



**AUDIT REPORT  
ON  
THE ACCOUNTS OF  
PETROLEUM DIVISION  
AND  
OIL AND GAS REGULATORY  
AUTHORITY  
AUDIT YEAR 2023-24**

**AUDITOR-GENERAL OF PAKISTAN**



## **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.

The Report is based on audit of the accounts of Petroleum Division and Oil and Gas Regulatory Authority for the financial year 2022-23. The Director General Audit, Petroleum and Natural Resources, Lahore, conducted audit during audit year 2023-24 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 issues and material audit findings. Sectoral analysis has been added in this report covering strategic review that presents an overall perspective of audit results. Relatively less significant issues have been listed in the **Annexure-1** as MFDAC and will be pursued with the relevant Principal Accounting Officers of the Divisions at Departmental Accounts Committee level and in significant cases where the PAOs do not initiate appropriate action, the audit observations will be brought to the notice of PAC through next year audit report.

Impact Audit - a new concept - has been made part of this report at Chapter-5 which determines results attributable to the provision of gas to various localities and impact thereof on the citizens.

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

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

There are certain audit paras which were also reported in last years' Audit Reports for the financial years 2018-19 to 2021-22. Recurrence of such irregularities is matter of concern and needs to be addressed.

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

-sd-

Islamabad  
Dated: February 22, 2024

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



## TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS		i
EXECUTIVE SUMMARY		v
	<b>Sectoral Analysis</b>	1
<b>CHAPTER-1</b>	<b>Public Financial Management</b>	9
<b>CHAPTER-2</b>	<b>Ministry of Energy (Petroleum Division)</b>	
<b>2.1</b>	<b>Petroleum Division</b>	15
2.1.1	<i>Introduction</i>	15
2.1.2	<i>Classified Summary of Audit Observations</i>	17
2.1.3	<i>Compliance of PAC Directives</i>	18
2.1.4	<i>Audit Paras</i>	20
<b>2.2</b>	<b>Oil &amp; Gas Development Company Limited</b>	60
2.2.1	<i>Introduction</i>	60
2.2.2	<i>Classified Summary of Audit Observations</i>	62
2.2.3	<i>Compliance of PAC Directives</i>	63
2.2.4	<i>Audit Paras</i>	64
<b>2.3</b>	<b>Pakistan Petroleum Limited</b>	85
2.3.1	<i>Introduction</i>	85
2.3.2	<i>Classified Summary of Audit Observations</i>	86
2.3.3	<i>Compliance of PAC Directives</i>	86
2.3.4	<i>Audit Paras</i>	88
<b>2.4</b>	<b>Pakistan State Oil Company Limited</b>	97
2.4.1	<i>Introduction</i>	97
2.4.2	<i>Classified Summary of Audit Observations</i>	98
2.4.3	<i>Compliance of PAC Directives</i>	99
2.4.4	<i>Audit Paras</i>	100
<b>2.5</b>	<b>Sui Northern Gas Pipelines Limited</b>	115
2.5.1	<i>Introduction</i>	115
2.5.2	<i>Classified Summary of Audit Observations</i>	116
2.5.3	<i>Compliance of PAC Directives</i>	116
2.5.4	<i>Audit Paras</i>	118
<b>2.6</b>	<b>Sui Southern Gas Company Limited</b>	152
2.6.1	<i>Introduction</i>	152
2.6.2	<i>Classified Summary of Audit Observations</i>	154
2.6.3	<i>Compliance of PAC Directives</i>	154
2.6.4	<i>Audit Paras</i>	156

2.7	<b>Other Organizations</b>	179
2.7.1	PMDC	179
2.7.2	GHPL	194
2.7.3	SML	207
2.7.4	SSGC-LPG	217
<b>CHAPTER-3</b>	<b>Cabinet Division</b>	
3.1	<b>Oil and Gas Regulatory Authority</b>	223
3.1.1	<i>Introduction</i>	223
3.1.2	<i>Classified Summary of Audit Observations</i>	223
3.1.3	<i>Compliance of PAC Directives</i>	224
3.1.4	<i>Audit Paras</i>	225
<b>CHAPTER-4</b>	<b>Thematic Audit</b>	
4.1	<i>Licensing Regime of Department of Explosives</i>	243
<b>CHAPTER-5</b>	<b>Impact Audit</b>	
5.1	<i>Gas Development Scheme No. 842 “Energy for All”</i>	261
<b>ANNEXURES</b>		
Annexure-1	MFDAC	273
Annexure-2	Audit profile of MoE-Petroleum Division & OGRA	286
Annexure-3	.....	288
Annexure-4	.....	289

## ABBREVIATIONS AND ACRONYMS

AAA	Assan Assignment Account	DDWP	Departmental Development Working Party
AGP	Auditor-General of Pakistan	DDO	Drawing and Disbursing Officer
AGPR	Accountant General Pakistan Revenues	DCs	Deputy Commissioners
AGM	Annual General Meeting	DG (LGs)	Director General Liquefied Gases
AY	Audit Year	DoE	Department of Explosives
BBLs	Barrel (of Oil)	D&P	Development and Production
BCF	Billion Cubic Feet	E&P	Exploration & Production
BESOS	Benazir Employees Stock Option Scheme	ECC	Economic Coordination Committee
BGRC	Bidders' Grievances and Redressal Committee	EPCC	Engineering Procurement, Construction and Commissioning
BoD	Board of Directors	FG	Federal Government
BoM	Board of Management	EOU	Export Oriented Unit
BTU	British Thermal Unit	EOBI	Employees Old Age Benefits Institution
CC&B	Customer Care & Billing	FBR	Federal Board of Revenue
CCI	Council of Common Interests	FCF	Federal Consolidated Fund
CDA	Capital Development Authority	FRR	Final Revenue Requirement
CFO	Chief Financial Officer	FTO	Federal Treasury Officer
CCoE	Cabinet Committee on Energy	FY	Financial Year
CEO	Chief Executive Officer	GDS	Gas Development Surcharge
CGA	Controller General of Accounts	GENCO	Generation Company
CMS	Consumer Meter Station	GFR	General Financial Rules
CNG	Compressed Natural Gas	GHPL	Government Holdings Private Ltd.
CPPs	Captive Power Plants	GIDC	Gas Infrastructure Development Cess
CSR	Corporate Social Responsibility	GM	General Manager
DAC	Departmental Accounts Committee	GoB	Government of Balochistan
DCOs	District Coordination Officers	GoP	Government of Pakistan

GSA	Gas Sales Agreement	MMBTU	Metric Million British Thermal Unit
GSP	Geological Survey of Pakistan	MMCF	Million Cubic Feet
GSPA	Gas Sales and Purchase Agreement	MMCFD	Million Cubic Feet per day
GST	General Sales Tax	MoE - PD	Ministry of Energy-Petroleum Division
HDIP	Hydrocarbon Development Institute of Pakistan	MPCL	Mari Petroleum Company Ltd.
HR	Human Resources	MCC	Metallurgical Corporation of China
HSD	High Speed Diesel	MRDL	MCC Resource Development Company Private Ltd.
HSE	Health, Safety and Environment	MT	Metric Tons
HSFO	High Sulphur Furnace Oil	MoC	Ministry of Commerce
ITB	Instructions to Bidder	NBP	National Bank of Pakistan
IP	Iran Pakistan	NHA	National Highway Authority
IPPs	Independent Power Producers	NICL	National Insurance Company Ltd
ISGS	Inter State Gas System	NMP	National Mineral Policy
JOA	Joint Operating Agreement	NOCs	No Objection Certificates
JV	Joint Venture	OCM	Operational Committee Meeting
KIBOR	Karachi Interbank Offer Rate	OGDCL	Oil and Gas Development Company Ltd.
KMI	Key Monitoring Indicator	OGRA	Oil & Gas Regulatory Authority
KPD	Kunnar-Passaki Deep	OMCs	Oil Marketing Companies
KP	Khyber Pakhtunkhwa	PAC	Public Accounts Committee
KPOGC	Khyber Pakhtunkhwa Oil & Gas Company Ltd.	PAO	Principal Accounting Officer
LMKR	LMK Resources Private Ltd.	PARCO	Pak-Arab Refinery Limited
LNG	Liquefied Natural Gas	PCA	Petroleum Concession Agreement
LPS	Late Payment Surcharge	PD	Petroleum Division
LPG	Liquefied Petroleum Gas	PFM	Public Financial Management
MFDAC	Memorandum for Departmental Accounts Committee	PHPL	Power Holding Private Ltd.
MD	Managing Director	PLL	Pakistan LNG Ltd.
MMBOE	Million Metric Barrel of Oil Equivalent	PMDC	Pakistan Mineral Development Corporation



PNR	Petroleum and Natural Resources	SNGPL	Sui Northern Gas Pipelines Ltd.
PPL	Pakistan Petroleum Ltd.	SOEs	State Owned Entities
PPRA	Public Procurement Regulatory Authority	SOPs	Standard Operating Procedures
PSDP	Public Sector Development Programme	S.R.O.	Statutory Regulatory Order
PSEs	Public Sector Enterprises	SSGC	Sui Southern Gas Company
Psig	Pound per square inch gauge	SWO	Social Welfare Obligation
PSO	Pakistan State Oil	TAPI	Turkmenistan Afghanistan Pakistan India Pipeline
PWD	Public Works Department	TBS	Town Border Stations
RLNG	Re-gassified Liquefied Natural Gas	TCF	Trillion Cubic Feet
ROW	Right of Way	TCM	Technical Committee Meeting
SAP	System Application and Product	TFCs	Term Finance Certificates
SDG	Sustainable Development Goal	UAE	United Arab Emirates
SEZ	Special Economic Zone	UCs	Union Councils
SECP	Securities and Exchange Commission of Pakistan	UFG	Un-accounted For Gas
SML	Saindak Metal Ltd.	USD	United States Dollar
SMS	Sales Meter Station	WLO	Windfall Levy on Oil



## **EXECUTIVE SUMMARY**

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

DG Audit, has a human resource of 75 officers and staff which spent 18,397 man days in carrying out the audit. The annual budget for the audit activities amounted to Rs 209.467 million during the financial year 2023-24. This report contains results of audit inspection and evaluation of financial performance of entities under the audit jurisdiction of this office for the financial year 2022-23.

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

This office is mandated to conduct audit of revenue and expenditure of Ministry of Energy (Petroleum Division), 16 Public Sector Enterprises, Departments under this Ministry comprising of 109 formations and Oil & Gas Regulatory Authority under Cabinet Division. The total financial outlay of Petroleum Division, PSEs and OGRA was Rs 13,856.741 billion and Non-Tax Receipts was Rs 781.188 billion for the financial year 2022-23.

Audit coverage relating to expenditure for the current audit year comprises 38 formations of Ministry of Energy (Petroleum Division), 9 Public Sector Enterprises / Institutes and Oil and Gas Regulatory Authority under Cabinet Division having a total financial outlay of Rs 12,590.005 billion for the financial year 2022-23 which, in terms of percentage, is 91%.

Audit coverage relating to Non-Tax receipts for the current audit year comprises 4 formations of Ministry of Energy (Petroleum Division) having total Non-Tax Receipts of Rs 781.188 billion for the financial year 2022-23.

Thematic Audits of Licensing Regime of Department of Explosives has also been included in this audit report to identify gaps and remedial measures available to address shortcomings in licensing regime of Department of Explosives.

A Chapter on Impact Audit of Gas Development Scheme No. 842-“Energy for All” has also been included in this report which highlights long term impact of the intervention.

In addition to this Compliance Audit Report, this office has also conducted two Financial Attest Audits, two Special Audits, and one Performance Audit of five PSEs. Special Audit Reports and Performance Audit Report will be published separately. Significant paras selected from various Special Audit / Special Studies / IS Audit have also been included in respective chapters.

#### **b. Recoveries at the Instance of Audit**

Recoveries amounting to Rs 1,606.568 billion were pointed out in this audit report. Recovery effected on pointation of Audit from January to December, 2023 is Rs 109.178 billion which has been duly verified by Audit.

#### **c. Audit Methodology**

The audit exercise for the FY 2022-23 started with audit planning and updating permanent files. Desk audit and in-house audit planning sessions were held to develop understanding of the entities and defined core objectives for the subject audit. Accordingly, high risk areas of financial and managerial significance with reference to each entity were identified. Government regulations / BoD proceedings and other events related to the audited organizations were used as reference. Audit tools and procedures were applied keeping in view the nature of transactions, accounting standards and best auditing practices. The audit exercise was conducted on the basis of sample selection from various categories of expenditures and receipts in accordance with the guidelines provided in Financial Audit Manual. Data analysis, interview, survey and contemporary audit techniques were employed in carrying out thematic and impact audit.

#### **d. Audit Impact**

Audit promotes financial transparency, internal controls and efficient project management in auditee formations by improving management’s adherence to competitive procurement processes, transparent recruitments, effective fund utilization and better service delivery. Some of the following developments are quoted as audit impact:

- On pointation of Audit, DG (LGs) started maintaining LPG production and sales data from July, 2023. Further, LPG producing companies have also started submission of monthly return thereby improving monitoring, reconciliation and collection of Petroleum Levy on LPG. [DP No. 2551 & 2556 of AY 2023-24]
- Petroleum Division in March, 2023 changed the mechanism for deposit of Petroleum Levy on continuous pointing out of default by M/s Cnergyico Pk Ltd. Now the recipient of Petroleum product from M/s Cnergyico Pk Ltd. is required to first deposit the amount of Petroleum Levy in Government exchequer and then refinery would deliver the product. [Para 2.1.4.5 AR 2022-23]
- GHPL was recording sales proceeds of disposal of plant and equipment of different E&P companies (depleted fields surrendered by E&P companies) as other income in their accounts. Such sale proceeds are now being deposited in Government exchequer e.g. in case of Konj Gas Plant the proceeds were deposited in Government exchequer by GHPL. [Para 2.1.4.18 of AR 2022-23]

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

Internal controls in any organization comprise policies, procedures, rules, regulations, and monitoring mechanisms etc. These controls help in preventing fraud, waste, and enhance value for money, efficiency and transparency in the processes of the management. Internal controls are essential part of management's efforts to achieve its objectives and goals. A number of internal control weaknesses were observed during the audit and communicated to respective management accordingly.

Financial management in Ministry of Energy (Petroleum Division) was deficient owing to absence of mechanism for assessment / collection of non-tax receipts, recovery of arrears of GDS, GIDC, Petroleum Levy and Royalties. The management solely relied upon the information provided by the companies relating to due receipts.

In case of OGDCL, PSO, PPL, SNGPL, SSGC and PMDC, financial and internal controls lapses were noticed in various procurements. Recurrent violations of Public Procurement Rules leading to wastage of company's

resources were observed. It was also noticed that the project management was one of the weakest areas in PSEs. For example, in case of OGDCL procurement process could not be initiated in time resulted in decline in production. Gas distribution companies failed to control UFG and multiple projects were either time or cost overrun or could not achieve their stated targets. Further, OGRA in performing regulatory functions could not initiate prudent decision, resulting extra cost to Sui Company.

It was noticed that audited annual accounts of 09 Public Sector Enterprises / Authorities (8 pertaining to the financial year 2022-23 and 1 to the previous years) were not finalized within stipulated time and provided to Audit by the prescribed date i.e., December 31, 2023 (Annexure-3).

#### **f. Key Audit Findings**

- i. Accumulation of huge receivables of Rs 1,426.820 billion due to outstanding issue of inter corporate circular debt was noted in 05 paras;<sup>1</sup>
- ii. Petroleum Division failed to utilize GIDC funds of Rs 350,703.057 million for its core purpose i.e. laying of transnational pipelines;<sup>2</sup>
- iii. SNGPL failed to recover cost of RLNG withheld by SSGC amounting to Rs 69,166.000 million;<sup>3</sup>
- iv. SNGPL violated approved Winter Load Management by diverting RLNG to domestic sector in summer months resulting in claim of differential amount of Rs 53,019.000 million;<sup>4</sup>
- v. OGDCL delayed installation of compression facilities at 03 gas fields resulting in production loss of Rs 44,167.182 million;<sup>5</sup>
- vi. OGDCL failed to rationalize operating expenses in 21 uneconomical fields reducing profitability by Rs 32,634.330 million;<sup>6</sup>

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<sup>1</sup> Paras 2.2.4.12, 2.3.4.1, 2.4.4.1, 2.5.4.4 & 2.6.4.5

<sup>2</sup> Para 2.1.4.1

<sup>3</sup> Para 2.5.4.3

<sup>4</sup> Para 2.5.4.26

<sup>5</sup> Para 2.2.4.1

<sup>6</sup> Para 2.2.4.13

- vii. Petroleum Division did not recover Royalty of Rs 27,966.280 million from 09 E&P companies;<sup>7</sup>
- viii. OGDCL failed to observe evaluation criteria due to defective technical bid evaluation awarding contracts of Rs 15,281.475 million to bidders who lacks prescribed experience in 02 cases;<sup>8</sup>
- ix. Petroleum Division failed to recover the Petroleum Levy of Rs 14,631.741 million from a refinery, the incidence thereof had already been passed on to the end consumers;<sup>9</sup>
- x. OGRA approved pipeline project with excess laying of 100 km resulting in unjustified capital expenditure of Rs 10,454.696 million.<sup>10</sup>
- xi. SSGC delayed laying of pipeline project to receive gas from various fields of 03 E&P companies resulting in cost escalation of Rs 8,989.000 million;<sup>11</sup>
- xii. SNGPL failed to complete gas development schemes / jobs in 139 cases within stipulated time - Rs 7,499.132 million;<sup>12</sup>
- xiii. OGDCL failed to enhance oil production / revenue despite installation of 04 submersible pumps - Rs 2,368.000 million;<sup>13</sup>
- xiv. Non-deposit of unclaimed dividend by PSO and SNGPL in Government Account of Rs 1,579.850 million;<sup>14</sup>
- xv. OGDCL failed to recover the share from 02 Joint Venture Partners of Rs 847.932 million;<sup>15</sup> and
- xvi. M/s SML and Metallurgical Corporation of China, MCC failed to fulfil requisite commitments regarding development of skills of locals, processing of ore into finished goods at local level, pre-feasibility

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<sup>7</sup> Para 2.1.4.6

<sup>8</sup> Para 2.2.4.2

<sup>9</sup> Para 2.1.4.7

<sup>10</sup> Para 3.1.4.5

<sup>11</sup> Para 2.6.4.14

<sup>12</sup> Para 2.5.4.10

<sup>13</sup> Para 2.2.4.10

<sup>14</sup> Paras 2.4.4.2 & 2.5.4.33

<sup>15</sup> Para 2.2.4.16

study for establishment of copper refinery, and timely disposal of copper slag in case of Saindak Copper Gold Project.<sup>16</sup>

**g. Recommendations**

- i. Petroleum Division may take up matter with Federal Government for early resolution of ever-increasing Circular Debt;
- ii. Petroleum Division may take up the matter at appropriate fora for completion of gas pipeline projects;
- iii. SNGPL may take the matter to Petroleum Division and OGRA for early resolution of issues between gas companies;
- iv. SNGPL may ensure implementation of ECC decision regarding gas priority order and Natural Gas Allocation and Management Policy, 2005;
- v. OGDCL may identify gaps relating to delay in finalization of important projects with a view to fix the responsibility besides ensuring timely completion of projects;
- vi. OGDCL may rationalize the expenditure on depleting fields to safeguard the interest of the organization;
- vii. Petroleum Division may take steps for early recovery of Royalty;
- viii. OGDCL may probe the matter, fix the responsibility and strengthen its internal controls;
- ix. Petroleum Division may take concrete efforts for recovery of Petroleum Levy;
- x. OGRA may perform its regulatory functions in the public interest and initiate timely corrective action;
- xi. Petroleum Division and SSGC may take concrete action for completion of projects for injection of gas from new fields to overcome gas shortage;
- xii. Petroleum Division may resolve the issue and ensure timely completion of gas development schemes of SNGPL;

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<sup>16</sup> Paras 2.7.3.4.2 & 2.7.3.4.3



- xiii. OGDCL may take remedial measures to achieve intended benefits from the installation of equipment at the earliest to avoid further loss in revenue;
- xiv. PSO and SNGPL may take up the matter with Finance Division and SECP to deposit the unclaimed dividend in Federal Government Account;
- xv. OGDCL may recover the cost from working interest owners and deal the matter as per joint operating agreements; and
- xvi. Petroleum Division should monitor the project to ensure compliance of provisions of agreement.



## Sectoral Analysis

Under Rules of Business, 1973, Petroleum Division, Ministry of Energy, is responsible to administer Petroleum Sector in the country. It deals with policy formulation, legislation, planning regarding exploration, development, production, import and export of petroleum products, matters bearing international aspects and administration of the Petroleum Products and Natural Gas Ordinances, 1961 and 1967 respectively. Petroleum sector holds a pre-eminent position in the economy of Pakistan owing to its share in the national economy, revenue generation, foreign investment and import bill. With a foreign direct investment of Rs 39.179 billion (US\$ 135.1 million) in FY 2022-23, the sector remained one of the leading sources of foreign direct investment<sup>17</sup>. During the same period, this sector raised significant amount of Non-Tax Revenue for the government amounting to Rs 781.188 billion<sup>18</sup>. Imports of petroleum products remained at 30% of total imports<sup>19</sup> in the country with a figure of Rs 4,220.306 billion (US\$ 17,014 million) during the FY 2022-23.

### Achievement against Targets

Petroleum Division reports its performance in terms of budget, geological surveys, exploration, production and distribution of oil and gas and other energy resources. A review of achievement of targets for FYs 2021-22 and 2022-23 is tabulated below:

Item	Unit	2021-22			2022-23		
		Target	Actual	Achievement in %	Target	Actual	Achievement in %
<b>Domestic Production</b>							
Crude Oil	M. B	28.69	26.80	93	27.76	25.60	<b>92</b>
Gas	TCF	1.28	1.23	96	1.40	1.19	<b>85</b>
LPG	M.T	760.94	782.36	103	956.30	741.94	<b>78</b>
<b>No. of wells drilled</b>							
Exploratory	Nos.	44	27	61	24	12	<b>50</b>
Development	Nos.	54	29	54	41	28	<b>68</b>
<b>Gas Consumers Added</b>							
SNGPL	Nos.	303,050	54,405	18	403,050	5,982	<b>01</b>
SSGC	Nos.	134,276	76,349	57	134,276	76,349	<b>57</b>
<b>Gas Network/ Transmission Extension by Gas Companies</b>							
SNGPL	Kms	1532	2327	152%	8,185	838	<b>10</b>
SSGC	Kms	1635	924	56%	1,600	768	<b>48</b>

(Source: Annual Plan 2022-23 and 2023-24 by Planning Commission)

<sup>17</sup> Pakistan Investment Board Data on their official website

<sup>18</sup> Petroleum Division data relating to receipts

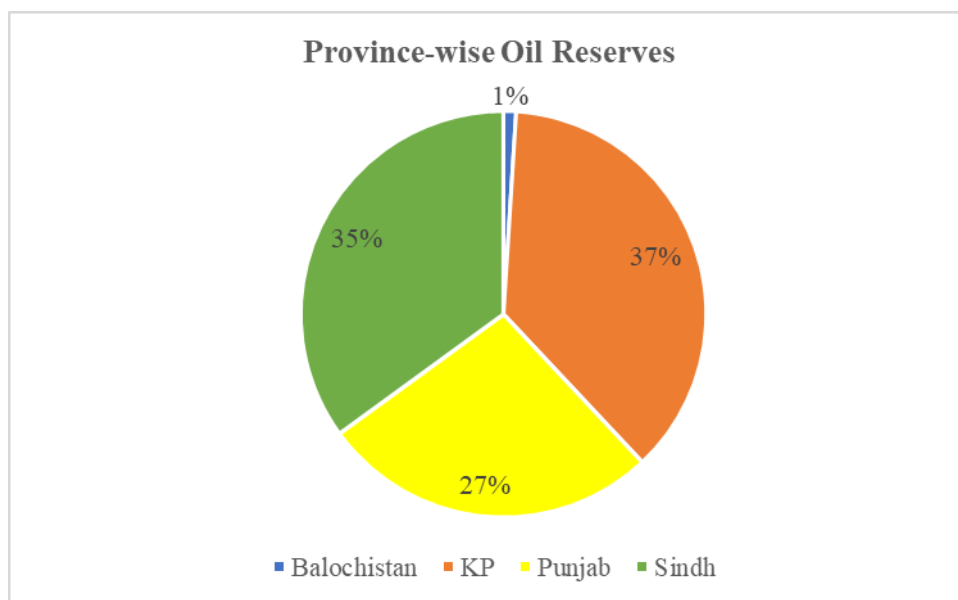
<sup>19</sup> Group-wise imports, MoC data for the FY 2022-23

At a time when the country is looking at ways to reduce its import bill, increased production of indigenous oil and gas could alleviate pressure on the expensive import bill. However, as evident from the above data, Petroleum Division's efforts to achieve its targets for developing wells for exploration and gas network extension seem to be lagging heavily.

### **Production of Oil and Gas Reserves**

#### **Oil**

Domestic production of oil remained 25.372 million barrels against a target of 27.76 million barrels, showing 91% achievement during FY 2022-23. According to Petroleum Division, out of total oil discoveries of 1,228.97 million barrels, 1,036.06 million barrels had already been extracted leaving a balance of 192.91 million barrels of oil reserves in Pakistan. These figures showed that there is need to enhance exploration activities. Following is latest province-wise oil reserves position:

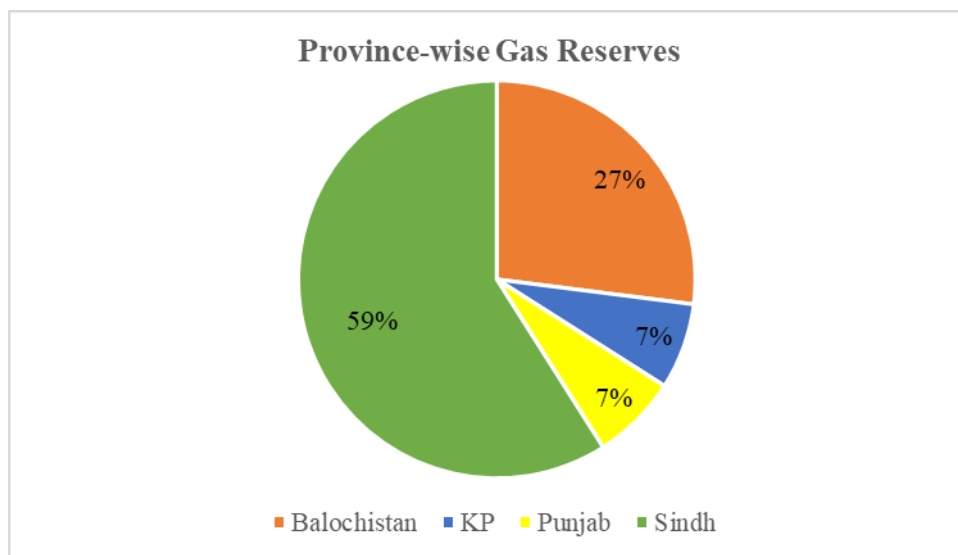


(Source: Data of Petroleum Division)

#### **Gas**

Pakistan had discovered 63.248 TCF reserves of natural gas by June, 2023, out of which around 44.909 TCF had already been consumed. According to Planning Commission, domestic production of gas during FY 2022-23

remained 1.19 TCF against the target of 1.4 TCF. Domestic production of gas during FY 2022-23 remained 1.19 TCF (3256 MMCFD) against the target of 1.4 TCF (3836 MMCFD). Fast depleting reserves and slow pace of new discoveries emphasize the need for doubling the efforts on exploration of new sources. Indigenous gas province-wise reserves position is given in figure below:



(Source: Petroleum Division)

### Gas shortage

Rapid depletion of existing gas reserves is one of the main reasons for increasing gap in demand and supply of natural gas. Domestic production of gas during FY 2022-23 was 1.19 TCF (3,256 MMCFD) against demand of 1.804 TCF<sup>20</sup> (4,943 MMCFD). Thus, leaving a shortfall of 0.614 TCF per annum (1,687 MMCFD). To make good the total shortfall of 0.614 TCF (1,687 MMCFD), 0.321 TCF (880 MMCFD) LNG is imported which constituted 22% of the total supply of natural gas in the system. Net shortfall of 0.295 TCF (807 MMCFD) is 16% of total demand.

Prevalent gas shortage is managed through sectoral prioritization and load management. 1,159 MMCFD (29%) gas was sold to power and fertilizers sectors by gas producers directly. Gas companies also sold 1,162 MMCFD gas to

<sup>20</sup> Petroleum Industry Report - OGRA

power and fertilizer sector. Consequently, power and fertilizer sectors consumed 58% of available gas i.e. 2,321 MMCFD.

Residual 42% gas was available for other sectors including domestic consumers from distribution system. Domestic consumers mainly face acute shortage in winter months due to increased demand. Gas companies fail to increase gas supply owing to non-availability of indigenous gas and exorbitant LNG prices in international market / Geo political crisis.

### **Minerals**

In accordance with Article 172 of the Constitution of Islamic Republic of Pakistan, minerals other than nuclear minerals and those occurring in specified federal areas, fall under the purview of provinces. The Federal Government being responsible for formulation of national policies / plans promulgated National Mineral Policy, 2013 which necessitated the revamping of mineral sector and PMDC, the only federal entity involved in the exploration, mining and marketing of minerals. But NMP, 2013 was not implemented by DG (Mineral) / Petroleum Division and resultantly, revamping of PMDC could not be initiated. Production of main minerals i.e. salt and coal was and 1,206,767 Tons for the FY 2022-23<sup>21</sup>.

Reko Diq has one of the world's largest undeveloped copper-gold deposits and mining field has life of over 40 years. In order to boost the mineral sector and for expeditious extraction of gold and copper reserves, Federal Government took initiative for reconstitution of Reko Diq project. In reconstituted project, Federal Government held 25% shareholding through its three state-owned enterprises (SOEs) namely OGDCL, GHPL, PPL with equal share (8.33% each), Government of Balochistan held 25% shares. M/s Barrick Gold Corporation held 50% share with management and operatorship rights as well. A special purpose vehicle (SPV) namely Pakistan Minerals Private Limited (PMPL) has recently been incorporated. Currently, project feasibility study was in progress which is expected to be completed by the end of 2024.

Another mineral sector project namely Saindak Copper Gold Project which was in operation since 2002 for extraction of copper-gold deposits. The

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<sup>21</sup> Data provided by PMDC

agreement expired in 2012 and extended till 2017. A new agreement was signed in 2017 for five years which was also extended in 2022 for fifteen years.

### **Issues in Ministry of Energy (Petroleum Division)**

Petroleum Division administers Petroleum Sector through its Directorates General, each for Petroleum Concessions, Oil, Gas and Minerals. The Division was unable to provide sufficient human resources in its subordinates directorates which they borrowed from PSEs working under their administrative control. The Division also failed to impart proper training and skills to available meagre human resources despite having ample training funds. The HR constraints hampered the performance of Directorates General of the Petroleum Division which is evident from the issues / lapses delineated in the Report.

