007-08	11	10	1	126	91
2010-11	27	22	5	18.4.4.2, 18.4.4.4, 18.4.4.5, 18.4.4.6 & 18.4.4.12	81
2013-14	24	5	19	13.4.2.1, 13.4.2.2,	21

				13.4.2.3, 13.4.2.4, 13.4.2.6, 13.4.2.7, 13.4.2.8, 13.4.2.9, 13.4.3, 13.4.4.2, 13.4.4.3, 13.4.4.4, 13.4.4.5, 13.4.4.6, 13.4.4.7, 13.4.4.8, 13.4.4.9, 13.4.4.10 & 13.4.4.11,	
Total	108	74	34	-	69%

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. Further, as per the Public Accounts Committee directives, issued vide OM No.F-10(I)/2000/2004-PAC, dated June 03, 2004, PAOs of Ministries / 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(3) of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001.

During audit of SSGC for the FY 2017-18, it was observed that despite many written as well as verbal reminders, the management failed to produce the following record:

Sr. No.	Description of Record / information
1	Draft / final Annual Accounts (Management Accounts) / financial statements for FY 2017-18
2	Category-wise detail of customers
3	3 rd party contracts
4	Executive Canteen Contract

Note: Details of remaining requisitioned record given in (Annex-6)

Audit was of the view that due to non-production of record, Audit was unable to check authenticity of transactions, hence, chances of financial infringement could not be ruled out.

The matter was reported to the PAO on December 10, 2018. In DAC meeting, held on December 18, 2018 and January 2, 2019, the management stated that they would identify the requisitioned record by Audit and its availability would be ensured within 10 days. The management further informed that out of 430 items of requisition 360 items were provided to Audit. DAC directed the management to reconcile the record provided to Audit besides adding appropriate resources to attend Government Audit. No further progress was reported till the finalization of the report.

Audit recommends to fix responsibility on persons(s) for non-production of record.

[DP Nos. 36, 128,156, 159 & 173 /SSGC/K/2018-19]

2.6.4.2 Unauthorized supply of gas to K-Electric - Rs 38,798 million

According to Para 3 of Second Payment Plan Agreement signed between SSGC and K-Electric on June 18, 2016, parties may further amend the Payment Plan through Second Addendum to Payment Plan (Second Addendum) in respect of the period commencing from April 1, 2016 to March 31, 2017.

During audit of SSGC for the FY 2017-18, it was observed that the management continued to supply natural gas to K-Electric even after the lapse of Payment Plan Agreement. No new agreement was made till finalization of this report and natural gas valuing Rs 38,798 million was supplied to K-Electric from April 1, 2017 to November 30, 2018 without executing any agreement. It is pertinent to mention that an amount of Rs 86,709 million was already outstanding against K-Electric as on June 30, 2018.

Audit was of the view that supply of gas of Rs 38,798 million without observing execution of Payment Plan Agreement showed weak controls on the part of management.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 2, 2019, the management stated that Sindh High Court restricted SSGC not to disconnect the Gas supply to K-Electric. DAC directed the management to pursue the case in Court of Law as well as with Federal Government. No further progress was reported till the finalization of the report.

Audit recommends to justify non-finalization of Payment Plan Agreement besides recovery of outstanding amount.

[DP No. 109/SSGC/K/2018-19]

2.6.4.3 Non-recovery of default from Power Sector Customers - Rs 147,289.044 million

According to Para 9.04(b) of Standard Operating Procedure of SSGC, the supply is disconnected if the customer commits a default in the payment of two consecutive monthly gas bills or where outstanding amount is not secured by the Gas Security Deposit (GSD) or surpass the GSD amount.

During audit of SSGC for the FY 2017-18, it was observed that Rs 147,289.044 million were lying outstanding against power sector customers on account of supply of gas. The default period ranged from 3 to 116 months and in all the cases dues against the power sector customers exceeded from the GSD available with the company. The supply of gas was required to be disconnected but the required action was not taken by the management, which resulted into accumulation of default amount.

Audit was of the view that non-recovery of the outstanding amount from power sector customers showed negligence and poor monitoring on the part of the management.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 2, 2019, the management stated that the major amount of Rs 5,600 million pertained to Government owned entities. DAC directed the management to provide the record substantiating the efforts of management for recovery. No further progress was reported till the finalization of the report.

Audit recommends to recover the outstanding dues besides fixing responsibility on the person(s) at fault.

[DP No. 108/SSGCL/K/2018-19]

2.6.4.4 Non-recovery of dues from defaulters - Rs 6,784.948 million

According to Para 9.04(b) of Standard Operating Procedure of SSGC, the supply is disconnected if the customer commits a default in the payment of two consecutive monthly gas 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 2017-18, it was observed that an amount of Rs 6,784.948 million was outstanding against different customers as on June 30, 2018. The detail was as under:

(Rs in million)

Defaulter	Sukkur	Larkana	Karachi	Total
Commercial	10.440	209.419	615.941	835.800
Domestic	389.300	-	1,519.000	1,908.300
Government Department / Bulk Consumers	14.770	797.178	21.037	832.985
General industry	37.109	375.890	2,620.544	3,033.543
CNG Station	-	-	174.320	174.320
Total	451.619	1,382.487	4,950.842	6,784.948

Audit was of the view that weak internal controls and poor performance of Recovery Department resulted in accumulation of huge recoverable of Rs 6,784.948 million.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on December 18, 2018 and January 2, 2019, the management stated that Rs 1,380.848 million was recovered, Rs 524 million was subjudice, connections of the customers against whom Rs 282 million was outstanding were disconnected, the case involving Rs 72.356 million from M/s Colourital (Pvt) Ltd regarding LPS issue was pending for approval of the OGRA. The request for

encashment of Rs 175 million in respect of captive power plant was forwarded to the bank and recovery of balance amount was in process. DAC directed the management to get the recovery and disconnection of meters verified from Audit and recover the balance amount. DAC further directed to pursue the pending cases with OGRA and the court cases. No further progress was reported till the finalization of the report.

Audit recommends to expedite the recovery of outstanding dues besides improving internal controls.

[Annex-7]

2.6.4.5 Loss on account of UFG due to negligence and poor performance - Rs 12,091 million

According to Clause 21.1 of the License issued by OGRA for transmission, distribution and sale of natural gas granted to SSGC, the licensee shall take all possible steps to keep the UFG within acceptable limits. Further, Clause 21.3 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 2017-18, it was observed that natural gas measuring 37,937 MMCF amounting to Rs 12,091 million was recorded as UFG during the FY 2017-18 in the regions of Karachi, interior Sindh and Balochistan. However, neither corrective measures were taken by the management nor was special vigilance increased for the SMS prone to high UFG.

Audit was of the view that non-serious attitude of the management towards controlling the UFG losses resulted in loss of Rs 12,091 million.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on December 18, 2018 and January 2, 2019, the management stated that the UFG percentage for the FYs 2016-17 & 2017-18 was 9.48% and 9.43% respectively. These figures were as per ECC Guidelines to OGRA and were subject to OGRA's approval. DAC directed the PAO to present the position

before the PAC. DAC also directed the management to get measures taken to reduce UFG verified from Audit. No further progress was reported till the finalization of the report.

Audit recommends to explain the reasons of extra ordinary UFG losses and take corrective action for better control.

[DP Nos. 8, 21, 22, 35 & 110 SSGCL/K/2018-19]

2.6.4.6 Non-recovery of gas charges from Captive Power Plants - Rs 2,438.511 million

As per SSGC recovery policies / procedures, the objective of setting up of Recovery Department is to ensure recovery of dues from defaulting customers. Disconnection is a measure undertaken to disrupt / suspend gas supply to the premises of defaulting customers.

During audit of SSGC for the FY 2017-18, it was observed that natural gas was supplied to Captive Power Companies under respective Gas Sales Agreements. The companies, however, failed to pay gas bills and the supply of gas was supposed to be discontinued. However, the prescribed action was not taken. As a result an amount of Rs 2,438.511 million stood recoverable on June 30, 2018.

Audit was of the view that due to weak internal controls, an amount of Rs 2,438.511 million was outstanding against captive power plants.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on December 18, 2018 and January 2, 2019, the management stated that an amount of Rs 1,500 million pertained to LPS and GIDC, which was subjudice. An amount of Rs 818 million had been recovered. However, another amount of Rs 119 million had been referred to OGRA by Senate Committee on Petroleum. The management further stated that case of Colourital Pvt Ltd was pending due to approval of OGRA and the other cases were subjudice. DAC directed the management to get the stated facts verified from Audit and pursue the court cases. No further progress was reported till finalization of the report.

Audit recommends recovery of outstanding dues and pursue court cases vigorously.

[DP Nos. 13 & 101/SSGC/K/2018-19]

2.6.4.7 *Loss due to late submission of insurance policy - Rs 910.314 million*

According to Section 118(I) of the Insurance Ordinance 2000 read with SSGC's Fire and other Non-Life Insurance Policies 2009, it shall be 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 claims is time barred. Any claim below the deductible amount will not be entertained.

During audit of SSGC, for the FY 2017-18, it was observed that the Company filed insurance claims when the due date had passed. The delay involved in these cases ranged from 2 to 9 years. In some insurance claims deductible limit was so high that claim could not be filed. This resulted in loss of Rs 910.314 million.

Audit was of the view that failure of the management to devise appropriate mechanism for insurance claims resulted in loss of Rs 910.314 million.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on December 18, 2018 and January 2, 2019, the management stated that in one case the insurance claims had been realized from NICL and in the other case, insurance claim could not be filed because required information was delayed. However, Rs 0.56 million against one vehicle (CU-5694) was realized. DAC directed the management to provide a copy of actuarial report regarding review of insurance policies to Audit, besides, production of record of the premium paid, claims lodged and amount recovered from insurance company for verification. No further progress was reported till the finalization of the report.

Audit recommends to fix the responsibility for accepting the defective insurance policies besides implementation of the decision of DAC.

[DP Nos. 28, 30, 34, 39, 40, 42 & 141/K/SSGCL/2018-19]

2.6.4.8 Loss on account of gas theft by various customers - Rs 1,467.932 million

According to Section 6 of the Theft Control and Recovery Ordinance, 2014 dated January 23, 2014, where a person is involved in an offence under this Ordinance or where there are dues recoverable from any person, or where a consumer has a dispute regarding billing or metering against a Gas Utility Company, he may file a complaint or suit, before a Gas Utility Court as prescribed by the code of Civil Procedure, 1908 (Act V of 1908) or the Code Criminal Procedure, 1898 (Act V of 1898).

During audit of SSGC for the FY 2017-18, it was observed that 5,010 gas theft cases involving an amount of Rs 1,467.932 million were recorded. However, neither recovery from these consumers was made nor concrete steps were taken to stop pilferage of gas.

Audit was of the view that failure of the management to prevent theft of gas resulted in loss of Rs 1,467.932 million.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on December 18, 2018 and January 2, 2019, the management stated that claims amounting to Rs 254.187 million were accepted, cases of Rs 753.112 million were subjudice and cases of Rs 460.637 million were still unaccepted. DAC directed the management to get the recovered amount / stated facts verified from Audit and pursue the subjudice cases in the court of law. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC besides strengthening surveillance and vigilance to stop the pilferage and theft of gas.

[Annex-8]

**2.6.4.9 Non / less deduction of conveyance / house rent allowance -
Rs 50.154 million**

According to Clause 26 of Staff Service Rules, the house rent allowance is 45% of the basic salary. Further, the use of staff car shall not be allowed to an officer who is in receipt of conveyance allowance under Supplementary Rule 25. Moreover, as per Karachi Terminal (KT) Executive Residential Policy 2016, on notification of retirement or transfer of executive to other departments, the employee shall vacate the accommodation within 30 days (extendable up to further 30 days subject to approval of competent authority).

During audit of SSGC for the FY 2017-18, it was observed that the management less deducted / not deducted house rent & conveyance allowance from the pay of executive / staff residing at quarters in Karachi Terminal (KT) and staff availing pick & drop facility. Moreover, the official residences were occupied by the employees despite their transfer / retirement. This resulted in irregular payment on account of conveyance and house rent allowance amounting to Rs 50.154 million.

Audit was of the view that weak internal control and negligence of the management resulted in non / less deduction of conveyance and house rent allowance of Rs 50.154 million.

The matter was reported to the PAO on December 10, 2018. In the DAC meeting held on January 2, 2019, the management stated that deductible amount for pick & drop facility of female staff had always been ensured. The policy of house rent allowance was being revised to rationalize the deductions. DAC directed the management to immediately stop the conveyance allowance and recover the paid amount along with recovery of the house rent allowance from retired officials under intimation to Audit. No further progress was reported till the finalization of the report.

Audit recommends implementation of the decision of DAC besides fixing responsibility for non-vacating the official residences from the retired / transferred employees.

[DP Nos. 153,167, 168 &169/SSGCL/K/2018-19]

**2.6.4.10 Irregular expenditure on POL and repair / maintenance of vehicles -
Rs 40.206 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 SSGC, for the FY 2017-18, it was observed that the management spent an amount of Rs 40.206 million on account of POL and repair and maintenance of vehicles in violation of Company's Transport Policy. Audit noticed the following irregularities:

- i. Log books and movement registers of vehicles were not properly maintained;
- ii. The repair and maintenance of vehicles was done from unauthorized workshops; and
- iii. Senior executives were provided multiple number of vehicles.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 2, 2019, the management stated that the filling of VDRs was ensured properly, however, there could be some unfilled columns of VDRs in case of urgencies and shortage of staff. The management further stated that the maintenance of vehicles from authorised workshops proved to be more expensive, therefore, maintenance was being carried out through quotations from the lowest bidder. Furthermore, it was stated that provision of pooled vehicles to executives Grade-VII was applicable in the light of Transport Policy 2006. DAC directed the management to ensure provision of vehicles in the light of policy and suggested the management to revise its policy or formulate SOPs in accordance with the existing needs. No further progress was reported till the finalization of the report.

Audit recommends to justify irregular expenditure on account of POL, and repair and maintenance of vehicles besides immediate revision of the stated transport policy.

[DP Nos. 145, 146,148, 149 & 155/SSGCL/K/2018-19]

2.6.4.11 *Illegal award of procurement contracts to black listed firms - Rs 32.674 million*

As per Rule 19 of PPRA 2004, procuring agencies shall specify a mechanism and manner to permanently or temporarily bar, from participating in their respective procurement proceedings, suppliers and contractors who either consistently fail to provide satisfactory performances or are found to be indulging in corrupt or fraudulent practices. Such barring action shall be duly publicized and communicated to the Authority.

During audit of SSGC for the FY 2017-18, it was observed that M/s Mehran Associates and M/s Fatemi Traders were declared as blacklisted on October 15, 2012 and August 07, 2013 respectively. The management, nevertheless, awarded procurement / service contracts amounting to Rs 32.674 million to these black listed firms.

Audit was of the view that violation of PPRs 2004 resulted in award of contracts valuing Rs 32.674 million to black listed firms.

The matter was reported to the PAO in December 10, 2018. In DAC meeting held on January 2, 2019 the management stated that the name of the firms could be same however, their registration / NTN numbers were different. DAC directed the management to get the reply verified from Audit. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC.

[DP Nos. 114 & 123/SSGC/K/2018-19]

2.6.4.12 *Non-deduction / deposit of withholding tax - Rs 54.755 million*

According to Sindh Sales Tax on Services Act, 2011, sales tax on services is recoverable. Further, as per Section 153(b) of Income Tax Ordinance,

1990, 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 services shall, at the time of making the payment, deduct tax from the gross amount payable at the rate specified in Division III of Part III of the First Schedule.

During audit of SSGC, for the FY 2017-18, it was observed that the management did not deduct a sum of Rs 54.755 million on account of Sindh Sales Tax on services / withholding income tax from the contactors / advocates.

Audit was of the view that weak internal controls resulted in non-deduction of withholding tax amounting to Rs 54.755 million.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 2, 2019 the management stated that withholding taxes were being deducted at the time of payments. However, legal consultants / advocates had taken stay orders against the levy of Sindh Services Sales Tax on legal fee. DAC directed the management to ensure deposit of tax as pointed out by Audit in all the cases. No further progress was reported till finalization of the report.

Audit recommends implementation of decision of DAC and to provide the proof of deposit / deduction of withholding tax.

[DP Nos. 118,127,143 & 152/SSGC/K/2018-19]

2.6.4.13 Non-recovery of salary paid to employees on account of dual employment - Rs 10.826 million

As per Rule 5(5) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety, especially with respect to handling of public funds.

During audit of SSGC for the FY 2017-18, it was observed that the management paid salary to the employees having dual employment. This resulted in irregular payment of salary amounting to Rs 10.826 million.

Audit was of the view that weak internal controls led to payment of irregular salary to employees having dual employment.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 2, 2019, the management stated that legal proceedings were initiated against the defaulted employees for recovery of dues. DAC directed the management to pursue the recovery. No further progress was reported till the finalization of the report.