DG (PC) deals with Exploration & Production sector to formulate and implement the Petroleum Policies, E&P Rules and Petroleum Concession Agreements. Expired leases of E&P companies were neither renewed nor revoked despite lapse of considerable time leading to operation of producing fields without having valid leases.<sup>22</sup> E&P activities remained slow and production targets, set by the Petroleum Division regarding energy needs of country could not be met.<sup>23</sup> E&P companies remained unable to start production from the discoveries despite lapse of target dates which were extended multiple times but DG (PC) could not take any remedial measures. DG (PC) extended undue benefit to E&P Companies by granting marginal price for the previous eight years beyond its own request.<sup>24</sup> DG (PC) failed to complete the process of taking over the plants and machinery from expired leases and depositing sale proceeds thereof in national exchequer. Petroleum Division in collaboration with Power Division remained unable to mitigate stock and flow of circular debt which reached to its highest level of Rs 1,316.789 billion. This caused liquidity crunch in PSEs.

OGDCL and PPL being major E&P companies of the country could not achieve their own set operational targets (achievement up to 75% was reported) in last three years due to weak oversight by the Board of Directors and defective

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<sup>22</sup> Paras 2.1.4.15 & 16 & DP No. 2395

<sup>23</sup> Para 2.2.4.3 & DP No. 2573

<sup>24</sup> Para 2.1.4.20

performance evaluation system<sup>25</sup>. OGDCL failed to monetize 38 discoveries and production could not be started despite lapse of 13 years<sup>26</sup>. Multiple development and compression projects of E&P companies were substantially delayed leading to decline in production and loss of incremental production and revenue<sup>27</sup>. E&P companies failed to bring loss making fields to profitable fields by increasing revenues and rationalizing the operating expenses. GENCO-II failed to off-take gas supplies from the Kandhkot gas field of PPL as per agreement which affected the company's production and revenue substantially.<sup>28</sup> Further, third-party consultant reported that there was reservoir communication between PPL's Adam West and UEPL's Salamat fields. UEP extracted more gas from interconnected fields, thus, depriving PPL of 118 BCF gas valuing US\$ 400 million. But DG (PC) and PPL remained unable to resolve the dispute and revenue loss could not be made good.<sup>29</sup>

DG Gas failed to finalize the process of amendments in GDS Ordinance, 1967 by placing the matter before Federal Government and the Legislature in order to remove lacunae in Natural Gas (Development Surcharge) Rules, 1967 which is causing blockage of government revenue since 2015. Petroleum Division / DG Gas was unable to implement the OGRA (Amendment) Act, 2021 to incorporate RLNG in OGRA Ordinance, 2002 for pricing purpose and removal of duality of regime.

Gas sector related issues could not be resolved despite repeated pointation of these issues, which had worsened over the years, included gas shortage due to increasing demand and supply gap, unabated UFG losses especially of SSGC hovering around 16%<sup>30</sup>. Circular debt and litigation are causing non-recovery of government revenue and gas charges<sup>31</sup>. SNGPL diverted RLNG to domestic sector in summer months in violation of decision by the Cabinet and claimed the differential amount from the Federal Government<sup>32</sup>.

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<sup>25</sup> Para 2.2.4.11

<sup>26</sup> Para 2.2.4.5

<sup>27</sup> DP No. 2626

<sup>28</sup> Para 2.3.4.7

<sup>29</sup> Para 2.3.4.6

<sup>30</sup> Para 2.6.4.2 & DP Nos. 2717, 2718 & 2734

<sup>31</sup> Para 2.6.4.5 & DP Nos. 2515 & 2552

<sup>32</sup> Para 2.5.4.26



Gas companies over estimated cost of government-sponsored projects which resulted in blockage of funds and did not surrender savings of projects to government over the years<sup>33</sup>. Gas companies failed to complete development projects for injection of indigenous gas from fields despite lapse of 8 years from newly developed fields by E&P companies<sup>34</sup>.

Issues relating to Oil Sector remained unresolved over the years such as non-development / non-maintenance of minimum mandatory storage and stock, expansion of retail network without commensurate storage, illegal expansion of retail network, sale of petroleum / smuggled products by dabba stations / illegal petrol pumps and its monitoring system by DG (Oil) / OGRA<sup>35</sup>. Sub-standard / non-compliant tank lorries of Oil Marketing Companies and LPG Marketing Companies are causing incidents as well as posing serious risks to human lives and properties<sup>36</sup>. M/s Cnergyico refinery was a chronic defaulter and not depositing Petroleum Levy in government treasury since 2018 despite collection from OMCs. PAC in its meeting held on May 17, 2023 also took notice of the matter and issued directives for immediate recovery.

Department of Explosives working under Petroleum Division was unable to execute explosives licencing regime due to legal constraints. Manufacturers of explosives violated terms & conditions of their licenses and manufactured explosive excess than permitted quantity<sup>37</sup>. The functions / regulation of explosives had been devolved on Provinces and law governing the regime could not be modified by the Federal Government. DoE is constrained to approach Provincial / District authorities for taking any action against its licenses for vigilance and initiating any penal action. There is lack of financial expertise in GSP.

A mineral sector project namely Saindak Copper Gold Project operated by M/s SML and Metallurgical Corporation of China (MCC) could not be executed properly. The contractor (MCC) failed to fulfil several commitments, inter alia, development of skills in locals, processing of ore into finished

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<sup>33</sup> Paras 2.5.4.12 & 18

<sup>34</sup> Paras 2.5.4.10 & 2.6.4.14

<sup>35</sup> Paras 2.1.4.26 & 2.4.4.9 & DP No. 2592

<sup>36</sup> Paras 2.4.4.12 & 3.1.4.11

<sup>37</sup> DP No. 2497

goods at local level, establishment of copper refinery, and timely disposal of copper slag.<sup>38</sup>

OGRA has not complied with Treasury Single Account of the Government of Pakistan<sup>39</sup> and remained unable to finalize the RLNG prices which were being notified on provisional basis since 2015. The Regulator could not address the foregoing issues of Oil Sector despite lapse of considerable time. Member Gas showed his reservations on imprudent and uneconomical route of pipeline for injection of gas from Bannu west gas field. LPG Policy was issued in 2016 and till now OGRA failed to comply with conditions of the Policy<sup>40</sup>.

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<sup>38</sup> Para No. 2.7.3.4.1, 2.7.3.4.2 & 2.7.3.4.3

<sup>39</sup> Para No. 3.1.6.1

<sup>40</sup> Para No. 3.1.4.5, 6, 12 & DP No. 2556

## Chapter-1

### Public Financial Management

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

From Financial Attest Audit of Ministry of Energy (Petroleum Division) and GSP for FY 2022-23 following significant issues are as under:

##### ***1.1.1 Shortfall in collection against Revised Budget Estimates - Rs 7,146.000 million***

According to Para 7(1)(k) of Financial Management and Powers of Principal Accounting Officers Regulations, 2021, “Principal Accounting Officer shall be responsible, for budget executions as per plans, policy priorities of the Government, rules and performance agreement. This includes the realization of economic forecasts and projections as well as achievement of goals and targets committed with reference to objective based budgeting.”

During financial attest audit of receipts of DGs (PC and Gas) for the FY 2022-23, it was observed that there was a shortfall between budget estimates and actual collection as detailed below:

(Rs in million)

Head of Account	Description	Revised Budget estimates 2022-23	Actual collection As per AGPR data	Variation between revised target & Actual collection	%age shortfall
C03905	Royalty on Crude Oil	54,000	50,182	3,818	07%
C03902	GDS	14,000	10,672	3,328	24%
<b>Total</b>		<b>68,000</b>	<b>60,854</b>	<b>7,146</b>	

Audit was of the view that due to weak monitoring mechanism, Petroleum Division failed to achieve revenue targets.

The matter was reported to the management in September, 2023. The management in its reply dated October 13, 2023 stated that due to prevailing cash flow, receivable issues and circular debt, E&P companies were unable to clear Government obligation in a timely manner.

The DAC in its meeting held on October 17, 2023 directed the DG (PC) to improve the internal control system on receipts and make efforts to recover the outstanding amount from E&P companies. DAC directed the DG (Gas) to justify

the shortfall in revenue collection especially with reference to the original targets.

Audit recommends to improve the internal controls for collection of receipts and to justify the shortfall in collection of Government receipts, as these were contractual obligations and could not be linked with circular debt.

**Note:** The issue was reported earlier also in the Audit Reports for Audit Years 2022-23, 2019-20 and 2018-19 vide para numbers 1.1.1, 1.2.3 and 1.1.3 having financial impact of Rs 26,473 million, Rs 6,225 million and Rs 66.269 million respectively. Recurrence of same irregularity is a matter of serious concern.

[ML No. 3]

### **1.1.2 Misclassification of receipts - Rs 3,440.899 million**

According to Chart of Accounts issued by CGA, receipts on account of Royalty on Crude Oil are classified under C03905 and receipts on account of Royalty on Natural Gas are classified under C03906. Further, receipts under head Pakistan Telecommunication Authority are classified under C01008. C03808 is meant for receipts under the Mines and Oil fields and Mineral Development Act.

During financial attest audit of receipts of DG (PC) for the FY 2022-23, it was observed that receipts under three heads of accounts were misclassified. This resulted in misclassification of Rs 3,440.899 million as detailed below:

(Rs in million)

Sr. No.	Name of formation	Description of Receipts	Correct head of Accounts	Booked by FTO in incorrect head of Accounts	Amount
1.	DG (PC)	PTA	C01008	C03808	3,429.278
2.	DG (PC)	Royalty on Gas	C03906	C03905	9.816
3.	DG (PC)	Royalty on Crude Oil	C03905	C03808	1.805
<b>Total</b>					<b>3,440.899</b>

Audit was of the view that weak internal controls resulted in misclassification of receipts of Rs 3,440.899 million which impaired the financial statements and submission of incorrect figures of receipts to Finance Division.

The matter was reported to the management in September, 2023. The management in its reply dated October 13, 2023 stated that correction slips in

respect of misclassified amount of Rs 3,429.278 million and Rs 1.805 million were issued to AGPR. FTO, Karachi had been requested to book the misclassified amount of Rs 9.816 million in the correct head of account C03906. However, FTO posted the amount in C03905 instead of C03906.

The DAC in its meeting held on October 17, 2023 directed the DG (PC) to pursue the matter with AGPR and share the output with Audit within 15 days. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter for corrective measures.

**Note:** The issue was reported earlier also in the Audit Reports for Audit Years 2021-22, 2020-21 and 2019-20 vide para numbers 1.1.2, 1.1.3, 1.2.3, 1.2.4 and 1.1.4 having financial impact of Rs 2,186.648 million, Rs 753.768 million, Rs 3,962.621 million and Rs 5.908 million respectively. Recurrence of same irregularity is a matter of serious concern.

[ML No. 2]

### ***1.1.3 Non-surrender of savings - Rs 11.190 million***

According to Para 14(d) of Financial Management and Powers of Principal Accounting Officers Regulations, 2021, “all Ministries, Divisions, attached departments, sub-ordinate offices and autonomous organizations shall surrender to the Finance Division by 31<sup>st</sup> day of May each year, all anticipated savings in the grants or Assignments Accounts or grant-in-aid controlled by them.”

During financial attest audit of GSP for the FY 2022-23, it was observed that savings of Rs 11.190 million under Grant Nos. 35-Current and 124-Development were not surrendered as detailed below:

(Rs in million)				
Grant No.	Type of grant	Final grant	Actual expenditure (Progressive)	Savings
035	Current	1,114.379	1,104.264	10.115
124	Development	124.630	123.555	1.075
<b>Total</b>		<b>1,239.009</b>	<b>1,227.819</b>	<b>11.190</b>

Audit was of the view that non-surrendering of savings not only resulted in non-utilization of the amounts where needed but was also violation of Financial Management and Powers of PAO Regulations, 2021.

The matter was reported to the management in September, 2023. The management in its reply dated October 13, 2023, stated that the savings pertained to 08 spending DDOs of GSP was 0.9% of the final grant which was nominal and negligible amount. Audit contended that as per procedure of Assan Assignment Account, the unspent budget at the close of financial year should had been surrendered by respective offices as per standing instructions but the department failed to comply with the procedure of Financial Management and Powers of PAO Regulations.

The DAC in its meeting held on October 17, 2023 directed the management to furnish the revised reply with detailed justification. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides fixing responsibility for non-compliance with rules.

[MR GSP No. 1.7]

#### ***1.1.4 Violation of procedure of Assan Assignment Account***

According to Para (iv) of general instructions of Assan Assignment Account Procedure (Local Currency), 2020, “the officers of BS-17 or above on payroll of user organization concerned shall be nominated by the PAO as signatories. A signatory on current / acting charge of BS-17 or equivalent may operate the account till he / she holds current charge of BS-17 and shall no more operate the account on the completion of period of current charge.”

During financial attest audit of GSP for the FY 2022-23, it was observed that four Senior Auditors (BS-16) who were allowed to work as AAO in their own pay scale i.e. BS-16 were performing the function of signatories. Whereas the officer holding regular or current charge in BS-17 was required to be nominated as signatory. This resulted in violation of procedure of Assan Assignment Account.

Audit was of the view that due to weak internal controls, Senior Auditors in BS-16 were working as signatories in violation of procedures of AAA.

The matter was reported to the management in September, 2023. The management in its reply dated October 13, 2023, stated that there was an acute shortage of AOs / AAOs. The requisition had been sent to CGA office on

May 04, 2023 for posting of AOs / AAOs in CAO (sub-offices) Karachi, Lahore, Islamabad and Peshawar. However, response from CGA office was awaited.

The DAC in its meeting held on October 17, 2023 directed the management to submit detailed justification for nomination of BPS-16 officers as signatory of Assignment Account in violation of instruction of Finance Division and stop this practice forthwith. No further progress was reported till finalization of the report.

Audit recommends to ensure compliance of procedure of AAA.

[MR GSP No. 1.6]





## **Chapter-2**

### **Ministry of Energy**

#### **2.1 Petroleum Division**

##### **2.1.1(A) 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 Crude Oil and Natural Gas, Rent of lease / license areas, Marine Research Fee and Production Bonus etc. The DG (Oil) deals with Petroleum Levy, Discount retained on local Crude Oil price and Windfall Levy on Crude Oil. The DG (Gas) deals with Gas Development Surcharge and Gas Infrastructure Development Cess. The DG (LGs) deals with the matters relating to liquefied gases and administered collection of Petroleum Levy on Liquefied Petroleum Gas (LPG), whereas DG (Special Projects) coordinates between different directorates of Petroleum Division for implementation of the decisions of Cabinet and its committees.

Geological Survey of Pakistan (GSP) and Department of Explosive (DoE) are the attached departments of the Ministry of Energy (Petroleum Division). GSP is primarily responsible for collection and dissemination of geological information about the country so that the earth's resources could be best exploited and utilized. Department of Explosives implements the enactments and policies of the Government. It is technical-cum-administrative department and its main objective is to enhance the public safety within the licensed premises. The Hydrocarbon Development Institute of Pakistan (HDIP)

is an autonomous Research & Development organization under Ministry of Energy (Petroleum Division).

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

(Rs in million)

Sr. No.	Name of Entity	Auditable Entities	Audited	Expenditure involved FY 2022-23	Revenue involved FY 2022-23
<b>1</b>	<b>MoE (PD) / Bodies / Department</b>				
(i)	Ministry of Energy (PD)	1	1	486.333	781,187.862
(ii)	GSP	1	1	1,227.819	-
(iii)	Department of Explosives	1	1	108.492	512.000
	<b>Sub-total</b>	<b>3</b>	<b>3</b>	<b>1,822.644</b>	<b>781,699.862</b>
(i)	HDIP (expenditure & receipts)	1	-	113.000	-
	<b>Profile of MoE (PD)/Bodies/Dep.</b>	<b>4</b>	<b>3</b>	<b>1,935.644</b>	<b>781,699.862</b>
<b>2</b>	<b>Profile of PSEs under the PAO</b>	<b>16</b>	<b>9</b>	<b>6,545,000.275</b>	<b>7,306,195.380</b>

(Detail is at Annexure-2)

## (B) Comments on Budget and Accounts

A comparison of revised estimates and actual non-tax receipts of the Ministry for the FY 2022-23 is tabulated as follows:

(Rs in million)

Nature of Receipt	Original Target* 2022-23	Revised Target* 2022-23	Collection** 2022-23	Difference from Revised Target	
				Absolute	Percentage
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5 (4-3)</b>	<b>6</b>
Petroleum Levy (C0-3901)	855,000	542,000	579,910	37,910	6.54
Gas Development Surcharge (C0-3902)	40,000	14,000	10,672	(3,328)	(31.18)
Royalty on Oil (C0-3905)	46,000	54,000	50,182	(3,818)	(7.61)
Royalty on Gas (C0-3906)	70,000	65,000	70,131	5,131	7.32
Discount Retained on Local Crude Oil (C0-3910)	20,000	20,000	23,081	3,081	13.35
Windfall Levy (C0-3915)	10,000	30,000	27,731	(2,269)	(8.18)
Gas Infrastructure Development Cess (C0-3916)	30,000	10,000	10,940	940	8.59
Petroleum Levy on LPG (C0-3917)	8000	3450	3419	(31)	(0.91)
Others	2,804	1,674	5,120	3,446	67.30
<b>Total</b>	<b>1,081,804</b>	<b>740,124</b>	<b>781,188</b>	<b>41,062</b>	

\*Explanatory Memorandum of Federal Receipts 2023-2024

\*\* Collection according to AGPR Data

The Ministry collected Rs 781,188 million against revised estimates of Rs 740,124 million for the FY 2022-23. It showed overall excess collection of Rs 41,062 million (5.55% as compared with the revised estimates of receipts).

A comparison of actual receipts between the FYs 2021-22 and 2022-23 is tabulated as follows:

(Rs in million)

Nature of Receipt	Collection		Difference	
	FY: 2022-23	FY: 2021-22	Absolute	%age
1	2	3	4 (2-3)	5
Petroleum Levy (C0-3901)	579,910	127,530	452,380	355
Gas Development Surcharge (C0-3902)	10,672	20,372	(9,700)	(48)
Royalty on Oil (C0-3905)	50,182	43,486	6,696	15
Royalty on Gas (C0-3906)	70,131	50,924	19,207	38
Discount Retained on Local Crude Oil (C0-3910)	23,081	16,504	6,577	40
Windfall Levy (C0-3915)	27,731	14,397	13,334	93
Gas Infrastructure Development Cess (C0-3916)	10,940	18,618	(7,678)	(41)
Petroleum Levy on LPG (C0-3917)	3,419	3,659	(240)	(7)
Others (C0-3506, 3808 and 3870)	5,120	1,385	3,735	270
<b>Total</b>	<b>781,188</b>	<b>296,878</b>	484,310	163

(Source: Financial Statements of the Federal Government for the FY 2022-23 and AGPR Data)

The above table reveals significant improvement in collection of Petroleum Levy of Rs 579,910 million in 2022-23 as compared to Rs 127,530 million in FY 2021-22. However, there was declining trend in collection of Gas Development Surcharge, Gas Infrastructure Development Cess and Petroleum Levy on LPG.

### 2.1.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 851,536.951 million pertaining to Ministry of Energy (Petroleum Division) are reported during the current audit. This also includes recoverable amount of Rs 102,605.560 million. Summary of the audit observations classified by nature is as follows:

## Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	
A	Assessment and Realization of GIDC and GDS	407,519.559
B	Assessment and Realization of Royalties on Crude Oil and Gas	27,966.282
C	Assessment and Realization of Petroleum Levy and Windfall Levy	14,945.290
D	Training Fund, Social Welfare Obligation, Production Bonus and License & Lease rent	6,018.920
E	Exploration & Development Related Issues	358,755.577
2	Others	36,331.323

### 2.1.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
2000-01	6	0	6	0
2001-02	1	0	1	0
2002-03	1	0	1	0
2003-04	1	1	0	100
2004-05	3	0	3	0
2005-06	2	1	1	50
2007-08	4	0	4	0
2008-09	16	10	6	63
2009-10	11	0	11	0
2010-11	27	20	7	74
2011-12	28	12	16	43
2012-13	22	10	12	45
2013-14	31	17	14	55
2014-15	25	9	16	36
2015-16	47	13	34	28
2016-17	49	1	48	2

2017-18	54	14	40	26
2018-19	10	2	8	20
2019-20	9	1	8	89
2020-21	1	0	1	0
2021-22	8	0	8	0
<b>Total</b>	<b>356</b>	<b>112</b>	<b>244</b>	<b>31%</b>

The table shows lacklustre compliance of PAC's directives. Therefore, serious follow up is required to ensure compliance of PAC's directives.

## **2.1.4 Audit Paras**

### **Assessment and Realization of GIDC and GDS**

#### ***2.1.4.1 Slow progress of gas infrastructure development projects resulting in non-utilization of GIDC - Rs 350,703.057 million***

According to Section 4(1) of the Gas Infrastructure Development Cess Act, 2015, “the Cess shall be utilized by the Federal Government for or in connection with infrastructure development of Iran-Pakistan Pipeline Project (IP), Turkmenistan-Afghanistan-Pakistan-India (TAPI) Pipeline Project, LNG or other ancillary projects”.

During audit of DG (Gas) for the FY 2022-23, it was observed that DG (Gas) collected GIDC amounting to Rs 354,046.784 million up to June 30, 2023. However, Federal Government could only utilize Rs 3,343.727 million on operational cost of ISGSL and re-payment of its loan to GHPL. These funds were to be utilized on Turkmenistan-Afghanistan-Pakistan-India pipelines (TAPI), Iran-Pakistan pipeline (IP) and Pakistan Stream Gas Pipeline Project (PSGP). However, progress on these mega gas infrastructure development projects was very slow and no significant headway could be made resulting in non-utilization of GIDC funds of Rs 350,703.057 million.

Audit was of the view that Petroleum Division failed to utilize GIDC for the stated purpose, resulting in stoppage of further collection of GIDC.

The matter was reported to the management in September, 2023. The management in its reply dated December 14, 2023 stated that GIDC funds for gas infrastructure development projects were being requested based on the requirements. An amount of Rs 3,790.000 million had been utilized up to September 30, 2023. Petroleum Division demanded Rs 100 billion in 2017 for these projects which was denied by Finance Division. The expenditure on capital intensive project to be funded from GIDC could not be taken further unless geo-political land scape changed and the sanction regime was done away with.

The DAC in its meeting dated December 20, 2023 directed the DG (Gas) to enhance efforts for early resolution of the matter and expedite utilization of GIDC funds and share outcome with Audit. No further progress was reported till finalization of the report.

Audit recommends Petroleum Division to come up with workable action plan to execute above mentioned projects to overcome prevalent energy crisis in the country.

**Note:** The issue was reported earlier also in the Audit Report for Audit Year 2021-22 vide para number 2.1.4.1 having financial impact of Rs 322,308.775 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2507]

#### ***2.1.4.2 Non-realization of GDS - Rs 33,915.000 million***

According to Section 3 of the Natural Gas Development Surcharge Ordinance, 1967, “every company shall collect and pay to the Federal Government a development surcharge equal to differential margin, in respect of gas sold by it.” Further, according to Rule 3(a) of Natural Gas Development Surcharge (GDS) Rules, 1967 amended up to December 24, 2014, “GDS was payable by the company within one month of the receipts from the consumer.”

During audit of DG (Gas) for the FY 2022-23, it was observed that DG (Gas) did not realize GDS amounting to Rs 33,915.000 million from various companies in respect of gas sold to fertilizer companies. Further, no time limit had been prescribed for companies to pay the GDS collected from consumer. This had given leeway to companies to withheld GDS.

Audit was of the view that weak monitoring by DG (Gas) resulted in non-realization of GDS amounting to Rs 33,915.000 million in time.

The matter was reported to the management in September, 2023. The management in its reply dated December 14, 2023 stated that the amendments in the GDS Ordinance, 1967 were under process. After approval of amendments from the competent forum, the GDS Rules would be amended accordingly.

The DAC in its meeting dated December 20, 2023 directed the DG (Gas) to expedite the amendment in the GDS Ordinance and recover the outstanding amount. No further progress was reported till finalization of the report.

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

**Note:** The issue was reported earlier also in the Audit Reports for Audit Years 2022-23, 2021-22, 2020-21, 2019-20 & 2018-19 vide para numbers 2.1.4.1, 2.1.4.2, 2.1.7.2, 2.1.7.3 & 2.1.5.1 having financial impact of Rs 24,519 million, Rs 42,959.380 million, Rs 25,026.442 million, Rs 20,582.840 million & Rs 30,088.610 million respectively. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2514]

### **2.1.4.3 Inadmissible adjustment of GDS - Rs 14,745.904 million**

According to Section 3(1) of the Natural Gas (Development Surcharge) Ordinance, 1967, “every company shall collect and pay to the Federal Government a development surcharge equal to the differential margin in respect of natural gas sold by it.”

During audit of DG (Gas) for the FY 2022-23, it was observed that DG (Gas) did not recover GDS of Rs 14,745.904 million from MPCL. The shortfall in payment of GDS occurred due to inadmissible adjustments of negative GDS by MPCL on feed stock against GDS payable on fuel stock. As per Natural Gas (Development Surcharge) Ordinance, 1967 and rules, there was no provision for adjustment of negative differential margin against the Gas Development Surcharge. This resulted in reduction of GDS payable to Government by Rs 14,745.904 million as detailed below:

<b>Name of Customer</b>	<b>GDS on feed stock / inadmissible adjustment</b>	<b>GDS on fuel stock</b>	<b>GDS liability booked by MPCL</b>
Engro Fertilizer Ltd.	(920.605)	2,450.644	1,530.038
Fauji Fertilizer-3	(9,184.319)	6,266.720	(2,917.599)
Fatima Fertilizer Ltd.	(3,932.878)	1,986.189	(1,946.689)
Pak- Arab Fertilizer	(708.102)	603.450	(104.652)
Central Power General Co.	-	1,361.234	1,361.234
Foundation Power Co. Ltd.	-	4,656.785	4,656.785
<b>Total</b>	<b>(14,745.904)</b>	<b>17,325.022</b>	<b>2,579.117</b>

Audit was of the view that weak monitoring by DG (Gas) resulted in inadmissible adjustment of GDS amounting to Rs 14,745.904 million.

The matter was reported to the management in September, 2023. The management in its reply dated December 14, 2023 stated that MPCL supplied gas to Fertilizer Sector in accordance with prices notified by OGRA on the



advice of Federal Government. MPCL adjusted the negative differential margin in feed stock against fuel stock. Further, to address the issues of negative GDS, amendments in GDS Ordinance, 1967 were in process.

Audit contended that no tangible efforts to resolve the issue were visible despite repeatedly highlighting the issue in previous audit reports.

The DAC in its meeting dated December 20, 2023 directed the DG (Gas) to expedite the finalization of amendments in GDS Ordinance. No further progress was reported till finalization of the report.

Audit recommends to recover the amount of outstanding amount of GDS from MPCL, ensure discontinuation of the adjustment of negative GDS besides expediting amendments in GDS Ordinance.

**Note:** The issue was reported earlier also in the Audit Reports for Audit Years 2022-23, 2020-21, 2019-20 & 2018-19 vide para numbers 2.1.4.3, 2.1.7.3, 2.1.7.2 and 2.1.5.2 having financial impact of Rs 1,125 million, Rs 3,884.600 million, Rs 34,168.003 million & Rs 2,253.644 million respectively. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2509]

#### ***2.1.4.4 Short realization of GDS and GST - Rs 7,182.173 million***

According to Section 3(1) of Natural Gas (Development Surcharge) Ordinance 1967, “every company shall collect and pay to the Central Government a development surcharge equal to the differential margin in respect of natural gas sold by it.” Further, DG (Gas) while considering the request of MPCL for additional gas allocation from existing reservoir of Habib Rahi Limestone to GENCO-II / Guddu and Engro Fertilizer Ltd. decided vide letter dated March 24, 2016, that gas sales price for the above allocated volumes will be as per Petroleum Policy, 2012 gas price or notified sales price for that category of consumers whichever is higher.

During audit of DG (Gas) for the FY 2022-23, it was observed that DG (Gas) could not ensure implementation of its policy letter dated March 24, 2016 whereby MPCL was obliged to deposit notified GDS as per applicable gas sales prices. This happened due to short payment on fuel stock at less rate by two fertilizer plants. This resulted in short realization of GDS of Rs 6,138.610

million. Further, GST on differential price amounting to Rs 1,043.563 million was also not recovered and paid to FBR by MPCL.

Audit was of the view that weak monitoring by DG (Gas), resulted in short payment of GDS and GST of Rs 7,182.173 million.

The matter was reported to the management in September, 2023. The management in its reply dated December 14, 2023 stated that MPCL was issuing gas sales invoices to Engro Fertilizer Ltd. (EFL) and Pak-Arab Fertilizer Ltd. (PFL) as per letter dated March 24, 2016. However, EFL and PFL were not in agreement with the above stated invoicing / billing mechanism which resulted in differential margin (GDS) on fuel stock along with related GST amounts.

The DAC in its meeting dated December 20, 2023 directed the DG (Gas) to ensure the early recovery. No further progress was reported till finalization of the report.

Audit recommends to recover outstanding GDS and GST from concerned companies.

[DP Nos. 2511 & 2574]

#### ***2.1.4.5 Non-realization of accrued LPS on GIDC - Rs 973.425 million***

According to Section 3(3) of GIDC Act, 2015, “a mark-up at the rate of four percent above three months KIBOR prescribed by the Federal Government shall be payable by gas consumer or the company on any amount due, if the said amount is not paid by the said gas consumer or by the said company.” The Supreme Court of Pakistan in the case of Civil Appeal No 1113/2017 decided that all arrears of Cess that had become due up to July 31, 2020 and had not been recovered so far shall be recovered by the companies responsible under the GIDC Act, 2015 to recover from their consumers. However, as a concession, the same be recovered in twenty-four equal monthly instalments starting from August 01, 2020 without the component of late payment Surcharge. The late payment surcharge shall only become payable for the delays that may occur in the payments of any of the twenty-four instalments.

During audit of DG (Gas) for the FY 2022-23, it was observed that three companies M/s SNGPL, SSGC and PPL did not completely deposit the outstanding GIDC within allowable limit of two years as per Supreme court decision. They were liable to pay LPS on all payment of GIDC up to June, 2023.

However, payment of Rs 7,875.041 million was paid by these companies which should had been made with LPS since it was done after allowable limit. Therefore, accrued LPS amounting to Rs 973.425 million was outstanding on part of the companies.

Audit was of the view that weak monitoring by DG (Gas) and violation of judgment of Supreme Court of Pakistan resulted in non-realization of LPS of Rs 973.425 million.