Audit recommends implementation of the decision of DAC.

[DP No. 133/SSGC/K/2018-19]

2.6.4.14 Delay in completion of rehabilitation schemes resulting in cost overrun - Rs 5.047 million

According to Clause 4 of 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 matter.

During audit of SSGC for the FY 2017-18, it was observed that two rehabilitation schemes, one pertaining to Hyderabad and one to Karachi region, were not completed within the stipulated time which resulted in cost overrun of an amount of Rs 5.047 million.

Audit was of the view that ill-planning and poor execution by the management led to delayed completion of rehabilitation schemes which resulted in cost overrun amounting to Rs 5.047 million.

The matter was reported to the PAO on June 02, 2017. In DAC meeting held on December 18, 2018 and January 2, 2019 the management stated that the actual cost overrun was Rs 3.58 million and the delay was due to late approval from TMA for road cutting. The management also informed that the work amounting to Rs 180.749 million was still incomplete. DAC directed the management to get the stated facts verified in order to identify that the delay was not due to the company. DAC also directed the PAO to conduct an inquiry to

identify the causes and the persons responsible for delay. No further progress was reported till the finalization of the report.

Audit recommends implementation of the decision of DAC.

[DP Nos. 10, 11 & 157/SSGC/K/2018-19]

2.6.4.15 Irregular supply of gas to CNG station on expiry of license - Rs 4.341 million

According to Part-II of Clause 3 of CNG (Production and Marketing) Rules, 1992, no person or corporation shall, without first obtaining a license from the Authority, undertake, or cause to be undertaken under any agreement, the operation or construction of works connected with compression of natural gas for the purpose of storing, filling or distribution of CNG.

During audit of SSGC, for the FY 2017-18, it was observed that license of M/s Morgan Technologies Station expired on April 28, 2017 but supply of gas was not discontinued. This resulted in irregular supply of gas in the absence of license amounting to Rs 4.341 million.

Audit was of the view that weak internal controls resulted in irregular supply of gas of Rs 4.341 million.

The matter was reported to the PAO on December 10, 2018. DAC in its meeting held on December 18, 2018, directed the management to shift the para to OGRA and also directed the management of SSGC to strengthen its internal controls. No further progress was reported till the finalization of the report.

Audit recommends to justify irregular supply of gas besides fixing the responsibility on the persons at fault.

[DP No. 43/SSGC/K2018-19]

2.6.4.16 Non-recovery of liquidated damages on award of ditching / backfilling contract - Rs 2.100 million

According to Clause 1 of Invitation of Bid issued vide Tender Inquiry No. SSGC/SC/6718, liquidated damages would be 0.1% percent of contract value for each day of delay up to a maximum of 10%.

During audit of SSGC for the FY 2017-18, 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 21.017 million and letter to proceed was issued on December 02, 2015. As per terms stated in bid document, the contractor was required to complete the work in twelve months but the work of ditching / backfilling was not completed in time. Therefore, liquidated damages of Rs 2.100 million were required to be recovered, but the same was not done.

Audit was of the view that poor project management resulted in non-completion of scheme within stipulate time and non-imposition of liquidated damages resulted in loss of Rs 2.10 million.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 2, 2019 the management stated that much of the time was consumed in completion of the project due to non-availability of road cutting permission. DAC directed the management to investigate the matter as the subject scheme was delayed for unusual time. Further the management was directed to come up with relevant facts and documentary evidence. No further progress was reported till finalization of the report.

Audit recommends implementation of decision of DAC.

[DP No. 160/SSGC/K/2018-19]

2.6.4.17 Irregular appointment / promotion of executives / secretarial staff

As per Para 4.1.1 of Recruitment Prerequisite read with Para 7.1.2(b) of HRM Policies / Procedures of SSGC, the Human Resource Department advertises the vacant positions in newspapers with head hunters or consulting firms, or directly approach accredited universities and institutions having good ranking. Further, as per Para 9.4.1 of *ibid*, minimum three years' service in current grade is required for promotion.

During audit of SSGC for the FY 2017-18, it was observed that the management made irregular appointments / promotions of executives / secretarial staff. In one case appointment was made without advertisement, while

in other three cases the age was over the prescribed limit. Further, in three cases rapid promotions were given by the management before expiry of three years.

Audit was of the view that deviation from HRM policies / procedures resulted in irregular appointment / promotions of executives / secretarial staff.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 2, 2019 the management stated that the appointments / promotions were made as per company policy and BoD approvals. DAC directed the management to get the degree verified within two months from the concerned university. DAC decided to keep the DP Nos. 129 & 130 pending as management failed to provide proper justification. DAC further directed to identify the persons at fault for irregular appointment in case of DP No. 131 and get the stated position verified from Audit. No further progress was reported till finalization of the report.

Audit recommends justification of appointments / promotions made without observing codal formalities.

[Annex-9]

2.6.4.18 Irregular election of Chairman of Board of Directors

As per Rule 4(4) of Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall elect its Chairman from amongst the independent directors so as to achieve an appropriate balance of power, increasing accountability and improving the Board's capacity for exercising independent judgment.

During audit of SSGC for the FY 2017-18, it was observed that a non-executive director was elected as Chairman of SSGC Board of Directors on October 30, 2013, in violation of above mentioned rule.

Audit was of the view that non-observance of rules resulted in irregular election of non-executive member as chairman BoD.

The matter was reported to the PAO on December 10, 2018. DAC in its meeting held on December 18, 2018 directed the PAO to present his point of view before the PAC.

Audit recommends implementation of the decision of DAC.

[DP No. 18/SSGC/K2018-19]

2.6.4.19 Non-achievement of objectives of Natural Gas Efficiency Project – Rs 119.733 million

As per Natural Gas Efficiency Project's objectives, losses on account of UFG were required to be reduced. Further, 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 SSGC for the FY 2017-18, it was observed that Board approved a project namely Natural Gas Efficiency Project (NGEP) in January, 2012 with a loan of US\$ 200 million from World Bank. As per proposed plan, the deadline for the completion of project was December, 2017. Later on project was also abandoned on August 31, 2016. However, Project Director intimated that NGEP did not achieve major objectives due to operational difficulties. Neither World Bank loan was withdrawn nor any major work was carried out during the period. It was also observed that the management made heavy expenditure on employment / associated expenditure, however, no effective steps / measures were taken which could reduce UFG. Resultantly, actual UFG remained over 15% during these three years against the benchmark of 7% fixed by OGRA.

Audit was of the view that poor project planning by the management resulted in non-achievement of target and rendered the amount spent on the project wasteful.

The matter was reported to the PAO on December 10, 2016. In DAC meeting held on December 18, 2018, the management stated that the amount of the project was spent on the UFG reduction plan being carried out by other

department i.e. Distribution. DAC directed the management to give details of the achievements of the project. No further progress was reported till the finalization of the report.

Audit recommends to justify non-achievement of objectives of the project besides fixing responsibility.

[DP No. 14/SSGC/K/2018-19]

2.6.4.20 Irregular expenditure on purchase of telephone exchange - Rs 2.193 million

As per Rule 12(1) and 20 of PPRA 2004, the 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.

During audit of SSGC for the FY 2017-18, it was observed that the management purchased two exchanges for Rs 2.193 million, one for head office and other for office at Sukkar, through direct contracting. Further, the management also excluded the requirement of Clause PEC C-6 certificate from special terms and conditions of bid documents to give benefit to supplier.

Audit was of the view that poor procurement management led to violation of PPRA Rules which resulted in irregular expenditure of Rs 2.193 million.

The matter was reported to the PAO on December 10,2018. In DAC meeting held on January 2, 2019 the management stated that the exchange was procured under the PPRA Rule 42(c)(iii) due to compatibility issue as the system available throughout the franchise area of the SSGC worked on Siemens Systems. Further, since the stipulation regarding PEC C-6 was inadvertently mentioned in the earlier tenders inquiry, the condition was removed. DAC directed the management to refer to the letter from AGM Procurement to GM Services which maintained that PEC C-6 was a mandatory requirement for the

tender document in case of exchange for MD Office and to justify its position. DAC further directed the management to conduct an internal enquiry on the matter under intimation to Audit. No further progress was reported till finalization of the report.8

Audit recommends implementation of the decision of DAC besides fixing of responsibility on the person(s) at fault.

[DP Nos. 172 &174/SSGCL/K/2018-19]

2.6.4.21 Accumulation of interest / late payment surcharge on outstanding gas charges - Rs 56,320.993 million

As per contracts signed between Gas fields and SSGC, the rate of late payment surcharge (LPS) was in accordance to each gas field. In case the payments under any invoices to the buyers (SSGC) was later than the last business day permitted then it shall bear a late payment charge on a cumulative basis from such last business day until the date of payments on the mutually agreed rates.

During audit of SSGC for the FY 2017-18, it was observed that the management had been purchasing gas from various production companies but did not pay their dues on time which resulted in imposition of late payment surcharge amounting to Rs 56,320.993 million. Detail is given as follows:

(Rs in million)

Sr. No.	Gas supplier	Accrued interest		Total interest
		Jan, 2001 to June, 2017	Jan, 2017 to Jan, 2018	
1.	OGDC	34,492.212	3,655.694	38,147.906
2.	PPL	8,888.920	1,817.653	10,706.573
3.	GHPL	5,438.660	2,003.804	7,442.464
4.	SNGPL	24.050	-	24.050
Grand total		48,843.842	7,477.151	56,320.993

Audit was of the view that poor financial management resulted in accumulation of late payment surcharge amounting to Rs 56,320.993 million.

The matter was reported to the PAO on December 10,2018. In DAC meeting held on January 2, 2019, the management stated that matter of LPS relates to settlement of circular debt. DAC directed the management to make

efforts to resolve the issue. No further progress was reported till finalization of the report.

Audit recommends to ensure timely payments to E&P companies besides fixing responsibility on the person(s) at fault.

[DP No. 113/K/SSGC/2018-19]

2.6.4.22 Loss due to non-receipt of shrinkage charges - Rs 5,331.353 million

The Supreme Court of Pakistan while giving decision on the Constitution Petition No. 5 of 2011 and Human Rights Case No. 15744-P of 2009, directed that Implementation Agreement as executed between SSGC and Jamshoro Joint Venture Limited (JJVL) cannot be allowed to continue being based on illegalities from its very inception and is accordingly set aside with all consequential liabilities as are provided in the “corrected draft” Implementation Agreement dated May 19, 2003. All losses caused to and incurred by the State, State enterprise / SSGC and the People arising out of and as a result of the bidding process and during the tenure of Implementation Agreement are to be made good and recovered from JJVL.

During audit of SSGC for the FY 2017-18, it was observed that the company entered into an Implementation Agreement (IA) with JJVL and granted it the exclusive rights to process and extract LPG and Natural Gas Liquids from Composite Associated Gas Mixture (CAGM) made available at JJVL plant. Gas Shrinkage charges were being recovered under the Implementation Agreement which was set aside by the Supreme Court of Pakistan. Gas shrinkage charges recovered from JJVL in 2013-14 were Rs 1,017.393 million (up to December, 2013). No gas shrinkage charges were recovered after orders of the Supreme Court. Continuation of the usage of JJVL facility in the absence of Implementation Agreement was unjustified and irregular. Management of SSGC failed to have a new agreement with JJVL but continued to use its facilities. Hence, SSGC sustained a loss of Rs 5,331.353 million from January, 2014 to 2015-16.

Audit was of the view that management of SSGC gave undue favour to JJVL by not charging shrinkage charges.

The matter was reported to the PAO on December 10, 2018. In reply, the management stated that after cancellation of implementation agreement, the sale of LPG and NGL and shrinkage cost was to be borne by the SSGC who owns the product, therefore billing of shrinkage charges to JJVL did not apply in this arrangement. DAC in its meeting held on December 18, 2018, directed the management to get the stated facts verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to probe the matter at the Ministry level.

[DP No. 16/SSGC/K/2018-19]

2.6.4.23 Outstanding dues against customers due to failure of Prepaid Meters Pilot Project - Rs 3.938 million

As per SSGC recovery policies / procedures the objective of setting up of Recovery Department is to ensure recovery of dues from defaulting customers. Disconnection is a measure, undertaken to disrupt / suspend gas supply to the premises of defaulting customers. Gas should be disconnected when age of debt is more than 90 days or the amount is of more than Rs 3,000.

During audit of SSGC for the FY 2017-18, it was observed that the Company installed 2,630 prepaid meters in the year 2004 under Prepaid Meters Pilot Project. Due to limitations of these meters to accommodate tariff structure and additional charges, arrears started accumulating against the customers, the pilot project was rolled back in the year 2012. Consequently, most of these meters were changed into regular post-paid billing system and only 209 meters remained installed. Out of these prepaid meter customers, 86 were the customers against whom an amount of Rs 3.938 million was still lying outstanding as on June 30, 2018.

Audit was of the view that poor financial management resulted in non-recovery of arrears amounting to Rs 3.938 million.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on December 18, 2018 and January 2, 2019, the management stated that an amount of Rs 1.685 million had been recovered and the outstanding

amount of Rs 2.534 million against 55 consumers would be recovered by June 30, 2019. DAC directed the management to get the stated facts verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to recover the outstanding dues from the customers.

[DP Nos. 02 & 104/SSGC/K/2018-19]

2.6.4.24 Non-recovery of LD charges - Rs 2.400 million

As per Clause 1 of Invitation of Bid, liquidated damages would be 0.1% percent per of contract value for each day of delay up to a maximum of 10%.

During audit of SSGC for the FY 2017-18, it was observed that management awarded contract to M/s Pakistan Commercial Enterprises on January 21, 2018 for supply of 3000 pieces of filter elements with the delivery date of April 15, 2018. The supplier, however, failed to deliver the ordered material within the stipulated period and supplied only 1,000 items leaving a balance quantity of 2,000 items till November, 2018. Further, the management also failed to charge liquidated damages @ 10% of the total contract amounting to Rs 2.400 million on late delivery from the supplier.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 2, 2019, the management stated that work was done at the location where the urgency of material was required and the liquidity damages were being charged. DAC directed the management to expedite the delivery of balance items and impose liquidity damages accordingly and get the same verified by Audit. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC.

[DP No. 119/SSGCL/K/2018-19]

2.6.4.25 Irregular procurement of gas meter components - Rs 13.818 million

As per Clause 1 of Invitation of Bid, liquidated damages would be 0.1% percent per of contract value for each day of delay up to a maximum of 10%.

Further, as per Clause 27.1 of Terms & Conditions of tender documents, placing of fresh purchase order to the same supplier on single bid basis, despite supply of same faulty / defective components during previous procurement is not permitted.

During audit of SSGC for the FY 2017-18, it was observed that management invited bids for procurement of 200,000 components of gas meter (Remus G-1.6) through tender notice published on December 16, 2017. Five bidders purchased tender documents whereas only one bid was received from M/s Corea Gas System Inc. through their local agent M/s Metchem Associates, which was declared technically qualified. Foreign Purchase Order was placed on February 21, 2018 in favour of M/s Corea Gas System Inc. Korea against a total amount of US\$ 125,000, (equivalent to Rs 13.818 million) with shipment time of 60 days i.e. upto April 24, 2018. Technical Evaluation Committee declared the bidder as compliant, but the committee had specifically written a note that in response to the previous purchase order No. 22/MPS/21183 dated June 14, 2017, 75% of the total diaphragms were found non-conforming to the specification. Award of contract to a supplier with a history of defective supply was irregular. Moreover, the supplier delivered only a quantity of 100,000 pieces of diaphragm in the stipulated period of 60 days leaving a balance of 100,000 diaphragms. The management extended the validity period of remaining shipment (100,000 pieces) by three (03) weeks up to May 15, 2018 and also granted waiver on Liquidated Damage charges.

Audit was of the view that undue favour by the management resulted in irregular award of contract valuing Rs 13.818 million.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 2, 2019 the management stated that liquidity damages were not waived. DAC directed the management to expedite the recovery of liquidity damages from the vendor. No further progress was reported till finalization of the report.

Audit recommends implementation of decision of DAC and to fix responsibility against the person(s) at fault.

[DP No. 117/SSGCL/K/2018-19]

2.6.4.26 Irregular award of contract for hand delivery of gas bills - Rs 128.270 million

As per Rule 5(5) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety, especially with respect to handling of public funds.

During audit of SSGC, for the FY 2017-18, it was observed that the management invited quotations for awarding contract for hand delivery of gas bills for regions of Karachi and Larkana. However, management prepared engineering estimate having minimum and maximum rate for delivery of bills. The engineering estimate was made the part of tender documents without leaving any secrecy for bidding. Consequently, the management awarded the contract to the firm which achieved highest score in technical evaluation, thus resulting in irregular award of contract amounting to Rs 128.270 million.

Audit was of the view that there was no provision of any engineering estimate in PPRA. The self-made criteria was manipulated by the management in order to extend undue favour to specific firm.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 2, 2019, the management stated that estimate was set on the shadow costing so that unreliable rates may not be achieved which distort the whole process. DAC directed the management to provide shadow costing made by Billing Department and previous rates for verification. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility against the person(s) at fault.

[DP No. 121/SSGCL/K/2018-19]

2.6.4.27 Operation of executive canteen without contract

As per clause 29(h) of Special terms & conditions of the contract, the lunch as per BOQ is served at executive canteen at Meter Plant and will not be subsidized. The contractor will be responsible for recovering the payment from the employees as per agreed rates. However, the rates and supply of the other

food or beverages items, beyond the list of BOQ, will also need approval of the management. The quantity of employees enjoying meal at executive canteen at Meter Plant will be excluded from the regular monthly bills submitted for payment by the contractor.

During audit of SSGC, for the FY 2017-18, it was observed that M/s Feed Well was providing canteen services of lunch and tea to the company staff & executives of head office and 15 other locations including executive canteen at Meter Plant. All the facilities / resources of the company were being used in that commercial canteen without paying any charges. However, no agreement was found in this regard. No such document / approval of the management was provided to Audit.

Audit was of the view that operation of canteen without any contract was in violation of PPRA Rules.

The matter was reported to the PAO on December 10, 2018. In DAC meeting held on January 2, 2019, the management stated that existing facility was a dining hall for staff and executives of Meter Plant and the main canteen contractor was given small space to provide snacks and tea on lower rates without charging any cost. DAC directed the management to charge the amount for the facilities provided to the contractor and an inquiry may be conducted internally for fixing responsibility for allowing canteen contractor without PPRA Rule. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC and fix responsibility against the person(s) responsible.

[DP No. 126/SSGCL/K/2018-19]

2.7 Other Organizations

2.7.1 Government Holdings (Pvt.) Limited

2.7.1.1 Introduction

Government Holdings (Private) Limited was incorporated in Pakistan as a private limited company on January 15, 2000, under the Companies Ordinance, 1984. The Company's registered office is situated at House No. 17, Street No. 89, Main Embassy Road, G-6/3, 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. To acquire shares of the Companies or interest of Government of Pakistan (GoP) in the existing and new oil and gas Joint Ventures, either by payment or by issuance of shares, credited as fully paid, or other securities, as the Company may think fit and to hold and enjoy all interests, rights, contracts and privileges vested in or connected with, the title of such shares, and
- ii. Takeover, acquire, renew, utilize and hold any exploration prospecting development and production concessions of whatever nature or otherwise acquire any estate or interest, develop resource of work, dispose of or otherwise turn to account land or sea beds in any part of the world containing or thought to contain petroleum or any other oil in any form, and to search for or participate in the exploration for petroleum or in any other oil in any form, asphalt, bitumen or similar substances or natural gas or any substance used or which may be capable of use and to organize, equip and employ expeditions, experts and wells and other undertakings for the extraction of any of the aforesaid substances.
- iii. The Company has 99.57 % shareholding in the Inter State Gas System (the subsidiary), 100% shareholdings in Pakistan LNG Ltd. and Pakistan LNG Terminal Ltd under share subscription agreements.

2.7.1.2 Comments on Audited accounts

2.7.1.2.1 The management did not provide audited accounts of the Company for the years 2015-16 and 2016-17 till December 31, 2017. Audit recommends to provide audited annual accounts of past year(s) immediately and ensure timely submission in future.

2.7.1.2.2 The working results of the Company for the year 2017-18 as compared to previous years are as under:

(Rs in million)

	2017-18	% Inc/ (Dec)	2016-17	% Inc/ (Dec)	2015-16	% Inc/ (Dec)	2014-15
Sales Net	61,915.84	28.85	48,052.18	3.16	46,579.00	(12.36)	53,149.84
Cost of Sales							
Royalty	6,925.81	34.87	5,135.22	2.77	4,996.68	(10.75)	5,598.82
Operating expenses & others	12,052.29	(4.76)	12,654.35	(5.68)	13,416.42	10.35	12,158.31
	18,978.10	6.68	7,789.58	(3.39)	18,413.10	3.69	17,757.13
Gross Profit	2,937.74	41.88	0,262.60	7.44	28,165.90	(20.42)	35,392.71
Other income	2,321.61	(35.19)	3,582.18	51.87	2,358.79	(26.41)	3,205.37
Exploration and prospecting expenditure	1,087.25	(0.16)	1,089.04	79.18	607.81	573.18	90.29
General and administrative expenses	262.02	(14.40)	306.10	59.06	192.44	(1.21)	194.81
Other expenses	1,570.14	559.29	238.16	(55.02)	529.48	5.36	502.55
Operating Profit	42,339.93	31.44	32,211.48	10.33	29,194.95	(22.79)	37,810.43
Finance Cost	238.31	3,119.52	7.40	(81.43)	39.86	(60.24)	100.25
Profit before Taxation	42,101.62	30.73	32,204.07	10.46	29,155.10	(22.69)	37,710.18
Taxation	14,557.78	22.28	11,905.56	6.60	11,168.58	(18.19)	13,651.62
Profit after taxation	27,543.84	35.69	20,298.51	12.85	17,986.52	(25.24)	24,058.56

(source: Annual Audited Accounts)

2.7.1.2.3 The Operating expenses were increased by 7% from Rs 12,789.58 million in 2016-17 to Rs 12,052.29 million in 2017-18. Gross profit of the Company increased by 41.88 % from Rs 30,262.60 million to Rs 42,937.74 million. The pace for increase in profit needs to be maintained for future.

2.7.1.2.4 Exploration and prospecting expenditure decreased from Rs 1,216.88 million in 2013-14 to Rs 1,087.25 million in 2017-18. The huge decrease in such expenditure showed that the Company was not achieving its core objectives properly. The expense under the head needs to be encouraged for increased activities of exploration.

2.7.1.2.5 Travelling and conveyance, Repair and maintenance, legal and professional charges increased by 130%, 462% and 1,306% i.e from Rs 3.203 million, Rs 9.953 million and Rs 2.82 million in 2016-17 to Rs 7.366 million, Rs 14.527 million and Rs 18.696 million in 2017-18 respectively. Huge increase in expenses needs justification. Moreover, complete detail of follow up of court cases along-with breakup of payment made to each legal counsel may be provided to Audit for scrutiny.

2.7.1.2.6 Short term investments for Rs 19,280.471 million as on June 30, 2018 kept in different banks accounts at mark-up rates ranging between 4.5% to 8.6% p.a. The management may explore some other opportunities to invest these huge amount of funds in more profitable schemes / business.

2.7.1.2.7 Stores, spares & loose tools were amounting to Rs 3,401.418 million, which were lying with joint venture partners. A provision of impairment of Rs 554.899 million was recognized on inventory stock relating to joint ventures. The management is advised to propose proper control over unnecessary purchase of inventory by different joint venture partners.

2.7.1.2.8 Trade debts were increased by 86% as compared to the previous year. Total trade debts of Rs 53,437.192 million included an amount of Rs 46,011.935 million which were overdue. The Chartered Accountant firm had mentioned in the emphasis of matter that payment of these balances was slow because of the financial problems being faced by the Company due to the circular debt issue and management made provision of Rs 4,605 million against said long outstanding debts. Management may provide complete breakup along-with aging of these trade debts besides making efforts for recovery of all overdue amount to Audit.

2.7.1.2.9 Long term liability of Rs 3,598.41 million as on June 30, 2018 represents the Company's carried interest of 5% in the exploration expenditure

of various joint venture concessions. This expenditure was incurred by the joint venture partners up to the date of commercial discovery which would be adjusted in five equal annual instalments against the Company's share of commercial production in each respective joint venture. Current status of this liability along-with breakup may be provided to Audit for scrutiny.

2.7.1.2.10 The BoD of the company could not comply with rule 2(d), 3(2), 3(7), 10(a), 13, 21(3)(a), 21(3)(c), 22(b), Public Sector Companies (Corporate Governance) Rules, 2003. The non-compliances related to independent directors not meeting the criteria, 1/3rd of BoD members were not independent directors, the BoD approving the Profit and Loss and Balance Sheet on quarterly basis and the BoD approval of the appointment of CFO, Company Secretary and CIA. The BoD is advised to ensure the compliance with the said rules.

2.7.2 Lakhra Coal Development Company, Limited

2.7.2.1 Introduction

Lakhra Coal Development Company Limited was incorporated on February 06, 1990 as an unlisted public company under Companies Ordinance, 1984. The principal activity and object of the Company is to develop and operate coal mines and limestone quarries in Pakistan. The Company is an associate / Joint Venture of PMDC, WAPDA and Government of Sindh, with the shareholding of 50% by PMDC and 25% each by WAPDA and Government of Sindh respectively.

2.7.2.2 Comments on Audited Accounts

2.7.2.2.1 The working results of the company for the year 2015-16 as compared with those of the previous years are as under:

Description	2015-16	% Inc/ (Dec)	2014-15	% Inc/ (Dec)	2013-14	% Inc/ (Dec)	2012-13
Sales	608.55	3.43	588.34	(0.4)	590.7	178.12	212.39
Cost of Sales	386.61	1.67	380.25	(1.51)	386.09	138.16	162.11
Gross Profit	221.94	6.6	208.09	1.7	204.61	306.94	50.28
Other operating income	89.32	55.99	75.26	60.8	35.61	(61.87)	93.41
Other income	10.97	(69.79)	36.32	17.81	30.83	15.2	26.76
Administrative Expenses	54.07	27.61	44.04	17.6	37.45	(8.81)	41.07
Selling Expenses	103.02	15.69	89.05	(6.18)	94.92	138.31	39.83
Operating Profit	165.14	(2.04)	168.58	21.55	138.69	54.87	89.55
Finance Charges	0.205	(88.48)	1.78	709.09	0.22	144.44	0.09
Workers profit participation fund	8.24	(1.19)	8.34	20.52	6.92	54.8	4.47
Profit before taxation	156.69	(1.12)	158.47	20.47	131.54	54.78	84.98
Income tax expense	50.61	(2.16)	51.73	15.49	44.79	50.85	29.69
Profit after taxation	106.07	(0.62)	106.73	23.03	86.75	56.89	55.29

(Source: Annual Audited Accounts)

2.7.2.2.2 Other income of the company decreased by 69.79% during the year under review as compared to the previous year (Rs 10.97 million in 2015-16 as compared to Rs 36.32 million in 2014-15) which needs to be justified.

2.7.2.2.3 Administrative expenses of the company increased by 27.61% during the year under review Rs 54.07 million in 2015-16 as compared to Rs 44.04 million in 2014-15 which needs to be justified.

2.7.2.3 Compliance of PAC Directives:

Audit year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
2013-14	6	2	4	13.9.2.1, 13.9.2.2, 13.9.4.1, 13.9.4.2	33%
Total	6	2	4	-	33%

The compliance of the PAC directives were only 33% which needs immediate attention of the PAO.

2.7.2.4 Audit Paras

2.7.2.4.1 Irregular payment of commutation / pension contribution and retiring benefit to PMDC employee's working on temporary transfer - Rs 17.122 million

As per Rule 5(5) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety, especially with respect to handling of public funds.

During audit of LCDCL for the FY 2017-18, it was observed that the management of the company paid commutation / pension contribution and retiring benefits to the employees who were posted on temporary transfer in LCDCL. These employees belonged to Pakistan Minerals Development

Corporation (PMDC). The management irregularly paid an amount of Rs 17.122 million to the employees who were working on temporary transfer.

Audit was of the view that the commutation / pension contribution and retiring benefits of Rs 17.122 million paid to the employees on temporary transfer was in violation of rules.

The matter was reported to the PAO in July, 2018. DAC in its meeting held on December 17-18, 2018 directed the management to submit revised reply containing details of all the employees who were working on temporary transfer / deputation basis. No further progress was reported till finalization of the report.

Audit recommends to probe the matter and identify the persons responsible for irregular payment of Rs 17.122 million. Audit also recommends to recover the amount so paid from the parent offices of these employees.

[DP Nos. 39,40 & 45/LDCL/K/ 2018-19]

2.7.3 Pakistan LNG Limited, Islamabad

2.7.3.1 Introduction

The company was incorporated in Pakistan as a public company on December 11, 2015 under the company ordinance 1984 (now Company Act 2017). The principal activity of the company is to import, re-gasify, market and distribute LNG. The company's registered office is located at 3rd floor, Block A, Pak Secretariat, Islamabad (Pakistan). The company is fully owned subsidiary of Government Holdings (Pvt) Ltd which is 100% owned by Government of Pakistan. The BoD consists of 7 non-executive members nominated by the GoP, however, 5 non-executive members were working as on June 30, 2018. Only one committee namely HR committee was framed by the BoD. The company started commercial operations from January 04, 2018.

2.7.3.2 Comments on Audited Accounts

2.7.3.2.1 The working results of the Company for the year FY 2017-18 are tabulated below:

(Rs in million)

	2017-18	% Inc / (Dec)	2016- 17	% Inc / (Dec)	2015-16
Revenue					
Gross Sales	86,156.588	-	-	-	-
Sales Tax	12,518.479	-	-	-	-
Net Sales	73,638.109	-	-	-	-
Cost of Sales					
Purchase of LNG	67,326.732	-	-	-	-
Import related costs	1,437.508	-	-	-	-
Capacity, Utilization and flexibility charges	4,976.554	-	-	-	-
LSA management fee - PLTL	177.170	-	-	-	-
Less: Closing stock	3,466.200	-	-	-	-
Net Gas Purchases	70,451.764	-	-	-	-
Gross Profit (Loss)	3,185.345	-	-	-	-
Administrative					

Expense					
Fee and Consultancy Charges	3.183	(87%)	25.336	-	-
Business Promotion	3.957	70%	2.316	413%	0.451
BoD Expense	7.050	29%	5.450	164%	2.063
Travelling	5.247	60%	3.274		-
Utilities	2.315	218%	0.727		-
Entertainment Expenses	1.000	160%	0.384	2,158%	0.017
Auditor Remuneration	0.875	775%	0.100	33%	0.075
Miscellaneous Expenses	1.269	107%	0.613		-
Other Administrative Exp.	125.682	180%	44.834	490%	7.596
Total administrative expenditure	150.578	81%	83.034	713%	10.202
Other Income	124.222	3,876%	3.124	1675%	0.176
Exchange Loss	768.760		-		-
Finance Cost	503.084		-		-
Profit / (Loss) for the year	1,888.145	2,462%	(79.909)	(697%)	(10.026)

(Source: Annual Audited Accounts)

2.7.3.2.2 The company entered in 1st agreement on March 06, 2017 with M/s Gunvor for import of 60 RLNG ships in 5 years on midterm basis @ 11.6247% of Brent and started supply of RLNG from November 24, 2017. The 2nd agreement on June 01, 2017 was entered with M/s ENI on long term basis @ 12.29% of Brent for supply of 180 ships in next 15 years. The supply as per 2nd agreement started from December 23, 2017. The management of PLL could not finalize further agreements on mid / long term basis resulting into spot purchase at much higher rates which needs to be explained.

2.7.3.2.3 The management provided an amount of Rs 5,082 million under the head deferred employees benefits / provision for leave encashment for which no legal cover existed as per appointment letter of the employee or service rules of the company. Further, there was no justification for this provision as it had already been made under the head of gratuity.

2.7.3.2.4 The company received an amount of Rs 5,316.347 million as loan from GHPL to meet its operational activities related to RLNG imports which carried

interest rate of six months KIBOR plus 2%. As the company is 100% owned by the holdings company (GHPL), it was in public interest to treat this loan as equity to avoid additional burden of interest on the company. The financial policy needs to be reviewed.

2.7.3.2.5 Company spent an amount of Rs 4,976.554 million as capacity, utilization and flexibility charges which were subject to adjustment on discrepancy identification after receipt of wet calibration report from Euro loop (laboratory), impact of which was not determined so far. Further, the management agreed to pay 96% as fixed capacity charges which seemed irrational as normally these are paid up to 50%.

2.7.3.2.6 The expense under the head board meetings increased by 29% from Rs 5.45 million in 2016-17 to Rs 7.05 million in 2017-18, which showed that repeated meetings were being held as agenda item were not being prepared comprehensively, which needed justification.

2.7.3.2.7 The company booked an amount of Rs 3.957 million in 2017-18 under the head business promotion which was Rs 2.316 million in 2016-17, it showed an increase of 71% as compared to previous year. Further, the company was created for LNG purchase only on the basis of demands being raised by utility companies, IPPs and other industrial units through Ministry of Energy thus, it had no direct relation with the sale of RLNG. The expenditure booked under the head needs detailed justification.

2.7.3.2.8 The company spent an amount of Rs 2.315 million in 2017-18 as compared to Rs 0.727 million in 2016-17 under the head utilities. This showed 218% increase during the year, the company consisted of 17 employees only, such extraordinary expense on small entity like PLL needs to be justified.