The matter was reported the management in September, 2023. The management in its reply dated December 14, 2023 stated that in pursuance to the judgment of Supreme Court of Pakistan dated November 02, 2020, the Law & Justice Division (Additional Attorney General) clarified the recovery of GIDC arrears in 48 instalments. The management further stated that appeal against the case had been filed before Supreme Court of Pakistan. The reply was not tenable as the Court in review petition judgment had already rejected the prayer regarding increase of number of instalments from 24 to 48. Hence, the clarification of Additional Attorney General was not in line with the judgment of Supreme Court of Pakistan.

The DAC in its meeting dated December 20, 2023 directed the DG (Gas) to pursue the case vigorously. No further progress was reported till finalization of the report.

Audit recommends to recover the LPS amounting Rs 973.425 million besides pursuing court case vigorously.

**Note:** The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide para number 2.1.4.4 having financial impact of Rs 408.330 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2512]

## **Assessment and Realization of Royalties on Crude Oil and Gas**

### ***2.1.4.6 Non-realization of Royalty on Natural Gas / Crude Oil - Rs 27,966.282 million***

According to the Rules 36, 35 and 38 of the Pakistan Exploration and Production Rules, 1986, 2001 and 2009 respectively, “the licensee or holder of a lease shall pay a Royalty at the rate of 12.5% of the well head value of the

Petroleum produced and saved. Royalty is payable monthly within 10 days of the expiry of the calendar month in question under E&P Rules, 1986 and within 45 days under E&P Rules, 2001 & 2009. Further, if delayed beyond this stipulated period, would attract fine at the rate of the London Inter-Bank Offer Rate (LIBOR) plus two per cent as may be determined by the Authority.”

During audit of DG (PC) for the FY 2022-23, it was observed that DG (PC) did not realize Royalty on Natural Gas and Crude Oil from nine E&P companies on accounts of 68 blocks / fields on sale of natural gas and crude oil. This resulted in non-realization of Royalty and fine amounting to Rs 33,649.565 million.

Audit was of the view that weak monitoring and non-compliance of rules resulted in non-realization of Royalty.

The matter was reported to the management in September, 2023. The management in its reply dated December 12, 2023 stated that an amount of Rs 5,524.415 million had been recovered from OGDCL and an amount of Rs 158.868 million was not due, the same had been verified by Audit. Recovery of remaining amount of Rs 27,966.282 million would be pursued.

The DAC in its meeting dated December 19, 2023 directed the DG (PC) to expedite the recovery of balance amount and provide the updated details of LPS on outstanding amount. Para reduced to the extent of recovered / not due and verified amount of Rs 5,683.283 million. No further progress was reported till finalization of the report.

Audit recommends to recover the Royalty along with fine besides improving monitoring mechanism on receipts.

**Note:** The issue was reported earlier also in the Audit Reports for Audit Years 2022-23, 2021-22, 2020-21, 2019-20 and 2018-19 vide para numbers 2.1.4.7, 2.1.4.7, 2.1.7.6, 2.1.7.11 and 2.1.5.17 having financial impact of Rs 17,348.223 million, Rs 10,720.230 million, Rs 9,657.272 million, Rs 344.944 million and Rs 186.690 million respectively. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2516]

## **Assessment and Realization of Petroleum Levy**

### ***2.1.4.7 Non-payment of Petroleum Levy and LPS on sale of POL products - Rs 14,631.741 million***

According to Section 3 of Petroleum Products (Petroleum Levy) Ordinance, 1961 amended up to June, 2023, “every company, refinery and licensee shall pay to the Federal Government a Petroleum Levy on petroleum products at such rates as may be notified by the Federal Government in the official Gazette, from time to time.” Further, as per Section 40B (1) & 40D (1) of Public Finance Management Act, 2019, non-tax revenue shall be levied and charged in accordance with the provisions of relevant laws and such other applicable instruments and in case if Petroleum Levy is not paid within the time period, an amount equal to monthly weighted financing cost of Government’s domestic borrowings shall be payable during the period of default.

During audit of DG (Oil) for the FY 2022-23, it was observed that M/s Cnergyico PK Ltd. and M/s Hascol did not deposit Petroleum Levy of Rs 14,520.051 million and Rs 289.797 million respectively, on account of sale of POL products. Further, Petroleum Levy amounting to Rs 1,845.176 million was late deposited by M/s Cnergyico PK Ltd. without LPS of Rs 14.676 million. This resulted in non-payment of Petroleum Levy and LPS amounting to Rs 14,824.524 million.

Audit was of the view that weak financial controls resulted in non-realization of Petroleum Levy and LPS on sale of POL products.

The matter was reported to the management in August, 2023. The management in its reply dated December 14, 2023 stated that an amount of Rs 192.783 million had been recovered and verified by Audit. Further, the management stated that M/s Hascol had erroneously deposited Petroleum Levy of Rs 289.797 million under head of Federal Excise Duty and company had requested FBR for correction of head of account.

The DAC in its meeting held on December 20, 2023 directed the DG (Oil) to pursue the recovery of remaining amount and LPS. DAC further reduced the para to the extent of recovered and verified amount of Rs 192.783 million. No further progress was reported till finalization of the report.

Audit recommends to pursue the recovery of outstanding amount.

**Note:** The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide para numbers 2.1.4.5 and 2.1.4.6 having financial impact of Rs 4,002.501 million. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2609, 2610, 2611 & ML No. 02]

**2.1.4.8 Non-deposit of Petroleum Levy on LPG collected from end consumers - Rs 191.479 million**

According to Rule 9 (1&3) 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. A mark up at the rate of four per cent 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 DG (LGs) for the FY 2022-23, it was observed that M/s POL and OGDCL did not deposit Petroleum Levy collected on sale of LPG. The companies sold a quantity of 4,604.13 M. Tons and collected the petroleum levy of Rs 191.479 million from LPG distributing and marketing companies but did not deposit the collected amount in Government treasury. Further, a markup would also be recoverable after recovery of principal amount.

This resulted in non-deposit of Petroleum Levy on LPG amounting to Rs 191.479 million and markup on it.

Audit was of the view that weak monitoring by DG (LGs) resulted in non-deposit of Petroleum Levy on LPG collected from end consumers.

The matter was reported to the management in September, 2023. The management in its reply dated December 13, 2023 stated that DG (LGs) agreed with the Audit. POL and OGDCL were advised to pay off the amount of Petroleum Levy / mark up pointed out by Audit.

The DAC in its meeting dated December 20, 2023, directed the management to step up efforts for deposit of Petroleum Levy within three months. No further progress was reported till finalization of the report.

Audit recommends to recover the amount of Petroleum Levy along with markup vigorously.

[DP Nos. 2546, 2549, 2550, 2553 & 2554]

**2.1.4.9 Short payment of Government dues on sale of LPG by suppression of production quantity - Rs 122.070 million**

According to Rule 9 (1&3) 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. A mark up at the rate of four per cent 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 DG (LGs) for the FY 2022-23, it was observed that LPG producing companies did not pay Petroleum Levy on 2,584 M. Tons of LPG by short reporting of LPG produced. The companies reported a quantity of 309,673 M. Tons to MoE-PD instead of actual production of 312,257 M. Tons as communicated to OGRA by these companies. This resulted in short payment of Government dues including Petroleum Levy amounting to Rs 122.070 million.

Audit was of the view that due to absence of monitoring mechanism, less sale / production was reported which resulted in short payment of Government dues of Rs 122.070 million.

The matter was reported to management in September, 2023. The management in its reply dated December 13, 2023 stated that variation in production data occurred due to wrong calculation of M/s UEPL’s figure for January, 2023. Remaining difference between DG (PC) and OGRA was 180 M. Tons. Audit contended that DG(LGs) was required to reconcile the production and recover Government dues accordingly.

The DAC in its meeting dated December 20, 2023, directed the management to get the stated stance verified from Audit and to present the data in tabulated form to Audit for verification. DAC further directed the management to take up the matter with concerned company / DG (PC) / FBR for reconciliation of production & sale and calculation of Government dues (Petroleum Levy, Royalty and Sales Tax) and directed the relevant company to

deposit the short fall with a copy to FBR and DG (PC). No further progress was reported till finalization of the report.

Audit recommends to recover the amount pointed out besides DG (PC) may devise a monitoring mechanism to ensure accuracy of production data provided by E&P companies.

[DP No. 2551]

## **Training Fund, Social Welfare Obligation and License & Lease Rent**

### ***2.1.4.10 Non-utilization of Training Fund – Rs 3,019.364 million***

According to Para 2 of Guidelines for Management and Utilization of Training Fund 2020, “any unspent training amount generated under PCAs and maintained by DG (PC) shall be utilized for capacity building, strengthening of the Policy Wing of Ministry of Energy (Petroleum Division), Provincial Governments, relevant Government agencies, remunerations of outside professionals engaged on contract, part time legal advisors / technical consultants, and Policy promotional activities, workshops, seminars, conferences & symposia etc.” Further, as per Annexure-I of the Guidelines ibid, long term, medium term and short-term training programme both for technical and management fields should be devised.”

During audit of DG (PC) for the FY 2022-23, it was observed that DG (PC) had a balance of Rs 2,051.442 million in training fund account at the start of FY 2022-23 which swelled to Rs 3,019.364 million. During the year an amount of Rs 37.189 million could only be utilized for the payment of salaries of consultants, visits abroad to attend conferences but no expenditure was incurred on core activity of training for capacity building and strengthening of the Policy Wing of Ministry of Energy (Petroleum Division). This has resulted in non-utilization total amount of Rs 3,019.364 million for intended purposes of training.

Audit was of the view that non-implementation of Policy Guidelines resulted in non-utilization of Training fund amounting to Rs 3,019.364 million at the close of FY 2022-23.

The matter was reported to the management in September, 2023. The management in its reply dated December 12, 2023 stated that Revised Training Fund Guidelines were drafted in early 2023, which included all the provisions



pointed out by Audit. The reply was not tenable as the applicable Guidelines were not implemented.

The DAC in its meeting held on December 19, 2023, directed the management to ensure utilization of funds for training purpose as per 2020 Guidelines. DAC further directed to submit a detailed report regarding utilization of funds to Audit. No further progress was reported till finalization of the report.

Audit recommends to devise a comprehensive plan for utilization of Training Fund for intended purposes.

**Note:** The issue was reported earlier also in the Audit Reports for Audit Years 2022-23, 2020-21 & 2019-20 vide para numbers 2.1.4.17, 2.1.7.11 & 2.1.7.23 having financial impact of Rs 2,051.442 million, Rs 600.226 million & Rs 385.977 million respectively. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2518]

#### **2.1.4.11 Non-realization of Production Bonus – Rs 2,142.822 million**

According to Section 4.1.2 of Petroleum Policy, 2012, “Production Bonus of US\$ 7 million will be payable on a concession area on achievement of cumulative production of 100 MMBOE.” Further, according to Article XXIII of Shakardra PCA (Chanda field), “Production Bonus of US\$ 105,000 will be payable on a concession area on achievement of cumulative production of 30 MMBOE.” Furthermore, Article XXIII of Khipro PCA states that “production bonus of US\$ 5 million will be payable on a concession area on achievement of cumulative production of 100 MMBOE.”

During audit of DG (PC) for the FY 2022-23, it was observed that DG (PC) did not recover Production Bonus amounting to Rs 2,142.822 million from three E&P companies (UEPL, PPL and OGDCL). These companies had achieved specified limit of cumulative production but did not pay Production Bonus. This resulted in non-realization of Production Bonus of Rs 2,142.822 million as detailed below:

Sr. No.	Name of company	Name of Block	Amount in US\$	Outstanding Production Bonus (Rs in million)
1	UEPL	Khipro	7,000,000	2086.000

2	OGDCL	Shakardra	105,000	31,290
3	PPL	Gambat South	50,535	14,149
4	PPL	Kandhkot	38,400	11,443
<b>Total</b>				<b>2,142.882</b>

Audit was of the view that weak monitoring oversight resulted in non-realization of Production Bonus.

The matter was reported to the management in September, 2023. The management in its reply dated December 12, 2023 stated that UEPL was facing severe financial distress due to its receivable issues and informed that it would pay Production Bonus upon receiving of its outstanding invoices. PPL was facing account opening issue with concerned Deputy Commissioner and OGDCL agreed to pay amount of Production Bonus.

The DAC in its meeting held on December 19, 2023 directed the DG (PC) to ensure the recovery of Production Bonus from the companies. DAC further directed to ensure account opening in case of PPL and deposit the amount in case of OGDCL within one month. No further progress was reported till finalization of the report.

Audit recommends to expedite the recovery from the concerned companies. It is also recommended that the matter of bank account may be taken up at the higher level in order to start collection of the outstanding dues from E&P companies and ensure opening of DC / DCO bank account to transfer the funds besides strengthening of internal controls for collection of receipts.

**Note:** The issue was reported earlier also in the Audit Reports for Audit Years 2022-23, 2021-22, 2020-21 & 2018-19 vide para numbers 2.1.4.20, 2.3.4.6, 2.1.7.9 & 2.1.5.15 having financial impact of Rs 286.451 million, Rs 1,985.000 million, Rs 2,124.731 million & Rs 1,291.470 million respectively. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2517 & 2797]

#### **2.1.4.12 Non / short-realization of Training Fund - Rs 426.370 million**

According to Para 4 (i, ii & iii) of the Guidelines for Management and Utilization of Training Fund 2020, 30% of the annual obligation shall be deposited in DG (PC) Training Fund Bank Account, 30% of annual obligation shall be deposited in Provincial Government Account and 40% shall be earmarked by the operator for training of their Pakistani national employees. In

case the operator fails to utilize the training fund as per the approved program, a case for carry forward of such unutilized amount shall be submitted to DG (PC) who may consider the relevant factors and decide on a case to case basis. In case such carry forward is not approved, the unutilized amount shall be deposited in DG (PC) Training Account within seven (7) working days of such decision.

During audit of DG (PC) for the FY 2022-23, it was observed that 06 E&P companies did not pay Training Fund of Rs 192.401 million during the year 2022-23 on account of DG (PC)'s share and Provincial Government's share in respect of 34 Blocks. Further, it was also observed that three E&P companies neither spent Training Fund of four blocks of Rs 272.362 million nor submitted the amount to DG (PC) in pursuance of guidelines. This resulted in non / short-realization of Training Fund of Rs 464.763 million.

Audit was of view that weak regulatory oversight resulted in non / short-realization of Training Fund and non-deposit of unspent balance in DG (PC) Account.

The matter was reported to the management in September, 2023. The management in its reply dated December 12, 2023 stated that an amount of Rs 34.160 million had been recovered and verified by Audit and an amount of Rs 4.233 million was not due and an amount of Rs. 154.008 was under recovery. The management further stated that matter in order to identify the outstanding liabilities of Rs 272.362 million would be probed, then the companies would be directed to deposit the unutilized amount in DG (PC) Account. Audit contended that management was required to finalize the realization of Training Fund of Rs 426.370 million.

The DAC in its meeting held on December 19, 2023 directed the management to expedite the recovery of balance amount and to devise a mechanism for timely deposit of Training Funds. Para reduced to the extent of recovered / not due and verified amount of Rs 38.393 million. DAC also directed the management to pursue the matter with E&P companies and complete the action regarding deposit of un-spent amount in DG (PC) Account within 15 days. No further progress was reported till finalization of the report.

Audit recommends to expedite the recovery of balance amount and device a mechanism for timely deposit of Training Fund / un-spent balance in DG (PC) Account.

**Note:** The issue was reported earlier also in the Audit Reports for Audit Years 2022-23, vide para number 2.1.4.21 having financial impact of Rs 201.734 million. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2521, 2537 & 2541]

#### ***2.1.4.13 Short realization of Social Welfare Obligation - Rs 376.423 million***

According to Annexure VII of the Pakistan Petroleum (Exploration and Production) Policy, 1994 and other policies introduced from time to time read with Clause 4 of Social Welfare Guidelines, 2021, “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 31<sup>st</sup> 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 DG (PC) for the FY 2022-23, it was observed that 10 E&P companies in 61 cases did not either deposit or short deposit Social Welfare Obligation in the joint accounts of the concerned DCOs / DCs. This resulted in short realization of Social Welfare Obligation of US\$ 1,472,667 equivalent to Rs 437.750 million.

Audit was of view that non-observance of policy guidelines resulted in non/short-realization of Social Welfare Obligation of Rs 437.750 million.

The matter was reported to the management in September, 2023. The management in its reply dated December 12, 2023 stated that an amount of Rs 24.951 million had been recovered, an amount of Rs 36.376 million was not due and efforts were being made for recovery of remaining amount of US\$ 1.094 million (Rs 376.423 million).

The DAC in its meeting held on December 19, 2023 directed the DG (PC) to expedite the recovery of balance amount. DAC reduced the para to the extent of recovered / not due and verified amount of Rs 61.327 million. No further progress was reported till finalization of the report.

Audit recommends to recover the SWO from the companies concerned besides strengthening internal controls for collection of receipts.

**Note:** The issue was reported earlier also in the Audit Reports for Audit Years 2022-23, 2021-22, 2020-21, 2019-20 & 2018-19 vide para numbers 2.1.4.23, 2.3.4.6, 2.1.7.12, 2.1.7.25 & 2.1.5.20 having financial impact of Rs 491.943 million, Rs 1,985 million, Rs 245.771 million, Rs 112.190 million & Rs 61.550 million respectively. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2526]

***2.1.4.14 Non-realization of Licence and Lease Rent from E&P companies - Rs 53.941 million***

According to Rules 27 & 38 of Pakistan Petroleum (Exploration and Production) Rules 2001 and Rules 29 & 41 of Pakistan Petroleum (Exploration and Production) Rules 2009 & 2013 respectively, “the licensee shall pay to the Government annually an advance Rent at prescribed rates for onshore and offshore areas.”

During audit of DG (PC) for the FY 2022-23, it was observed that various E&P companies in 98 cases did not pay Licence and Lease Rent of Rs 64.775 million but DG (PC) failed to recover the due amount from the defaulting E&P companies. This resulted in non-realization of Licence and Lease Rent amounting to Rs 64.775 million.

Audit was of the view that weak monitoring resulted in non-realization of Rent amounting to Rs 64.775 million.

The matter was reported to the management in September, 2023. The management in its reply dated December 12, 2023 stated that an amount of Rs 10.468 million had been recovered. An amount of Rs 0.366 million was not due. The recovery of remaining amount of Rs 53.941 million would be pursued.

The DAC in its meeting held on December 19, 2023 directed the DG (PC) to expedite the recovery of balance amount within one month. DAC further directed the management to provide the date wise due and deposit amount of all licenses and leases for verification of Audit within three days. Para reduced to the extent of recovered and verified amount of Rs 10.468 million and not due amount of Rs 0.366 million. No further progress was reported till finalization of the report.

Audit recommends to recover Lease and Licence Rent from E&P companies besides implementing the decision of DAC. It is further recommended that DG (PC) must maintain a real time data of receivables of Licence and Lease Rent from E&P companies.

**Note:** The issue was reported earlier also in the Audit Reports for Audit Years 2022-23, 2021-22, 2020-21, 2019-20 & 2018-19 vide para numbers 2.1.4.22, 2.1.4.9, 2.1.7.3, 2.1.7.24 & 2.1.5.20 having financial impact of Rs 122.561 million, Rs 46.917 million, Rs 147.811 million, Rs 67.570 million & Rs 118.870 million. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2519 & 2773]

### **Exploration & Development Related Issues**

#### ***2.1.4.15 Irregular operation of E&P leases due to non-renewal by DG (PC) - Rs 326,534.452 million***

According to Rule 34 of Pakistan Petroleum (Exploration and Production) Rules, 1949, the initial term of lease was 30 years which could be renewed for another period up to 30 years. Later according to Rule 32 of Pakistan Petroleum Production Rules, 1986, the initial term of lease was reduced to 25 years with a possible renewal of 5 years.

During audit of DG (PC) for the FY 2022-23, it was observed that DG (PC) did not take decision in respect of 38 expired leases during December 31, 2004 to June 26, 2023. The holders of these expired leases continued to extract and sell hydrocarbons amounting to Rs 326,534.452 million. This resulted in irregular operation of E&P leases due to non-renewal by DG (PC) as detailed below:

No of expired leased	Production during 2014-15 to 2022-23		Estimated value Amount (Rs in million)		
	Gas (MMCF)	Oil (BBL)	Gas	Oil	Total
38	7,829,579	223,264	136,205.958	190,328.494	326,534.452

Audit was of the view that due to week regulatory oversight expired leases were not renewed / extended despite lapse of periods up to 19 years.

The matter was reported to the management in September, 2023. The management in its reply dated December 12, 2023 stated that extensions /

renewal of leases was examined / processed but could not be finalized due to various issues. The management further stated that extensions had been granted to 10 leases, in 6 leases reference were sent to Law Division, renewal of 4 leases would be granted subject to settlement of financial obligation and 5 leases had Windfall Levy Obligation issue.

The DAC in its meeting held on December 19, 2023 directed the DG (PC) to get the stated stance verified from Audit. DAC also directed the management to take decisions as per applicable legislation and avoid pending the issues unnecessary. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility on the person(s) at fault besides early decision on renewal of leases.

[DP No. 2532]

***2.1.4.16 Non-recovery of 15% wellhead price due to non-renewal of leases – Rs 21,600.375 million***

According to Section 32 of Pakistan Petroleum (Exploration and Production) Rules, 1986, “the lease shall be for the period for which application was made but not exceeding twenty-five years in respect of the on-shore areas and up to thirty years in respect of the offshore areas. The Government may renew the lease for a period, not exceeding five years.” Further, according to Rule 35 of Pakistan Onshore Petroleum (E&P) Rules 2013, “after the expiry of a lease period, the Authority may renew or re-grant, as the case may be, the lease for up to a further five years, provided the lease holder agrees, at least one year prior to the expiry of the lease period, to pay 15% of wellhead value of petroleum produced to the Federal Government. If such agreement is not concluded the Authority may invite bids from prequalified companies for the grant of a lease over the same, or substantially the same area as the expiring lease, for a term of ten years or such lesser period for which commercial production is expected.”

During audit of DG (PC) for the FY 2022-23, it was observed that development and production (D&P) lease in respect of following fields had completed maximum period of 30 years. However, DG (PC) did not take any decision as Authority on the renewal of the lease. As a result, the 15% of wellhead value was not recovered from the company in pursuance of Rule 35 of

Pakistan Onshore Petroleum (E&P) Rules 2013 despite the fact that production was continued from the field. This resulted in non-recovery of Rs 23,959.539 million on account of 15% of wellhead value of the reservoir as detailed under:

(million)

Name of operator	Name of field	Date of award of D&P lease	30 years period completed	Value of remaining reservoir US\$	15% overhead value US\$	Amount (Rs)
OGDCL	Qadirpur	16.10.1990	15.10.2020	536	80.40	23,898.900
UEPL	Paniro	07.07.1992	06.07.2022	1.360	0.204	60.639
<b>Total</b>						<b>23,959.539</b>

Audit was of the view that due to weak implementation of regulatory framework neither leases were renewed on payment of 15% wellhead price nor bids were invited for award of lease.

The matter was reported to the management in September, 2023. The management in its reply dated December 12, 2023 stated that OGDCL had provided consent for payment of 15% additional wellhead value of the produced petroleum. However, matter of imposition of financial obligations had been referred to Law Division. The D&P lease would be renewed accordingly. An amount of Rs 2,359.164 million on account of 15% wellhead value was recovered from OGDCL and same had been verified by Audit leaving a balance of Rs 21,600.375 million. Further, UEPL had also submitted consent for payment of 15% additional wellhead value and renewal of lease was under process.

The DAC in its meeting held on December 19, 2023 directed the DG (PC) to pursue the case with Law Division and share the outcome with Audit. DAC further directed to recover 15% wellhead value at the time of extension. No further progress was reported till finalization of the report.

Audit recommends to renew the D&P leases and recover the 15% additional wellhead value of produced hydrocarbons.

[DP Nos. 2525 & 2529]



***2.1.4.17 Revival of exploration licences without obtaining performance guarantee - Rs 10,620.750 million***

According to Clause-xii of framework for revival of revoked petroleum exploration licenses through out of court settlement approved by the Federal Cabinet on December 08, 2022, the litigant company and / or the assignees (as the case may be) and / or in case of transfer of units or retention of a block shall provide appropriate guarantees proportionate to their resulting working interest, acceptable to the DG (PC) in accordance with the applicable Rules / PCA against the outstanding work commitment simultaneously with the revival of the block.

During audit of DG (PC) for the FY 2022-23, it was observed that DG (PC) revived 11 exploration licenses as out of court settlements as per above framework. Out of these 11 blocks, regularization letters of only seven exploration licenses were issued having financial value of US\$ 35.700 million equivalent to Rs 10,620.750 million. However, performance guarantees which were required to be obtained from the licensees were not obtained by DG (PC).

Audit was of the view that regularization of blocks without obtaining performance guarantee was gross violation of framework approved by the Federal Cabinet.

The matter was reported to the management in September, 2023. The management in its reply dated December 12, 2023 stated that one of the licensees, PEL provided performance guarantee in the form of first or preferred lien on assets which was already in place for two blocks. In other cases, PEL and Dewan had been directed to provide the performance guarantee. Audit contended that the stance regarding acceptance of old guarantees in form of first or preferred lien on assets for two blocks of PEL was not acceptable because the company provided lien on field which had not been developed despite lapse of 18 years.

The DAC in its meeting held on December 19, 2023 observed that the management had to work on its reply to audit observation in detail. DAC also observed that obtaining performance guarantee was a prerequisite for allowing access to the company in the field. DAC further, directed the management to submit detailed report to Audit for verification on case to case basis. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility on the person(s) responsible for revival of exploration licences without obtaining performance bank guarantee.

[DP Nos. 2572]

#### ***2.1.4.18 Non-monetization of discoveries into production - 2,828.650 BCF gas***

According to Rule 28 of Pakistan (Exploration and Production) Rules, 2001, the Government shall on being satisfied that a commercial discovery has been made and that the terms and conditions of the licence, including the work programme, have been duly observed and performed, or that the holder is in satisfactory progress with the work programme, grant a lease in respect of discovery area within the licence area granted to the applicant.

During audit of DG (PC) for the FY 2022-23, it was observed that DG (PC) in 14 cases failed to bring discoveries in production. Four to twenty nine years had elapsed since these discoveries were made. This resulted in non-monetization of discoveries into production of estimated reserves of 2,828.650 BCF gas.

Audit was of the view that failure to bring the discovered hydrocarbons in production, portrayed the lack of commitment and weak monitoring. Had the production started from these discoveries been timely realized, the prevalent energy crisis could have been mitigated in addition to bringing revenue to national exchequer.

The matter was reported to the management in September, 2023. The management in its reply dated December 12, 2023 stated that the discoveries could not be developed due to various constraints e.g. low BTU, marginal discoveries, tight gas and security situation. DG (PC) made efforts on many fronts to exploit the discovered hydrocarbons i.e. review of Marginal Field Policy, interactive sessions with SNGPL and SSGC, meeting with E&P companies to expedite their development plan.

The DAC in its meeting held on December 19, 2023 directed the DG (PC) to submit discovery wise revised reply incorporating the way forward regarding start of production from these 14 discoveries within three days. No further progress was reported till finalization of the report.

Audit recommends to expedite the efforts to bring the discoveries into production besides implementing the decision of DAC.

[DP No. 2524]

## **Others**

### ***2.1.4.19 Irregular payment of subsidy to export oriented sectors in violation of ECC's decision - Rs 28,224.000 million***

According to ECC's decision dated July 25, 2022, there shall be quarterly review of the subsidy provided to export industry for both gas and electricity. A report will be prepared by the Petroleum Division providing list and amount of all captive units of export-oriented sector who are getting subsidy on account of supply gas / RLNG and subsidized electricity. The report shall be presented to ECC within one month. Further, ECC in its decision dated August 16, 2021, constituted a committee under the convenorship of the Minister for Energy to deliberate the issue of misuse of RLNG supply at concessional rates to export oriented industry and submit viable recommendations to ECC for consideration.

During audit of DG (Gas) for the FY 2022-23, serious irregularities were observed in supply of RLNG supply at concessionary rate to export oriented sector scheme which included (i) missing quarterly review of subsidy provided to export industry showing the list of entitled consumers, contractual load (ii) actual RLNG supplied along with consumer wise export data was not available (iii) verification with MoC and FBR was not ensured to ascertain that customers included in the claims had actually exported the goods manufactured by utilization of subsidized RLNG during the period of claim (iv) no mechanism for 3<sup>rd</sup> party audit / pre-audit of claims was devised. Despite all these shortcomings, DG (Gas) released Rs 28,224.000 million on account of subsidy claims in respect of subsidized RLNG during 2022-23. Further, report of the committee constituted by the ECC under the convenorship of Minister of Energy to address the issue of misuse of RLNG supply at concessionary rate was not provided to Audit.

Audit was of the view that due to weak monitoring by DG (Gas), subsidy claims were paid without proper pre-audit and instructions of the ECC were not complied with.

The matter was reported to the management in September, 2023. The management in its reply dated December 14, 2023 stated that verified claims were submitted to Finance Division on monthly basis before any release with all details related to each consumer availing the tariff. Therefore, submission of separate report to the ECC was not required. The management further, stated that

based on the recommendations of Committee constituted under Convenorship of MoE, a summary was submitted which was accordingly considered by the ECC. The reply was not tenable as no report was provided to Audit.

The DAC in its meeting dated December 20, 2023 directed the DG (Gas) to take up the matter with competent forum for regularization of non-implementation of ECC's directives. No further progress was reported till finalization of the report.

Audit recommends to probe the irregularities and submit its findings before competent forum for appropriate action.

[DP No. 2513]

***2.1.4.20 Un-authorized grant of marginal price incentives - Rs 3,945.399 million***

According to Para E of Marginal Filed Guidelines 2013, the marginal price incentive will be granted on the fulfilment of prescribed conditions, which inter alia includes certification that such gas cannot be produced naturally through conventional method at commercial rates.

During audit of DG (PC) for the FY 2022-23, it was observed that DG (PC) granted price incentive to M/s PEL on Block-22 w.e.f. July 01, 2016 retrospectively despite the fact that company applied for incentive on June 03, 2020. Thereby, undue financial benefit of US\$ 13.273 million equivalent to Rs 3,945.399 million was extended to the company.

Audit was of the view that due to wrong enforcement of guidelines, DG (PC) allowed price incentives with retrospective effect in contravention of application of the company.

The matter was reported to the management in September, 2023. The management in its reply dated December 12, 2023 stated that operator was entitled to marginal field price subject to certification by third party. Third party had certified that field was marginal. Accordingly, approval was sought from the Secretary (Petroleum Division).

The DAC in its meeting held on December 19, 2023 directed the management to submit revised reply. No further progress was reported till finalization of the report.

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

[DP No. 2672]

**2.1.4.21 Non-taking over / un-authorized shifting of installation and facilities of depleted fields - Rs 3,015.408 million**

According to Rule 69(2&3) of Pakistan Petroleum (Exploration and Production) Rules, 1986, “when a lease has expired or has been surrendered wholly or partly, or the use of installations and facilities has come to an end, the Government has the right to take over the permanent installations including related equipment in the lease area which are necessary for the production of Petroleum. This also comprises pipeline transportation and related facilities installed by the holder to secure shipment of Petroleum. At takeover, the installations, including equipment in the lease area, shall be in such condition as good oil industry practices indicate. No compensation will be given to the holder in case of such takeover.”

During audit of DG (PC) for the FY 2022-23, it was observed that the DG (PC) on behalf of Government failed to take over the permanent installations and facilities relating to Panjpir, Nandpur and Bahu fields of OGDCL valuing Rs 1,168.593 million which were surrendered during 2019-20 to 2022-23. Further, DG (PC) failed to observe the un-authorized shifting of plant & installation amounting to Rs 1,846.815 million by 04 E&P companies. This resulted in non-taking / illegal shifting of plant, machinery and installation valuing Rs 3,015.408 million in violation of rules.

Audit was of the view that due to weak monitoring by the Regulator, installations and facilities were not timely taken over and disposed-off.

The matter was reported to the management in September, 2023. The management in its reply dated December 12, 2023 stated that E&P Rules, 1986 were silent on relocation of installations during validity of lease. However, OGDCL had been informed not to relocate the installation without prior approval of Authority in future. Further, DG (PC) authorized GHPL to take over the installations and disposed-off the same on Government behalf. However, GHPL responded that the installation dismantling, retrieval of buried pipeline was not economical to dispose of. Subsequently, Government decided to withdraw its right and authorized OGDCL to decommission the Panjpir field.

The DAC in its meeting held on December 19, 2023 directed the Petroleum Division to conduct fact-finding inquiry to identify the facts and share report to Audit within three months. DAC further directed the management that in case of M/s MOL and POL, to provide the final position within 15 days. No further progress was reported till finalization of the report.

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

[DP Nos. 2540, 2542, 2543 & 2544]

***2.1.4.22 Irregular retention of funds generated from sale of data in commercial bank account & non-utilization thereof - Rs 624.711 million***

According to Section-V of Pakistan Petroleum (Exploration and Production) Policy 2012, “the funds generated through sale of technical data and unspent training amount generated under PCAs and PSAs shall be utilized for capacity building, strengthening of the Policy Wing and Ministry. Further, the Finance Division vide letter dated May 08, 2017 withdrew its earlier permission for opening of bank account for deposit of receipts from sale of data and advised that receipts generated through sale of technical data may be used / utilized through a Public Account under the Head G-Liabilities after getting the rules approved from CGA and Finance Division.”

During audit of DG (PC) for the FY 2022-23, it was observed that funds of Rs 624.711 million generated from the sale of technical data was available in Federal Treasury Account and National Bank of Pakistan instead of depositing the same in the Public Account under the Head G-Liabilities in violation of instructions of the Finance Division. Further, no financial rules regarding utilization of receipts generated from sale of technical data were framed by the Petroleum Division, due to which the funds could not be utilized for capacity building, strengthening of the Policy Wing and Ministry.

Audit was of the view that due to weak financial controls, funds could not be utilized due to non-framing of rules. Further, funds were kept in bank account in violation of the instructions of Finance Division.

The matter was reported to the management in September, 2023. The management in its reply dated December 12, 2023 stated that in May 2017, Finance Division withdrew its earlier stance and advised to maintain the

“G-Liabilities” account for receipts generated through the sale of technical data. Petroleum Division decided to follow up with Finance Division to seek exemption from opening “G-Liabilities” account for transfer of funds and to continue with NBP account. Further, after grant of approval by Finance Division to continue with bank account in NBP, investment strategy would be devised.

The representative of the Finance Division was of the view that disciplinary action should be initiated against who had not implemented the instructions of 2017.

The DAC in its meeting held on December 19, 2023 directed the DG (PC) to immediately follow the instructions of Finance Division regarding closure of commercial bank account, deposit sale proceeds in Public Account and framing of financial rules for the purpose. No further progress was reported till finalization of the report.

Audit recommends to transfer the funds in Public Account, frame the rules and ensure utilization of funds.

**Note:** The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide para numbers 2.1.4.19 having financial impact of Rs 600.087 million respectively. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2523]

#### ***2.1.4.23 Inadmissible claim of expenditure against Royalty Processing Charges - Rs 290.015 million***

According to Clauses 5.1.1 and 5.1.3 of Pakistan Petroleum Royalty Guidelines 2006, “the costs incurred from the point of production (wellhead) to the point of sales will be classified as Royalty Processing Charges and costs must relate to the period in which these are incurred on the basis of good accounting practices.”

During Special Audit of DG (PC) for the FY 2014-15, it was observed that E&P companies incurred expenditure of Rs 131.050 million against pension, leave encashment, bonus, catering, travelling expenses and land compensation etc. and claimed the same against Royalty Processing Charges (RPC). Audit held that the instant expenditure under RPC was not admissible as per guidelines. Further, in another case M/s MOL made short payment of Royalty of Rs 180.00

million by claiming operating / production expenses e.g. purchase of furniture, appliances, inventory incidental cost, well surface facility, road maintenance, security surveillance project and water treatment as capital expenditure. The depreciation / amortization on these items was subsequently claimed as RPC. This resulted in inadmissible claim of RPC amounting to Rs 311.050 million. Moreover, RPC guidelines, 2006 were also not got approved from the competent forum i.e. ECC by DG (PC).

Audit was of the view that weak monitoring by DG (PC) resulted in excess claim on account of RPC by the E&P companies and short payment of Rs 311.050 million on account of Royalty.

The matter was reported to Petroleum Division / DG (PC) in August, 2018. In the DAC meetings held on December 12, 2018 and August 06, 2019, DG (PC) reported recovery of Rs 21.035 million and the same was verified by Audit. It was further stated that the well head surface facilities were part of gathering system under Clause 5.1.6 of RPC Guidelines, 2006 and these could not be treated as wellhead cost. Audit contented that under Clause 5.1.10 of Guidelines *ibid*, gathering means cost associated with pipelines, associated pumps and compressors used to bring crude oil or natural gas from wells by separate lines to a central point. DAC directed the management to get the record verified on case to case basis besides effecting recovery of balance amount of Rs 290.015 million. No further progress was reported till finalization of the report.

Audit recommends to recover outstanding amount on account of Royalty from E&P companies besides improving monitoring by DG (PC).

[Para Nos. 4.3, 4.7 & 4.13 of draft SAR on RPC AY 2018-19]]

#### ***2.1.4.24 Non-provision of financial information in Concession Management System by E&P companies***

According to Clause 2.9 of the contract for the management and operations of Pakistan Petroleum, Exploration and Production Data Repository dated September 28, 2016, the contractor is responsible for maintaining and managing the Concession Management System (CMS) owned by DG (PC). The purpose of the CMS is to facilitate DG (PC) in managing Petroleum Concession Agreements, Production Sharing Agreements, licenses and lease deeds, as well as information related to operators, Royalty payments, Rent, Production



Bonuses, Training Obligations, and other financial obligations arising from granted rights to E&P companies.”

During Information System audit of LMKR, it was observed that E&P companies refused to enter the data in CMS as E&P company database could not be linked with CMS. Further, management of DG (PC) and LMKR did not effectively address the issue of making concession management system fully functional as scanned copies of lease agreements nor financial information like Royalty, Rent, Production Bonuses, Training Obligations, etc. had been uploaded by DG (PC) in CMS.

Audit was of the view that weak internal controls resulted in failure to make Concession Management System functional.

The matter was reported to the management in July, 2023. The department provided irrelevant reply. The department should direct E&P companies to feed financial information in CMS. No further progress was reported till finalization of the report.

Audit recommends to take effective steps to make CMS functional.

[Para No. 5.1.1 of draft IS Report of LMKR]

## **Department of Explosives**

### ***2.1.4.25 Non-realization of renewal fee from licensees having more than two licenses***

According to Clause 3(i) of SRO 42 (KE)/2020 dated April 21, 2020, the Chief Inspector or an Inspector of Explosives authorized by the Chief Inspector of Explosives in his behalf to collect fee for storage / dispensing petroleum products facility for renewal of Form K.

During audit of Department of Explosives for the FY 2022-23, it was observed that the department did not demand / realize the grant / renewal fee from (Form K) licensees having more than two licenses. This resulted in non-realization of Government revenue amounting to Rs 1.692 million based on 187 illustrative cases.

Audit was of the view that weak financial controls resulted in non-realization of Rs 1.692 million.

The matter was reported to the management in October, 2023. The management in its reply dated December 14, 2023 stated that as per SRO No. 139(KE)/2010 dated December 10, 2010 per product fee for grant of licenses in Form K of Petroleum Rules, 1937 had to be realized and same fee should be charged for the renewal of license.

The DAC in its meeting held on December 21, 2023 directed the management to take up the matter with Ministry of Law & Justice for clarification and get the stated stance verified by Audit. No further progress was reported till finalization of the report.

Audit recommends to recover the grant and renewal fee against each Form K issued to retail outlet.

[DP No. 2484]

#### ***2.1.4.26 Illegal operation of retail outlets of M/s AOSPL in Sindh***

According to Rule 34 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules 2016, “the Authority shall initially issue a license for a period of three years during which the marketing infrastructure i.e. storages, retail outlets and filling stations etc. as given in the work programme, shall be completed in accordance with the laid down technical standards.”

During audit of Department of Explosives for the FY 2022-23, it was observed that OGRA allowed M/s AOSPL marketing operations to the extent of Punjab and Kyber Pakhtunkhwa only vide its letter dated January 05, 2018. DoE issued Form K to 151 retail outlets and 14 construction approvals in Sindh to M/s AOSPL in contravention of OGRA’s approval.

Audit was of the view that DG (Explosives) issued Form K to operational sites of M/s AOSPL in Sindh province without concurrence of OGRA.

The matter was reported to the management in October, 2023. The management in its reply dated December 14, 2023 stated that provisional license was issued to M/s AOSPL by the Petroleum Division in year 2005 under which there was no restriction of limiting the marketing operation of the said company. After the issuance of OGRA letter dated January 05, 2018, the marketing operation of M/s AOSPL was restricted to the province of Punjab and Sindh only. The reply was not tenable as two letters of OGRA having same number and

date were provided to Audit, wherein, based on the storage capacity of Tarujaba and Sahiwal, marketing was allowed in Punjab and KP in one letter and in other letter permission was granted for Punjab and Sindh provinces.

The DAC in its meeting held on December 21, 2023 directed the management to conduct fact-finding inquiry and submit report to Audit within three months. No further progress was reported till finalization of the report.

Audit recommends to conduct fact-finding inquiry on the matter besides fixing responsibility on the person(s) at fault.

[DP No. 2490]

#### ***2.1.4.27 Non-initiation of any action against 679 retail outlets closed by the PSO***

According to Rule 121 of Petroleum Rules, 1937, “every licence granted under these Rules shall be liable to be suspended or cancelled by order of the licensing authority for any contravention of the Act or of any Rule thereunder, or of any condition contained in such licence.”

During audit of Department of Explosives for the FY 2022-23, it was observed that PSO cancelled franchise agreements of 679 petrol pumps due to sale of products of other OMCs or petrol pumps were being run by using name and logo of other OMCs. These closed retail outlets had no valid franchise agreement or valid lease agreement. However, Department of Explosives did not cancel / suspend the licence of closed retail outlet of PSO. This resulted in operation of illegal retail outlets without having valid franchise agreements with any OMC.

Audit was of the view that due to weak monitoring controls, closed retail outlets were not cancelled by the Department of Explosives.

The matter was reported to the management in October, 2023. The management in its reply dated December 14, 2023 stated that most of the licenses of retail outlets had already been cancelled / expired and most of the retail outlets had been converted / transferred to other OMCs. For the verification of individual retail outlets, the concerned regional offices had been circulated with the list to confirm the position / status of retail outlets closed by PSO.

The DAC in its meeting held on December 21, 2023 directed the management to take disciplinary action against those who were responsible for not taking action on the request of PSO. Further, DAC directed to provide the updated status of closed retail outlets and get it verified by Audit. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility on persons at fault and expedite cancellation of Forms K of retail outlets operating illegally

[DP No. 2491]

***2.1.4.28 Non-initiation of action by the Department of Explosives against the CNG stations selling flare Gas***

According to Rule 159 (7) of Mineral and Industrial Gas Safety Rules 2010, “an applicant for a new license in Form “B1” granted to manufacture / store / sale and dispense compressed natural gas in connection with dispensing unit for fuelling motor conveyances only.” Further, according to Rule 167 of Rules ibid, “no alteration shall be carried out in the licensed premises until the plan showing such alteration has been approved in writing by the Chief Inspector of Explosives.”

During audit of Department of Explosives for the FY 2022-23, it was observed that SNGPL and SSGC provided list of 25 CNG stations which used flare gas through mobile bowsers. The OGRA took action of cancellation / revocation of licenses after completing legal and codal formalities against such CNG stations and same was communicated to Department of Explosives vide letter dated February 22, 2023 to initiate necessary action against these stations and bowsers but Department initiated action against only 05 CNG stations out of 25 CNG stations.

Audit was of the view that due to weak monitoring the Department failed to take action against CNG stations using flare gas.

The matter was reported to the management in October, 2023. The management in its reply dated December 14, 2023 stated that most of the CNG station owners had filed court cases and matter was sub-judice in different courts.

The DAC in its meeting held on December 21, 2023 directed the management to get the relevant record verified on case to case basis by Audit

and pursue the court cases vigorously. No further progress was reported till finalization of the report.

Audit recommends to expedite the action against CNG stations using flare gas through mobile bowsers besides pursuing court cases.

[DP No. 2498]

#### ***2.1.4.29 Illegal operation of 153 retail outlets by PSO***

According to ECC's decision No. ECC-107/9/2003 dated October 25, 2003, it was directed to maintenance specified stock by all OMCs for 20 days in relation to their projected marketing. Further, OGRA in its regulatory meeting 02 of 2017 held on August 04, 2017 approved criteria for establishment of retail outlets by the oil marketing companies i.e. 2 MT / day as average benchmark for construction of maximum number of retail outlets by all the OMCs corresponding to their available back up storage infrastructure, province-wise."

During audit of Department of Explosives for FY 2022-23, it was observed that PSO was operating 358 retail outlets in excess of limit allowed by OGRA in Punjab province. DoE had issued licences of 1,979 retail outlets in Punjab whereas OGRA had allowed 1,621 retail outlets on the basis of storage capacity. In another case 10 retail outlets of PSO were operating without Form K.

Audit was of the view that weak monitoring controls resulted in illegal construction of retail outlets without valid licence.

The matter was reported to the management in October, 2023. The management in its reply dated December 14, 2023 stated that sealing orders had been issued against 10 illegal retail outlets and the matter had been referred to Ministry to initiate inquiry. Further, 358 number of retail outlets had now been dropped to 143 after enhancement of storage capacity by PSO.

The DAC in its meeting held on December 21, 2023 directed the management to get the stated stance verified by Audit and expedite the matter in respect of 10 retail outlets of PSO with Petroleum Division for early resolution. No further progress was reported till finalization of the report.

Audit recommends to expedite the inquiry process against 10 illegal retail outlets and Ministry may direct PSO to enhance storage capacity.

[DP No. 2499]

## **Geological Survey of Pakistan (GSP)**

### ***2.1.4.30 Mis-procurement due to violation of PPRA Rules - Rs 131.773 million***

According to Rule 8 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. Further, according to Rule 12(2) of PPRA Rules 2004, all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority’s website as well as in other print media or newspapers having wide circulation.

During audit of GSP for the FY 2022-23, it was observed that:

- i) Expenditure of Rs 124 million was incurred on procurement under the cost centre QA9085 without devising Annual Procurement Plan. It transpired that expenditure was incurred in haphazard manner in order to avoid surrender of saving; and
- ii) Tender was advertised on authority website on August 17, 2022 for procurement of spare parts/accessories for GSP, Islamabad. Later on, purchase order was issued to M/s Zebros International Quetta and an amount of Rs 7.773 million was paid to the vendor. The department did not advertise tender in the daily newspaper in violation of rules. The matter was also inquired and the inquiry committee in its report dated May 05, 2023 concluded that Rule 12(2) was violated due to human error and no responsibility was fixed.

Audit was of the view that non-observance of PPRA Rules resulted in mis-procurement of Rs 131.773 million.

The matter was reported to the management in September, 2023. In the DAC meeting held on January 19, 2024, the management stated that tender notice in one case was published on PPRA website but the same could not be appeared in press, surfaced after the repair work of the field vehicles had already been done by the successful (lowest) bidder. Therefore, the retendering option was not available. On the recommendation of the Committee, the technical officer heading the Procurement Branch was replaced from his assignment. In

other case, funds of Rs 287 million were provided to the GSP under re-current budget for Research and Development. The fund was used for Geo-scientific Survey Activities, Drilling Activities and Exploratory Operations. Audit's assertion that Exploratory Operation was the Core Activity of the department was factually incorrect, as Geo-scientific Surveys and laboratory work were also among the core activities of GSP. The Procurements of Goods and Services were made through multiple Tenders as per applicable PPRA rules.

The DAC directed the management to get the irregularity regularized from the Principal Accounting Officer and fix responsibility on the persons at fault and get the stated stance verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides fixing responsibility on person(s) at fault.

[DP Nos. 2612 & 2615]

#### ***2.1.4.31 Irregular re-appropriation of funds of exploratory operations - Rs 59.793 million***

According to Rules 11 & 12 of GFR Vol -I, "each head of a department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant financial rules and regulations both by his own office and by subordinate disbursing officers. A controlling officer must see not only that the total expenditure is kept within the limits of the authorized appropriation but also that the fund allotted to spending units are expended in the public interest and upon objects for which the money was provided."

During audit of GSP for the FY 2022-23, it was observed that an amount of Rs 100 million was granted to GSP under the head 048104-A022-Research Survey and Exploratory Operations during 2022-2023. This head was meant for surveys and exploration. However, at the end of financial year the department not only surrendered an amount of Rs 24.707 million but also re-appropriated an amount of Rs 59.793 million in other heads which transpired that department did not perform exploratory operation. Further, re-appropriation was not done fairly as funds were diverted from core function to recurrent type of heads as detailed below:

(Rs in million)

Classification item	Budget Grant 2022-23	Surrender during the year	Re-appropriation (-)	Final Grant 2022-23	Total expenditure	Saving
Exploratory Operation	100	24.707	59.793	15.500	11.270	4.230

Audit was of the view that weak financial controls resulted in re-appropriation of funds in other heads in order to avoid surrendering.

The matter was reported to the management in September, 2023. The management in its reply dated October 13, 2023 stated that the re-appropriation had been done within approved demand for grant within non-employee related expenditure. Audit contended that budget allocation was already made under the expenditure heads related to (Travelling and Transportation of the filed parties) and re-appropriation of funds from the core activity of the department i.e. exploratory operation without keeping in view the object for which the money was provided. Thus, the management failed to enforce financial order and strict economy as per rules.

The DAC in its meeting held on January 19, 2024 observed that there were serious issues of weak financial management in GSP which resulted in non-observance of austerity measures, delay in adjustment of advances, misprocurement in violation of PPRA Rules and irregular re-appropriation of funds from core activity to operational heads. DAC directed the management to submit detailed reply with justification of re-appropriations. No further progress was reported till finalization of the report.

Audit recommends to justify re-appropriation of funds from exploratory operations.

[DP No. 2788]

#### ***2.1.4.32 Non-adjustment of advances paid to officers / officials - Rs 26.813 million***

According to Para 7.3.1.7 of Accounting Policies and Procedures Manual (APPM), “the unspent balance of all advances, with the exception of the advances, as advised by the MoF, must be repaid before 30<sup>th</sup> June each year.” Further, as per Rule 11.8 of a Manual on Travelling Allowance Rules, 2013, “the advance should be adjusted through T.A. bill immediately on return to headquarters or on 30th June whichever is earlier.”



During audit of GSP for the FY 2022-23, it was observed that contingent and TA advance amounting to Rs 26.813 million was paid to officers/officials to meet out the expenditures for field work & projects up to June, 2023. However, despite lapse of FY 2022-23, adjustment bills were not submitted against these advances, thus the officers kept withheld Government money without adjusting the remaining unutilized amount at the end of year This resulted into non-adjustment of advances amounting to Rs 26.813 million.

Audit was of the view that weak financial controls resulted in non-adjustment of advances amounting Rs 26.813 million.

The matter was reported to the management in September, 2023. The management in its reply dated October 10, 2023 stated that advances were paid to the field officers to meet the expenditures such as POL, field coolies, repair of transport required to be incurred during field excursions as well as to the Drilling Engineers to meet the on-site expenditure of the Exploratory operations. Following the completion of Field / Drilling operations and upon the subsequent return of the officers from the field / drilling camps to their respective office, the adjustments accounts would be submitted to the DDO / Accounts section. As far as the recovery of TA/DA advances was concerned, the notices for recovery of advances had been issued to those officials who had not proceeded for field work as yet. No further advance would be granted to any official till adjustment / recovery of previously granted advance. Reply was not tenable as advances paid had not been adjusted / recovered.

The DAC in its meeting held on January 19, 2024 directed the management to conduct fact-finding inquiry with reference to SOPs for grant of advances and its adjustments and share the same with Audit. DAC further directed recover the unspent balance from concerned and adjust the advances within fortnight and get it reconciled from Chief Account Officer and provide the same for verification. DAC further directed the management to adjust / recover the advance within two months. No further progress was reported till finalization of the report.

Audit recommends to expedite recovery / adjustments of advances and get it reconciled from Chief Account Officer besides providing the same for verification.

**Note:** The issue was reported earlier also in the Audit Reports for Audit Years 2019-20, 2020-21 & 2022-23 vide para numbers 2.17.21, Sr. No. 30 of MFDAC 2.1.4.27 & Sr. No.30 40, 41 of MFDAC respectively having financial impact of Rs 71.500 million. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2613, 2614 & 2621]

***2.1.4.33 Mis-procurement due to issuance of purchase order before executing contract agreement with supplier - Rs 10.613 million***

According to Clause 4 of purchase order dated February 27, 2023, vendor is required to execute contract agreement as mentioned in the tender documents on non-judicial stamp paper at the earliest before supply of items.

During audit of GSP for the FY 2022-23, it was observed that department awarded contracts to M/s GSN Pakistan for procurement of geological equipment through open tendering and issued a purchase order dated February 27, 2023 for Rs 10.613 million. As per condition of purchase order, the contract agreement was required to be executed before supply of items but the agreement was executed after supply of items. This position transpired that agreement was not executed in time as per terms and condition of the bidding documents.

Audit was of the view that due to weak contract management contract agreement was not executed as per general condition of tender documents.

The matter was reported to the management in September, 2023. In DAC meeting held on January 19, 2024, the management stated that the payment of the supplies was made only after the satisfactory report by the technical committee as per specifications of the items. Further, the payment to the vendor was made after the inking of contract agreement. Thus, without entailing any risk, the department secured a longer warranty duration.

The DAC directed the management to conduct fact-finding inquiry in the light of terms and conditions of tender documents and legal provisions of PPRA Rules. No further progress was reported till finalization of the report.

Audit recommends to conduct fact-finding inquiry and share with Audit

[DP No. 2624]

#### ***2.1.4.34 Inadmissible reduction in tax liability payable on income - Rs 2.798 million***

According to Part III Reduction in Tax Liability of Income Tax Ordinance 2001, “income, or classes of income, or person or classes of person, enumerated below, shall be allowed reduction in tax liability to the extent and subject to such conditions as are specified hereunder. Tax payable by a full-time teacher or a researcher, employed in a non-profit education or research institution duly recognized by Higher Education Commission, a Board of Education or a University recognized by the Higher Education Commission, including Government research institution, shall be reduced by an amount equal to 25% of tax payable on his income from salary.”

During audit of GSP for the FY 2022-23, it was observed that employees of GSP claimed a rebate in income from salary being a researcher. However, most of the employees did not fall under category of researcher as per job description but they claimed a rebate in their Income Tax liability. The department paid total tax of Rs 11.193 million on account of salary during the year 2022-23 as per General Ledger. This resulted in inadmissible reduction in tax liability of Rs 2.798 million resulting in short payment of Income Tax.

Audit was of the view that weak financial management resulted in inadmissible reduction in tax liability of Rs 2.798 of employees who were not entitled for rebate as per law.

The matter was reported to the management in September, 2023. The management in DAC meeting dated January 19, 2024 stated that the Deputy Commissioner Inland Revenue Quetta vide its letter dated November, 19,2013 had clarified that the GSP, being a research organization declared by HEC, also falls under the category of Tax Exemption.

The DAC directed the management to recover the tax rebate amount from non-technical staff besides discontinuation of this practice forthwith. No further progress was reported till finalization of the report.

Audit recommends to recover the tax rebate amount from non-technical staff besides stopping granting benefit of rebate.

[DP No. 2617]

#### **2.1.4.35 Non-observance of austerity measures resulting in non-curtailement of expenditure**

According to Para 2 of Finance Division directions dated July 07, 2022, “Principal Accounting Officers shall ensure that consumption of utilities be reduced by 10%, existing entitlement for POL for Government functionaries be reduced by 30% and avoidable travel be curtailed by promoting use of zoom / video links.”

During audit of GSP for the FY 2022-23, it was observed that expenditure under Grant-035 (Current) on account of utilities and travel and transportation was not curtailed and the management failed to observe austerity measures for FY 2022-23. The department not only utilized budget grant pertaining to Utilities and Travel and Transportation by 99% but also enhanced original grant of these heads as detailed below:

(Rs in million)

<b>Head of Accounts</b>	<b>Original Grant</b>	<b>Re-app (+)</b>	<b>Re-app (-)</b>	<b>Final Grant 2022-23</b>	<b>Actual Expenditure 2022-23</b>	<b>Utilization of fund 2022-23</b>
A033-Utilites	18.384	12.442	1.143	29.682	29.64	99.86 %
A038-Travel & Transportation	80.262	15.466	2.978	92.75	91.856	99.04 %

Furthermore, when this utilization compared to original grant of the year 2022-23 was examined, it was found that the utilization of these heads had been 61 % higher in the utilities and 15 higher in the TA/DA heads.

Audit was of the view that non observance of austerity measures resulted into non curtailment of expenditure.

The matter was reported to the management in September, 2023. In DAC meeting held on January 19, 2024, the management stated that Budget Allocation of GSP for Non-Salary head was increased by Finance Division by more than 300% from Rs 164 million in 2021-22 to Rs 495 million in FY 2022-23 to enable the department to enhance its technical activities. Following the Austerity Measures of FD, no expenditure was incurred on account of Purchase of Vehicles, Machinery, Furniture, Newspapers, Refreshment etc. An amount of Rs. 24.706 million was surrendered as austerity cut on non-salary budget. Increase in expenditure on account of Utilities by 93.37% year on year basis was due to

increase in electricity/gas rates. Further, increase in expenditure on account of Travel & Transportation by 332.20% was due to enhanced field work for performing technical activities.

The DAC directed the management to submit revised reply within one month along with month wise / head wise / office wise expenditure details to Audit. No further progress was reported till finalization of the report.

Audit recommends to submit revised reply along with month wise / head wise / office wise expenditure details to Audit.

[DP No. 2616]

## 2.2 Oil and Gas Development Company Limited

### 2.2.1 (A) Introduction

Oil and Gas Development Company Limited (OGDCL) was established in 1961 as a public sector corporation which was converted into a public limited company on October 23, 1997 under the Companies Ordinance, 1984. The company is engaged in exploration and development of oil and gas resources, production and sale of oil and gas and related activities. OGDCL is registered with Pakistan Stock Exchange and London Stock Exchange. GoP holds directly and indirectly 85.02 % of the paid-up capital of the company as on June 30, 2022.

### (B) Comments on Company Performance

Exploration, Production and Financial performance of the OGDCL during the FY 2022-23 is given below:

#### i. Exploration and Drilling Activities

Name of Activity	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18
Oil and Gas Discoveries	3	7	6	5	3	4
Exploration Licenses	57	57	59	51	49	51
Development & Production Lease	77	77	77	76	79	72
2D Seismic Survey -Line KM	1804	2,003	2,539	3,407	1,324	2,073
3D Seismic Survey -Line KM	765	601	600	-	620	792
<b>Total Seismic Survey</b>	<b>2,569</b>	<b>2,604</b>	<b>3,139</b>	<b>3,407</b>	<b>1,944</b>	<b>2,865</b>
Well Drilled (Exploratory / Appraisal, Development)	10	7	20	25	16	20
Cost of Dry & Abandoned Well (Rs in million)	7,161	7,657	8,373	10,026	6,092	10,086
Prospecting Expense	11,861	7,929	8,994	8,187	6,408	6,104
Exploration and Prospecting Expenditure (Rs in million)	<b>19,022</b>	<b>15,586</b>	<b>17,367</b>	<b>18,213</b>	<b>12,500</b>	<b>16,190</b>

## ii. Financial Performance

Quantity sold		2022-23	2021-22	2020-21	2019-20	2018-19	2017-18
Crude Oil	'000' BBLs	11,854	12,528	13,230	12,919	14,555	14,867
Gas	MMCF	278,860	301,286	317,443	326,879	370,217	373,192
LPG	M. Tons	262,800	294,619	293,310	269,806	294,167	250,984
Sulphur	M. Tons	10,585	15,800	24,000	19,000	20,900	24,800
Financial Results		(Rs in billion)					
Net Sales		413.594	335.460	239.100	232.930	261.480	205.340
Other Revenues		154.692	50.690	20.270	39.880	37.150	19.080
Trade-debt		576.968	456.594	358.821	307.563	242.731	163.691
Overdue amount - Circular Debt		510.849	393.170	303.853	262.459	194.179	121.131
Profit before Taxation		383.772	232.520	128.990	144.360	176.600	112.630
Profit for the Year		224.617	133.780	91.530	100.940	118.390	78.740

(Source: Annual Audited Accounts)

## iii Non-achievement of operational targets

Activity / Description	UoM	2022-23			2021-2022		
		Targets	Achieved	% age	Targets	Achieved	% age
Seismic Survey 2D+3D	Line Kms	3,150	2,569	82	4,075	2,000	49
Outsource		150	-	0	1,275	600	47
Total		3,300	2,569	79	5,350	2,000	48
Wells	No.	24	10	42	25	13	52
Net Oil Production	BOPD	37,530	31,320	83	40,000	35,220	88
Net Gas production	MMCFD	890	764	86	1,100	828	75

- i) Production of crude oil, gas, LPG and sulphur was decreased by 8.75%, 7.43%, 11.14% and 54.43% respectively in the FY 2022-23, as compared to previous year;
- ii) Net sales and profit after tax was increased by Rs 78,130.280 million and Rs 90,837.000 million due to impact of increasing international oil prices and rupee devaluation despite decline in production;
- iii) The exploration and prospecting expenditure increased to Rs 19,023.821 million in 2022-23 from Rs 15,585.757 million in 2021-22 (22.06% increase) despite decrease in company's exploration portfolio as evident from above table (Exploration and drilling activities). Seismic surveys

were decreased to 1,804 Line km in 2022-23 from 2,003 Line km in 2021-22. No new exploration license and development & production lease during last three years;

- iv) The company's current assets stood at Rs 959,117.636 million as on June 30, 2022 comprising of trade receivables of Rs 576,968.545 million. Accumulation of huge receivables resulted in increase in debtor turnover to 411 days in FY 2022-23 from 218 days in FY 2017-18. This created liquidity issues which resulted in decrease in payment of dividend to shareholders as evident from dividend pay-out ratio which was reduced from 55% in FY 2017-18 to 16% in FY 2022-23 and cash dividend per share from Rs 10 in FY 2017-18 to Rs 8.55 in FY 2022-23.
- v) In 2013, the GoP approved issuance of TFCs by M/s Power Holding Limited (PHL) for principal Rs 82,000.000 million carrying interest rate KIBOR plus 1% for partial resolution of circular debt. As on June 30, 2023 overdue principal of Rs 82,000.000 million and interest amount of Rs 73,207.000 million were outstanding against M/s PHL; and
- vi) The management failed to meet the major targets set in its business plans (as reflected in table iii above) which showed that either the management was not serious towards achievements of targets or business plan was prepared ambitiously without keeping in view the ground facts.