2.7.3.2.9 The company booked an amount of Rs 4.651, Rs 12.951, Rs 1.461 in year 2017-18 on account of cost of clearing charges, bank charges and metering cost respectively under the main head administrative expenses. These expenses were directly related to cost of RLNG purchases, hence booking of said expense under the head needs to be explained.

2.7.3.2.10 The expense under the head miscellaneous increased by 107% from

Rs 0.613 million in 2016-17 to Rs 1.269 million in 2017-18. The extraordinary increase under the head needs explanation with supporting figures.

2.7.3.2.11 The company spent an amount of Rs 0.875 million in 2017-18 as compare to Rs 0.100 million in 2016-17 under the head Auditor's remuneration, which showed 775% increase. The payment made to the auditors did not commensurate with the volume of transactions. Further, prior approval of AGP was required for selection of the statutory auditors which was not obtained in the instant case and needs justification.

2.7.3.2.12 The company incurred an amount of Rs 8.708 million on interior design and partition of the office in a rented building. The expense would be wasted on vocation of said premises. The such huge expense needs to be justified.

2.7.3.2.13 An amount of Rs 3.557 million was paid by the company on procurement and installation of air conditioners. Installation of Air conditioners in a centrally air conditioned building was not justified.

2.7.3.2.14 The company paid an amount of Rs 2.008 million for purchase of 20 laptops Further, a Macbook Air 13.3" of value Rs 250,000 approximately was also available with the company. The company had a total of 17 employees and out of which 13 were executives and remaining were supporting staff. The procurement of 21 laptops for 13 executives needs justification.

2.7.3.2.15 An amount of Rs 200.45 million was paid by the company on commissioning cargo due to delay in unloading of ship at Floating Storage and Re-gasification Units (FSRU). This huge expense incurred due to in-efficiency of the company and needs to be justified.

2.7.4 Pakistan Mineral Development Corporation (Pvt.) Limited

2.7.4.1 Introduction:

Pakistan Mineral Development Corporation (Pvt.) Limited (PMDC) was incorporated on June 17, 1974 as a private limited company wholly owned by the Government of Pakistan. The Company is engaged in the business of mining, exploration, development and exploitation of mineral deposits e.g. salt, coal and silica sand. The salt and coal projects were taken over by the Corporation from PIDC in 1974.

2.7.4.2 Corporate Information:

Main objectives of the Company are the extraction of mineral resources from the mines obtained on lease from the Provincial Governments. The products are subsequently sold in the market. Main buyers of the PMDC products are dealers and the industries. Following are the main units of the Corporation.

i. Salt Projects:

Salt Mines Khewra, Warcha and Kalabagh and Salt Quarries Jatta Bahadur Khel

ii. Coal Projects:

Lakhra, Sharigh, Degari and Sor-Range Collieries

iii. Other Mineral Projects:

Silica Sand Project

2.7.4.3 Comments on Audited Accounts:

The working results of the Corporation for the FY 2017-18 as compared to the previous years are tabulated as follows:

(Rs in million)

	2017-18	% Inc/ (Dec)	2016-17	% Inc/ (Dec)	2015-16
Sales	2,607.37	6.38	2,450.98	(10.82)	2,748.39
Cost of sales	1,826.79	11.32	1,641.06	(9.8)	1,819.05
Gross profit	780.59	(3.62)	809.92	(12.90)	929.35
Operating Expenses					
Admn. Expenses	433.27	4.89	413.07	18.88	347.46
Distribution expenses	138.73	4.79	132.39	(1.31)	134.15
Total expenses	572.02	4.87	545.46	13.26	481.60
Operating profit	208.57	(21.14)	264.47	(40.93)	447.74
Other income	186.39	17.49	158.65	(5.59)	168.05
WPPF expense	19.75	(6.66)	21.16	(31.28)	30.79
Net profit before	375.21	(6.65)	401.96	(31.29)	585.00
Provision for	63.18	(39.86)	105.05	(31.40)	153.13
Net profit after	312.03	5.09	296.92	(31.25)	431.88

(Source: Annual Audited Accounts)

2.7.4.3.1 Sales of the Corporation increased by 6.38 % from Rs 2,450.98 million in 2016-17 to Rs 2,607.37 million in 2017-18, whereas cost of sales increased by 11.32%. Therefore, increase in sales was not proportionate to the increase in cost of sales. Resultantly, gross profit of the company decreased by 3.62% in 2017-18 as compared to the previous year. This showed lack of internal controls on the expenses directly related to sales. In order to sustain as profitable concern, proper control is required to be exercised on direct expenses to reduce cost of sales.

2.7.4.3.2 Operating profit of the company was continuously declining for the last two years. During the year 2015-16, operating profit was Rs 447.74 million which declined to Rs 264.47 in 2016-17 and to Rs 208.57 in 2017-18. This trend showed that the management was unable to exercise proper control on the operating expenses which eroded operating profit of the company. The management was requested to exercise proper controls on these expenses and keep them at minimum level.

2.7.4.3.3 Re-measurement loss on staff retiring benefits was Rs 127.96 million

(FY 2016-17 : Rs 82.00 million). This loss showed that the retiring fund assets were not prudently managed which could affect the management responsibility to meet its obligation. The management is stressed to invest the retirement funds in more profitable options to eliminate the loss.

2.7.4.3.4 During the year 2017-18, value of stock in trade at Warcha Mines increased to Rs 69.45 million against Rs 26.26 million. Piling up of stock reflected deficiency in marketing policy of the company. Effective measures are required to be taken for early sales of stock so that the loss due to deterioration of stock could be avoided.

2.7.4.3.5 Trade debts of Khewera Mines increased to Rs 60.99 million (2017: Rs 12.64). Major portion of increase pertained to M/s ICI Chemicals which increased from Rs 7.89 million in 2016-17 to Rs 59.27 million in 2017-18. The management was requested to recover the overdue amount from M/s ICI Chemicals. The Credit policy of the company is also required to be revised to avoid accumulation of trade debts.

2.7.4.3.6 During the year under review, Khewara Mines incurred operating loss of Rs 14.93 million against profit of Rs 20.89 million in 2016-17. Sales in 2017-18 from Khewara mines stood at Rs 599.13 million but the revenue was insufficient to cover the cost of sales of Rs 477.761 million and operating expenses of Rs 136.298 million. Efforts are required to be made to increase the sales and curtail the expenditure to make the project profitable.

2.7.4.3.7 Capital work in progress of the company was Rs 11.64 million on June 30, 2018 against Rs 11.86 million on June 30, 2017. The nominal decrease on this account during the year showed that public money was blocked. The management may explain the reasons for delay in completion. Moreover, early completion of work in progress is stressed upon the management.

2.7.4.3.8 The PMDC made an investment of Rs 1.225 million in Sarhad Mineral (Pvt) Ltd but it had negative net worth of Rs 4.281 million as on June 30, 2018. The management is required to explain reasons for imprudent investment in a sick company.

2.7.4.3.9 The management invested an amount of Rs 25 million in Lakhra Coal Development Company. The net worth of the company was Rs 304.298 million as on June 30, 2018 and company suffered huge loss of Rs 142.369 million during the year under review. Thus, it would be difficult to keep it as a going concern. The situation needs to be explained with detailed facts and figures.

2.7.4.3.10 The stock in trade of Khewara Mines increased to Rs 70.489 million in 2017-18 from Rs 29.376 million in 2016-17. The accumulation of stock in trade was indicative of weak marketing policy which needs to be improved.

2.7.4.3.11 The unsecured trade debts of Khewara Mines increased to Rs 60.992 million in 2017-18 from Rs 12.639 million in 2016-17, which also showed the weak credit / marketing and needs to be reconsidered.

2.7.4.3.12 The salt mines Bahadar Khel was continuously suffering losses and its accumulated loss rose to Rs 35.94 million in 2017-18 from Rs 14.091 million in 2016-17. The cost of sales for the project was 180% of the sales, which showed that the project was difficult to sustain as going concern. The steps being taken for its improvement needs to be shared with Audit.

2.7.4.3.13 The Salica Sand Project was also continuously suffering losses and its accumulated loss rose to Rs 0.384 million in 2017-18 from Rs 0.091 million in 2016-17. The cost of sales for the project was 293% of the sales, which depicted that project was difficult to sustain. Immediate steps need to be taken for its improvement.

2.7.4.3.14 The number of mine workers were 1,569 in 2016-17 which decreased to 1,477 in 2017-18, whereas the number of officers and staff increased from 1,370 in 2016-17 to 1,454 in 2017-18. This showed that unnecessary recruitments were being made in Head Office as well as at Project offices without keeping in view the actual needs and requires to be explained with facts and fixtures.

2.7.5 Saindak Metals Limited

2.7.5.1 Introduction

The Company was incorporated in Pakistan as a private limited Company on April 15, 1974 under the name of Resource Development Corporation (Private) Limited. The name of the Company was changed to Saindak Metals (Private) Limited on October 03, 1993. The Company was converted into public limited company on January 16, 1996. The registered office of the Company is situated at Quetta. Equity of the Company is owned by the Government of Pakistan (GoP). The Company has been formed for exploration, mining and metallurgical processing of copper, gold and other minerals at Saindak in District Chagai, Balochistan.

The Company has leased its main plant to M/s MCC Resource Development (Pvt.) Limited (MRDL) of China for a period of ten years under the terms of lease contract dated November 30, 2001. The plant was handed over to MRDL on October 2, 2002. As per addendum dated October 26, 2017 the lease agreement has been extended up to October 31, 2022.

As per Aghaz Haqooq-e-Balochistan package agreed between the Government of Pakistan (GoP) and Government of Balochistan (GoB), the ownership of Saindak Project would get transferred to GoB after the expiry of existing lease contract i.e. after October, 2012 in accordance with decision of Cabinet Committee on Aghaz Haqooq-e-Balochistan package dated December 16, 2009. Furthermore, it was also decided in the said package that the company will offer 30% share out of 50% profit share from Saindak Project to Government of Balochistan under Aghaz Haqooq-e-Balochistan Package.

2.7.5.2 Comments on Audited Accounts

The working results of the Company for the year 2017-18 as compared with those of the previous years are as follows:

(Rs in million)

	2017-18	% Inc/ (Dec)	2016-17	% Inc/ (Dec)	2015-16	% Inc/ (Dec)	2014-15
Income	792.138	(33.77)	1,196.061	53.92	777.08	(30.33)	1,115.32
Depreciation, Administrative & other Expenses	501.004	(21.75)	640.259	(182.39)	777.09	(236.33)	569.99
Operating profit / (loss)	291.134	(47.62)	555.802	-	(0.01)	-	545.33
Financial charges	0.037	2.78	0.036	(160)	(0.06)	(300)	0.03
Other income	311.525	(5.02)	327.996	(9.08)	360.76	(11.88)	409.35
Profit / (loss) before Taxation	602.622	(31.81)	883.763	145.02	360.69	(62.21)	954.65
Income tax expenses	222.313	(30.84)	321.437	(348.91)	129.14	(59.01)	315.04
Profit for the year	380.308	(32.37)	562.325	142.85	231.55	(63.80)	639.62
Accumulated Profit / (Losses)	(7,697.13)	(4.44)	(8,054.701)	(6.54)	(8,618.08)	(2.62)	(8,849.63)

(Source: Annual Audited Accounts)

2.7.5.2.1 Company's profit for the year was decreased by 32% from Rs 380.31 million in 2017-18 to Rs 562.33 million in 2016-17. The net profit of the company in 2011-12 was Rs 6,444.60 million. The reasons for sharp decline in net profit in each year may be explained.

2.7.5.2.2 The travelling & conveyance, communication and office rent of the company increased by 61%, 20% and 53% which increased to Rs 3.18 million, 1.18 million and 1.87 million in 2017-18 as compared to previous year of Rs 1.98 million, 0.98 million and 1.20 million respectively in 2016-17. The extraordinary increase in expenses needs justification.

2.7.5.2.3 The legal and professional charges of the company increased by 304% which increased to Rs 10.92 million in 2017-18 as compared to previous year of Rs 3.60 million. The abnormal increase in legal and professional charges needs to be justified with full facts and figures.

2.7.5.2.4 The BoD expenses increased by 21% in 2017-18 as compared with 2016-17 as it increased to Rs 1.85 million from Rs 1.52 million.

2.7.5.2.5 The trade debts of the company increased by 1,320% as it was Rs 794.30 million in 2017-18 as compared to Rs 55.93 million in 2016-17. This was receivable from MCC Resources Development (Pvt) Ltd (MRDL), China in respect of share of production and consumption of stores and spares. Such sharp increase in trade debts showed weak credit policy of the management and needs justification.

2.7.5.2.6 The management placed an amount of Rs 4,730.26 million in 2017-18 and Rs 5,187.00 million in 2016-17 in short term investments on interest rates of 5.7% to 6.85%. The surplus should have been used for long term investments to earn high profits. The imprudent investment policy needs justification.

2.7.5.2.7 The GoP investment amounting to Rs 15,733.53 million had been treated as loan which carried zero interest rate. The company had no plan for repayments, which needs to be explained.

2.7.5.2.8 The company had a negative equity of Rs 7,697 million in 2017-18 (Rs 8,055 million in 2016-17). The company's current liabilities exceeded its current assets by Rs 10,961 million (2017 : Rs 11,667 million). Further, the company's exploration license expired on April, 2014 and company applied for renewal of its licensee but the same was pending. Due to aforementioned reasons, the company's ability to continue as a going concern remained doubtful. The future plans for improvement in its operation need to be explained with full facts and figures.

2.7.5.3 Compliance of PAC Directives:

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
1986-87	2	0	2	290 & 291	-
1994-95	2	1	1	44	50
1995-96	7	4	2	35 & 40	57
1996-97	5	4	1	30	80
1999-00	5	4	1	164	80
2003-04	2	1	1	157	50

2005-06	7	6	1	185.5	86
2013-14	9	5	4	13.3.2.5, 13.3.2.6, 13.3.2.7 & 13.3.3	56
Total	39	25	14	-	64%

The overall compliance of PAC directives needs improvement.

2.7.5.4 Audit Paras

2.7.5.4.1 Investment without competitive process - Rs 500 million

As per Section 3 of Notification issued by Finance Division Budget Wing dated July 02, 2003, Public Sector Enterprises and local / autonomous bodies can deposit their working balances required for their operations with any public or private bank subject to the following requirements (a) For the sake of the safety and security of deposits, the bank / financial institutions taking a deposit should have a minimum “A” rating (long-term) as appearing on website of State Bank of Pakistan. This “A” rating refers to the rating scale used by Pakistan Credit Rating Agency and JCR-VIS Credit Rating Company for banks incorporated in Pakistan and Moody’s, Fitch’s and Standard & Poor’s rating for foreign banks operating in Pakistan.

During the audit of Saindak Metals Limited, Quetta for the FY 2015-16, it was observed that the management withdrew an amount of Rs 500 million from bank on June 30, 2016 for investment. The funds were invested without observing Finance Division’s Policy and initiating process of competitive bidding. This rendered the investment irregular as it was invested in violation of rules and regulations.

Audit was of the view that placement of Rs 500 million was made in violation of government policy.

The matter was reported to the PAO in November, 2018. In DAC meeting held on December 17-18, 2018, the management stated that the amount was allocated for employees’ retirement benefits through strategic investment and was still in company’s account. DAC directed the management to get the relevant records (bank statements where the amount was kept) verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for the irregularity besides investing the funds as per government policy.

[DP No. 57/SML/K/2018-19]

Chapter-3

Cabinet Division

3.1 Oil and Gas Regulatory Authority

3.1.1 Introduction

Oil and Gas Regulatory Authority Ordinance was promulgated in 2002 which replaced Natural Gas Regulatory Authority Ordinance, 2000. The Ordinance provided for the establishment of Oil and Gas Regulatory Authority (OGRA) 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.

3.1.2 Comments on Audited Accounts

3.1.2.1 The management did not provide annual audited accounts for the year 2017-18 till finalization of the report. Audit recommends to provide the accounts immediately besides ensuring timely submission in future.

3.1.2.2 The Authority provided the Financial Statements for the FY 2016-17. The working results of the Authority as compared to previous years was as follows:

(Rs in million)

	2016-17	% Inc/ (Dec)	2015-16 Restated	% Inc/ (Dec)	2014-15
Income	634.725	(15.40)	750.285	27.74	562.985
Expenditure	633.337	16.53	543.479	6.38	510.025
Income from Operating Activities	1.389	(99.33)	206.807	233.44	52.960
Finance Cost	3.394	(1.02)	3.429	(1.92)	3.496
Other Income	58.138	22.43	47.486	(25.32)	63.586
Excess of Income over	56.133	(77.62)	250.863	95.18	113.049

Expenses before tax					
Provision for taxation	18.086	(78.33)	83.46	(12.73)	67.546
Excess of Income over Expenses after tax	38.047	(78.76)	179.101	73.84	99.749

(Source: Annual Audited Accounts)

3.1.2.3 The excess of income over expenditure after tax was shown as Rs 38.047 million as on June 30, 2017 which was over stated due to adjustment regarding decrease in deferred tax by Rs 11.813 million. The reason for adjustment of the deferred tax was needed to be explained.