[DP No. 2656]

## 2.2.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 757,230.553 million were raised during the current audit of OGDCL. This also includes recoverable amount of Rs 579,923.461 million. Summary of the audit observations classified by nature is as follows:

### Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Project & Procurement Management	66,946.304
B	Exploration & Drilling Management	66,086.813
C	Production Management	7,839.645
D	Financial Management	616,357.791
E	HR / Employees Related Irregularities	0



### 2.2.3 Compliance of PAC Directives

<b>Audit Year</b>	<b>Total Directives</b>	<b>Compliance Reported</b>	<b>Compliance Awaited</b>	<b>%age of Compliance</b>
1994-95	19	14	5	74
1995-96	13	11	2	85
1998-99	9	4	5	44
1999-00	11	8	3	73
2000-01	29	24	5	83
2001-02	4	3	1	75
2002-03	5	3	2	60
2003-04	15	8	7	53
2004-05	4	3	1	75
2005-06	23	19	4	83
2006-07	30	29	1	97
2007-08	17	10	7	59
2008-09	13	10	3	77
2009-10	12	9	3	75
2010-11	29	29	0	100
2011-12	19	14	5	74
2012-13	23	20	3	87
2013-14	14	14	0	100
2014-15	32	31	1	97
2015-16	50	41	9	82
2016-17	47	38	9	81
2017-18	36	27	9	75
2018-19	21	17	4	81
2019-20	21	18	3	86
2021-22	11	2	9	18
<b>Total</b>	<b>507</b>	<b>406</b>	<b>101</b>	<b>80%</b>

Overall compliance of PAC directives needs further improvement.

## **2.2.4 Audit Paras**

### **Project & Procurement Management**

#### ***2.2.4.1 Delay in installation of compression facilities resulting in production loss - Rs 44,167.182 million***

According to Rule 38(B)(2) read with Rule 4 of Public Procurement Rules, 2004, the procuring agency shall make a decision with due diligence and in compliance with general principles of procurement like economy, efficiency and value for money. Further, as per recommendation of reservoir study for KPD-TAY gas fields, installation of compression facility will give benefit of incremental production of 42 MMCFD gas and 364 BBL/day condensate, if installed by 2022-23. In case of Dakhni gas field, installation of compression facility will give benefit of incremental production of gas 53,202 MMCF. In case of Qadirpur gas field, the Consultant recommended modification in existing compression facility and incremental revenue of USD 146.2 million till 2026-27 will be achieved if modification in compression is made in 2019-20. Moreover, according to Clause 6.4 of UCH-II GSA, installation of compression facility was required in seventh year of contractor i.e. 2021. As per recommendation of reservoir study, compression facility may be installed by March, 2023 to enhance delivery pressure which will also increase reservoir recovery from 51.6% to 60.1% by 584 BCF gas during the contractual period.”

During audit of OGDCL for the FY 2022-23, it was observed that the management delayed installation of compression facilities at four gas fields due to inefficient procurement process. The management failed to install compression facilities at KPD-TAY gas fields despite lapse of more than 04 years which resulted in production loss of 39,364 MMCF gas and 598,863 Barrels of Oil valuing Rs 21,744.200 million. One example of delay was fifteen months’ delay in start of 3<sup>rd</sup> Party Reservoir Merger Study. Similarly, there was two and half years’ delay in hiring of services of contractor for compression facility. At present the project is stalled due to non-allocation of foreign exchange by the Finance Division. However, the project would need another 16 months after opening of letter of credit.

Similar situations were observed in three other projects i.e. Dakhni-Soghri-Jhand gas fields, Uch gas field and Qadirpur gas field which resulted in production loss of 49.518 BCF gas valuing Rs 22,422.982 million from three

fields. Although the compression facility was installed at Qadirpur in April, 2022 but it took 4 years after the reservoir study report was received (November 2018). During this period, production was declined from 83,846 MMCF to 61,979 MMCF. Moreover, situation in Uch gas field is critical as non-installation of compressor may result in supply of off- spec gas to Uch Power Private Limited and imposition of huge penalty ranging from US\$ 350,000 to US\$ 600,000 per day as per GSA. Project was delayed because multiple reservoir studies were conducted during 2016, 2018 and 2021. Two tenders were floated; one was annulled in February, 2021 and second tender was floated with eight months delay.

Audit was of the view that procurement process in the organization was inefficient as it leads to unnecessary delays and wastage of resources in addition to production losses which in these cases amounted to Rs 44,167.182 million.

The matter was reported to the management in October 2023. In DAC meeting held on January 4 & 5, 2024, the management stated that project of such size required 3 to 5 years for execution. Audit contended that 03-04 years were taken in procurement of EPCC contractor after reservoir study and project would take further 16-18 months for completion after opening of Letter of Credit. These 03 gas fields were under rapid decline and due to delay substantial production loss was observed. Further, production from ten wells of KPD-TAY fields was stopped till June, 2023.

The DAC directed the management to follow up the process and submit detailed reply with supporting documents besides ensuring the timely installation of compression facilities. DAC further directed to rationalize the timeline for bidding process. No further progress was reported till finalization of the report.

Audit recommends to identify the gaps leading to persistent delay in finalization of important projects and consequent production loss and chalk out timelines for each stage of procurement to avoid such delays in future besides ensuring installation of compression facility at the earliest.

[DP Nos. 2633, 2641, 2662 & 2627]

#### ***2.2.4.2 Mis-procurement due to defective technical bid evaluation – Rs 15,281.475 million***

According to Rule 4 read with Rule 29 of Public Procurement Rules, 2004, “procuring agencies shall ensure that the procurements are conducted in a fair and transparent manner the object of procurement brings value for money to the agency and the procurement process is efficient and economical.” Further, according to Clause 1.5(d) eligibility requirement of instructions to bidders (ITB) under Rule 29 *ibid*, “EPCC bidder shall have executed 2 projects each having value US\$ 60 million on EPCC basis in last 10 years. Bidder must submit details of such projects with relevant documentary evidence for their successful completion.” Furthermore, according to Bye-law 7(2) of PEC Construction and Engineering Works 1987, the Council may issue licence to foreign contractor which is mandatory condition as per ITB Clause 1.5 (b) & (c).

During audit of OGDCL for the FY 2022-23, it was observed that the consultant changed the eligibility criteria of PEC licence after opening of the bids. In order to allow M/s Hong Kong Huihua Global Technology Limited (HHGTL) which had only provisional PEC license. Further, the same bidder submitted experience certificates of its parent company and the consultant accepted the same which was not covered under evaluation criteria set in instructions to bidders (ITB). It was also observed that as the bidder did not have the requisite number of completed projects against its experience. Even one project which the bidder claimed to have completed was provisionally accepted by E&P company. In another case relating to installation of compression facility at Dakhni gas field, similar situation was observed where M/s HHGTL was declared successful bidder. This resulted in award of contracts in violation of eligibility criteria for Rs 15,281.475 million.

Audit was of the view that non-observance of PPRA Rules 2004 in awarding contract valuing Rs. 15,281.475 million was considered mis-procurement.

The matter was reported to the management in September & October, 2023. In DAC meeting held on January 4 & 5, 2024, the management stated that submission of provisional PEC License during bidding was acceptable as per Clause 7(2) of PEC Bye-laws, 1987. The bid had been submitted by HHGTL on behalf of China Oil HBP Science and Technology Co. and contract had been

awarded. Audit contended that M/s China Oil HBP Science and Technology Co. did not participate in the bidding and acceptance of parent company's experience not covered under ITB. Further, no reply was furnished regarding provisional completion certificate and submission of standard licence at the time of award of contract.

The DAC directed the management to get the legal basis of their stance relating to PEC license verified by Audit. DAC further directed the management to get it clarified from PPRA whether the experience of holding company could also be considered as that of subsidiary company for evaluation of bids. No further progress was received till finalization of the report.

Audit recommends to probe into the matter to fix the responsibility for violation of ITB and entertaining provisional certificate of PEC at the time of awarding contract.

[DP Nos. 2628 & 2642]

#### ***2.2.4.3 Non-opening of letter of credit resulting delay in imports of equipment and spare parts - Rs 7,407.683 million***

According to Rule 39A of Public Procurement Rules, 2004, "where required the procuring agency may incorporate the provision of letter of credit (LC) and International Chamber of Commerce incoterms (International Commercial Terms), in such processes where shipments and custom clearance are involved and where procuring agency's bank mitigate procurement risk in terms of quality assurance and delivery mechanism and bidder's bank in terms of its payments."

During audit of OGDCL for the FY 2022-23, it was observed that in 116 cases OGDCL management completed procurement process for import of spare parts, equipment and other stores items for exploration & drilling activities. Being imported items, requests were generated to Finance Division for allocation of foreign exchange of US\$ 26,742,539 equivalent to Rs 7,407.683 million in various foreign currencies. The management could not get the requisite foreign exchange released from Finance Division despite lapse of more than 16 months. Resultantly, import of spare parts and equipment could not be finalized.

Audit was of the view that due to non-allocation of foreign exchange by Finance Division, delay in import of spare parts, ongoing E&P activities were affected badly and rapid decline in production could not be arrested.

The matter was reported to the management in September, 2023. The DAC in its meeting held on January 4 & 5, 2024 directed the management to pursue the matter with quarter concerned. No further progress was reported till finalization of the report.

Audit recommends to explore the options of import substitution for purchase of spares and consumables / chemicals or alternate mode of payments besides pursuing the matter with Finance Division through Petroleum Division.

[DP No. 2630]

#### ***2.2.4.4 Unjustified annulment of procurement of chemical due to unwarranted proceedings of Grievance Committee - Rs 89.964 million***

According to Rule 48 of PPRA Rules 2004, the procuring agency shall constitute a committee comprising of odd number of persons to address the complaints of bidders and the GRC shall investigate and decide upon the complaint within ten days of its receipt.

During audit of OGDCL for the FY 2022-23, it was observed that on recommendation of Bidder Grievance and Redressal Committee (BGRC), the management annulled a tender for purchase of chemical. Audit contented that the proceedings of BGRC were unwarranted and against the provisions of PPRA rules, 2004 as complainant was not a bidder and. Further, BGRC did not complete its proceedings in ten days as required under the above rule. Due to delay in proceedings by 5 months the validity period of other bidders expired and the management had to go for re-tendering process. The re-tendering process was finalized at cost of US\$ 1.062 million which was 34.90% higher than the estimated cost and 60.4% higher than the last purchase price. Thus, annulment of 1<sup>st</sup> tender resulted in delayed procurement and extra cost of Rs 89.964 million.

Audit was of the view that due to unwarranted and lengthy proceedings of BGRC and different stances of departments regarding performance of chemical, first tender was annulled resulting in re-tendering on higher cost amounting to Rs 89.964 million.

The matter was reported to the management in September, 2023. In DAC meeting held on January 4 & 5, 2024, the management stated that during technical evaluation, ex-vendor lodged grievance against change of solvent. The BGRC reviewed grievance to uphold transparency, prevent favouritism and to avert any irregularity in the tendering process.

The DAC directed the management to probe the matter and submit report to Audit within one month. No further progress was reported till finalization of the report.

Audit recommends to probe the matter besides expediting procurement of chemical to ensure smooth running of gas processing plant.

[DP No. 2631]

## **Exploration and Drilling Management**

### ***2.2.4.5 Delay in monetization of 38 discoveries and 07 fields - Rs 61,872.079 million***

According to Article 30.1 of Model Petroleum Concession Agreement, “the operator shall conduct all exploration, exploitation, drilling, development, and production operations in accordance with Good International Oilfield Practices and the principles and standards as laid down in the Rules.”

During audit of OGDCL for the FY 2022-23, it was observed that the management as operator announced 55 discoveries during the period FYs 2009-10 to 2021-22 but remained unable to monetize 38 of them. An essential production of 194,584 MMCFD gas and 8,198.217 BPD oil worth Rs 49,125.079 million was expected to be injected in the system. Though these discoveries’ production from 17 remaining discoveries was also delayed for considerable period of time. OGDCL also remained unable to develop other 07 discoveries (i.e. where lease had been granted) since 2005-06 and production from these fields could not be started causing loss of potential revenue of Rs 12,747.000 million. This resulted in loss of potential revenue of Rs 61,872.079 million.

Audit was of the view that delayed monetization of discovered areas and fields rendered company’s investment on exploration and drilling activities fruitless and loss of potential revenue.

The matter was reported to the management in October 2023. In DAC meeting held on January 4 & 5, 2024, the management reported that production in 15 more discovered areas was started. Audit contended that details with evidence regarding start of production was not provided.

The DAC directed the management to submit detailed reply regarding status of 38 discovered areas, and 07 fields with respect to start of production and status of non-producing discoveries. No further progress was reported till finalization of the report.

Audit recommends to justify delayed monetization of discoveries besides expediting production by increased efforts.

[DP No. 2644]

#### ***2.2.4.6 Inefficient utilization of contractor rigs – Rs 2,543.976 million***

According to Article 30.1 of Model Petroleum Concession Agreement, the operator shall conduct all exploration, and drilling operations in accordance with Good International Oilfield Practices. The operator shall endeavour to minimize exploration, development, production and operation costs. Further, according to Annual Business Plans for the FYs 2021-22 and 2022-23, operational targets for work over wells i.e. 25 and 24 respectively were fixed with the approval of BoD.

During audit of OGDCL for the FY 2022-23, it was observed that the management did not fully utilize the 7 contractor rigs. During FYs 2021-22 and 2022-23, these rigs were operated for only 2,135 days out of available 3,135 days (68% usage). The wastage was more pronounced in two of these rigs which operated for only 54% of the available time (937 days out of 1,731 days). Consequently, overall operational targets for drilling could not be achieved and only 09 wells could be drilled against a target of 13 assigned to contractor rigs. The expenditure of Rs 2,543.976 million spent on wasted days was not justified.

Audit was of the view that due to inefficient rig deployment schedule, drilling targets for last two years were not achieved despite incurrence of huge expenditure.

The matter was reported to the management in October 2023. In DAC meeting held on January 4 & 5, 2024, the management stated that extra days



were consumed due to operational complications. Further, as per agreement, contractor was allowed lump sum payment of 330 days at the rate of US\$ 16,020 per day during operational activities. However, during stacking / dismantling of rig no payment was made to contractor. Audit contended that specific rig-wise reply was not given and 46% wastage of time by 2 rigs was unjustified.

The DAC directed the management to submit category-wise use and rig-wise detailed reply to Audit. No further progress was reported till finalization of the report.

Audit recommends to justify inefficient utilization of contractor rigs and wastage of 46% operating time of two contractor rigs.

[DP No. 2640]

#### ***2.2.4.7 Unjustified expenditure on unutilized rigs - Rs 1,670.758 million***

According to Article 30.1 of Model Petroleum Concession Agreement, “the operator shall conduct all exploration, exploitation, drilling, development, and production operations in accordance with Good International Oilfield Practices and the principles and standards as laid down in the rules. The operator shall endeavour to minimize exploration, development, production and operation costs. Further, according to Annual Business Plans for the FYs 2021-22 and 2022-23, operational targets for drilling of wells were 25 and 24 respectively were fixed with the approval of BoD.”

During the audit of OGDCL for the FY 2022-23, it was observed that the management did not rationalize expenditure on two company owned rigs which were not in use being out of order. A huge expenditure of Rs 732.623 million was incurred on rig number N-1 which performed only 03 jobs since August, 2021. It was also pointed out 124,540 litre of HSD valuing Rs 31.135 million was issued after its stacking in January, 2023. Similarly, an expenditure of Rs 907.000 million was incurred without any rationalization on rig number N-4 which was stacked in June, 2023 for repairing. This resulted in unjustified expenditure of Rs 1,670.758 million due to non-rationalization of huge rig crews and other expenses despite limited drilling operations. Moreover, no alternative arrangement was made to achieve the drilling targets and only 23 wells out of 49 planned wells were drilled during the FYs 2021-22 and 2022-23.

Audit was of the view that non-rationalization of expenditure on stacked rigs resulted in unjustified expenditure of Rs 1,670.758 million.

The matter was reported to the management in October, 2023. In DAC meeting held on January 4 & 5, 2024, the management stated that rig number N-1 was temporarily stacked due to shortage of consumable spares because of Government restrictions on imports, whereas rig number N-4 was affected with flood and substructure was shifted to M/s Karachi Shipyard & Engineering Works for repair. Minimum crew was retained at number N-4. Audit contended that management did not prioritize the import of spares for rigs despite the allocation of foreign exchange of US\$ 12 million during FY 2022-23. No rationalization of expenditure and rig crew on stacked rig number N-1 was done and no documentary evidence of minimum rig crew at rig number N-4 was provided. Further, management did not take any decision regarding rig number N-1 for repair or its retirement.

The DAC directed the management to submit detailed justification and chronology of the events relating to rigs N-1 and N-4 with supporting documents within one week. No further progress was reported till finalization of the report.

Audit recommends to justify non-rationalization of rig crew and expenditure on two rigs and take early decision on stacked rig number N-1 for retirement besides putting rig number N-4 on operation after completion of repair work.

[DP Nos. 2637 & 2638]

## **Production Management**

### ***2.2.4.8 Excess transit losses and unverified quantity - Rs 3,084.953 million***

According to Article 1.2 Appendix-A (Accounting Procedure) of Model Petroleum Concession Agreement, “the operator shall maintain and keep true and correct records of the production and disposition of all Petroleum under the Concession Agreement and the Joint Operating Agreement.”

During audit of OGDCL for the FY 2022-23, it was observed that during the period from 2019-20 to 2022-23, 7,248 MMCF gas produced valuing Rs 2,174.400 million and 2,417 barrels of crude oil valuing Rs 24.170 million could not be accounted for in the reconciliation statements. Moreover, there were exorbitant transit losses of 187,530 barrels of crude oil valuing Rs 886.383

million. This resulted in abnormal transit losses and unaccounted for quantities of crude oil and gas amounting to Rs 3,084.953 million

Audit was of the view that weak control mechanism resulted in huge discrepancies in production and actual sales and abnormal transit losses.

The matter was reported to the management in October 2023. In DAC meeting held on January 4 & 5, 2024, the management stated that the transit losses will be recovered from the carriage contractors and no reply was given relating to unverified quantities of oil and gas.

The DAC directed the management to provide justification for abnormal transit losses and to sort out unverified quantity of oil and gas besides submitting detailed report on unverified quantity of gas with documentary evidence. No further progress was reported till finalization of the report.

Audit recommends to recover transit losses and sort out unverified quantities of oil and gas in order to ensure proper accountal of production.

[DP Nos. 2650]

#### ***2.2.4.9 Loss due to flaring of quality gas - Rs 2,386.692 million***

According to Article 30.3 of Model PCA, “the operator shall not flare Natural Gas but shall use it commercially or for recycling.” Further, according to Article 1.2 Appendix-A (Accounting Procedure) of Model Petroleum Concession Agreement, “the Operator shall maintain and keep true and correct records of the production and disposition of all Petroleum under the Concession Agreement and the Joint Operating Agreement.”

During audit of OGDCL for the FY 2022-23, reconciliation of gas produced and sold revealed that the management flared 9,471 MMCF gas valuing Rs 2,386.692 million in Qadirpur gas field during the FYs 2019-20 to 2022-23. It was pointed out by JV partners of OGDCL during operational committee meeting dated December 18, 2019 that the gas being flared was quality gas and asked OGDCL to take remedial measures. The management failed to reduce flaring substantially resulting in loss to joint venture and national exchequer.

Audit was of the view that inaction for reduction of flaring of quality gas as highlighted by JV partners resulted in loss of Rs 2,386.692 million in four years.

The matter was reported to the management in October, 2023. The management did not submit relevant reply.

The DAC in its meeting held on 4 & 5 January, 2024 directed the management to submit detailed report on flared gas at Qadirpur field with documentary evidence. No further progress was reported till finalization of the report.

Audit recommends to probe the matter of flaring of quality gas at Qadirpur gas field and share detailed report with Audit.

[DP No. 2715]

***2.2.4.10 Non-installation of procured ESPs resulted in non-achievement of production enhancement - Rs 2,368.000 million***

According to Rule 4 read with Rule 38B(2) of Public Procurement Rules, 2004, “procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency. As per feasibility and economic viability, installation of 5 ESP, average oil production from the 05 wells would increase from 2,500 to 5,800 standard barrels and additional expected reserves are 9 million standard barrels with expected incremental revenue of approximately US \$81 million.”

During audit of OGDCL for the FY 2022-23, it was observed that management procured 05 Electrical Submersible Pumps (ESP) at total cost of Rs 474.224 million in January, 2022. However, the intended benefits from this procurement could not be achieved. One ESP could not be installed at all. Production was stopped altogether in two wells out of four where ESPs were installed. In remaining two wells where ESPs were installed the increase in production was only 26% of expected incremental production as per feasibility report. This resulted in non-achievement of incremental revenue of Rs 2,368.000 million. It was also observed that the management changed the contract condition for Factory Acceptance Test (FAT) after delivery of all ESPs. This created serious doubts about the performance of equipment purchased.

Audit was of the view that due to weak project management resulted in failure to achieve desired level of production.

The matter was reported to the management in October 2023. In DAC meeting held on January 4 & 5, 2024, the management stated that due to technical issue in Lashari Center-5 well, ESP was not installed and it was decided to install the ESP in upcoming development well Sono-9 by last week of Dec-2023. ESPs were pulled out from Pasakhi North-3 well and Sono-4 well due to technical issues.

The DAC directed the management to get the increase in production of Paskhi-2, Sono-4 and Sono-7 verified by Audit. DAC further directed to install the remaining two ESPs besides justification for non-conducting of factory acceptance test. No further progress was reported till finalization of the report.

Audit recommends to justify non-installation of ESPs and their sub-optimal performance. Changing the condition of non-conducting FAT may also be justified.

[DP No. 2651]

#### ***2.2.4.11 Non-achievement of production targets***

According to Article 30.1 of Model Petroleum Concession Agreement, “the operator shall endeavour to maximize the ultimate economic recovery of Petroleum. Further, according to Annual Business Plans for the FYs 2020-21 to 2022-23, operational targets for production targets were fixed with the approval of BoD.”

During audit of OGDCL for the FY 2022-23, it was observed that the management could not achieve the targets set for the years 2019-20, 2020-21 and 2021-22. There was shortfall in achievement of production targets in 26 oil fields and 21 gas fields. This resulted in shortfall in production of 1,633,320 barrels of crude oil and 136,731 MMCF gas.

Audit was of the view that failure in taking timely initiatives for production enhancement and optimization resulted in shortfall in production of oil and gas.

The matter was reported to the management in October 2023. In DAC meeting held on January 4 & 5, 2024, the management stated that production

from Uch and Qadirpur fields depended on the requirements of buyers and Qadirpur gas field had undergone decline at the rate of 13% during the period.

The DAC directed the management to ensure the achievement of targets and submit comprehensive report on shortfall in production on case to case basis. No further progress was received till finalization of the report.

Audit recommends to justify non-achievement of production targets and take initiatives for production enhancement and optimization.

**Note:** The issue was reported earlier also in the Audit Report for the Audit Year 2022-23 vide para number 2.2.4.37. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2648 & 2649]

## **Financial Management**

### ***2.2.4.12 Non-recovery of trade receivables from gas companies and refineries – Rs 576,968.545 million***

According to Clause 7.02 of the GSPAs, the buyer of gas shall pay within 30 days of invoice in the designated bank account share of each partner and in foreign exchange within 45 days from the date of receipt of invoice. Similarly, as per COSA, the refinery shall pay due amount within two months from the date of receipt of invoice from each partner of the producing field.

During audit of OGDCL for the FY 2022-23, it was observed that an amount of Rs 576,968.545 million was outstanding as on June 30, 2023, mainly on account of inter-corporate circular debt from gas companies and power producers. An amount of Rs 30,897.796 million was also receivable from oil refineries. Major companies from which the recoveries were due were SNGPL, SSGC, Uch Power Private Limited and Attock Refinery Limited. Out of total receivables, an amount of Rs 351,614 million (61%) was outstanding beyond one year which included Rs 2,946.269 million pertaining to oil refineries and other consumers.

Audit was of the view that poor receivable management and non-resolution of circular debt issue resulted in non-recovery of outstanding amount of Rs 576,451.714 million.

The matter was reported to the management in October, 2023. In DAC meeting held on 4 & 5 January, 2024, the management stated that during the months of June and July 2023, GOP had partially settled the circular debt of Uch Power Limited wherein Pakistan Investment Bonds (PIBs) of Rs 22.600 billion and cash of Rs 7.800 billion was recovered. Audit contended that reported recovery was not got verified.

The DAC directed the management to follow up the recovery of outstanding amount besides getting the recovered amount verified by Audit. No further progress was reported till finalization of the report.

Audit recommends to expedite the recovery of outstanding amount besides pursuing the issue of circular debt with the Petroleum Division / Federal Government.

**Note:** The issue was reported earlier also in the Audit Report for Audit Year 2019-20 vide para number 2.2.6.39 having financial impact of Rs 321,241 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2657]

**2.2.4.13 Loss due to operation of uneconomical fields and non-rationalization of expenses – Rs 32,634.330 million**

According to Article 30.1 of Model Petroleum Concession Agreement, “the operator shall endeavour to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of Petroleum.”

During audit of OGDCL for the FY 2022-23, it was observed that the company suffered heavy losses in 21 fields from 2017-18 to 2021-22 due to incurring huge expenses as compared to the revenue from those fields. The management however, did not initiate any corrective measures to improve the working of these fields, thus causing a loss of Rs 32,634.330 million to the company. Details of top loss-making fields involving 88.5% of total amount is given below:

(Rs in million)					
Field name	Net Sales	Royalty	OPEX	Transportation cost	Operating profit / (Loss)
Pirkoh	97.302	7.749	10,862.676	0	(10,773.123)

Tando Alam	7,145.078	530.330	12,345.807	119.248	(5,850.307)
Loti	4,196.155	303.578	7,378.562	183.300	(3,669.285)
Dhodak	1,471.090	157.892	5,066.856	3.586	(3,757.244)
Dakhni	15,318.855	1,816.148	16,338.322	46.601	(2,882.217)
Chak Naurang	2,376.392	292.612	2,817.431	29.972	(763.623)
Miano	1,539.178	134.837	2,154.125		(749.784)
Saand	716.514	93.017	1,056.983		(433.486)
<b>Total</b>					<b>(28,879.071)</b>

Audit was of the view that failure of company to rationalize the operating expenses resulted in loss of Rs 32,634.330 million.

The matter was reported to the management in October, 2023. In DAC meeting held on January 4 & 5, 2024, the management stated that major loss pertained to Pirkoh and Loti fields and management was making all out efforts to rationalize and reduce the losses although a few situations were not under the control of the company.

The DAC directed the management to get the profitability of Tando Alam complex verified by Audit. DAC further directed to make efforts to reduce the losses from these fields. No further progress was reported till finalization of the report.

Audit recommends to rationalize the expenditure in uneconomical fields.

**Note:** The issue was reported earlier also in the Audit Report for Audit Year 2019-20 vide para number 2.2.6.68 having financial impact of Rs 47,749.652 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2659 & 2652]

#### **2.2.4.14 Undue retention of funds of BESOS - Rs 3,800 million**

According to orders of Supreme Court of Pakistan in case numbers C.A.421/2018, 422/2018 and 423/2018 dated October 22, 2020, Benazir Employees Stock Option Scheme (BESOS) was executed in breach of Article of 154 of the Constitution of the Islamic Republic of Pakistan. Further, according to the Privatization Commission of Pakistan and Finance Division instructions vide letter dated December 30, 2020 and 09 May 2022 respectively, fund maintained by PCP has been closed since December 2020, therefore, the amounts retained



on account of Employees Empowerment Fund be directly deposited in the Federal Consolidated Fund maintained by Finance Division.

During audit of OGDCL for the FY 2022-23, it was observed that OGDCL Employees' Empowerment Trust (OEET) held shares worth Rs 33,459 million under the BESOS. In April, 2022, OEET transferred dividend amount of Rs 2,316 million and interest earned of Rs 1,484 million aggregating to Rs 3,800 million. However, the order of the Supreme Court of Pakistan was not implemented despite lapse of more than 3 years. This resulted in undue retention of funds of BESOS amounting to Rs 3,800 million.

Audit was of the view that management of OGDCL retained the BESOS amount of Rs 3,800 million in violation of orders of the Supreme Court of Pakistan, Privatization Commission of Pakistan and Finance Division.

The matter was reported to the management in October 2023. In DAC meeting held on January 4 & 5, 2024, the management stated that matter was in discussion between OGDCL and GoP. The matter had been examined in detail by Ministry of Energy and Ministry of Finance. Audit contended that orders of Supreme Court of Pakistan, Privatization Commission and Finance Division were not complied with despite lapse of more than 3 years.

DAC directed the management to follow up the case with Finance Division. No further progress was reported till finalization of the report.

Audit recommends expeditious deposit of BESOS amount of Rs 3,800 million in Federal Consolidated Fund.

[DP No. 2658]

***2.2.4.15 Non-settlement of insurance claim regarding TAL block warehouse fire incident - Rs 2,106.984 million***

According to Article 22.2 of PCA read with Clause 10.2 of JOA, "operator shall duly file all claims with respect to insurance arranged and maintained by the operator and shall take all necessary and proper steps to collect the proceeds and properly apply them in accordance with the terms of this JOA."

During audit of OGDCL for the FY 2022-23, it was observed that OGDCL was working interest owner of 27.76% in TAL block with JV partners

of GHPL, PPL and MOL (operator). A fire incident occurred at TAL block's warehouse located in Makori Central Processing Facilities on September 21, 2022 which caused damage to inventory / spares. Resultantly, operator filed an insurance claim with relevant insurers / loss adjuster based on initial estimates of US\$ 33 million equivalent to Rs 7,590.000 million having OGDCL's share of Rs 2,106.984 million. However, this claim was yet to be realized despite lapse of twelve months.

Audit was of the view that weak JV management by OGDCL resulted in non-settlement of insurance claim through Operator regarding TAL block warehouse fire incident.

The matter was reported to the management in October, 2023.

The DAC in its meeting held on 4 & 5 January, 2024 directed the management to pursue the case vigorously and share the outcome with Audit. No further progress was received till finalization of the report.

Audit recommends to justify delay in settlement of insurance claim besides actively pursuing the case with operator for early recovery.

[DP No. 2655]

#### ***2.2.4.16 Non-recovery of share from Joint Venture Partners – Rs 847.932 million***

According to Clause 18.2 of Model PCA, “the operator shall submit an itemized estimate of expenditures for each month and each Working Interest Owner shall pay to the operator its proportionate share of such estimated expenditures in monthly instalments. Each monthly instalment shall be paid as provided for in the Joint Operating Agreement.”

During audit of OGDCL for the FY 2022-23, it was observed that the management failed to recover its share of expenditure from its joint venture partners i.e. GHPL in Sinjhor, Nashpa, Guddu, Khuzdar North, Tando Allah Yar, Chanda, Khewari, Bitrisim, Pasni West, Orakzai and Tirah blocks amounting to Rs 1,273.851 million and KPOGCL in Tirah and Orakzai blocks amounting to Rs 1,340.155 million and Sindh Energy Holding Company Ltd. (SEHCL) in Guddu block amounting to Rs 7.777 million aggregating to Rs 2,621.783 million.

Audit was of the view that weak Joint Venture management resulted in non-recovery of share of expenditure from JVP of Rs 2,621.783 million.

The matter was reported to the management in October, 2023. In DAC meeting held on January 4 & 5, 2024, the management stated that OGDCL made recoveries of Rs 1,273.851 million from GHPL and Rs 500 million from KPOGCL. Audit contended that recovery of Rs. 1,773.851 million had been verified and para had been reduced to Rs. 847.932 million.

The DAC directed to expedite the recovery of balance amount. No further progress was reported till finalization of the report.

Audit recommends to expedite the recovery of JVP share of Rs 847.932 million.

**Note:** The issue was reported earlier also in the Audit Report for Audit Year 2018-19 vide para number 2.2.4.9 having financial impact of Rs 117.534 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2653]

#### ***2.2.4.17 Non preparation of Joint Accounts for Joint Ventures***

According to Article 22.1 of Model Petroleum Concession Agreement, “the operator shall maintain correct and accurate records and accounts of all Expenditures made for Joint Operations, of all production obtained from the Area and of all property acquired for the Joint Account or disposed of in accordance with normal industry practices and the Accounting Procedure. The accounts shall be audited for the period from the Effective Date to end of the Calendar Year, and thereafter annually by an independent firm of chartered accountants selected by the Operator and approved by the Operating Committee. Copies of the audit reports shall be delivered to The President and to each of the Working Interest Owners within six Months of the end of each Calendar year.”

During audit of OGDCL for the FY 2022-23, it was observed that the company was operator in 45 JV exploration licenses. However, accounts of these JVs were not provided to Audit despite repeated reminders and pursuance. Later on, it was apprised by the management that accounts of 26 JVs were not prepared for the CY 2022.

Audit was of the view that poor joint venture management resulted in non-preparation of joint accounts and non-conducting of audit of 26 joint accounts for the CY 2022.

The matter was reported to the management in October, 2023. In DAC meeting held on January 4 & 5, 2024, the management stated that audit of 19 joint accounts had been completed for CY 2022 and shared with Audit. Remaining 26 joint accounts were in progress.

The DAC directed the management to complete the remaining joint accounts' audit expeditiously. No further progress was reported till finalization of the report.

Audit recommends to expedite the audit of joint accounts and provide the audited copies of JV accounts for audit scrutiny. It is also recommended that the timelines for completion of JV accounts may be strictly observed for better financial control.

[DP No. 2654]

## **HR / Admin Related Issues**

### ***2.2.4.18 Unauthorized absence from duty and joining without prior approval of MD/CEO***

According to Rule 86 read with Rule 119(e & f) read with Rule 122 of OGDCL Service Rules, 2002, service of an employee may be terminated, if any employee leaves the company, without notice or absents himself from duty without leave, he shall be liable to be punished under relevant rules. Further, OGDCL's circular dated November 11, 2020, cases of authorized absenteeism joining / regularization of leave of officer up to 180 days will be approved by MD/CEO and beyond 180 days approving authority is BoD.

During Audit of OGDCL for the FY 2022-23, it was observed that 07 employees of OGDCL remained absent from duty without obtaining leave. Field / local management did not inform HQ in time and accepted the joining of the employees without prior approval of competent authority i.e. MD/CEO and BoD (for cases of more than 180 days' absence).

Audit was of the view that due to weak HR management, extension in EOL was regularized and absconder joined the office without prior approval of competent authority.

The matter was reported to the management in September, 2023. In DAC meeting held on January 4 & 5, 2024, the management stated that in one case ex-post facto approval of MD was sought, in another case employee was retired, in one case relating to absence of more than 180 days, BoD refused to regularize the absence period and in remaining 3 cases, ex-post factor approval of unauthorized absence was not sought.

The DAC in its meeting held directed the Petroleum Division to conduct inquiry and share report to Audit. No further progress was reported till finalization of the report.

Audit recommends to conduct inquiry and share report with Audit.

[DP No. 2663]

#### ***2.2.4.19 Irregular acceptance of resignation during the disciplinary proceeding***

According to Rule 84 (d) of the OGDCL Employees Service Rules 2002, “no employee will be allowed to serve a notice on the company or resign or be relieved of his duties in case any disciplinary action is pending against him. The disciplinary action shall be deemed to be initiated against him from the time a charge sheet is served on him in respect of any act of misconduct on his part.”

During audit of OGDCL for the FY 2022-23, it was observed that an Assistant Engineer Software/System (Employee No. 303862) remained absent from duty w.e.f. August 04, 2022 without intimation. The officer in-charge reported this matter with a delay of one and half month on September 26, 2022. Subsequently disciplinary proceeding was initiated against the employee and an inquiry officer was appointed on September 15, 2022. The statement of allegation along with charge sheet was issued to the accused on September 26, 2022. As per provisions stated above resignation of the employee could not be accepted but on November 07, 2022 the management accepted his resignation w.e.f. August 15, 2022. The disciplinary proceedings against the accused were closed on November 25, 2022 in violation of above provisions.

Audit was of the view that weak HR management resulted in acceptance of resignation during the disciplinary proceeding in violation of Service Rules.

The matter was reported to the management in September, 2023. In DAC meeting held on 4 & 5 January, 2024, the management stated that resignation has been accepted in-principle before initiating inquiry i.e. charge sheet vide letter dated 26.09.2022. Audit contended that resignation was accepted on November 7, 2022 during the disciplinary proceedings.

The DAC took a serious view of non-compliance of OGDCL Service Rules and directed to take action against the responsible persons. No further progress was reported till finalization of the report.

Audit recommends to take action against the persons at fault in the light of decision of DAC.

[DP No. 2667]

## 2.3 Pakistan Petroleum Limited

### 2.3.1 (A) Introduction

Pakistan Petroleum Limited (PPL) is one of the oldest Exploration and Production (E&P) companies in the country having its registered office at PIDC House, Dr Ziauddin Ahmed Road, Karachi. The company was incorporated on June 05, 1950 after the promulgation of Pakistan Petroleum Production Rules, 1949. The principal activities of the company are exploration, development and production of Pakistan's natural reserves of oil and gas.

The company's current exploration and production portfolio is spread across Pakistan with international presence in UAE, Iraq and Yemen. PPL also holds mineral rights in Balochistan through Bolan Mining Enterprises (BME), a 50:50 joint operation between PPL and Government of Balochistan.

The company's shareholding is divided between the Government of Pakistan and general public, having 75 percent, and 25 percent shares of the company.

### (B) Comments on Audited Accounts

The working results of the company for the FY 2022-23 as compared to previous years are given below:

Heads	2022-23	2021-22	2020-21
Sales	288,053.039	203,810.768	149,278.578
Operating Expenses & Royalties	96,153.786	71,773.587	63,003.338
Gross Profit	191,899.853	132,037.181	86,275.240
Field Expenditure and Other Operating Expenses	147,507.269	84,747.119	64,357.855
Other Income	17,404.708	14,190.164	4,080.091
Profit before Taxation	164,911.977	98,937.283	68,437.946
Taxation	67,690.363	44,584.587	16,154.752
Profit after Taxation	97,221.614	54,352.696	52,283.194

*(Source: Consolidated Annual Audited Accounts)*

- i) Operating expenses increased from Rs 40,755.673 million to Rs 49,277.810 million during FY 2022-23 as compared to 2021-22, registering an increase by 17.29%;

- ii) Field Expenditure and Other Operating Expenses substantially increased from Rs 84,747.119 million to Rs 147,507.269 million during FY 2022-23 as compared to the 2021-22, registering an increase of 74.05%;
- iii) Trade debts (receivables) increased from Rs 366,251.547 million in 2021-22 to Rs 513,488.874 million during FY 2022-23, registering an increase of 40%. Increase in trade debts reflects unsatisfactory receivable management; and
- iv) Trade and other payables increased from Rs 89,664.907 million to Rs 112,266.683 million during FY 2022-23, registering an increase of 25%.

### 2.3.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 505,836.613 million were raised in this report during the current audit of PPL. This amount also includes recoverable amount of Rs 420,441.466 million (circular debt) as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

#### Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	
A	Financial Management	420,441.466
B	Procurement Management	85.945
C	HR/Employees Related Irregularities	-
D	CSR	306.243
E	Contract Management Related Issues	81,480.000
2	Others	3,522.959

### 2.3.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	% age of Compliance
2009-10	2	2	0	100
2010-11	8	8	0	100
2011-12	6	3	3	50
2012-13	1	1	0	100
2013-14	6	5	1	83
2014-15	9	5	4	56
2015-16	11	11	0	100



2016-17	15	10	5	71
2017-18	11	8	3	73
2018-19	16	9	7	56
2019-20	4	1	3	25
2021-22	2	0	2	0
<b>Total</b>	<b>91</b>	<b>63</b>	<b>28</b>	<b>69%</b>

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

## **2.3.4 Audit Paras**

### **Financial Management**

#### ***2.3.4.1 Non-recovery of outstanding amount from various customers - Rs 420,441.466 million***

According to Clause 17.3.1 of Gas Sale Agreement between PPL and various customers, the buyer shall pay seller's monthly invoice, excluding the Excise Duty and Sales Tax, within 30 days on receipt of invoice.

During audit of PPL for the FY 2022-23, it was observed that an amount of Rs 460,569.000 million was receivable against various customers, till June 30, 2023. Out of the total outstanding amount, an amount of Rs 292,157.000 million (i.e. 63.50%) was lying outstanding beyond 01 year and remaining amount of Rs 168,412.000 million had an age of less than one year. Outstanding amount beyond one year included an amount of Rs 290,881.000 million pertaining to circular debt of SSGC & SNGPL, Rs 1,107.000 million of refineries and Rs 169.000 million of M/s E-Gas.

Audit was of the view that due to poor financial management the management failed to recover the outstanding amount.

The matter was reported to the management in October, 2023. In DAC meeting held on January 15, 2024, the management stated that Rs 40,127.534 million had been recovered and verified and efforts are underway to recover remaining amount of Rs 420,441.466 million.

The DAC reduced the para to the extent of recovered amount and directed to expedite the recovery of remaining outstanding amount. No further progress was received till finalization of the report.

Audit recommends to recover the remaining outstanding amount.

[PDP No. 2772]

### **Procurement Management**

#### ***2.3.4.2 Irregular award of contract without open competitive bidding - Rs 85.945 million***

According to Clause 12(2) of PPRA Rules, 2004, "all procurement opportunities over three million Pakistani 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 2022-23, it was observed that management awarded direct contract on June 29, 2022 to M/s Ikon Science, Malaysia for “seismic reservoir study Block 2468-12 (Kotri)” for US\$ 151,000 equivalent to Rs 31.293 million and to M/s Geo Software, Malaysia for 3D Seismic Study in Kharan East Block, Balochistan on May 10, 2023 for Rs 54.652 million without open competitive bidding. This resulted in irregular award of contract without open competitive bidding - Rs 85.945 million.

Audit was of the view that weak procurement management resulted in award of contract without open competitive bidding.

The matter was reported to the management in October, 2023. In DAC meeting held on January 15, 2024, the management stated that PPL awarded direct contract to M/s Ikon Science keeping in view their proprietary technology to investigate the potential of Deeper Tight Sands (Basal & Massive). In other case, M/s Geo Software was the only contractor to perform the required work for 3D Seismic Study in Kharan East Block in compliance with PPRA Rule 42C(ii).

The DAC directed Petroleum Division to conduct fact-finding inquiry and share the report with Audit. No further progress was received till finalization of the report.

Audit recommends to complete inquiry and fix responsibility on the person(s) found at fault for irregular award of contracts.

[PDP Nos. 2776 & 2795]

## **HR / Employee Related Irregularities**

### ***2.3.4.3 Irregular appointment of the Head of Legal and Commercial by extending undue favour***

According to advertisement dated August 21, 2022 for Head of Legal and Commercial the ideal candidate should possess a law degree i.e. LLB or Juris Doctor from a reputable local or foreign university / institute recognized by the Higher Education Commission with at least 19 years of post-qualification relevant experience. Further, according to Clause 3.5.3 of HR Policy, Panel

interviews shall be primarily used for assessing the suitability of experienced professionals against vacant position. To ensure an independent assessment of the candidates by the technical experts and HR, the appointing authority / MD will meet only the final shortlisted candidate(s) after 2<sup>nd</sup> level interview.

During audit of PPL for the FY 2022-23, it was observed that the management violated advertised criteria for appointment as Head of Legal and Commercial in Job Group-12 by selecting a candidate with less experience as was advertised. Incumbent had an experience of 18 years and 9 months on the closing date of the application i.e. September 02, 2022 whereas the required minimum experience was 19 years. MD selected, the candidate having less than advertised experience and who was also ranked second and third by second level interview panel. This resulted in irregular appointment of Head of Legal and Commercial by extending undue favour.

Audit was of the view that while conducting the final interview, MD did not consider recommendations of 2<sup>nd</sup> level interview and extended favour in violation of the HR policy.

The matter was reported to the management in October, 2023. In DAC meeting held on January 15, 2024, the management stated that hiring process was carried out in accordance with the Board's approved Recruitment Policy and the incumbent fulfils the advertised criteria. Audit contended that MD extended undue favour by ignoring recommendations of 2<sup>nd</sup> level interview panel and selected candidate having less than advertised experience.

The DAC directed Petroleum Division to probe the matter and submit report to Audit. No further progress was received till finalization of the report.

Audit recommends to probe the matter and report be shared with Audit.

[PDP No. 2779]

## **CSR Related Issues**

### ***2.3.4.4 Irregular spending of CSR funds - Rs 193.446 million***

According to Clause 9(3) sector / areas of intervention and funding of PPL CSR Policy, PPL will consider innovative initiatives which are sustainable and beneficial for general public. The areas of social sector to be considered for

financial assistance include Health, Education, Training & Research, water supply, water resources development and conservation.

During audit of PPL for the FY 2022-23, it was observed that an amount of Rs 193.446 million was utilized under CSR on provision of water through bowzers to Sui Town and village at Mazarani field. A detailed analysis of supporting vouchers revealed that major portion of this expense was related to operational cost of water pumping station at Khewali (KPS) which was meant for water supply to PPL's own facilities at Sui and therefore this expenditure could not be booked to CSR. Further, two different amounts of Rs 95.558 million and Rs 75.800 million as electricity charges were reported on November, 07, 2023 and November 24, 2023 respectively. 66% of this expenditure was booked to CSR without any basis. A total amount of Rs 440.600 million was spent on water supply in last 03 years. Non-development of sustainable water supply resources in violation of CSR policy was also observed.

Audit was of the view that charging that amount to CSR which was spent on PPL's own operations was irregular and against spirit of CSR policy which required development of sustainable sources of water supply to the general public.

In DAC meeting held on January 15, 2024, the management stated that Rs 189.500 million was 66.66% allocated cost of total KPS Pumping Station's operational budget / cost i.e. Rs 285.660 million in FY 2022-23, which was actually the cost incurred on pumping water from Kashmore to Sui field instead of cost incurred on providing water to Sui Town through bowzer. The management stated that 66% of expenses incurred on water pumping station is charged to CSR, however, no justification or basis was provided for such allocation.

The DAC directed the management to submit revised reply along with evidence to substantiate their reply to Audit. DAC also directed the management to follow the provisions of CSR policy in letter and spirit. No further progress was received till finalization of the report.

Audit recommends that amount spent for CSR, should be clearly identified on the basis of actual work. The water supply system should be developed on sustainable basis. Amount already shown as booked under CSR

should be got verified besides developing sustainable scheme to supply water to Sui town.

[DP No. 2774]

**2.3.4.5 Irregular utilization of CSR funds due to non-receipts of vouched accounts from NGOs and Institutions - Rs 112.797 million**

According to Para 8 of CSR Policy of PPL, collaborative partners shall provide all necessary financial and non-financial details to the PPL as and when required. Further, provision of substantial evidence of its work status with regard to the proposed initiative is essential to ensure transparency and accountability of CSR spending.”

During audit of PPL for the FY 2022-23, it was observed that CSR funds of Rs 124.440 million were utilized through NGOs and institutes, besides disbursement of Rs 8.247 million to the students directly. However, the management did not obtain vouched accounts and proof of spending from concerned institutions regarding enrolment / attendance of students funded through CSR. This resulted in irregular utilization of funds due to non-receipt of vouched accounts / proof of utilization of Rs 132.687 million.

Audit was of the view that weak internal controls resulted in irregular use of CSR funds.

The matter was reported to the management in October, 2023. In DAC meeting held on January 15, 2024, the management stated that for communities living in remotest areas, flexible execution mechanism was agreed to engage reputable NGOs to become implementing partners to execute social welfare projects for locals. For disbursement of Scholarships, PPL as per its SOPs publish advertisements in the newspapers for wider circulation to select the deserving students on merit from its operational areas. During FY 2022-23, out of 159 higher professional education scholarships, 65 scholarships had been directly transferred to universities and out of 108 scholarships for students of class 9-12, 90 were directly transferred to academic institutes.

The DAC reduced the para to the extent of verified amount of Rs 19.890 million out of Rs 124.440 million and directed to submit the required documents for the remaining amount. DAC further directed the management to get the relevant record from the concerned institution and get it verified from Audit

regarding enrolment / attendance of students. No further progress was received till finalization of the report.

Audit recommends to furnish the required documents for verification besides developing a robust monitoring mechanism to ensure transparent utilization of CSR funds.

[DP Nos. 2775 & 2778]

### **Contract Management Related Issues**

#### ***2.3.4.6 Loss due to non-finalization of Unitization Agreement - Rs 76,000.000 million***

According to Clause 64(1), (2) & (3) of Pakistan Onshore Petroleum (Exploration and Production) Rules, 2013, if a petroleum deposit extends across more than one license or lease area held by different holders of petroleum right, then such holders shall endeavour to agree to explore and exploit the deposit jointly in the most efficient manner. Joint exploration and development plans or where one of the deposits has already been developed, a joint unitization plan, together with agreement between them shall be submitted expeditiously to the Authority for approval. If the agreement on joint exploration and development or unitization plan referred to in sub-rules (1) and (2), is not reached at within a reasonable period of time, the Federal Government may, in the public interest, by notice in writing to all concerned parties, direct to finalize and submit for approval of the Authority relevant plan within the period stipulated in the notice.

During audit of PPL for the FY 2022-23, it was observed that issue of reservoir communication of straddled fields i.e. Shahdadpur, Adam West & Kinza operated by PPL and Sutiari Deep, Salamat and Bakhsh Deep operated by UEPL could not be resolved since 2014. UEPL was extracting more gas from the interconnected reservoir depriving PPL from its share of gas. DG (PC) directed PPL and UEPL to submit a Unitization Agreement in July, 2018 for the Adam West & Salamat fields operated by PPL and UEPL respectively. This directive of DG (PC) was not implemented by UEPL. The matter relating to unitization of remaining 02 fields was also pending due to non-conduct of reservoir study. Resultantly, UEPL extracted 118 BCF gas from PPL's share valuing US\$ 400 million equivalent to Rs 76,000.000 million as per estimate of consultant.

Audit was of the view that weak follow up by PPL resulted in non-finalization of Unitization Agreements of straddled fields.

The matter was reported to the management in October, 2023. In DAC meeting held on January 15, 2024, the management stated that it made the strenuous efforts for the resolution of the matter but now the matter was sub-judice in the Sindh High Court.

The DAC observed that the management was not fully prepared on the contents of the para. DAC directed the management to pursue the matter vigorously. DAC also directed DG (PC) to make efforts for resolution of the issue on urgent basis. No further progress was received till finalization of the report.

Audit recommends to pursue matter in the court of law and efforts be made for early finalization of Unitization Agreements.

[DP No. 2784]

**2.3.4.7 Revenue loss due to lesser offtake by GENCO-II and non-allocation of gas to other customers - Rs 5,480.000 million**

According to Clause 6.1 of Gas Sales Agreement for Kandhkot Gas Field executed on October 23, 2017 between PPL and Central Power Generation Company Limited, “the seller will supply 180 MMCFD gas according to specification, which will gradually be increased to 200 MMCFD per contract year.”

During audit of PPL for the FY 2022-23, it was observed that GENCO-II had taken only 55,750 MMCF gas against the committed volume of 66,157 MMCF, resulting in less offtake of 10,407 MMCF gas from Kandhkot Gas Field. Due to less offtake by GENCO, PPL was forced to curtail its daily production of gas leading to revenue loss of Rs 5,480.000 million. However, management failed to identify alternate buyer of gas.

Audit was of the view that weak financial management resulted in less offtakes not only affected the company’s revenue but also forced the company to curtail its production.

The matter was reported to the management in October, 2023. In DAC meeting held on January 15, 2024, the management stated that the matter was



being pursued for reallocation of gas from Kandhkot field to a customer other than Genco-II due to inability to offtake full potential from the field.

The DAC directed the management to continue the ongoing efforts to pursue with DG (Gas) to resolve the issue. No further progress was received till finalization of the report.

Audit recommends to adopt remedial measures for optimum production and take up matter with DG (Gas) for allocation of excess gas.

**Note:** The issue was also reported earlier in the Audit Reports 2020-21, 2021-22 and 2022-23 of Audit Year 2019-20, 2020-21 and 2021-22 vide para numbers 2.3.6.11, 2.3.6.3 and 2.3.4.2 having financial impact of Rs 11,529.542 million, Rs 6,678 million and Rs 21,142.107 million. Recurrence of same irregularity is a matter of serious concern.

[PDP No. 2785]

## Others

### **2.3.4.8 Blockage of funds due to unnecessary procurement - Rs 3,522.959 million**

According to Para 7.1(i) of Procurement Manual of PPL, “the schedule stock holding is based on re-order levels and re-order quantities (replenishment quantities), these levels are determined on the recommendation of respective user departments.” Further, according to Para 7.1(ii) of Manual *ibid*, “drilling / production related material for exploratory, development and workers wells will be procured on the work program.”

During audit of PPL for the FY 2022-23, it was observed that huge quantities of casing pipes was lying unconsumed in the store since 2003 as detailed below:

(Rs in million)

Sr. No.	Description	Year of Purchase	Amount
1	Casing pipes	Before 2003	113.166
2	Casing pipes	2004 to 2006	89.934
3	Casing pipes	2011 to 2015	1,287.313
4	Casing pipes	2016 to 2020	2,032.546
<b>Total</b>			<b>3,522.959</b>

Audit was of the view due to weak internal controls and poor inventory management, minimum / maximum / re-ordering stock levels were not fixed which resulted in unwarranted excessive procurement of casing pipes.

The matter was reported to the management in October, 2023. In DAC meeting held on January 15, 2024, the management stated that PPL exercised detailed checks to allocate the already present stock wherever technical specifications permit. Further, casing pipes also included some contingencies due to their long delivery period (more than 12 months) as non-availability / shortage during drilling operation may cause huge financial loss to the company. In E&P sector, outcome of the well drilling operation was usually unforeseeable, therefore, keeping contingent material for such situation was unavoidable.

The DAC directed the management to justify the inventory items, not used since long to Audit within one month. No further progress was received till finalization of the report.

Audit recommends to chalk out utilization plan and improve inventory management.

[DP No. 2793]

## 2.4 Pakistan State Oil Company Limited

### 2.4.1(A) Introduction

Pakistan State Oil was incorporated in 1976 under Companies Act, 1913 (Now Companies Act, 2017) as a result of merger of Premier Oil Company Limited and State Oil Company Limited. The company is a State Owned Enterprise, listed on Pakistan Stock Exchange and is governed by provisions of Marketing Petroleum Products (Federal Control) Act, 1974.

Pakistan State Oil Company Limited (PSO) is the largest Oil Marketing Company of Pakistan dealing with procurement, storage, sales and marketing of petroleum products. PSO has 51% market share and a widespread network comprising 3,528 retail outlets, 9 pipeline installations, 23 depots, refuelling facilities at 10 airports, 2 lubricant manufacturing facilities and LPG storage & bottling facilities. PSO is currently engaged in marketing and distribution of various POL products including Motor Gasoline, High Speed Diesel (HSD), Furnace Oil (FO), Jet Fuel (JP-1), Kerosene, CNG, LPG, Petrochemicals, and Lubricants. In addition, the company is entrusted with the responsibility of importing LNG through long term agreements with Qatar Gas (QG) and Qatar Petroleum (QP) since 2016 and 2021 respectively.

### (B) Comments on Company Performance

The financial performance of the company for the last five years as per consolidated financial statement is given below:

Particulars	(Rs in million)				
	2022-23	2021-22	2020-21	2019-20	2018-19
Net Sales	3,539,155	2,541,730	1,223,678	1,108,358	1,154,298
Gross Profit	84,406	178,127	57,255	12,227	36,017
Other Revenues	16,796	25,348	19,415	10,210	7,559
Marketing & Administrative Exp.	22,041	17,765	15,737	14,806	12,414
Other Exp.	4,515	14,772	4,053	220	4,699
Operating Profit	74,208	165,832	55,981	7,749	26,257
Finance Cost	43,410	5,962	11,554	13,427	8,987
Share of profit from associates	869	690	575	545	200
Profit before Tax	29,929	160,560	45,003	(5,134)	17,477
Profit for the Year	<b>9,816</b>	<b>95,723</b>	<b>29,557</b>	<b>(6,466)</b>	<b>10,587</b>

(Source: Consolidated Annual Audited Accounts)

- i) Despite 24% increase in marketing and administration expenses, volumetric sales of MS (petrol), HSD (diesel) and Furnace Oil (FO) during the FY 2022-23 declined by 17%, 25% and 94% respectively as compared to FY 2021-22;
- ii) Gross profit was Rs 84.81 billion during the FY 2022-23, recording a decrease of 53% as compared to the previous financial year (FY 22: Rs 178 billion). Similarly, operating profit was Rs 74 billion, recording a decrease of 55% as compared to the previous financial year (FY 22: Rs 165 billion). Similarly, Profit after tax was Rs 9.82 billion during the current year which was Rs 95.72 billion during the FY 2021-22. Resultantly, PSO recorded a drastic decline of 90% in the net profit after tax as compared to previous FY of 2021-22;
- iii) There was a noticeable increase in financial cost which was Rs 43.4 billion during the current year with an increase of 628% as compared to previous FY (Rs 5.96 billion). Furthermore, the net profit translated into earning per share of Rs 19.85 (FY 21: Rs 194.35) which declined by 90% as compared to FY 2021-22; and
- iv) PSO is procuring LNG on take or pay arrangement from Qatar Gas under long term G-to-G contract, while there was no such arrangement between PSO and SNGPL. The company failed to execute the tri-partite agreement with SNGPL and SSGC. Due to capacity and operational constraints, PSO was unable to handle rising demand of petroleum products, increasing demurrage cost over the last years causing unnecessary outflow of foreign exchange from the national exchequer. Moreover, SNGPL was not paying LNG cost and resultantly, PSO had to borrow from the banks resulting in increased financial cost.

#### **2.4.2 Classified Summary of Audit Observations**

Audit observations amounting to Rs 162,383.629 million were raised in this report during the current audit of PSO. This amount also includes recoverable of Rs 138,807.988 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

### Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Financial Management	140,369.230
B	Procurement Related Issues	2,194.469
C	Non-Recovery of Dues	186.500
2	Others	19,633.430

### 2.4.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
1988-89	5	2	3	40
1993-94	7	4	3	57
1995-96	7	2	5	29
1996-97	6	5	1	83
1998-99	4	3	1	75
1999-00	7	5	2	71
2000-01	14	13	1	93
2002-03	6	3	3	50
2003-04	11	9	2	82
2004-05	8	6	2	75
2008-09	4	2	2	50
2009-10	1	0	1	0
2010-11	18	11	7	61
2011-12	9	4	5	44
2012-13	5	1	4	20
2013-14	10	9	1	90
2014-15	3	3	0	100
2015-16	28	23	5	82
2016-17	25	10	15	40
2017-18	14	13	1	93
2018-19	9	8	1	89
2019-20	13	8	5	62
2021-22	5	0	5	0
<b>Total</b>	<b>219</b>	<b>144</b>	<b>75</b>	<b>66%</b>

The overall compliance of PAC directives needs to be improved.

## **2.4.4 Audit Paras**

### **Financial Management**

#### ***2.4.4.1 Non-recovery of outstanding amount along with late payment surcharge from customers - Rs 138,807.988 million***

According to terms of agreements executed between PSO and buyers of petroleum products, “buyers are liable to clear invoices within the prescribed period and in the case of failure of making payment LPS will also be imposed at the rate of KIBOR plus 2% to 4%.” Further, according to Credit Cards Policy of the PSO, “due date of payment of dues is 15<sup>th</sup> of each month for sole proprietors and 25<sup>th</sup> for Private, Public Ltd. companies and Government accounts.”

During audit of PSO for the FY 2022-23, it was observed that PSO trade debts due from various consumers i.e. GENCO, SNGPL, PIA, K-Electric, SSGC and Pakistan Railway etc. stood at Rs 493,115.158 million as on June 30, 2023. From this amount only Rs 1,6705.992 million was secured by way of security deposits and bank guarantees. Due to failure in timely recovery of receivables, PSO had to rely on borrowing which resulted in increase in payment of financial cost up to Rs 40,335 million for the FY 2023.

Audit was of the view that weak financial management put the organization at increased risk of default in payment to the suppliers.

The matter was reported to the management in September, 2023. The management in its reply dated December 29, 2023 reported recovery of Rs 354,307.17 million which was verified by Audit while balance amount of Rs 138,807.988 million was reported to be under recovery. Audit contended that management should take up the matter with Petroleum Division to resolve the issue of circular debt in order to mitigate the risk of default.