3.1.2.4 House Building Advance increased to 109% from Rs 13.635 million in 2015-16 to Rs 28.517 million in 2016-17. This showed that policy of the Authority was lenient towards grant of HBA to employees at nominal rate of interest. Audit recommends to rationalize the policy regarding grant of advances through proper financial management. Audit also recommends to calculate the financial impact on the Authority's financials.

3.1.2.5 The accounts showed an amount of Rs 864.438 million under the head short term investment. The amount accumulated over the years due to non-depositing the surplus over income in Federal Consolidated Fund (FCF) as required under the amendment in OGRA Ordinance made through Finance Act 2012. Audit recommends that the said amount may immediately be deposited in FCF.

3.1.2.6 The Authority booked an amount of Rs 30.729 million (Rs 2.603 million 2015-16) under the head employee benefits-employees severance compensation, which was an increase of 1,080% from 2015-16. The reasons for such extraordinary increase and purpose of provision needs to be explained.

3.1.2.7 The accounts showed an amount of Rs 25.245 million (Rs 1.570 million in 2015-16) under the head fines and penalties payable to GoP. All the fines and penalties were required to be deposited in FCF as required in amendment of OGRA Ordinance made through Finance Act, 2012. Reasons for non-compliance may be explained by the Authority. Audit also recommends deposit of fines and penalties to FCF as and when received.

3.1.2.8 The expense under the head medical facility increased by 40% from Rs 5.987 million in 2015-16 to Rs 8.366 million in 2016-17. The extraordinary increase in medical expense needs to be justified and measures taken to arrest the extraordinary rising trend be intimated.

3.1.2.9 The Turnover Fee decreased by 19% from Rs 406.763 million in 2015-16 to Rs 329.293 million in 2016-17. Annual Fee Oil also decreased by 35% from Rs 14.250 million in 2015-16 to Rs 9.204 million in 2016-17. This contributed towards shortfall in income of the Authority. As a result, the income from operating activities was affected with 99% decrease from Rs 206.807 million in 2015-16 to Rs 1.389 million in 2016-17. The reasons for drastic decrease in income from operational activities needs to be explained.

3.1.2.10 The Other Comprehensive Income showed a negative balance of Rs 4.286 million during 2016-17 as compared to positive figure of Rs 8.930 million during 2015-16. This declining trend needs to be justified.

3.1.2.11 Net cash generated from operating activities decreased by 64.77% from Rs 177.547 million in 2015-16 to 62.558 million in 2016-17. This reduction in cash flows from operating activities may be justified.

3.1.2.12 The ratios of current assets with current liabilities were 3.7:1 and 4.2:1 in 2015-16 and 2016-17 respectively. This showed that the Authority was not using its current assets efficiently.

3.1.2.13 The ratios of non-current assets with non-current liabilities were 0.879:1 and 0.689:1 in 2015-16 and 2016-17 respectively. The decrease in ratio depicts insolvent position of the Authority which needs justification.

3.1.2.14 The OGRA had huge tax liabilities dispute with Income Tax Authorities relating to year 2003 to 2007 amounting to Rs 162.010 million for which no provisions had been made in the accounts. Audit recommends to settle the disputes with tax authorities or make provisions in the accounts.

3.1.2.15 OGRA filed an appeal with Appellate Tribunal Inland Revenue against orders of being assessed in default under Section 161 and 205 of Income tax Ordinance 2001, for the tax year 2008 for Rs 0.418 million for which no

provisions was made in the accounts. Audit recommends to settle the disputes with tax authorities or make provisions in the accounts.

3.1.3 Compliance of PAC Directives:

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras	% of compliance
2006-07	05	04	01	01	80
2009-10	01	01	-	1	100
2010-11	08	0	8	1.2.1 & 1.2.2, 1.2.2.1, 1.2.2.2, 1.2.2.3, 1.2.2.4, 1.2.2.5, 1.2.2.6, 1.2.2.7	-
2013-14	16	04	12	3.2.2.4, 3.2.4.2, 3.2.4.7, 3.2.2.6, 3.2.2.7, 3.2.4.1, 3.2.4.4, 3.2.4.5, 3.2.4.6, 3.3.2.4, 3.3.2.5, 3.4.2.4	25
2016-17	02	01	01	13.7.4.3	50
Total	32	10	22	-	31

The overall compliance of the PAC directives was very poor. The PAO was required to pay immediate attention besides fixing responsibility for non-compliance of PAC directives.

3.1.4 Audit Paras

3.1.4.1 Non-production of record

According to Section 14(2&3) 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 a form as possible and with all reasonable expedition. Any person or Authority hindering the audit functions of the Auditor-General regarding inspection of accounts is subject to disciplinary action under relevant Efficiency and Discipline Rules applicable to such person".

During audit of OGRA for the FY 2017-18, certain information / record was demanded from the management but same was not provided to audit despite several requests. The management only provided record pertaining to accounting transactions whereas record pertaining to functional & regulatory affairs was not provided on the plea that it was beyond the scope of Audit.

Audit was of the view that due to non-production of record, Audit could not express its opinion on the fairness of the Authority's operations and transactions which had material financial impact directly on many public concerns.

The matter was reported to the PAO / Authority on November 29, 2018. The management in its reply dated December 17, 2018 explained that the provision of all record thereof was not practical as the number of licensees of OGRA were more than ten thousand. DAC in its meeting held on December 26, 2018 directed the OGRA to coordinate with Audit regarding production of record. However, the para was referred to the PAC for necessary action.

Audit recommends to investigate the matter for non-provision of record and fix responsibility.

[DP No. 146-OGRA]

3.1.4.2 Excess determination of guaranteed return of gas companies due to inadmissible adjustment of WPPF - Rs 887 million

According to Clause C of Section 6 of OGRA Ordinance 2002, the Authority shall prescribe a uniform form of accounts and accounting practice to be complied with by the licensees. Further, the Authority in its meeting held on June 16, 2005 decided that "WPPF, WWF and income tax do not form part of the cost of gas as claimed by MGCL, PPL and OGDCL. These elements basically represent appropriation of profits."

During audit of OGRA for the FY 2017-18, it was observed that the Authority accepted the WPPF amounting to Rs 887 million as expense in paragraph 8.5.1 and 9.4.4 of the DERR for the FY 2017-18 in respect of SNGPL and SSGC respectively. This resulted in acceptance of guaranteed return on

assets in excess than the prescribed limit of 17.5% for SNGPL and 17% for SSGC respectively.

Audit was of the view that the PAO / Authority was required to consider WPPF as an appropriation of profit but it was treated as an expense in violation of Authority's decision cited above, which resulted in determination of excess guaranteed return of Rs 887 million. Moreover, the Authority failed to ensure same treatment for all the licensees.

The matter was reported to the PAO / Authority on November 29, 2018. The management in its reply dated December 17, 2018 stated that the provision of WPPF was not categorized as apportionment of profit. Rather the same was an expense worked out on the basis of profits made by a company. DAC in its meeting held on December 26, 2018 directed the OGRA to seek opinion in the matter from Ministry of Law as well as from Finance Division through Cabinet Division. No further progress was reported till finalization of the report.

Audit recommends that the workers profit participation fund is an appropriation of profit by definition and therefore, should not be treated as expense while calculating revenue requirements of gas companies.

[DP Nos. 128 & 133-OGRA]

3.1.4.3 Non / Short realization of Annual Fee from Oil Marketing Companies - Rs 178.44 million

According to Rule 68 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, an applicant shall be required to pay the fee for the grant, renewal, extension, assignment, review, transfer, amendment, re-location or re-issuance of a license as specified in Schedule II. Further, as per amended Rule 29 b(vi) of *ibid* vide SRO 734(1)/2018 dated May 29, 2018, annual Fee for Refinery, Oil marketing Company and an Oil pipeline shall be payable in advance based on the volume of throughputs or sales confirmed by OGRA for each preceding FY as per slab rates.

During audit of OGRA for the FY 2017-18, it was observed that 17 Oil marketing companies either deposited less Annual Fee than prescribed or did not

deposit at all for the years 2015-16, 2016-17 and 2017-18. The Oil Companies Advisory Council (OCAC) along with its 19 member companies challenged the above stated rules before the Honourable Islamabad High court. The petition was disposed of as the parties agreed for proposed amendments in the rules. Although, the petition was disposed of and rules were duly amended, the OMCs were still not depositing or short depositing Annual Fee. This resulted in short realization of Annual Fee of Rs 178.44 million.

Audit was of the view that the short realization of Annual Fee from OMCs despite amendments in rules showed weak financial control in OGRA.

The matter was reported to the PAO / Authority on November 29, 2018. The management in its reply dated December 17, 2018 explained that OMCs had started depositing the requisite fee and Authority was taking up the matter with the concerned OMCs for the recovery of pending fee. DAC in its meeting held on December 26, 2018 directed to get the recovered amount verified from Audit and recover the remaining amount immediately. No further progress was reported till finalization of the report.

Audit recommends to expedite the recovery of outstanding amount besides producing the record for verification.

[DP Nos. 130 & 131-OGRA]

3.1.4.4 Non-recovery of penalties imposed on Oil Marketing Companies due to expansion of retail networks - Rs 54.015 million

According to Rule 69 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, a person who contravenes any provision of OGRA Ordinance, 2002, these rules, Terms and Conditions of the license or decision of the Authority, shall be punishable with fine which may be extended to ten million rupees and in case of a continuing contravention with further fine which may extend to one million rupees for every day during which such contravention continues. Further, the Authority decided to impose further fine @ 0.5% of the penalty amount per day in its regularity meeting No. 5 of 2018 held on April 24, 2018.

During audit of OGRA for FY 2017-18, it was observed that the Authority imposed penalty on 7 OMCs that expanded their retail network outlets in contravention of OGRA directives. 4 companies deposited the penalty with further fine. However, 3 OMCs did not deposit the penalty. The amount of fine and penalties were not the receipt of Authority but were to be deposited in Federal Consolidated Fund. This resulted in loss of Rs 54.015 million to the national exchequer.

Audit was of the view that weak control exercised by OGRA resulted in non-recovery of penalty amounting to Rs 54.015 million.

The matter was reported to the PAO / Authority on November 29, 2018. The management in its reply dated December 17, 2018 stated that the licensees filed review petitions before the Authority. DAC in its meeting held on December 26, 2018 directed OGRA to decide the review petitions of the OMCs concerned at an early date which were held up since March / April 2018. No further progress was reported till finalization of the report.

Audit recommends to recover the amount from defaulting OMCs.

[DP No. 132-OGRA]

3.1.4.5 Short realization of Annual Turnover Fee from PPL - Rs 1.550 million

As per Rule 2(a) of Natural Gas Regularity Authority (Licensing) Rules 2002, “annual turnover of the licensee” means the actual turn over less amounts representing Sales Tax, GDS, and other such charges, levies, duties, taxes or cess imposed by the Federal Government, and the cost of natural gas. Further, the licensee shall pay annual fee of 0.25% of annual turnover as per condition 6.2 of license granted to PPL.

During audit of OGRA for the FY 2017-18, it was observed that the licensee calculated Annual Turnover Fee of Rs 5.240 million and deposited the same to OGRA. The licensee included WPPF and Income Tax in the cost of gas despite the clear directions of OGRA for their exclusion. According to Paragraph (d) of meeting dated June 06, 2005 of OGRA, the WPPF, WWF and income tax

did not form part of cost of gas as claimed by PPL, MGCL and OGDCL. These elements basically represent appropriation of the profit and are outside the purview of the Licensing Rules for the purpose of calculation of the annual fee. This resulted in short realization of Annual Turnover Fee amounting Rs 1.550 million.

(Rs in million)	
Description	Amount
WPPF	136
Income Tax	484
Total	620,
Short Turnover Fee @ 0.25%	1.550

Audit was of the view that weak control of OGRA resulted in short realization of Turnover Fee amounting to Rs 1.550 million.

The matter was reported to the PAO / Authority on November 29, 2018. The management in its reply dated December 17, 2018 stated that the matter was under correspondence with the PPL wherein, detailed computation of fee for 2017-18 and External Auditor's certificate for FY 2017-18 had been requisitioned vide letter dated December 07, 2018. DAC in its meeting held on December 26, 2018 directed the OGRA to review the matter and take remedial action forthwith. No further progress was reported till finalization of the report.

Audit recommends to recover the amount of Rs 1.550 million short deposited by PPL immediately.

[DP No. 139-OGRA]

3.1.4.6 Delay in determination of final revenue requirement by OGRA

According to Rule 15(3) of the Natural Gas Tariff Rules, 2002, all orders, determinations and decisions of the Authority shall be taken in writing and shall identify the determination of the Chairman and each member. The Authority shall decide a petition, filed pursuant to sub-rule (3) of Rule 4, within three months of the date of filing of the petition. Provided that the Authority may, only for causes beyond its control, extend the aforesaid three months period by a further period of fifteen days.

During audit of OGRA for the FY 2017-18, it was observed that the Authority failed to finalize the determination of final revenue requirement of SSGC and SNGPL for the year 2017-18 till December, 2018 which was to be finalized by September 30, 2018. The final revenue requirement of SSGC for the year 2016-17 was also not finalized despite lapse of more than one year.

Audit was of the view that Ministry of Energy and the DG (Gas) failed to pursue the matter relating to FRR with OGRA for timely determination.

The matter was reported to the PAO / Authority on December 19, 2018 but no reply was received from OGRA till finalization of the report.

Audit recommends to justify the delay and to finalize the determination of final revenue requirements.

[DP Nos. 76 & 267-OGRA]

3.1.4.7 Non-determination and notification of wellhead gas prices for 125 fields

According to Clause 6(w) of OGRA Ordinance, 2002, the Authority shall determine wellhead gas prices for the producer of the natural gas in accordance with the relevant agreements or contracts and notify the same in the official gazette.

During audit of OGRA for the FY 2017-18, it was observed that the Authority received Rs 26.5 million as wellhead gas price fee @ Rs 100,000 against 265 wellheads. However, the Authority notified wellhead gas price of only 140 fields and 125 fields were pending for notification. The production and sale of gas was a continuous process and the E&P companies used previous wellhead gas price in case of new notification was not issued. The determination and notification of wellhead gas prices is the core function of Authority which was not being performed timely.

Audit was of the view that delay in determination of wellhead gas prices showed weak internal controls in OGRA.

The matter was reported to the PAO / Authority on November 29, 2018. The management in its reply dated December 17, 2018 stated that remaining wellhead gas prices were under process as provision of information was pending with gas producers. The same shall be finalized once the case would be completed in all aspects. DAC in its meeting held on December 26, 2018 directed the OGRA to furnish present status to Audit immediately. No further progress was reported till finalization of the report.

Audit recommends early decision of pending cases.

[DP No. 142-OGRA]

3.1.4.8 Irregular purchase of vehicles - Rs 17.411 million

As per Finance Division (Expenditure Wing) Office Memorandum dated July 26, 2017, “there will be a complete ban on purchase of all type of vehicles (excluding motorcycles), both for current as well as for development expenditure”.

During audit of OGRA the FYs 2013-14 & 2017-18, it was observed that the Authority purchased vehicles despite clear instructions of Finance Division. This resulted in irregular purchase of vehicles amounting to Rs 17.411 million.

Audit was of the view that the violation of the government instructions resulted in irregular expenditure of Rs 17.411 million.

The matter was reported to the PAO / Authority on November 29, 2018. The management in its reply dated December 17, 2018 stated that OGRA was an autonomous body, both operationally as well as financially, and was independent in performance of its functions therefore, the austerity / economy measures communicated to OGRA vide above referred letter did not apply on OGRA. Audit contended that as per amendment made in Section 17 vide finalizing the Finance Act, 2012, all surplus of income minus expense must be deposited in Federal Consolidated Fund. Hence, all its financial decision affect the Federal Consolidated Fund directly. Therefore, financial decision pertaining to purchase of vehicles must be vetted by the Finance Division .

DAC in its meeting held on December 26, 2018 directed the OGRA to

get regularized the reported cases along with previous 03 cases relating to 2006-07 (Rs 7.224 million), 2012-13 (Rs 7.680 million) and 2017-18 (Rs 14.224 million) from Finance Division. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC.

[DP Nos. 137 & 212/2013-14-OGRA]

3.1.4.9 Irregular provision of Special Compensatory House Rent Allowance in addition to House Rent Allowance - Rs 66.109 million

As per instructions of Finance Division (Regulation Wing-II) dated December 4, 1991, in order to maintain uniformity and financial discipline in all the government funded organizations, (autonomous bodies / semi-autonomous bodies and corporation etc.), Ministries / Divisions are requested to issue specific instructions not to sanction any excessive benefits which are not admissible under the provisions of Wage Awards / Pay Committee Report or the Government standing instruction, as the case may be.