The DAC in its meeting held on January 17, 2024 reduced the para to the extent of recovered and verified amount and directed the management to pursue the remaining cases for early recovery. No further progress was reported till finalization of the report.

Audit recommends to make strenuous efforts for early recovery of outstanding amount.

**Note:** The issue was reported earlier also in the Audit Reports for Audit Years 2021-22 and 2022-23 vide para numbers 2.4.4.1 & 2.4.4.1 respectively having financial impact of Rs 13,375.77 million and Rs 33,871.18 million. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2461, 2467 & 2447(P)]

**2.4.4.2 Non-deposit of unclaimed dividend in Federal Government account - Rs 1,561.242**

According to Section 244 of the Companies Act, 2017, “where dividend has been declared by a company which remain unclaimed or unpaid for a period of three years from the date it is due and payable, the company shall give ninety days notices to the shareholders to file claim following by final notice to be published in two daily newspapers of which one will be in Urdu and one in English having wide circulation. If no claim is made before the company by the shareholder, the company shall deposit the unclaimed or unpaid amount to the credit of the Federal Government.”

During audit of PSO for the FY 2022-23, it was observed that the company reflected unclaimed dividend of Rs 1,561.242 million in its financial statements. However, the company did not deposit the unclaimed dividend in the Federal Government treasury in violation of above provision. This resulted in non-deposit of unclaimed dividend of Rs 1,561.242 million.

Audit was of the view that the company did not take appropriate action in compliance with Section 244 of the Companies Act, 2017.

The matter was reported to the management in September, 2023. The management in its reply dated December 29, 2023 stated that a profit bearing account with SBP / NBP was required for such deposit which had not been notified by SECP, so unclaimed dividend could not be deposited. Further, PSO had sought advice from chairman SECP vide letter dated February 21, 2023 for guidance in this regard and reply was awaited.

The DAC in its meeting held on January 17, 2024 directed the management to pursue the case with SECP. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter with SECP vigorously and transfer the unclaimed amount to the credit of the Federal Government.

[DP No. 2462]

## **Procurement Related Issues**

### ***2.4.4.3 Award of contract at 69% higher than estimate - Rs 1,727.889 million***

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

During audit of PSO for the FY 2022-23, it was observed that the management awarded a contract to M/s Mepsanic for supply, installation, and maintenance of Dispensing Units for PSO retail outlets, for Rs 1,727.889 million. This bid exceeded the estimated value of Rs 1,021.246 million by 69%. It was also observed that in 08 other cases, bids exceeding by less margins (18% to 42% of the estimated value) were rejected and retendering was initiated. However, in the instant case, the management awarded the contract for Rs 1,727.889 million to a bidder whose bid was 69% higher than the estimated cost.

Audit was of the view that award of contract at an exorbitant price was uneconomical.

The matter was reported to management in October 2023. The management in its reply dated December 29, 2023 stated that the difference between estimated cost and the awarded contract was due to fluctuation in US dollar rate and uncertain market conditions while equipment was directly associated with supply chain and re-tendering may have attracted even higher bid. The reply was not tenable as the analysis of acceptance of different bids by PSO revealed that there were no set criteria for comparison of bids with the estimates beyond which the case could be accepted or rejected. It is also pointed out that the time frame for which the estimate should remain valid has not been specified by PSO.

The DAC in its meeting held on January 17, 2024 directed the management to submit detailed revised reply to Audit justifying award of contract in excess of 69% of the estimate. No further progress was reported till finalization of the report.



Audit recommends that the company devise a criterion for validity period of their estimates and also fix a percentage of estimates beyond which the bid should not be accepted.

[DP No. 2440]

#### ***2.4.4.4 Irregular award of contracts - Rs 449.680 million***

According to Rule 38 of PPRA Rules, 2004, “the bidder with the most advantageous bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity.”

During audit of PSO for the FY 2022-23, it was observed that in 03 cases, the management inserted such conditions in the bidding documents which were against the spirit of competitive bidding. For instance, in one case, the bidders were restricted up to only one region despite his being lowest in two regions. In another case, the condition was inserted which stated that top three bidders would be awarded the contract, instead of most advantageous bidder. In third case, the contract was awarded through split on 60:40 ratio between the first and second lowest bidders. These actions resulted in a cumulative loss of Rs 3.630 million and irregular award of contracts for Rs 449.680 million.

Audit was of the view that insertion of such conditions which were against the spirit of PPRA Rules 2004 resulted in irregular award of contract for Rs 449.680 million.

The matter was reported to the management in September, 2023. The management in its reply dated December 29, 2023 stated that the contracts were awarded in accordance with Rule 29 of PPRA Rules 2004. The reply was not acceptable as Rule 29 envisaged that “failure to provide for an unambiguous evaluation criterion in the bidding documents shall amount to mis-procurement” and as these conditions were against the spirit of Rule 29, hence, the contracts were not awarded to the most advantageous bidders.

The DAC in its meeting held on January 17, 2024 directed the management to take up the matter with PPRA for clarification.

During verification dated January 22, 2024 the management informed that matter had been taken up with PPRA for clarification vide letter dated January 24, 2024. No further progress was reported till finalization of the report.

Audit recommends that PSO must ensure compliance of PPRA Rules in letter and spirit to safeguard interest of the company as well as the bidder.

[DP Nos. 2429 & 2431]

***2.4.4.5 Issuance of second purchase order despite submission of forged documents by the vendor - Rs 16.900 million***

According to Rule 4 of the PPRA Rules 2004, “procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical”. Further, according to Rule 10(1) of Rules *ibid*, “the procuring agency shall allow the widest possible competition by defining such specifications that shall not favour any single contractor or supplier nor put others at a disadvantage”.

During audit of PSO for the FY 2022-23, it was observed that M/s New Khalid Enterprises was awarded a contract for supply of tyres amounting to Rs 9.580 million. 92 out of 97 delivered tyres were not as per specifications but the vendor failed to replace the same. Later on, the management noticed that vendor had submitted forged documents in bidding process. Instead of initiating blacklisting proceeding, another purchase order, valuing Rs 16.900 million for supply of tyres was issued to him on September 09, 2022. This raised questions about the process of vendor evaluation, non-blacklisting and justification for issuing a new purchase order for Rs 16.900 million.

Audit was of the view that flawed technical evaluation resulted in award of second contract to a bidder who had already submitted forged document and failed to supply specified tyres.

The matter was reported to the management in September, 2023. The management in its reply dated December 29, 2023 stated that second purchase order was issued on September 9, 2022 prior to the blacklisting of supplier. Audit contended that on August 1, 2022, the vendor agreed to collect the off-spec tyres from locations while the other purchase order was issued to him on September 09, 2022 i.e. 40 days later while it was in knowledge of the management that the vendor has supplied off-spec tyres.

The DAC in its meeting held on January 17, 2024 directed the management to conduct fact-finding inquiry and share report to Audit within one month. No further progress was reported till finalization of the report.

Audit recommends to investigate the matter and share report besides fixing responsibility on the person(s) at fault.

[DP No. 2439]

#### ***2.4.4.6 Inefficient procurement process of PSO***

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

During audit of PSO for the FY 2022-23, it was observed that the procurement process at PSO was not efficient. Delays were noticed in procurement process resulting in escalation of cost. For instance, one case was delayed by 03 years relating to procurement of Cathodic Protective (CP) system for pipelines. Cost of the procurement was enhanced from Rs 32.049 million to Rs 55.055 million due to delay. In another case relating to procurement of Rehabilitation of Tank at Sihala, delay in procurement resulted in enhancement of cost by 43.6% from Rs 28.876 million to Rs 41.48 million.

Another issue relating to inefficient procurement was that of change in conditions in bidding documents after opening of bids. A procurement case of Rehabilitation of Vertical Storage Tank was tendered three time. During second tendering, condition of construction experience mentioned in bidding documents was relaxed from 1000KL to 500KL capacity in the last five years. Resultantly, the bidder, who failed in first bid, was awarded the contract in third time bidding for Rs 22.805 million against an estimate of Rs 17.405 million. Another contractor was allowed to make changes in quoted rate after opening of financial bids against the PPRA Rules. Resultantly, after change of rate of quoted bid, the bidder became the lowest and got the contract for Rs 40.470 million.

In case of procurement of sealing services at Kemari terminals, the conditions for qualification of bidders were frequently changed over different tenders for the same nature of job. Condition of time period without fatal accident was changed from 10 years to 5 years and then again to 2 years in

different tenders. Resultantly, a bidder, rejected in one case, won two other cases of Rs 26.879 million.

Audit also noted that estimates were not prepared with proper care and diligence. Unusual bid offers ranging from 58% lower to 69% higher than estimates were received leaving question mark on estimated value.

Audit was of the view that delayed procurement, permission to change in rate after opening of financial bids and award of contracts to a non-compliant bidder occurred due to inefficient procurement process within the organization.

The matter was reported to the management in October, 2023. The management in its reply dated December 29, 2023, stated various reasons for discrepancies. Audit contended that the procurement process lacked consistency leaving room for arbitrary decisions. Further, changing the conditions of bid at a later stage created the issue of transparency.

The DAC in its meeting held on January 17, 2024 directed the management to submit revised reply with reference to delay in the procurement process. In case of change of bid, management was directed to get the matter regularized from the Board. While in another case, DAC directed to investigate the application of inconsistent technical evaluation criteria resulting in awarding of two contracts to a non-compliant bidder and to fix the responsibility on the person(s) at fault. No further progress was reported till finalization of the report.

Audit recommends to probe the matter in order to identify persons at fault besides providing complete record for verification. Audit also recommends a thorough analysis of the procurement process to identify loopholes and take steps for their redressal.

[DP Nos. 2430, 2435, 2449 & 2466]

## **Non-recovery of dues**

### ***2.4.4.7 Non-recovery of LNG cost from SNGPL - Rs 186.500 million***

According to Section 5(5)(a) of Public Sector (Corporate Governance) Rules, 2013, “the principle of probity and propriety entails that company’s assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage.”

During audit of PSO for the FY 2022-23, it was observed that SNGPL had withheld an amount of Rs 186.500 million from the payment of LNG claiming that the quantity of LNG received was less by 191,128 MMBTU than the quantity invoiced. The issue pertained to first five cargos of LNG received in 2015. However, the management of PSO could not get the issue resolved despite lapse of considerable time. This resulted in non-recovery of Rs 186.500 million from SNGPL.

Audit was of the view that the management's shortcoming in actively addressing and resolving challenges with SNGPL ultimately lead to financial loss.

The matter was reported to the management in October 2023. The management in its reply dated December 29, 2023 stated that the matter was pending with OGRA.

The DAC in its meeting held on January 17, 2024 directed the management to pursue the matter with OGRA. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter of withheld amount with OGRA vigorously.

[DP No. 2447(P)]

## **Others**

### ***2.4.4.8 Blockage of funds due to excess import of HSFO than quota allowed by OGRA - Rs 10,164.000 million***

According to Rule 37 of Pakistan Oil Refining, Blending, Transportation, Storage and Marketing Rules, 2016 “every oil marketing company shall maintain such minimum stocks of petroleum products as the Federal Government may, from time to time, by order in writing specify.” Accordingly, OGRA holds periodical product review meetings wherein it, keeping in view the stock position of POL products in the country, fixes quota of POL products to be imported by the OMCs.

During audit of PSO for the FY 2022-23, it was observed that the management exceeded the quota for import of High Sulphur Furnace Oil (HSFO) fixed by OGRA in various monthly product review meetings (PRM) on different

occasions. OGRA allowed a cumulative figure of 260,000 M. Ton HSFO to be imported during the FY 2022-23. However, PSO imported a quantity of 469,285 M. Ton of HSFO, exceeding the allocated quantity by 209,285 M. Ton, valued at Rs 29.670 billion. This resulted in a blockage of funds due to excess import of HSFO than quota allowed by OGRA amounting to Rs 29,670 million.

Audit also observed that excessive inventories were being maintained by PSO during the year. Minimum mandatory stock requirement was 20 days average use as decided by ECC dated October 25, 2003. However, the management was maintaining a stock for 194 days cover on June 09, 2023 (409,123 M. Ton of furnace oil) which showed that excessive quantities of fuel were imported without keeping in view the consumption levels and allocations by PRM.

Further, there was a difference of 88,275 M. Ton of between sales figures calculated from inventory and tank-wise sale figures.

Audit was of the view that this ill-planned procurement has not only tied up funds but also put pressure on vital foreign exchange reserves on undue import.

The matter was reported to the management in October, 2023. The management in its reply dated December 29, 2023 stated that the imported HSFO included two cargoes from FY 2022 having quantity 137,589 M. Ton, scheduled for June, 2022 but were offloaded in July, 2022. Audit contended that there was still an excess quantity of 71,695 M. Ton valuing Rs 10,164.000 million. Due to this excess import, no HSFO and LSFO was imported from October, 2022 to June 2023. Moreover, no reply regarding difference between tank-wise sales and inventory sales was provided.

The DAC in its meeting held on January 17, 2024 reduced the para to the extent of verified record by Audit and directed the management to submit relevant record regarding justification for remaining excess procurement to Audit for verification.

During verification dated January 22, 2024 it was revealed that management failed to sale the procured furnace oil as inventory was increasing day by day and accumulated to 409,123 M. Ton with 194 days cover during June 2023. No further progress was reported till finalization of the report.

Audit recommends to justify the reasons for excess import of HSFO, blockage of funds as the company was facing acute shortage of funds and difference between sales figures.

[DP No. 2452]

***2.4.4.9 Non-initiation of action against 754 illegal operative outlets resulting in non-imposition of penalty - Rs 7,540.000 million***

According to Rule 69 (1&2) of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, a person, who contravenes any provisions of the Ordinance, these Rules, terms and conditions of the license, or the decisions of the Authority shall be punishable with fine which may extend to ten million rupees and in case of a continuing contravention with a further fine which may extend to one million rupees for every day during which such contravention continues.

During audit of PSO for the FY 2022-23, it was observed that the management pointed out 754 illegal outlets (Dabba Stations) working in different parts of the country. These outlets were selling POL products, using PSO logo illegally in violation of rules. Sale of POL products by these Dabba Stations under the umbrella of PSO logo not only affected good-will of the company but also had an adverse effect on the government revenue. Additionally, there was no check that the installed machinery and equipment were observing Health, Safety & Environment (HSE) standards posing serious safety hazards to the public life and property. Non-action against these illegal outlets resulted in non-imposition of penalty of Rs 7,540.000 million.

Audit was of the view that due to non-pursuance by the management, punitive action could not be initiated against the illegal outlets through the relevant authorities.

The matter was reported to the management in October, 2023. The management in its reply dated December 29, 2023 stated that those were not PSO outlets but illegal stations against which findings of a research were shared with CM Punjab, CS Punjab, DG Explosives, DG (Oil), and Chairman OGRA for necessary action.

The DAC in its meeting held on January 17, 2024 directed the management to pursue the matter on case to case basis. No further progress was reported till finalization of the report.

Audit recommends to adopt appropriate measures to get these petrol pumps closed permanently by taking up the matter with the concerned authorities including imposition of penalty. The management may also engage the Principal Accounting Officer in order to coordinate with the relevant provincial authorities.

[DP No. 2474]

***2.4.4.10 Loss due to payment of demurrage charges - Rs 1,891.623 million***

According to Article VIII (ii) (Demurrage) of General Terms and Conditions for Cost & Freight (C&F) or Cost, Insurance and Freight (CIF) sales of petroleum products agreement between PSO and Kuwait Petroleum Limited (KPC) on February 21, 2019 if the buyer fails to discharge the vessel within the laytime, the buyer shall pay demurrage to the seller, at the rate specified in the agreement.

During audit of PSO for the FY 2022-23, it was observed that the management imported 105 vessels of petroleum products. However, out of these, 57 vessels (i.e., 54%) could not be discharged in time resulting in imposition of demurrage charges of US\$ 6,143,321, equivalent to Rs 1,891.623 million. PSO had to bear a loss in the shape of demurrage charges to the tune of above stated amount.

Audit was of the view that late clearance of the shipments from the port resulted in payment of demurrage charges.

The matter was reported to the management in October, 2023. The management in its reply dated December 29, 2023 stated that more than 50% of the total demurrages were incurred during the first quarter of the FY 2023 due to unexpected flash flooding which resulted in decrease in sales. The reply was not tenable as late discharge of more than half of the vessels showed that management could not make a serious effort to avoid this loss. This also showed that the management was unable to make proper procurement plan in the wake of changing circumstances.



The DAC in its meeting held on January 17, 2024 directed the management to identify the reasons on case to case basis and get it verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to take remedial action for the reduction of payment of demurrages besides fixing responsibility on the person(s) at fault.

[DP No. 2457]

#### ***2.4.4.11 Non-settlement of outstanding insurance claims - Rs 37.807 million***

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

During audit of PSO for the FY 2022-23, it was observed that in 11 cases, the management submitted insurance claims of Rs 37.807 million to NICL but failed to get the claims settled within stipulated time period. This resulted in non-settlement of outstanding insurance claims of Rs 37.807 million.

Audit was of the view that weak pursuance by the management resulted in non-settlement of outstanding insurance claims.

The matter was reported to the management in October, 2023. The management in its reply dated December 29, 2023 stated that 03 cases involving Rs 1.803 million were approved by NICL, 03 cases of Rs 4.671 million were settled, 04 cases of Rs 4.003 million were under process while one case of Rs 27.33 million was rejected by the NICL arguing that the loss occurred due to leakage from pipeline which already required maintenance. Audit contended that the payment against approved cases was still pending whereas the reasons for settlement of three cases of Rs 4.671 million was not got verified from Audit. Further, as loss of Rs 27.33 million occurred due to negligence of management, hence, needed action against the person at fault.

The DAC in its meeting held on January 17, 2024 directed the management to get the recovered amount verified from Audit, expedite the

recovery of balance amount and share the inquiry report of rejected case. No further progress was reported till finalization of the report.

Audit recommends to take concerted efforts to prioritize the resolution of the matter besides fixing responsibility on the person(s) at fault for rejected case.

[DP No. 2446]

#### ***2.4.4.12 Transportation of POL products through 8,523 non-compliant Tank Lorries in violation of Pakistan Oil Rules, 2016***

According to Rule 53(viii & x) of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, “all licensees, in relation to their regulated activity, shall carry out regulated activity in accordance with the technical standards (issued by OGRA vide SRO 900(i)/2009 dated October 19, 2009) applicable to the midstream and downstream petroleum industry”.

During audit of PSO for the FY 2022-23, it was observed that out of 12,598 tank lorries (from 466 cartage contractors) used by PSO for transportation of POL products, only 4,075 were compliant with OGRA standards on safety. It means that 8,523 tank lorries used by PSO did not adhere to OGRA’s technical standards.

It was also observed that the integrity tests required to be conducted for storage tanks, were not got conducted by the management leading to doubts about the integrity of these tanks. PSO was maintaining 253 tanks at 54 locations for which integrity tests were not conducted.

Audit was of the view that for safety and security of the general public and PSO personnel it is imperative that all the safety standards and precautionary measures were properly taken care off. By not complying with technical standards, the management puts at risk not only its property but also personnel.

The matter was reported to the management in September, 2023. The management in its reply dated December 29, 2023 stated that 700 tank lorries were delisted but were restored after nation-wide strike and on the directives of Ministry of Energy. Moreover, integrity assessment of both Horizontal and vertical tanks will be completed by the end of 2025 and 2026 respectively. Audit contended that both were critical issues and needed remedial steps for their resolution.

The DAC in its meeting held on January 17, 2024 directed the management to pursue the matter of non-compliant tank lorries with OGRA and to submit follow-up report of integrity test to Audit for verification. No further progress was reported till finalization of the report.

Audit recommends to resolve this long outstanding issue to mitigate the risks associated with non-compliant tank lorries by upgrading the same as per OGRA standards. Moreover, integrity tests of storage tanks may be conducted as per prescribed standards.

**Note:** The issue was reported earlier also in the Audit Reports for the Audit Years 2021-22 and 2022-23 vide para numbers 2.4.4.15 & 2.4.4.8 where the number of non-compliant tank lorries were 5,534 and 7,203 respectively. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2438 & 2471]

#### ***2.4.4.13 Non-observance of Health, Safety and Environment SOPs at PSO depots***

According to Clause 9.1 of HSE Manual of PSO, “HSE Department conducts regular Audits of PSO facilities (including depots, installations, BM Offices, Lubricant Storage & Manufacturing Terminals and Aviation Stations) on a regular basis. The objective of HSE audit is to inspect the location, measure HSE awareness of the office staff, evaluate HSE standards being maintained at the facility and to identify areas for improvement and dig out opportunities through which the facility would be brought up to a level where safe and healthy working environment would be created for the workforce.”

During audit of PSO for the FY 2022-23, it was observed that internal audit department of PSO pointed out a number of deviations of SOPs with regard to Health, Safety, and Environment (HSE) at three locations (Chitral, PSO S/S 70 Globe, and Kotlajam Depots). These deviations, such as absence of an HSE coordinator and lack of necessary equipment, unavailability of a foam injection system on the tanks, lack of an oil-water separator at the facility, and failure to conduct integrity testing of the pipeline since its commissioning, pose significant risks. No concrete action was found on record to rectify the above deviations.

Audit was of the view that such non-compliance was a serious matter, reflecting a lack of diligence on the part of the HSE Department.

The matter was reported to the management in October, 2023. The management in its reply dated December 29, 2023 stated that upgradation of firefighting system was under process, provision of foam injection system on the tanks at Kotlajam Depot and Chitral would be conducted in FY 2025 and FY 2026 respectively. For Kotlajam & Chitral depots, HR has been requested to replenish staff through hiring. At Globe PSO service station, actions have been taken by removal of CNG spreaders from site, shifting of Dispensing Units from the site to depot and initiation of process for replacement of leaky tank. While the spilled quantity was almost fully retrieved & faulty valve was also rectified and reprimand letters were served to all the concerned officials.

The DAC in its meeting held on January 17, 2024 directed the management to comply with the HSE SOPs. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for such non observance of HSE SOPs and promptly address the identified deficiencies.

[DP No. 2469]

## 2.5 Sui Northern Gas Pipelines Limited

### 2.5.1(A) Introduction

Sui Northern Gas Pipelines Limited (SNGPL) was incorporated as a private limited company in 1963 and 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 and deals with the business of purchase, transmission and distribution of natural gas. Direct and indirect shareholding of GoP is more than 57.96% with direct shareholding of GoP 31.68%. SNGPL is largest gas company in Pakistan having 7.559 million consumers and an extensive network of pipeline of 155,379 KMs in Punjab, Khyber Pakhtunkhwa and Azad Jammu & Kashmir.

### (B) Comments on Company Performance

	(Rs in million)		
Details	2022	2021	2020
Sales	1,076,740	644,504	618,528
Add / (Less): Tariff adjustment / GDS	216,937	113,123	126,027
Net Sales	1,293,677	757,627	744,555
Cost of gas sold	(1,208,155)	(704,775)	(690,164)
Gross Profit	85,522	52,852	54,391
Other operating income	21,452	19,513	19,164
Operating expense	(16,658)	(15,684)	(15,456)
Finance Cost	(57,296)	(40,037)	(48,976)
Take or pay adjustment	(13,768)	-	-
Expected Credit Loss	(1,209)	-	-
Other Charges	(2,539)	(802)	(707)
Profit / (Loss) before taxation	15,504	15,842	8,416
Dividend %	40	40	40
No. of employees	8,488	8,709	8,872
Consumers in Numbers	7,559,609	7,330,880	7,043,147
T&D Network in KM)	155,379	152,173	145,476

(Source: Annual Audited Accounts)

- i) Cost of goods sold, finance cost and other charges increased by 71.42%, 43.10% and 216.58% respectively. The management failed to control substantial increase in finance cost and other charges;
- ii) Trade debts of the company were Rs 307,900.341 million in FY 2021-22.

Out of this an amount of Rs 230,816.010 million was unsecured. Further, an amount of Rs 26,478.006 million (7.92%) on June 30, 2022 was considered as doubtful;

- iii) Payables increased to Rs 828,842.370 million in FY 2021-22 from Rs 528,308.720 million in FY 2020-21 registering an increase of 56.88%; and
- iv) OGRA determined profit shortfall of Rs 69,587.000 million as per FRR for the FY 2021-22 whereas in the Annual Report, SNGPL incorporated Rs 101,640.000 million as shortfall on indigenous gas, causing excess reporting of shortfall in annual accounts by Rs 32,053.000 million, impairing the true and fair view and veracity of accounts.

## 2.5.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 190,148.734 million were raised in this report during the current audit of SNGPL. This also includes recoverable amount of Rs 89,741.000 million as pointed out by Audit. Summary of audit observations classified by nature is as under:

### Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	
A	UFG Related Issues	2,700.641
B	Receivables Management	112,628.191
C	Weak Assets Management	442.800
D	Project Management	11,621.670
E	Regulatory Affairs	131.000
F	Procurement Related Issues	1,106.293
G	HR / Employee Related Irregularities	35.427
2	Others	61,482.712

## 2.5.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
1991-92	15	9	6	60
1992-93	16	15	1	94
1993-94	12	10	2	83
1995-96	10	8	2	80
1996-97	16	15	1	94
1998-99	10	9	1	90
2000-01	20	15	5	75

2001-02	9	6	3	67
2003-04	7	6	1	86
2006-07	12	10	2	83
2007-08	18	15	3	83
2008-09	22	20	2	91
2009-10	11	10	1	92
2010-11	48	40	8	83
2011-12	17	15	2	88
2012-13	7	5	2	71
2013-14	15	14	1	93
2014-15	5	1	4	20
2015-16	18	10	8	56
2016-17	53	35	18	66
2017-18	36	18	18	50
2018-19	19	4	15	21
2019-20	23	14	9	61
2021-22	8	0	8	0
<b>Total</b>	<b>427</b>	<b>304</b>	<b>123</b>	<b>71%</b>

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

## **2.5.4 Audit Paras**

### **UFG Related Issues**

#### ***2.5.4.1 Loss due to UFG beyond permissible limit and loose control on SMSs - Rs 2,413.780 million***

According to Clause 09 of UFG Manual, “it is responsibility of UFG Control Department to identify the grey areas on the basis of monthly SMS / regions-wise gas sales reconciliation reports. Areas with high percentage loss should be focused to have proper control over UFG losses.” Further, according to Clause 21.1 of the License of SNGPL issued by OGRA, “the licensee shall take all possible steps to keep the UFG within acceptable limits, which was 6.99% in DFRR 2021-22.”

During audit of SNGPL for the FY 2022-23, it was observed that SNGPL suffered UFG losses amounting to Rs 18,650.531 million (8.06%) against the allowable limit by OGRA of Rs 16,236.751 million (6.98%) during the FY 2021-22. Consequently, the company had to bear difference of allowable and actual UFG losses amounting to Rs 2,413.780 million. It was also observed that 22 SMSs contributed heavily, ranging from 8.93% to 100%, in total UFG losses of Rs 18,650.531 million. These 22 SMS caused loss of 11,426.648 MMCF of gas amounting to Rs 7,325.630 million. The management failed to arrest UFG losses as per allowable limits of OGRA and could not control UFG losses on 22 highlighted SMSs.

Audit was of the view that ineffective implementation of UFG reduction plan resulted in loss on 22 SMSs inflicting financial burden of Rs 2,413.780 million on SNGPL.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that due to continuous UFG control efforts by the company, UFG was reduced to great extent during FY 2021-22 as compared to FY 2020-21. The company was making continuous efforts to control UFG losses by carrying out leakage control, theft control program and resolving measurement errors. SMSs having higher losses were being monitored regularly and flows / pressures were optimally regulated as per consumption pattern to reduce UFG losses, besides other UFG control activities.



The DAC in its meeting held on January 18 & 19, 2024 directed the management to enhance efforts to comply with the bench mark set by OGRA. DAC further directed to submit SMS wise detail report to Audit. No further progress was reported till finalization of the report.

Audit recommends to take tangible measures to bring UFG losses on identified SMSs within allowable limit of OGRA.

**Note:** The issue was also reported earlier in the Audit Reports for Audit Years 2022-23, 2021-22, 2020-21, 2019-20 and 2018-19 vide para numbers 2.5.4.1, 2.5.4.5, 2.5.6.2, 2.5.6.15 and 2.5.4.6 having financial impact of Rs 8,241.140 million, 13,657.150 million and Rs 10.698 million, Rs 16,302.596 million and Rs 10,445.485 million respectively. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2789 & 2695]

***2.5.4.2 Non-realization of gas pilferage charges along with LPS - Rs 286.861 million***

According to the Para 10.1 read with Para 11.6.2 of Billing Manual, “GM (Billing) is responsible to ensure collection of company’s gas bills in respect of all categories of consumers. Further, 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 2022-23, it was observed that the management detected 28 gas pilferage cases of various consumers which were using direct tapping, bypass connection, domestic connections used for commercial purpose, meter tempering and fake meter installation etc. Regional Detection and Evaluation Committees rejected application of these 28 consumers but the management failed to recover the amount of gas pilferage and LPS amounting to Rs 547.340 million.

Audit was of the view that weak recovery mechanism resulted in non-realization of gas pilferage charges and LPS.

The matter was reported to the management in September & October, 2023. The management in its reply dated December 27, 2023 stated that Rs 260.479 million was recovered and Rs 286.861 million was sub-judice in Gas Utility Court, Multan. The company was making efforts to liquidate the outstanding dues from the defaulting consumers.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to pursue the court cases vigorously and reduce the para to the extent of recovered and verified amount of Rs 260.479 million. No further progress was reported till finalization of the report.

Audit recommends to pursue the court case for early recovery besides ensuring recovery of remaining outstanding amount.

**Note:** The issue was also reported earlier in the Audit Reports for Audit Years 2022-23, 2021-22, 2020-21 and 2018-19 vide para numbers 2.5.4.2, 2.5.4.8, 2.5.6.3 and 2.5.4.3 having financial impact of Rs 448.190 million, Rs 350.356 million, Rs 2,170.656 million, and Rs 5,866.762 million respectively. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2673 & 2700]

## **Receivables Management**

### ***2.5.4.3 Non-recovery of cost of RLNG from SSGC - Rs 69,166.000 million***

According to Sections 3 and 4(4) of Natural Gas Regulated Third Party Access (TPA) Rules, 2012 read with Clause No.7.1(a) of GTA executed between SNGPL and SSGC, “transportation service consists of taking delivery of the gas available by a shipper at one or more entry points along with the gas pipeline transportation system and delivering an equivalent quality of gas to shipper.” Further, according to Clause 7.6(v) of Rule *ibid*, “in no event shall SSGC be entitled to utilize the RLNG in the RLNG pipeline for delivery thereof to its other customers except with the prior written permission of SNGPL.”

During audit of SNGPL for the FY 2022-23, it was observed that SSGC delivered less RLNG than it received at its terminal. RLNG amounting to Rs 69,166 million was consumed by SSGC up to FY 2022-23 without intimating any demand to SNGPL. This resulted in non-recovery of cost of RLNG from SSGC amounting to Rs 69,166.000 million.