During audit of OGRA for the FY 2013-14, it was observed that the Authority allowed Special Compensatory House Rent Allowance at fixed rates to various scales / grades on May 31, 2006. Moreover, Cabinet Division vide letter dated December 13, 2010 intimated OGRA that payment of Special Compensatory House Rent Allowance to OGRA's employees was examined and submitted to the Prime Minister. The Prime Minister discontinued the said allowance forthwith. This resulted in irregular grant of Rs 66.109 million from June 01, 2006 to December 31, 2010 in addition to 60 % House Rent Allowance.

Audit was of the view that OGRA employees were already enjoying the facility of House Rent Allowance @ 60 % of running basic pay, hence, grant of Special Compensatory House Rent Allowance was dual benefit being similar in nature which was against the financial discipline and violation of Prime Minister directives.

The matter was reported to the PAO / Authority on April 12, 2013. The management in its reply dated May 16, 2013 stated that the Authority granted the

subject allowance to its employees in the light of Regulation 79 of OGRA Service Regulations according to which the pay scales, allowances and perquisites admissible to the regular employees may be determined / revised from time to time by the Authority. DAC in its meeting held on December 26, 2018 upheld the previous decision dated January 14, 2016 and directed the OGRA to recover the irregular payments from March 31, 2006 onwards. No further progress was reported till finalization of the report.

Audit recommends implementation of the decision of DAC.

[DP No. 213-OGRA]

3.1.4.10 Unjustified grant of advance increments on appointment - Rs 4.05 million

As per Regulation 79(3) of OGRA Service Regulations, 2005 “when a person is appointed to a post by initial appointment on regular basis, his pay will be fixed at the minimum of the time scale in accordance with the provisions of these regulations. However, the Authority may grant advance increment on the basis of higher qualifications or long relevant experience at the time of initial appointment or termination of probationary period or absorption in the Authority”.

During audit of OGRA for the FY 2013-14, it was observed that the Authority had not followed the service regulation regarding initial appointment. Four officers were granted 2 to 4 advance increments on their initial appointment on the basis of having higher qualifications or long relevant experience instead of one increment. This resulted in unjustified payment of Rs 4.05 million.

Audit was of the view that grant of more than one increment to OGRA employees resulted in unjustified payment of Rs 4.05 million.

The matter was reported to the PAO / Authority on July 15, 2013. The management in its reply dated August 19, 2013 stated that there was no restriction in OGRA Service Regulations, 2005 for grant of single advance increment. DAC in its meeting held on December 26, 2018 directed the OGRA to review the matter as advised by Audit. No further progress was reported till

finalization of the report.

Action recommends to recover the unjustified payment besides fixing responsibility.

[DP No. 78-MFDAC/2013-14/OGRA]

3.1.4.11 Irregular grant of vehicles to the officers of other organization - Rs 13.702 million

The OGRA in its administrative meeting held on February 21, 2014 has decided to adopt / implement, in “letter & spirit” Federal government’s Transport Monetization Policy w.e.f March 01, 2014. Monetization Policy of Federal Government was announced on December 12, 2011 vide letter No. 6/7/2011-CPC and will be implemented w.e.f January 01, 2012. As per Clause V of the policy, the depreciated value is required to be determined by the Condemnation Committee already constituted in concerned Ministry / Division vide letter dated June 26, 2007.

During audit of OGRA for the FY 2014-15, it was observed that book value of the vehicles was calculated by the Authority itself instead of referring the case to Condemnation Committee of Cabinet Division. This resulted in irregular grant of vehicles of Rs 13.702 million to officers while implementing Monetization Policy.

Audit was of the view that due to non-implementation of Monetization Policy, the cases were not referred to the Condemnation Committee of Cabinet Division for determination of depreciated value.

The matter was reported to the PAO / Authority on October 22, 2014. The management in its reply dated October 31, 2014 stated that as per OGRA Ordinance 2002, OGRA was independent in performance of its functions. Thus, there was no need to forward case to Cabinet Division. Audit contended that the cases must be forwarded to Condemnation Committee of Cabinet Division. DAC in its meeting held on December 26, 2018 referred the para to PAC.

Audit recommends to fix responsibility for determining the value of vehicles in contravention to government policy.

[DP No. 376/2014-15-MFDAC/OGRA]

3.1.4.12 Excess determination of human resource cost on account of daily wages / casual labour in FRR / ERR - Rs 2,563.636 million

According to Para 8.3.5 of FRR / DERR for the FYs 2016-17 & 2017-18, OGRA directed SNGPL to submit, at the time of FRR, HR certificate duly signed by its statutory auditors that HR cost assigned to Transmission & Distribution cost is relevant for the operating activities, based on fair allocations and comprises only the salaries of its regular employees. No cost on account of daily wages, casual / temporary labour is included therein.

During audit of SNGPL for the FY 2017-18, it was observed that the management claimed HR cost including daily wages / casual labour of Rs 685 million, Rs 867 million and Rs 1,011.636 million in ERR / FRR for the FYs 2015-16, 2016-17 & 2017-18 respectively. A certificate from statutory auditor to this effect was submitted with FRR in which casual labour cost was included in addition to regular employees of the company. Whereas, OGRA demanded the certificate to the effect that only salaries & wages of regular employees of the company was included in the HR cost. This resulted in excess determination of HR cost amounting Rs 2,563.636 million during last three years.

Audit was of the view that inclusion of daily wages / casual labour of Rs 2,563.636 million in HR cost by SNGPL was due to weak regulatory control of OGRA.

The matter was initially reported to Petroleum Division on November 16, 2018. DAC in its meeting held on December 27, 2018 directed to take up the matter with OGRA. In compliance, the matter was taken up with the Cabinet Division / OGRA on December 30, 2018 but no reply of audit para was received from OGRA till finalization of the report.

Audit recommends to justify the inclusion of daily wages / casual labour to determine the FRR / ERR of gas company.

[DP No. 269-OGRA]

3.1.4.13 Excessive guaranteed rate of Return (17.5%) on average net operating fixed assets

According to Section 8(1&2) of OGRA Ordinance, 2002 read with license condition No. 5.2 of its integrated license issued to SNGPL, the Authority is empowered to determine an estimate of the total revenue requirement of its licensees for a financial year and on that basis, advises the Federal Government, the prescribed price of natural gas for each category of retail customers. Further, according to OGRA proposed Tariff Regime for Regulated Gas Sector in Pakistan issued in June 2018, the return shall be market based computed on the basis of Weighted Average Cost of Capital (WACC).

During audit of SNGPL for the FY 2017-18, it was observed that OGRA was determining revenue requirement of the licensee ensuring 17.5% guaranteed rate of return on the value of its average net fixed assets in operation for each financial year. The guaranteed rate of return was required in compliance of loan agreement with World Bank for reorganization of gas utility companies. The loan was fully repaid by the Government till 2010. However, OGRA did not revise the terms and conditions of the license after repayment of World Bank Loan.

Audit was of the view that it was the responsibility of OGRA to revise the terms of the license regarding guaranteed rate of return but it failed to perform its regulatory function.

The matter was initially reported to Petroleum Division on November 16, 2018. DAC in its meeting held on December 27, 2018 directed to take up the matter with OGRA. In compliance, the matter was taken up with the Cabinet Division / OGRA on December 30, 2018 but no reply of audit para was received from OGRA till finalization of the report.

Audit recommends to justify non-revision of terms and conditions of license of SNGPL regarding guaranteed rate of return besides expediting the implementation of new tariff regime for regulating natural gas sector.

[DP No. 270-OGRA]

3.1.4.14 Unjustified increase in human resource cost from 2010-11 to 2017-18

According to Section 8(1 & 2) of OGRA Ordinance 2002, read with license condition No. 5.2 of integrated license issued to SNGPL, OGRA is empowered to determine an estimate of total revenue requirement of its licensees for a financial year and on that basis, advises the Federal Government, the prescribed price of natural gas for each category of retail customers. As per para 3.3.6 of FRR for the FY 2016-17, interveners raised substantive points regarding lavish increase in HR cost which is ultimately borne by the consumers.

During audit of SNGPL for the FY 2017-18, it was observed that the management claimed rampantly increasing HR cost over the years. Increase in HR cost is compared as below:

(Rs in million)

Head of Account	DERR 2017-18	FRR 2016-17	FRR 2015-16	FRR 2014-15	FRR 2013-14	FRR 2012-13	FRR 2011-12	FRR 2010-11
HR Cost determined	21,117 +186%	14,022	12,759	10,553	10,487	8,323	8,012	7,370
Number of Consumers	5,945,885 +50%	5,645,885	5,315,885	5,054,256	4,799,015	4,505,493	4,219,279	3,964,530
Network in KMs	127,958 +43%	118,728	111,798	107,670	104,320	100,988	96,655	89,441
Sales (MMCFD) NG + RLNG	442,557 460,874 +55%	443,649 443,649	446,944 97,671	467,449	506,355	552,272	597,056	581,935

The HR cost increased to 186% whereas number of consumers, sales volume (NG and RLNG) and network in kilometres increased only 50%, 43% and 55% respectively as compared with base year 2010-11. Parameters of HR cost benchmark approved by OGRA were relatively on higher side and resulted in ever increasing HR cost over the years. This resulted in unjustified increase in HR cost w.e.f 2010-11 to 2017-18.

Audit was of the view that OGRA did not notice the extraordinary increase in HR cost while determining the revenue requirement of SNGPL. Thus, OGRA failed to safeguard interests of consumers and to perform its regulatory function.

The matter was initially reported to the Petroleum Division on November 16, 2018. DAC in its meeting held on December 27, 2018 directed to take up the matter with OGRA. In compliance, the matter was taken up with the Cabinet Division / OGRA on December 30, 2018 but no reply to audit para was received from OGRA till finalization of the report.

Audit recommends to revise parameters of HR cost benchmark. Audit also recommends that rationalization of HR cost in view of pay structure of other utility companies working under local regulator in power sector.

[DP No. 271-OGRA]

3.1.4.15 Non-imposition of penalty on PSO for failure to conduct of oxygenate test of MOGAS 92 RON

DG (Oil), Islamabad vide its letter dated April 12, 2016 circulated the specifications of imported 97 RON HBOC and local / imported 92 RON Premier Motor Gasoline. Further, as per Para 3 of the above mentioned letter, the Ministry directed that PSO will provide testing services for oxygenate contents under the witness of Hydrocarbon Development Institute of Pakistan (HDIP) representative till the facility at HDIP is installed.

During audit of PSO for the FY 2017-18, it was observed that out of 44 cases of import of “MOGAS 92 RON”, oxygenate test was not conducted in 21 cases due to defect in apparatus of PSO. The apparatus remained defective for 132 days but OGRA did not take any action. Audit held that the prime responsibility to get oxygenate tests on all imports into the country. Without tests, it was not possible to identify if any hazardous or prohibited chemical was being brought into the country.

Audit was of the view that negligence on the part of OGRA resulted in non-conduct of oxygenate test of MOGAS 92 RON.

The matter was initially reported to Petroleum Division on December 10, 2018. DAC in its meeting held on January 01, 2019 directed to shift the para to OGRA. In compliance, the matter was reported to the Cabinet Division / OGRA on January 10, 2019 but no reply to audit para was received from OGRA till finalization of the report.

Audit recommends that OGRA should take appropriate action against PSO.

[DP No. 108/K/PSO/2018-19]

ANNEXES

Annex-1**MFDAC PARAS**

The Director General Audit, Petroleum and Natural Resources, Lahore on behalf of the Auditor-General of Pakistan, conducted the audit of the accounts of Ministry of Energy (Petroleum Division) of Government of Pakistan and all the organizations under this Ministry for the year 2017-18.

As a result of audit conducted during 2017-18, various types of financial irregularities and losses of public money etc., were detected and reported to the Ministry / Divisions and organizations concerned. The important irregularities/ losses and malpractices pertaining to various organizations have been printed in this report, while irregularities / losses not considered worth reporting to the PAC as listed below were left for Departmental Accounts Committees. The same will be discussed with the respective Secretaries to the Ministry / Divisions by the Director General Audit, Petroleum and Natural Resources, Lahore.

(Rs in million)

Sr. No.	Name of Formation	DP No.	Description	Amount
1	DG (LGs)	4 DG (LGs)	Framing of Rules in contravention of Petroleum Products (Petroleum Levy) Ordinance, 1961	0
2	DG (PC)	14-GDS	Recurring loss of GDS on gas consumed by MPCL without notified price	123.723
3	DG (PC)	39-PC/K	Non realization of Royalty on natural gas	1,021.518
4	DG (PC)	97-DG (PC)	Non-securing of work commitment in violation of the Petroleum Policy, 2012	0
5	DG (Oil)	17-PL	Short realization of Petroleum Levy due to application of incorrect conversion factor	1.690
6	DG (Oil)	51/PL-K/ 2018-19	Institution of tax evasion case against Shell Pakistan Limited by FBR	0
7	DG (Oil)	65/PL-K/ 2018-19	Short payment of Petroleum Levy	1.128
8	DG (PC)	100-PC	Non-realization of Training Fund	50.626
9	MoE (Exp)	05-MoE (Exp)	Unjustified payment of Monetization Allowance	3.115
10	MoE (Exp)	07-MoE (Exp)	Un-authorized posting of Assistant Director and irregular payment of emoluments	7.705

11	MoE (Exp)	09-MoE (Exp)	Un-authorized expenditure on POL for vehicles	1.466
12	OGDCL	11-OGDCL/IS B/ 2017-18	Inadmissible payment of additional increment	6.464
13	OGDCL	12-OGDCL/IS B/ 2017-18	Unjustified payment of petrol allowance, driver's wages and car maintenance allowance	44.152
14	OGDCL	13-OGDCL/IS B/ 2017-18	Unjustified payment of Entertainment Allowance	375.757
15	OGDCL	16-OGDCL/IS B/ 2017-18	Unjustified payment of Conveyance Allowances	10.89
16	OGDCL	21-OGDCL/ISB/2017-18	Loss due to payment of commissioning costs without performing work	8.12
17	OGDCL	27-OGDCL/IS B/ 2017-18	Loss due to sale of Sulphur at reserve price	14.58
18	OGDCL	29-OGDCL/IS B/ 2017-18	Non-release of corporate guarantee	435.95
19	OGDCL	31-OGDCL/IS B/ 2017-18	Irregular payment to consultant in violation of terms of contract	302
20	OGDCL	32-OGDCL/IS B/ 2017-18	Non-payment of interest to the WPPF on account of utilization of Workers' Fund	2,878
21	OGDCL	34-OGDCL/IS B/ 2017-18	Irregular payment of Extra Work Allowance	195.045
22	OGDCL	40-OGDCL/IS B/ 2017-18	Non-payment of provincial sales tax on security services provided by IGFC, Quetta	292.965
23	OGDCL	44-OGDCL/IS B/ 2017-18	Irregular hiring of security services in violation of PPRA Rules	356.949
24	OGDCL	45-OGDCL/IS B/ 2017-18	Unnecessary expenditure on account of security services	53.898
25	OGDCL	47-OGDCL/IS B/ 2017-18	Un-verifiable expenditure of lease rental due to incomplete record	77.123
26	OGDCL	52-OGDCL/IS B/ 2017-18	Un-justified expenditure of lease rental for additional land	1,143.671
27	PPL	51/PPL/K/	Loss incurred by PPL Asia E&P B.V	4,388.000

		2018-19	subsidiary company of PPL	
28	PPL	52/PPL/K/ 2018-19	Loss incurred by PPL Europe E&P Limited subsidiary company of PPL	3,717.000
29	PPL	56/PPL/K/ 2018-19	Irregular appointment of Senior Internal Auditor	21.090
30	PPL	59/PPL/K/ 2018-19	Loss due to write-off stock	29.621
31	PPL	60/PPL/K/ 2018-19	Loss due to disposal of assets below the book value	1.064
32	PPL	61/PPL/K/ 2018-19	Non-observance of quota system in violation of orders of Federal Government	0
33	PPL	62/PPL/K/ 2018-19	Avoidable expenditure of outsourcing services	1.00
34	PPL	63/PPL/K/ 2018-19	Non-reporting of contracts to NAB	6,913.000
35	PPL	65/PPL/K/ 2018-19	Irregular payment of fee to legal consultants	19.475
36	PPL	68/PPL/K/ 2018-19	Irregular appointments of legal counsel	0
37	PPL	69/PPL/K/ 2018-19	Irregular expenditure on foreign visits of PPL's officials without obtaining prior permission of the authority	10.430
38	PPL	71/PPL/K/ 2018-19	Irregular investment due to non-determination of working balances	141,467.11
39	PPL	75/PPL/K/ 2018-19	Loss due to inefficiency on the part of PPL Kandhkhot gas field staff	0.291
40	PPL	78/PPL/K/ 2018-19	Blockade of due to slow moving / over stocking of un-demanded items at various locations	11,253.000
41	PPL	82/PPL/K/ 2018-19	Irregular award of contract	189.001
42	PPL	87/PPL/K/ 2018-19	Irregular award of contract	51.310
43	PPL	88/PPL/K/ 2018-19	Unjustified expenditure for hiring of services of Executive Search Firm for Recruitment of the MD / Chief Executive	1.615
44	PPL	89/PPL/K/ 2018-19	Irregular award of contract by extending undue favour	3,390.000
45	PPL	90/PPL/K/ 2018-19	Unjustified expenditure for verification of Antecedents/ degrees	3.390
46	PSO	01/K/PSO/ 2018-19	Loss on account of deceptive marketing	150.000
47	PSO	04/K/PSO/ 2018-19	Dual Nationality held By PSO Officers / Officials	0
48	PSO	6/K/PSO/	Non observance of minority / disable /	0

		2018-19	women quota system	
49	PSO	8/K/PSO/ 2018-19	Violation of recruitment and promotion policies	0
50	PSO	11/K/PSO/ 2018-19	Avoidable expenditure incurred on publicity / advertisement	3.660
51	PSO	30/K/PSO/ 2018-19	Irregular payment of Customs Duty	2,561.100
52	PSO	68/K/PSO/ 2018-19	Short imprest amount due to non-submission of vouchers of petty cash account for approval	0.135
53	PSO	31/K/PSO/ 2018-19	Poor performance of Legal Department of the PSO	0
54	PSO	63/K/PSO/ 2018-19	Overcharging on POL products sold to general public	7.370
55	PSO	65/K/PSO/ 2018-19	Non-imposition of financial penalty for short measurement of POL products	1.920
56	PSO	66/K/PSO/ 2018-19	Non-imposition of financial penalty for discrepancy in quality of POL products	3.300
57	PSO	67/K/PSO/ 2018-19	Non-imposition of financial penalty for short measurement of POL products	0.200
58	PSO	70/K/PSO/ 2018-19	Overcharging on POL products sold to general public	0.230
59	PSO	72/K/PSO/ 2018-19	Irregular award of contracts due to violation of general instructions & terms & conditions for bidding	55.440
60	PSO	74/K/PSO/ 2018-19	Non-observing of regulations made by Public Procurement Regulatory Authority	0
61	PSO	75/K/PSO/ 2018-19	Non-recovery / adjustment of advance of leave fare assistance	26.393
62	PSO	76/K/PSO/ 2018-19	Undue favour in award of contract ignoring deficiency in specifications offered by the contractor	15.220
63	PSOs	77/K/PSO/ 2018-19	Irregular award of contracts due to violation of general instructions and terms & conditions for bidding	5.749
64	PSO	79/K/PSO/ 2018-19	Non-forfeiture of security deposit due to defective clause in security service contract	17.941
65	PSO	81/K/PSO/ 2018-19	Irregular award of contract to black listed company	1.621
66	PSO	88/K/PSO/ 2018-19	Non-recovery / adjustment of advances to employees granted against business travel	2.164
67	PSO	90/K/PSO/ 2018-19	Non-withholding of sales tax	1.423
68	PSO	91/K/PSO/ 2018-19	Irregular payment of stipend due to violation of uniform recruitment & promotion policy	0.716

69	PSO	95/K/PSO/ 2018-19	Loss due to closure of certain PSO outlets throughout Pakistan	14.620
70	PSO	96/K/PSO/ 2018-19	Poor performance of Legal Department of the PSO	0
71	PSO	103/K/PSO/ 2018-19	Short recovery of sales price of POL products	0.194
72	PSO	104/K/PSO/ 2018-19	Short recovery of sale price of POL products	1.563
73	PSO	105/K/PSO/ 2018-19	Non-disposal of miscellaneous scrap items	0.346
74	PSO	106/K/PSO/ 2018-19	Non-disposal of unserviceable vehicle	0
75	PSO	107/K/PSO/ 2018-19	Non-observing of rotation policy	0
76	PSO	112/PSO	Non-charging of extra sales tax on supply / sale of lubricant articles	1.365
77	PSO	116/PSO	Non verification of action taken / penalty recovered on failure of quality and deviation in quantity measurement	0
78	PSO	117/PSO	Non-recovery from MEPCO against supply of transformer oil	35.509
79	PSO	119/PSO	Non-charging of extra sales tax on supply / sale of lubricant articles	0.310
80	PSO	120/PSO	Non-verification of action taken or received from head office on failure of quality and quantity	0
81	PSO	124/PSO	Non-charging of extra sales tax on supply / sale of lubricant articles	0.777
82	PSO	125/PSO	Irregular purchase of diesel for office generator without maintaining date wise consumption and log book	0.744
83	PSO	126/PSO	Non-verification of action taken/penalty recovered on failure of quality and quantity	0
84	PSO	153/PSO	Non-charging of extra sales tax on supply / sale of lubricant articles	0.494
85	PSO	155/PSO	Excess payment of conservancy charges to the contractor	0.636
86	PSO	156/PSO	Non- imposition of penalty on failure of quality and quantity measurement	0
87	SNGPL	19	Loss due to non-cancellation of tender having higher price	58
88	SNGPL	22	Loss due to rejection of lowest bid	0.703
89	SNGPL	23	Loss due to non-finalization of purchase order	1.464
90	SNGPL	25	Loss due to delay in finalization of technical vetting	0.315

91	SNGPL	26	Loss due to non-recovery of renewal fee from pre-qualified supplier	0.560
92	SNGPL	28	Loss due to non-forfeiture of bid bond security and placement of order at higher price	0.353
93	SNGPL	29	Mis-procurement of office equipment & stationery, papers and furniture	86.537
94	SNGPL	30	Loss due to non-encashment of bank guarantee due to non-supply of contracted items of store	2.225
95	SNGPL	31	Improper maintenance of purchase files	0
96	SNGPL	32	Unnecessary purchase resulting in blockage of funds	167.34
97	SNGPL	36	Revenue loss due to refund of fast track fee	68.625
98	SNGPL	39	Less receipt of natural gas in lieu of RLNG from SSGC	2,741.062
99	SNGPL	43	Unjustified provision for Obsolescence on Stores and Spares parts held for capital expenditure	78.410
100	SNGPL	46	Unjustified expenditure for employees retirement benefits	4,902
101	SNGPL	47	Inordinate delays in Commercial / Special Domestic Meter Replacement and defective schedule of industrial replacement	0
102	SNGPL	53	Fraudulent withdrawal by Cashier at Gujranwala	165.262
103	SNGPL	57	Cost / time over run for installation of TBS / DRS	98.000
104	SNGPL	60	Irregular appointment of casual staff	553.500
105	SNGPL	61	Overstatement of operating fixed assets in FRR	5,764
106	SNGPL	64	Loss due to non-replacement of sticky Meters / provisional billing	1,925.74
107	SNGPL	66	Under-utilization of funds causing non-completion of SCADA Project	619.000
108	SNGPL	67	Unjustified expenditure on BoD and its committees meetings	38.690
109	SNGPL	69	Irregular appointment of in-charge security officer	1.986
110	SNGPL	70	Over-charging due to sale of natural gas at RLNG prices	6,329.10
111	SNGPL	73	Irregular payment of commission ICIL	8.281
112	SNGPL	79	Shortfall in security deposits	3,328.352
113	SNGPL	85	Defective preparation / filing of suits for recovery causing subsequent dismissal by	105.748

			courts	
114	SNGPL	162	Irregular payment of commission to ICIL	100.423
115	SNGPL	163	Excess booking in job completion reports regarding contract payments	10.530
116	SNGPL	168	Loss due to installation of undocumented domestic gas meters	2.561
117	SNGPL	172	Defective preparation / filing of suits for recovery	21.650
118	SNGPL	175	Loss due to non-replacement of sticky meters / provisional billing	3,072.196
119	SNGPL	176	Variation in actual cost as per final payment certificate and as per job completion report	11.268
120	SNGPL	184	Loss due to non-recovery of annual renewal fee from contractors	10.300
121	SNGPL	189	Non-recovery of advances from LAC	8.821
122	SNGPL	192	Un-justified payment to NHA for crossing of 36" pipe on land already owned by SNGPL in 2004	4.470
123	SNGPL	192	Loss due to unjustified direct purchase of land	2.080
124	SNGPL	196	Non-return of un-utilized line pipe	8.016
125	SNGPL	201	Payment of crop compensation at higher rate than specified by Forest Department	3.51
126	SNGPL	203	Delay in completion of jobs	183.740
127	SNGPL	209	Loss to public exchequer due to cost over-run	5.487
128	SNGPL	218	Variation in welding length of pipe and laid length of pipe	3.486
129	SNGPL	221	Un-justified expenses on hiring of building and machinery	0.60
130	SNGPL	223	Irregular expenditure on laying excess length of pipeline than approved length	9.356
131	SNGPL	224	Over charging of cost to PWD Department	120.237
132	SNGPL	226	Non-recovery of charges from NHA in respect of damages caused to gas line	0.150
133	SNGPL	229	Non-refund of surplus advance from LAC	0.746
134	SNGPL	247	Over-payment to contractor on excess quantity of work than that of Work Orders	1.274
135	SNGPL	249	Irregular payment of commission to ICIL	25.321
136	SNGPL	251	Non-replacement of Sticky Meters / provisional billing	0
137	SNGPL	258	Fixed Assets and Stores Item not available / received and non-disposal of scrapped items	3.80
138	SNGPL	266	Irregular appointment of Chief Financial Officer	25.14
139	SSGC	12/SSGCL/ K/2018-19	Non-disposal of obsolete / slow moving store items	1,144.662

140	SSGC	17/SSGCL/ K/2018-19	Unjustified conversion of major punishment into minor punishment	0
141	SSGC	19/SSGCL/ K/2018-19	Irregular payment of fee to legal consultants	97.295
142	SSGC	24/SSGCL/ K/2018-19	Loss due to completion / undertaking of non-feasible schemes	30.821
143	SSGC	27/SSGCL/ K/2018-19	Irregular payment of fee to legal consultants	79.081
144	SSGC	37/SSGCL/ K/2018-19	Irregular award of contracts in violation of PPRA Rules	72.529
145	SSGC	38/SSGCL/ K/2018-19	Irregular approval of scheme at Kehar village Mirpur Bathoro District Sajawal	1.575
146	SSGC	41/SSGC/K/ 2018-19	Loss due to rejection of time barred insurance claims	2.710
147	SSGC	111/SSGCL/ K/2018-19	Irregular procurement of components of gas meters G-4	12.320
148	SSGC	112/SSGCL/ K/ 2018-19	Non-furnishing of contract awards over Rs 50 million to NAB in violation of NAB Ordinance, 1999	3,104.436
149	SSGC	115/SSGCL/ K/2018-19	Piling up of huge obsolete / slow moving Store Items	1,434.702
150	SSGC	120/SSGCL/ K/ 2018-19	Irregular procurement of bare & pre-coated line pipe	2,398.091
151	SSGC	122/SSGCL/ K/ 2018-19	Loss due to award of contract of excess number of bill than the actual	6.296
152	SSGC	124/SSGC/ K/ 2018-19	Unjustified expenditure incurred on account of subsidy of canteen contract	166.829
153	SSGC	125/SSGC/ K/ 2018-19	Excess payment of subsidy amount on account of lunch & tea	32.197
154	SSGC	132/SSGCL/ K/ 2018-19	Non-taking of stern action against accused employee involved in gas theft causing loss to company on account of UFGs	0
155	SSGC	139/SSGCL/ K/ 2018-19	Incurred expenditure without evaluation of performance of advocates	69.137
156	SSGC	140/SSGCL/ K/2018-19	Irregular and unauthorized expenditure on account of professional fees	47.265
157	SSGC	142/SSGC/ K/2018-19	Un-authorized and excess payment of professional fee	10.050
158	SSGC	144/SSGC/ K/2018-19	Unauthorized expenditure on account of miscellaneous expenditure of advocate	1.325
159	SSGC	147/SSGC/ K/2018-19	Prolonged pendency of legal cases due to insufficient monitoring system	0
169	SSGC	150/SSGC/ K/2018-19	Unjustified expenditure on account of professional fees due to non-framing policy / SOPs for payment of advocates	69.537
161	SSGC	154/SSGCL/ K/ 2018-19	Irregular purchase of foreign assembled vehicles	33.412

162	SSGC	158/SSGCL/ K/ 2018-19	Irregular and unauthorized award of contract	21.017
163	SSGC	161/SSGCL/ K/2018-19	Irregular and unauthorized award of ditching / backfilling contract	1.006
164	SSGC	164/SSGCL/ K/2018-19	Irregular and unauthorized award of ditching / backfilling contract	0.667
165	SSGC	166/SSGCL/ K/2018-19	Irregular and unauthorized process for award of ditching / backfilling contracts for supply of gas to four schemes thorough quotations	1.386
166	SSGC	170/SSGCL/ K/ 2018-19	Irregular and unauthorized expenditure on purchase of mobile phones	0.239
167	SSGC	171/SSGCL/ K/ 2018-19	Irregular and unauthorized issuance of mobile	13.728
168	SSGC	175/SSGC/ 2018-19	Loss of natural resources due to non-attending complaints	0
169	GSP	109/GSP/K/ 2018-19	Unjustified payment of bills	3.700
170	SML	54/SML/K/ 2018-19	Non-earning of Profit due to wastage of by-product	36.000
171	SML	56/SML/K/ 2018-19	Non-payment of previous liabilities of scholarship.	12.093
172	SML	60/SML/K/ 2018-19	Irregular payment of Directors Fee to Government Servants in BoD	2.827
173	LCDCL	32/LDCL/K/ 2018-19	Irregular drawl of House Rent Advance on retirement	0.960
174	LCDCL	33/LDCL/K/ 2018-19	Irregular hiring of office building without calling of the rates	2.488
175	LCDCL	34/LDCL/K/ 2018-19	Irregular hiring of Consultant	1.00
176	LCDCL	35/LDCL/K/ 2018-19	Irregular sale of official vehicle to DGM on retirement	1.672
177	LCDCL	36/LDCL/K/ 2018-19	Non-Preparation of physical verification report of assets, stock and store	0
178	LCDCL	37/LDCL/K/ 2018-19	Non-performance of internal controls and internal audit	0
179	LCDCL	38/LDCL/K/ 2018-19	Irregular appointment of Internal Auditor against the code of corporate governance Rules	0
180	LCDCL	41/LDCL/K/ 2018-19	Loss of the company due purchase of Coal from PMDC	9.822
181	LCDCL	42/LDCL/K/ 2018-19	Hiring of building on rent without property tax form & approved map	2.488
182	LCDCL	43/LDCL/K/ 2017-18	Irregular appointment of internal auditor against the code of Corporate Governance Rules	0.000

183	LCDCL	44/LDCL/K/ 2018-19	Un authorized purchase of nine motorcycles in contravention of PPRA Rules	0.554
184	LCDCL	46/LDCL/K/ 2018-19	Non-observance of Rule 9 of PPRA Rules regarding preparation of Annual Procurement Plan	0
185	LCDCL	47/LDCL/K/ 2018-19	Unjustified and irregular provision of funds kept in the Annual Accounts 2016	40.801
186	LCDCL	48/LDCL/K/ 2018-19	Irregular and un-justified payment of advance against Expenses to CBA Agents	0.006
187	LCDCL	49/LDCL/K/ 2018-19	Irregular purchased of machinery and equipment in contravention of PPRA Rules, 2004	0.310
188	LCDCL	50/LDCL/K/ 2018-19	Non-conduct of physical verification of fixed assets equipment's and computer inventory etc., and non-stock taking of stock items	0
189	LCDCL	51/LDCL/K/ 2018-19	Lack of internal controls and internal audit report	0
190	OGRA	77/K/OGRA	Issuance of show-cause notice for imposition of penalty against Total Parco Marketing Limited by OGRA	107.000
191	OGRA	129/OGRA	Short realization of annual fee	309.240
192	OGRA	134/OGRA	Non receipts of outstanding annual fee from SNGPL	42.040
193	OGRA	135/OGRA	Non-remittance of surplus of receipts over the expenditure to the Federal Consolidated Fund Accounts	38.047
194	OGRA	136/OGRA	Short realization of Annual Fee from M/s MPCL	18.625
195	OGRA	138/OGRA	Non- recovery / adjustment of Advances From OGRA Employees	2.20
196	OGRA	140/OGRA	Un-authorized payment of Eid Allowance granted to OGRA employees on contract basis	0.480
197	OGRA	141/OGRA	Excess payment of Eid Allowance granted to OGRA employees	0.415
198	OGRA	143/OGRA	Irregular use of vehicles outside the municipal limit for personal use	0

Annex-2

Non-Submission of Audited Accounts

Annual Audited Accounts of Public Sector Enterprises for the year 2017-18 were to be provided to the Directorates General Audit, Petroleum and Natural Resources, Lahore by Dec 31, 2018. Despite repeated requests, the organizations (listed below) did not provide their Annual Audited Accounts for the year 2017-18 as well as for the previous years by the prescribed date. While non-submission of audited accounts needs to be explained, efforts need to be made to finalize and provide the accounts immediately.

Sr. No.	Name of Ministry / Division / Organization	Year of Accounts
Ministry of Energy (Petroleum Division)		
1	SNGPL	2017-18
2	SSGC	2017-18
3	LCDCL	2016-17 & 2017-18
4	ISGS	2017-18
5	PLTL	2017-18
6	HDIP	2017-18
Cabinet Division		
7	OGRA	2017-18

Annex-3
(Para 2.5.4.1)

Non Production of record of SNGPL

(A) Head Office

Sr. No.	Description of Record/ information
1	Draft/ final Annual Accounts (Management Accounts) / financial statements for 2017-18
2	Soft copy of General Ledgers (Payable) at Company level for the period
3	Soft copy of trial balance of each cost center as on June 30, 2018
4	Reconciliation reports of pending / outstanding payments (monthly billed amount vs monthly collections) received by respective banks but not received in SNGPL bank accounts
5	Monthly / yearly UFG reports for the period submitted to the BoD and its Committees
6	Details of loans obtained, utilized for RLNG Pipeline-I and II
7	Case file regarding procurement and installation of Telecom Equipment
8	Case file regarding construction of Regional Office Building at Sahiwal
9	Detailed schedule Store & Spares held for capitalization under the head Plant & Equipment as on 30.06.2018 and their adjustments thereafter
10	Details of fixed capacity charges claimed by and paid to M/s ETPL and M/s Gas port
11	Statements of Withholding of Punjab Sales Tax on Services and Returns with proof of payment. (Regional Office stated that Punjab Sales Tax on Services return is submitted by the HO. Hence, the same was being requisitioned with HO)

(B) SNGPL Regions

Sr. No.	Accounts / Finance Department	Names of Regional Offices
1	Annual maintenance plan along with its implementation status	Lahore, Faisalabad, Multan, Bahawalpur, Sargodha and Sialkot
2	Network Integrity Assessment reports (segment wise)	Lahore, Faisalabad, Bahawalpur, Sargodha and Sialkot
3	Internal Audit Reports for the year 2016-17 and 2017-18	Lahore, Faisalabad, Multan, Bahawalpur, Sargodha and Sialkot

Annex-4**(Para 2.5.4.5)****Unjustified installation of new gas connections to 18,672 consumers
ignoring the turn / merit policy**

Sr. No.	Region	Area Office	Sales survey date/connection date	Number of consumers where meter installed after target date
1	Islamabad	Islamabad-Main	31.01.2018	186
2	Gujranwala	Gujranwala-Main	31.12.2017	67
3	Gujrat	Gujrat	30.09.2017	350
4	Gujrat	Mandibha-Ud-Din	30.09.2017	276
5	Abbottabad	Abbottabad-Main	28.02.2017	22
6	Abbottabad	Haripur	31.12.2016	204
7	Bahawalpur	Sadiqqibad	31.12.2017	24
8	Faisalabad	Faisalabad-Main	30.06.2016	8,466
9	Lahore East	Harbanspura	30.06.2016	605
10	Lahore East	Kasur	30.06.2016	
11	Lahore East	Lahore-East Main	30.06.2016	
12	Lahore East	Multan Road	30.06.2016	
13	Lahore West	Lahore-west main	30.06.2016	50
14	Lahore West	Ravi Road	30.06.2016	
15	Lahore West	Walled City	30.06.2016	
16	Multan	Khenewal	30.06.2016	959
17	Multan	Main Channu	30.06.2016	281
18	Sahiwal	Okara	30.04.2017	599
19	Sargodha	Sargodha	30.09.2017	1,419
20	Sheikhupura	Shikhupura	30.06.2017	5,164
			Total	18,672

Annex-5

(Para 2.5.4.62)

Irregular payment of overtime allowance

Sr. No.	Department	Basic Pay	Overtime Payment	Percentage	As per rules over time limit	Excess Payment
1	Distribution	1,073,235,967	709,801,889	66%	268,308,992	441,492,897
2	Projects	75,667,620	102,929,389	136%	18,916,905	84,012,484
3	Metering (Ops)	129,905,321	109,169,873	84%	32,476,330	76,693,543
4	Customer Services	124,001,932	72,813,478	59%	31,000,483	41,812,995
5	Administration	332,947,947	120,034,847	36%	83,236,987	36,797,860
6	Transmission	262,795,365	88,242,146	34%	65,698,841	22,543,305
7	Sales	272,903,233	89,471,249	33%	68,225,808	21,245,441
8	Civil Construction	31,150,924	23,933,125	77%	7,787,731	16,145,394
9	Accounts	172,402,943	54,894,052	32%	43,100,736	11,793,316
10	Compression	117,704,219	39,312,573	33%	29,426,055	9,886,518
11	Quality Assurance	64,061,335	24,968,073	39%	16,015,334	8,952,739
12	Stores	84,107,671	26,384,099	31%	21,026,918	5,357,181
13	Management	10,278,421	7,865,349	77%	2,569,605	5,295,744
14	Procurement	63,254,582	21,098,950	33%	15,813,646	5,285,305
15	CP&D	5,132,899	4,827,535	94%	1,283,225	3,544,310
16	Compliance	22,865,851	8,964,715	39%	5,716,463	3,248,252
17	H S & E	8,311,270	4,774,682	57%	2,077,818	2,696,865
18	P&D	3,044,154	3,244,927	107%	761,039	2,483,889
19	Corrosion	89,871,836	24,389,975	27%	22,467,959	1,922,016
20	UFG Control	2,019,579	1,286,272	64%	504,895	781,377
21	IT / MIS	59,761,474	15,683,808	26%	14,940,369	743,440
	Total	2,592,715,471	1,410,602,621	54%	648,178,868	762,423,753
22	217-MFDAC64 ARPSE2017-18	-	-	-	-	162,099,247
					G. Total	924,523,000

Annex-6
(Para 2.6.4.1)

Non-production of record of SSGC

Sr. No.	Information requisitioned but not provided	Requisition No. & date
1.	Annual Audited Accounts for the year under review	01/FAT-III/K/(SSGCL)/2017-18, dated 27.08.2018
2.	<p>SGM Customer Services (GM Sales)</p> <p>1. Category wise number of customers i.e. commercial, domestic, Industrial & CNG sector</p> <p>2. Details of connection fee charged/collected against each category</p> <p>3. Comparative statement of number of meters applied with installed.</p> <p>4. Detailed list of new connections with relevant process files</p> <p>5. Detailed list of pending applications for connection alongwith date of application</p>	No.34/FAT-IV/SSGCL-HO/2017-18 dated 23.10.2018
3.	<p>3rd party contracts</p> <p>1. Name of contractor</p> <p>2. Location</p> <p>3. Nature of work</p> <p>4. Period of contract</p> <p>5. No of employees hired</p> <p>6. Contract amount paid</p> <p>7. Commission paid with percentage</p>	29/FAT-IV/SSGCL-HO/2017-18 dated 25.09.2018
4.	<p>Executive Canteen Contract</p> <p>1. Complete original case file pertaining to award of contract of executive canteen situated at meter plant of SSGCL (HO)</p> <p>2. Contract agreement of meter plant canteen</p> <p>3. Break up of payments made to the canteen contractor from the date of contract award till to date</p> <p>4. Relevant payment vouchers</p>	41/FAT-IV/SSGCL-HO/2017-18 dated 15.11.2018
5.	Complete list of Vehicles lying in KT Store for Auction, but not auctioned. Vehicle name and make, its reserve price and reason of non-auctioning should be mentioned in the list.	13/FAT-IV/SSGCL-HO/2017-18 Date: 28-08-2018
6.	Following information/record pertaining to Auction of SSGCL (Head	

	<p>Office) for the year 2017-18, may please be made available to audit for necessary examination on top priority basis (hard or soft)</p> <ul style="list-style-type: none"> ▪ Auction policy of fixed assets (only SOP of disposal of Vehicles provided). ▪ Name of the Auctioneers conducting auctions of SSGC along with files ▪ List of Stores where auction held ▪ No. of auctioned conducted during the period 2016-17 & 2017-18 along with list of items included in auction notice ▪ Detail of total amount realized on account of auction of goods and withholding tax collected during 2016-17 & 2017-18 ▪ Copy of advertisement of disposal notices published in newspapers ▪ Detail of use full life of assets. i.e. Vehicles, plant, equipment, machinery, Computers, furniture & fixture ▪ Procedure/time line of deposit of auctioned money ▪ Auction register ▪ Soft copy of assets auctioned during 2016-17 & 2017-18 as per following format ▪ Detail of fixed assets retirement advices received from user departments ▪ Assessment and examination reports of lots auctioned ▪ All case files of goods/lots auctioned ▪ List of goods/lots not yet auctioned ▪ Detail of cases where 25% earnest money has been deposited but 75% bid amount was not deposited ▪ Detail of cases where 25% earnest money has been forfeited by the formation ▪ Detail of refund cases <p>Detail of vehicles disposed of under service rules to company employees</p>	
7.	Schedule of Accounts for the year 2017-18	No.01/FAT-III/K/(SSGCL)/2017-18, dated 27.08.2018
8.	Payment vouchers for the year under review with summary	
9.	Detail of Consultants hired along file of each Consultant	No.06/FAT-III/K/(SSGCL)/2017-18, dated 29.08.2018
10.	Queries raised by OGRA and MP&NR and compliance thereof (correspondence file)	No.09/FAT-III/K/(SSGCL)/2017-18,
11.	Record of electrical complaint from user department with requisition	

	forms and approval of HOD	dated 03.09.2018
12.	Detail inspection and cost of health monitoring data center Detail of fault identified in the system and their removal	No.10/FAT-III/K/(SSGCL)/2017-18, dated 04.09.2018
13.	Company's current practices for tracking and recording inspections of distribution facilities	Req. No.17/FAT-III/K/(SSGCL)/2017-18
14.	Detailed list of new connections of commercial consumers granted/provided during FY 2017-18, along with its process files	
15.	Detailed list of new connection of domestic consumers granted/provided during FY 2017-18, along with its process files	
16.	Detailed list of pending application for connections of domestic, commercial and industrial undertakings along with its date of application	
17.	Complaints lodged for non-installation of gas connection even compliance mandatory requirement during the year under review	
18.	Atmospheric Survey Activities	
19.	GPS vehicle tracking system record	
20.	Detailed list of court cases in respect of Distribution Karachi Central	
21.	Detail of vacant accommodation containing period of vacant, possession of staff/employee before these vacant accommodation	Req. No.18/FAT-III/K/(SSGCL)/2017-18
22.	Policy/ guidelines in respect of TA/DA of advocate/advocate on Panel	Req. No.20/FAT-III/K/(SSGCL)/2017-18
23.	Complete record with approval of management for nomination of advocate/advocate on Panel	
24.	Complete record of TA/DA of advocates/advocates on panel	Req. No.21/FAT-III/K/(SSGCL)/2017-18
25.	Procurement file of KPMG Consultant	Req. No.22/FAT-III/K/(SSGCL)/2017-18
26.	TA/DA bills in respect of certain officers	Req. No.24/FAT-III/K/(SSGCL)/2017-18
27.	Detail list deduction (WHT, SST, GST etc.,) from payments of certain workshop dealers	Req. No.26/FAT-III/K/(SSGCL)/2017-18

28.	Annual Development Program with Targets vs Achievements (detail containing Budget vs actual Expenditure, Schemes involved, Schemes starting date and Schemes ending date with relevant files)	Req. No.28/FAT-III/K/(SSGCL)/2017-18
29.	Plan for Reinforcement and actual achievement containing the budget allocated for the schemes. Also the achievement made with relevant files	
30.	Annual Rehabilitation Plan vs actual achievement containing the budget allocated for the schemes and actual expenditure. Also the achievement made with relevant files	
31.	Plan for new schemes	
32.	Government Funded Scheme details along with Titles with relevant files	

Annex-7**(Para 2.6.4.4)****Non-recovery of dues from defaulters of SSGC**

(Rs in million)

Sr. No.	DP No.	No. of cases	Amount
1	01/SSGC/K/2018-19	78	37.109
2	03/SSGC/K/2018-19		375.89
3	04/SSGC/K/2018-19	139,512	389.3
4	05/SSGC/K/2018-19	40	14.77
5	07/SSGC/K/2018-19		17.92
6	20/SSGC/K/2018-19	106	42.941
7	32/SSGC/K/2018-19	43	2477.73
8	33/SSGC/K/2018-19	4,836	423.00
9	97/SSGC/K/2018-19	51	21.037
10	99/SSGC/K/2018-19	03	142.814
11	102/SSGC/K/2018-19	05	174.32
12	105/SSGC/K/2018-19	112,999	1,519.00
13	106/SSGC/K/2018-19	2,270	150.000
14	176/SSGC/K/2018-19	30,381	395.169
15	179/SSGC/K/2018-19	100	10.44
16	180/SSGC/K/2018-19	29,311	402.009
17	183/SSGC/K/2018-19	46	191.499
	Total		6,784.948

Annex-8**(Para 2.6.4.8)****Loss on account of gas theft by various customers - Rs 1,467.932 million****(A) Domestic gas theft cases**

(Rs in million)

Sr. No.	Name of the City	Draft Para No.	No. of Cases	Gas theft volume (MCF)	Amount involved
1	Karachi	15/SSGCL/K/2018-19	1,746	612,334	536.421
2	Karachi	26/SSGCL/K/2018-19	05	1,847	1.606
3	Hyderabad	165/SSGCL/K/2018-19	02	1,227	0.926
	Total		1753	615,408	538.953

(B) Industrial gas theft cases

Sr. No.	Name of the City	Draft Para No.	No. of Cases	Gas theft volume (MCF)	Amount involved
1	Karachi	100/SSGCL/K/2018-19	84	104,697	95.617
2	Karachi	25/SSGCL/K/2018-19	21	19,406	15.200
	Total		105	124,103	110.817

(C) Commercial gas theft cases

Sr. No.	Name of the City	Draft Para No.	No. of Cases	Gas theft volume (MCF)	Amount involved
1	Karachi	31/SSGCL/K/2018-19	810	213,354	206.199
2	Karachi	103/SSGCL/K/2018-19	60	21,825	16.997
3	Karachi	107/SSGCL/K/2018-19	127	47,247	43.493
4	Larkana	182/SSGCL/K/2018-19	07	1,527	1.305
5	Hyderabad	165/SSGCL/K/2018-19	98	18,637	19.708
6	Sukkur	178/SSGCL/K/2018-19	12	3208	2.706
7	Nawabshah	162/SSGCL/K/2018-19	30	9,281	9.329
	Total		1144	315,079	299.737

(D) Illegal connection gas theft cases

Sr. No.	Name of the City	Draft Para No.	No. of Cases	Gas theft volume (MCF)	Amount involved
1	Karachi	98/SSGCL/K/2018-19	50	62,256	49.149
2	Karachi	29/SSGCL/K/2018-19	228	389,440	359.784
3	Hyderabad	165/SSGCL/K/2018-19	05	9,894	8.522
	Total		283	461,590	417.455

(E) Un-registered gas theft cases

Sr. No.	Name of the City	Draft Para No.	No. of Cases	Gas theft volume (MCF)	Amount involved
1	Karachi	06/SSGCL/K/2018-19			9.75
2	Larkana	23/SSGCL/K/2018-19	39	38,545	30.86
3	Larkana	181/SSGCL/K/2018-19	02	6,780	6.266
4	Larkana	182/SSGCL/K/2018-19	10	6,780	6.266
5	Sukkur	09/SSGCL/K/2018-19	1,669	148,593	40.80
6	Sukkur	178/SSGCL/2018-19	03	4,002	3.612
7	Sukkur	177/SSGCL/2018-19	02	3,780	3.416
	Total		1,725	208,480	100.97

A+B+C+D+E=(538.953+110.817+299.737+417.455+100.97)=Rs 1467.932 million in 5,010 cases

Annex-9**(Para 2.6.4.17)****Irregular appointment / promotion of Executives / Secretarial Staff**

Sr. No.	PDP No.	Subject
1	129/SSGCL/K2018-19	Irregular appointment / promotion of Executives
2	130/SSGCL/K2018-19	Undue favour in promotion of GM (Medical Services)
3	131/SSGCL/K2018-19	Irregular appointment of DGM (Security and Surveillance Department) without advertisement
4	134/SSGCL/K2018-19	Un-authorized promotion of DGM (Human Resources)
5	135/SSGCL/K2018-19	Unjustified promotion from Executive Grade-I to Executive Grade VI
6	136/SSGCL/K2018-19	Appointment of DMD over and above the prescribed age limit
7	137/SSGCL/K2018-19	Unauthorized appointment in Executive Grade-IX as PD (Liquefied Gas) on contract