Audit was of the view that weak financial management resulted in non-recovery of cost of RLNG from SSGC.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that as per SSGC's point of view, they withheld these amounts against volume handling loss claim and this claim would likely to be resolved after report of Consultants / Auditors appointed by OGRA. During FY 2022-23 SNGPL had issued invoices for Rs 102,321 million against RLNG withheld by SSGC and SSGC paid Rs 95,975 million there against. Audit required sharing the break up / aging of Rs 69,166 million from SSGC and report of 3<sup>rd</sup> party auditor appointed by OGRA.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to pursue the matter with OGRA for early finalization of 3<sup>rd</sup> party audit and resolve the issue. No further progress was reported till finalization of the report.

Audit recommends to pursue OGRA for early finalization of 3<sup>rd</sup> party audit and expedite recovery of RLNG cost from SSGC.

**Note:** The issue was also reported earlier in the Audit Report for Audit Year 2022-23, vide para number 2.5.4.4 having financial impact of Rs 47,524 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2712]

#### ***2.5.4.4 Non-recovery of outstanding gas charges from Power Sector - Rs 20,575.000 million***

According to Clauses 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." Further, according to 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 2022-23, it was observed that management failed to recover outstanding amount of gas charges from the 09

consumers of power sector. This resulted in non-recovery of outstanding gas charges of Rs 125,114.000 million.

Audit was of the view that weak financial management resulted in non-recovery of outstanding amount.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that an amount of Rs 104,539.000 million was recovered and remaining amount was under litigation / arbitration or related to circular debt.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to pursue the court case vigorously and get the recovered amount of Rs 6,600.000 million verified from Audit within 03 days. DAC reduced the para to the extent of recovered and verified amount of Rs 104,539.000 million. No further progress was reported till finalization of the report.

Audit recommends to get the recovered amount verified and pursue the court cases vigorously.

**Note:** The issue was also reported earlier in the Audit Reports for Audit Years 2022-23, 2021-22, 2020-21, vide para numbers 2.5.4.5, 2.5.6.19 and 2.5.6.5 having financial impact of Rs 23,322 million, 12,902.220 million and Rs 54,532 million, respectively. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2691]

#### ***2.5.4.5 Non-recovery of subsidy on supply of gas to fertilizer companies - Rs 19,685.898 million***

According to the ECC decision in case No. ECC-96/12/2022 dated March 30, 2022 ratified by the Federal Cabinet in case No.155/Rule-19/2022 dated April 02, 2022, “subsidized gas / RLNG shall be provided by SNGPL to M/s Fatima Fertilizer and Agritech”.

During audit of SNGPL for the FY 2022-23, it was observed that SNGPL management provided subsidized gas of Rs 14,885.424 million and Rs 19,470.571 million to two urea fertilizer plants in Punjab namely Fatima Fertilizer, Sheikhpura and Agritech, Mianwali respectively, aggregating to Rs 34,355.995 million from July, 2022 to January, 2023. The Government paid an amount of Rs 8,296.274 million to SNGPL as subsidy while Rs 26,059.721

million was still recoverable from Government. An amount of LPS of Rs 3,626.176 million was also recoverable for the period from July, 2022 to January, 2023. This resulted in non-recovery of subsidized gas including LPS amounting to Rs 29,685.898 million.

Audit was of the view that weak financial management resulted in non-recovery of subsidized amount.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that Rs 10.000 billion was recovered and efforts were made to recover the remaining amount.

The DAC in its meeting held on January 18 & 19, 2024, reduced the para to the extent of recovered and verified amount of Rs 10.000 billion. DAC directed the management to reconcile and expedite the recovery of balance outstanding amount. No further progress was reported till finalization of the report.

Audit recommends to take up the matter with Finance Division through Petroleum Division for early recovery of subsidy amount.

[DP No. 2703]

**2.5.4.6 *Non-realization of gas charges and security shortfall from defaulters - Rs 3,181.293 million***

According to the Para 10.1 read with Para 11.6.3 (ii), 13.1 and 13.2 of Billing Manual, it will be the responsibility of GM (Billing) to ensure collection of company's gas bills in respect of all categories of consumers and it will also be ensured that all industrial, commercial and domestic consumers, whose bills exceed the security deposit, are disconnected immediately.

During audit of SNGPL for the FY 2022-23, it was observed that in 158 cases the management disconnected domestic, commercial and industrial connections due to non-payment of gas charges including GIDC, Sales Tax, and RLNG tariff adjustment charges etc. amounting to Rs 2,728.907 million. Further, in 177 cases security shortfall had not been recovered from CNG sector consumers of Rs 540.640 million. This resulted in non-realization of gas charges and security shortfall of Rs 3,269.547 million.

Audit was of the view that weak internal controls resulted in non-realization of gas charges along with RLNG tariff adjustment charges, GIDC, and Sales Tax etc.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that an amount of Rs 88.254 million was recovered from 04 industrial consumers while remaining cases were under litigation.

The DAC in its meeting held on January 18 & 19, 2024, reduced the amount in para to the extent of recovered and verified amount of Rs 88.254 million. DAC further directed the management to provide the detail of recovery and pursue the court cases vigorously besides providing copy of stay orders of Khyber Pakhtunkhwa CNG Association to Audit. No further progress was reported till finalization of the report.

Audit recommends to pursue the court cases and intimate the outcome to Audit.

**Note:** The issue was also reported earlier in the Audit Report for Audit Year 2022-23, 2021-22, 2020-21, 2019-20 and 2018-19 vide para numbers 2.5.4.6, 2.5.4.13, 2.5.6.4, 2.5.6.16 and 2.5.4.4 having financial impact of Rs 13,749.590, Rs 13,474.270 million Rs 86,146.550 million, Rs 58,049.650 million and Rs 18,252.320 million. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2683, 2686 & 2706]

***2.5.4.7 Loss due to late submission of information for encashment of bank guarantee - Rs 20.000 million***

According to terms and conditions of Bank Guarantee dated January 06, 2021, “guarantee shall remain in full force and affect for a period of two years. Claim, if any must be lodged with us before the expiry two months from the last mentioned date. That is to say claim must be lodged before January 04, 2016 failing which we shall be absolved of our liability whether or not you have suffered any loss”. Further, according to Clause 3.11 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 2022-23 it was observed that management disconnected connection of M/s Fatima Enterprises due to non-payment of gas charges of Rs 47.100 million. The consumer filed writ petition on December 29, 2015 in the Lahore High Court Multan Bench which was dismissed with the direction “to en-cash bank guarantee and kept it as security of the installed meter and no disconnection of meter be made on account of security deposited”. The management was required to inform MCB for encashment of bank guarantee on or before January 04, 2016 but MCB was informed on January 12, 2016, therefore, MCB refused to en-cash the bank guarantee. The management filed a court case in the court of senior Civil Judge Multan which was pending. This resulted in loss of Rs 20.000 million due to late submission of information for encashment of bank guarantee.

Audit was of the view that slackness on the part of management resulted in loss of security deposit.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that the matter was in the court of Senior Civil Judge, Multan.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to pursue the court case vigorously. No further progress was reported till finalization of this draft para.

Audit recommends to conduct a fact-finding inquiry against the responsible for delay in submission of information to bank for encashment of bank guarantee and pursue the court case.

[DP No. 2685]

## **Assets Management**

### ***2.5.4.8 Failure to defend title of physically possessed Wah Transmission Store Land and Rent demand - Rs 352.800 million***

According to Section 5(5)(a) of Public Sector (Corporate Governance) Rules, 2013, “the principle of probity and propriety entails that company’s assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage.”

During audit of SNGPL for the FY 2022-23 it was observed that management purchased 12 Kanal land for Wah Transmission Store. The sale agreements were duly registered with Registrar and got the land mutated on September 06, 1983. SNGPL received a legal notice for rent of Rs 352.800 million from 1985 to 2017 to be paid to petitioner who filed petition before Honourable, Lahore High Court, Rawalpindi Bench regarding encroachment by SNGPL on his legally owned land. As referred by the Honourable Lahore High Court Rawalpindi Bench, DC, Rawalpindi decided that SNGPL encroached the land since inception to date. As per orders issued by DC Rawalpindi, management of SNGPL did not submit any written reply in its support. This resulted in failure to defend the title of land of Wah Transmission Store before DC and rent demand of Rs 352.800 million by the petitioner.

Audit was of the view that weak asset management resulted in failure to defend the title of possessed Wah Transmission Land.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that impugned order issued by DC Rawalpindi had been challenged before the Lahore High Court, Rawalpindi Bench.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to pursue the court case vigorously. No further progress was reported till finalization of this draft para.

Audit recommends to pursue the case vigorously besides fixing responsibility on persons at fault.

[DP No. 2707]

#### ***2.5.4.9 Loss due to theft of gas pipe - Rs 90.000 million***

According to Clause 4.3.5 of Store Manual of SNGPL, “every Store In charge will ensure that the material stacked in the pacing / cartons / crates / pallets is checked at regular intervals and in re-stacked at least once a year, so as to eliminate the chances of any material theft or misappropriation going unnoticed for a long period of time. The Store In charge will maintain record of such activity and submit completion report to GM (Stores).”

During audit of SNGPL for the FY 2022-23, it was observed that management carried out stock-taking on October 19, 2023 at Manga Store and



found that 44,742 meters MS Pipe of 2” dia worth Rs 90.000 million had been stolen from Manga Store. This resulted in loss of Rs 90.000 million.

Audit was of the view that weak internal controls resulted in loss due to theft of gas pipe.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that the estimated loss of theft had been calculated at Rs 380.000 million and matter was referred to FIA for investigation. Further, in order to determine the exact amount of loss multiple actions were taken immediately i.e. fact-finding enquiry and physical stock-taking.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to finalize the disciplinary proceedings against responsible besides pursuance of the case with FIA and Police for early conclusion of investigation and share the outcomes with Audit. DAC further directed to share the stock-taking and Internal Audit report for verification by Audit. No further progress was reported till finalization of the report.

Audit recommends to inquire the matter at Ministry level besides recovering the loss from the persons at fault.

[DP No. 2674]

## **Project Management**

### ***2.5.4.10 Non-completion of gas development jobs within stipulated time - Rs 7,499.132 million***

According to budget instruction for the FYs 2020-21 for carrying out capital and revenue jobs, “job holder (head of project / distribution department) will be responsible for timely completion of jobs within stipulated period specified in job approval document. Further, according to Para 13 of Cabinet Division’s Development Wing Notification No. F.7 (2)(Dev)/2016 dated October 10, 2016, “the executing agencies shall ensure that the schemes are completed within the same year and the approved cost.”

During audit of SNGPL for FY 2022-23, it was observed that 139 development jobs costing Rs 7,499.132 million were in process during FY 2022-23. The required finances were already sanctioned and material was also issued

to these jobs but these jobs could not be completed within same year. This resulted in non-completion of jobs having cost estimate of Rs 7,499.132 million.

Audit was of the view that poor project management, resulted in non-completion of jobs in time.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that the jobs could not be completed due to certain reasons like NOCs from NHA Railway, shortage of material, political constraints etc.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to submit revised reply with job wise details for verification of Audit. No further progress was reported till finalization of this draft para.

Audit recommends to ensure expeditious completion of jobs.

**Note:** The issue was also reported earlier in the Audit Reports for Audit Years 2022-23, 2021-22, 2020-21, 2019-20 and 2018-19 vide para number 2.5.4.8, 2.5.4.22 2.5.6.34 and 2.5.4.7 having financial impact of Rs 15,030.490 million, Rs 18,383 million, Rs 28,394, 18,639 million and Rs 17,397 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2714]

**2.5.4.11 Non-initiation of jobs due to non-arrangement of NOCs - Rs 1,728.809 million**

According to Para 3.1 of Project Manual of SNGPL, “Land Section is required to arrange permissions / No Objection Certificates (NOCs) from outside agencies for pipeline crossings.”

During audit of SNGPL, for the FY 2022-23, it was observed that development / project jobs having sanctioned cost of Rs 1,728.809 million were started during the FY 2021-23. These jobs could not be completed as Lands Department could not arrange NOC for ROW or pipeline crossings from NHA, CDA, Railways or Irrigation department etc. This resulted in non-initiation of jobs of Rs 1,728.809 million.

Audit was of the view that due to weak managerial controls; resulted in no-arrangement of NOCs from other agencies after approval of jobs.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that Lands Department was continuously following the pending crossing matters from outside agencies like NHA, CDA, Railway or Irrigation Department for timely completion of subject jobs.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to pursue the matter with quarters concerned for early resolution. No further progress was reported till finalization of the report.

Audit recommends to arrange NOCs at planning stage and complete the jobs at the earliest.

**Note:** The issue was also reported earlier in the Audit Reports for Audit Years 2022-23, 2021-22, 2020-21, 2019-20 and 2018-19 vide para numbers 2.5.4.8, 2.5.4.22, 2.5.6.10, 2.5.6.34 and 2.5.4.7 having financial impact of Rs 15030.490 million, Rs 18,383 million and Rs 28,394 million, Rs 18,639 million and Rs 17,397 million respectively. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2698]

***2.5.4.12 Non-surrendering of savings due to over-estimation of projects - Rs 929.138 million***

According to DG (Gas) notification dated June 2, 2005, criteria approved by Cabinet Committee on Energy CCE in 1992, 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 2022-23, it was observed that management prepared cost estimates of 47 jobs on the basis of survey conducted and unit construction cost of MS pipe or PE pipes and funds were released to execution departments. The jobs were completed by incurring an expenditure of Rs 728.848 million against estimated cost of Rs 1,657.987 million. This showed that jobs were over-estimated to the tune of Rs 929.138 million due to which these funds could not be assigned to other jobs / schemes. This resulted in

blockage of funds due to over-estimation of jobs amounting to Rs 929.138 million.

Audit was of the view that due to over-estimation of cost of jobs, funds of Rs 929.138 million were blocked which could be used for other purposes i.e. gas schemes, rehabilitation jobs, replacement of old network and rectification of leakages etc.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that the projects pertaining to the jobs highlighted in the audit para were at different stages of completion. The management contended that savings would be determined after completion of the whole scheme / project as there was likely hood that some jobs of the same scheme may exceed their original estimates / sanctioned amount.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to provide job wise status of schemes showing budget estimates, actual expenditure incurred, savings thereon and savings surrendered to the Government. No further progress was reported till finalization of the report.

Audit recommends to surrender the savings and implement the decision of DAC.

[DP No. 2689]

***2.5.4.13 Non-completion of process of mutation of land in favour of company and non-adjustment of advances - Rs 574.256 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 advances of relevant pipeline. After receiving award from Land Acquisition Collector, mutation in favour of company shall be carried out.”

During audit of SNGPL for the FY 2022-23, it was observed that management issued advances of Rs 737.540 million for purchase of land / right of way for various projects out of which Rs 163.284 million was adjusted by having mutation in favour of SNGPL. This resulted in non-completion of process of mutation of land in favour of company and non-adjustment of advances of Rs 574.256 million.

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

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that mutation of awarded land was the responsibility of concerned Revenue Officials to mutate the land in favour of the company. However, the management was continuously following the mutation of acquired land with concerned Revenue Officials.

The DAC in its meeting held on January 18 & 19, 2024 observed that the company was showing laxity in resolution of this issue. DAC directed the management to identify the hurdles in the process and resolve these as early as possible. No further progress was reported till finalization of the report.

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

**Note:** The issue was also reported earlier in the Audit Reports for Audit Years 2022-23, 2021-22, 2020-21 and 2018-19 vide Para No. 2.5.4.12, 2.5.4.27, 2.5.6.14 and 2.5.4.25 of Rs 337.492 million, of Rs 743.227 million and of Rs 302.150 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2709]

***2.5.4.14 Non-completion of cost sharing gas development work jobs within stipulated time - Rs 499.218 million***

According to Para 3.2 of budget instruction for the FYs 2018-19 & 2019-20 for carrying out capital and revenue jobs, “job holder (head of project / distribution department) will be responsible for timely completion of jobs within stipulated period specified in job approval document.

During audit of SNGPL for the FY 2022-23, it was observed that 40 cost sharing jobs having sanctioned cost of Rs 499.217 million were started during FYs from 2019-20 to 2022-23. The consumers had already deposited their 100% share in cost estimates in advance. But these jobs were not completed after lapse of period ranging from 01 to 03 years owing to want of material requirement or NOC. This resulted in non-completion of jobs having cost estimates of Rs 499.218 million.

Audit was of the view that due to weak project management, jobs were not completed as per plan.

The matter was reported to the management in September, 2023. The management in its reply dated December 27, 2023 stated that 40 jobs, which pertained to category of 100% cost recovery where network was laid in privately developed localities, 20 jobs pertained to the FY 2022-23, whereas, 10 jobs pertained to FY 2021-22. Out of highlighted jobs, 06 jobs were commissioned, whereas, work on remaining jobs was in progress. In most of the cases, the work was delayed due to requirement of NOCs or non-clearance of sites which was responsibility of the concerned Society.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to submit the job wise details of all 40 schemes along with supporting documents to Audit for verification and take necessary actions for early completion of schemes. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC and get the stated stance verified from Audit besides completing the jobs at the earliest.

[DP No. 2690]

***2.5.4.15 Loss at Bannu West Project due to weak internal controls - Rs 213.240 million***

According to Rules 7(1) & 2(b) of Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish appropriate arrangements to ensure it has access to all relevant information, advice and resources necessary to enable it to carry out its role effectively. Significant issues like internal audit reports, including cases of fraud or major irregularities etc. shall be placed before the Board for its information and consideration, in order to formalize and strengthen the corporate decision-making process.

During audit of SNGPL, for the FY 2022-23, it was observed that certain irregularities / discrepancies were noticed in Banu West Project such as short accountal of inventory, non-availability of requisite material when needed and irregularities in hiring and payment to causal labour. These irregularities caused loss of 213.240 million.

Audit was of the view that weak internal controls resulted in loss of Rs 213.240 million.

The matter was reported to the management in November, 2023. In DAC meeting held on January 18 & 19, 2024, the management reported that initial inquiry was conducted, the result of which did not address the issue and de-novo inquiry was ordered. Audit contended that initial inquiry be shared with Audit and complete the de-novo inquiry at the earliest.

The DAC directed the management to finalize the de-novo inquiry and share the same with Audit within two months. No further progress was reported till finalization of the report.

Audit recommends to finalize the inquiry at the earliest and share the findings.

[DP No. 2711]

***2.5.4.16 Non-recovery of cost overrun from the consumers on account of cost sharing jobs - Rs 74.452 million***

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

During audit of SNGPL for the FY 2022-23, it was observed that 71 consumers requested RLNG connections on 100% cost recovery basis. The management recovered Rs 523.586 million and actual cost of the jobs was Rs 598.038 million. Cost overrun of Rs 74.452 million could not be recovered from the consumers thereby causing a loss of Rs 74.452 million.

Audit was of the view that weak financial management resulted in non-recovery of cost overrun in these jobs.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that certain jobs had not been completed / commissioned. The management would recover the cost before provision of gas connections to the consumers as per prevailing procedure.

The DAC in its meeting held on January, 18 & 19, 2024 directed the management to expedite the efforts to recover the amount and share the

outcomes with Audit. No further progress was reported till finalization of the report.

Audit recommends to recover the amount from the consumers at the earliest.

**Note:** The issue was also reported earlier in the Audit Report for Audit Year 2022-23 vide Para No. 2.5.4.17 of Rs 16.200 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2708]

***2.5.4.17 Non-refund of savings to consumers in cost sharing jobs - Rs 63.621 million***

According to Para 9.2.2 of Accounting Manual of SNGPL, “the duties and responsibilities of Area Accountant include arranging recovery / refund from / to consumers after completion of cost sharing jobs.” Further, OGRA granted SNGPL license on September 03, 2003 to undertake the regulated activities i.e., transmission of natural gas and distribution and sale of natural gas. Furthermore, according to condition No. 5.2 of the Licensee, it is to be ensured the grant of 17.5% return on the value of its average net operating fixed assets for each financial year.

During audit of SNGPL for the FY 2022-23, it was observed that the management completed jobs with actual expenditure of Rs 250.892 million against recovered amount of Rs 314.513 million fetching savings of Rs 63.621 million. However, the management did not refund accrued savings to consumers.

Audit was of the view that weak financial management, resulted in non-refund of savings to consumers.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that audit was based on single job analysis of each consumer, however, it was to be noted that provision of gas connections to consumers involved execution of multiple jobs e.g. Pipeline and TBS. Based on the same premise, savings would be calculated if any.

The DAC in its meeting held on January, 18 & 19, 2024 directed the management to reconcile the job wise budget estimates with actual expenditure,



incurred and ensure refund the savings to consumers. DAC further directed to improve the system of budgeting of schemes and possibilities of refunds of savings to customers. No further progress was reported till finalization of the report.

Audit recommends to improve job estimation mechanism besides final determination of savings and refund to consumers.

**Note:** The issue was also reported earlier in the Audit Report for Audit Year 2021-22 vide Para No. 2.5.4.24 of Rs 611.210 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2692]

**2.5.4.18 Non-surrender of savings of SDGs completed Job to Government - Rs 28.249 million**

According to Para 14 of notification No.F.7(2)(Dev)/2016 dated October 10, 2016, “Guidelines for implementation of the Prime Minister’s Global SDGs Achievement Programme, savings against the schemes completed shall be surrendered immediately on completion of the scheme without waiting for closing of the financial year.”

During audit of SNGPL for the FY 2022-23 it was observed that job No. 19/35/001312 relating to Sustainable Development Goals (SDGs) was started during FY 2018-19 with sanctioned cost of Rs 57.125 million. The job was commissioned and completed on August 04, 2022 with a cost of Rs 28.875 million leaving saving of Rs 28.249 million which was not surrendered to the Federal Government.

Audit was of the view that weak financial management resulted in non-surrender of savings to Government.

The matter was reported to the management in November, 2023. The management in its reply dated December 27, 2023 stated that saving of the project was evaluated after completion of the whole project as there was a possibility that there was a saving in one project while the other job had exceeded the budget. Audit contended that the project may be completed and details of projects along with its savings be shared with Audit. No further progress was reported till finalization of the report.

The DAC in its meeting held on January, 18 & 19, 2024 directed the management to expedite the completion of projects and ensure early surrender of savings.

Audit recommends to complete the projects for early final determination and surrender of savings to Government.

[DP No. 2701]

***2.5.4.19 Non-recovery of relocation charges from NHA and loss of MS Pipe recoverable from contractor - Rs 11.555 million***

According to Para 13 of Cabinet Division's Development Wing Notification dated October 10, 2016, the executing agencies shall ensure that the schemes are completed within the same year and the approved cost. Further, according to Clause 19 C & 21 of General Terms and Condition of the contract, any loss of material shall be responsibility of the contractors. Furthermore, according to SNGPL Multan Regional officer letter dated August 25, 2020 and dated February 10, 2023, estimated relocation charges of Rs 5.244 million was demanded from NHA.

During audit of SNGPL for the FY 2022-23 it was observed that SNGPL management failed to recover relocation charges from NHA of Rs 5.244 million. Further, the management sustained loss of Rs 6.311 million due to mishandling of MS pipe by the contractors. This resulted in non-recovery of Rs 11.555 million from NHA and the contractor.

Audit was of the view that weak vigilance resulted in non-recovery of loss from the contractors & NHA.

The matter was reported to the management in September, 2023. The management in its reply dated December 27, 2023 stated that the matter of recovery of relocation charges was being taken up with NHA Head office Islamabad. Further, the matter of recovery from contractor would be taken up with tender evaluation committee for resolution of issue. Audit contended that amount was required to be recovered from NHA as well as loss from the contractor.

The DAC in its meeting held on January, 18 & 19, 2024 directed the management to pursue the matter with NHA through Petroleum Division for recovery of loss and also resolve the issues with contractor within one month and

share the outcomes with Audit. DAC further directed the management to fix the responsibility on the person responsible for not taking back the material from the contractor. No further progress was reported till finalization of the report.

Audit recommends to ensure recovery from NHA and the contractor.

[DP Nos. 2681, 2682, & 2699]

#### ***2.5.4.20 Non-preparation of mandatory PC-II***

According to Para 1.53 of Manual of Development Projects 2010, issued by Planning Commission, PC-II is required for conducting surveys and feasibility studies, in respect of larger projects. Further, the Ministry of Planning & Commission vide letter No. 1(1)PW/PD/CMO/ Infra/1/PMIC dated March 25, 2020 directed that all projects costing 50 million to 500 million should be based on feasibility studies prepared by the professionals hired by the Ministries/Divisions/executing agencies for respective Project Management Unit / Planning Cell etc. According to Clause 6 of Manual-Projects 2021 issued by Planning Commission, the project is completed or closed when all the funds were utilized and objectives achieved or abandoned for any reason. At this stage, the project must be closed formally, and reports prepared on its overall performance and results achieved using the PC-IV proforma.

During audit of SNGPL for the FY 2022-23, it was observed that Petroleum Division (DG Gas) did not prepare PC-II for the project “supply of 40 MMCFD Gas to Allama Iqbal Industrial City, Special Economic Zone, Faisalabad” costing Rs 785 million financed by Federal through PSDP. However, PC-1 was approved by DDWP without consideration of feasibility study. As per Manual *ibid*, PC-II was mandatory for project costing Rs 50.000 million to Rs 500.000 million and was required to be approved from DDWP before consideration of PC-1.

Audit was of the view that poor project planning resulted in non-preparation of PC-II, violating guidelines issued by the Planning Commission.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that PC-II was not prepared by SNGPL as no such instructions were given by the Ministry while planning the said project. Now project had been completed with actual cost of Rs 770.516 million against funds released of Rs 785.000 million. Audit

contended that savings of Rs 14.484 million be surrendered to the Government immediately besides providing justification for non-preparation of PC-II.

The DAC in its meeting held on January, 18 & 19, 2024 directed the DG (Gas) to come up with reasons for non-preparation of PC-II. DAC further directed the management to pursue the matter with Planning Commission for early approval of PC-IV besides early finalization of accounts with respect to project. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides surrendering of savings to the Government.

**Note:** The issue was also reported earlier in the Audit Reports for Audit Years 2022-23, vide para number 2.5.4.19. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2710]

## **Regulatory Affairs**

### ***2.5.4.21 Unjustified legal and other expenses due to non-adherence with instructions of Regulator - Rs 131.000 million***

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

During audit of SNGPL for the FY 2022-23 it was observed that management claimed legal expenses of Rs 264.000 million under DFRR for FY 2021-22 but the Regulator allowed only Rs 145 million meaning thereby an amount of Rs 119.000 million was disallowed which included an amount of Rs 61.000 million spent on arbitration. Further, Regulator rejected justification for increase of 40% in legal expenses RERR for the said year. Audit also observed that Rs 12.000 million spent on sponsorship of Chair at various Universities may also be regulated against tangible benchmarks. This resulted in unjustified expenses of Rs 131.000 million.

Audit was of the view that non-compliance with standards set by Regulator resulted in profit loss to the extent of disallowance of legal, professional and other charges by OGRA.

The matter was reported to the management in October, 2023. In its reply dated December 27, 2023, the management stated that despite disallowing by the Regulator, the expenditure incurred was duly approved by the BoD.

The DAC in its meeting held on January, 18 & 19, 2024 directed the management to seek clarification from Law Division through Petroleum Division regarding the power of BoD in allowing these expenditures after these had been disallowed by Regulator i.e. OGRA in light of SOE Act, 2023 and Corporate Governance Rules, 2017. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides developing benchmarks against sponsorship of Chairs in various Universities.

**Note:** The issue was also reported earlier in the Audit Reports for Audit Years 2022-23, 2020-21 and 2019-20 vide para number No. 2.5.4.24, 2.5.6.19 and 2.5.6.46 having financial impact of Rs 2,237 million, 5,241 million and 1,694 million. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2704 & 2705]

## **Procurement Related Issues**

### ***2.5.4.22 Un-necessary procurement resulting in blockage of funds - Rs 971.894 million***

According to Clause 17.1 of SNGPL Stores Manual, “the Coordinator (PB&MC) will coordinate with the Indenters that minimum number of slow moving and non-moving items remain in the company’s inventory.” Further, according to Clause 17.2.3 of Manual *ibid*, “each Indenter will be asked to confirm that quantities being indented by them will be utilized within two years and will not fall in the slow and non-moving category.”

During audit of SNGPL for the FY 2021-22, it was observed that the management unnecessarily procured and maintained stock of non-moving / slow moving items valuing Rs 971.894 million which resulted in blockage of funds.

Audit was of the view that in-efficient inventory management resulted in blockage of funds amounting to Rs 971.894 million in the shape of slow moving and non-moving items.

The matter was reported to the management in June, 2023. The management stated that items of Rs 160.520 million had been issued for utilization, items of Rs 288.690 million were mandatory items whereas age-wise detail of items of Rs 522.680 million of slow and non-moving items was shared. Audit contended that utilization of items of Rs 160.520 million may be got verified from Audit. In case of mandatory items, as per last year audit report of 2022-23, management stated that items of Rs 152 million were mandatory so there was an increase of Rs 136.690 million (47%) in mandatory items which needed to be justified. No plan to dispose of or utilized the remaining items was shared with Audit.

The DAC in its meeting held on September 26, 2023 directed the management to carry out an exercise to identify the items which were required to be retained, utilized or disposed of and provide it to Audit for scrutiny up to December 31, 2023. No further progress was reported till finalization of the report.

Audit recommends to enhance the efficiency of inventory management to avoid accumulation of un-necessary purchase of material.

**Note:** The issue was also reported earlier in the Audit Report for Audit Year 2022-23, vide para number 2.5.4.29 having financial impact of Rs 368.737 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2365]

***2.5.4.23 Excess payment to M/s Solar Turbine for short-shipment - Rs 105.637 million***

According to general terms of the contract, “the supplier is required to deliver the items as per delivery schedule from the receipt of purchase order or from the receipt of operative letter of credit. Furthermore, as per general terms to the contract, if the materials, as given in the order have not been dispatched / delivered on time and as per stipulations in the contract, SNGPL shall be entitled to recover 1% or 0.5% as the case may be of the total value of the delayed part of the 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 2021-22, it was observed that management issued two purchase orders to M/s Solar Turbine Europe UAE for the supply of spares for overhauling of 02 Central Engines (T-40/T-45) and 02 Saturn Engines of US\$ 1,463,438 and US\$ 179,887 respectively. The entire amount was paid by management for purchase orders despite short shipment of US\$ 370,658 equivalent to Rs 105.637 million was made by the supplier.

Audit was of the view that poor contract management resulted in excess payment and non-recovery of short-shipment from the contractor amounting to Rs 105.637 million.

The matter was reported to the management in June, 2023. The management in its reply dated September 22, 2023 stated that on arrival the consignment was burnt in the terrorist attack on June 08, 2014 inviting the Clause relating to force majeure.

The DAC in its meeting held on September 26, 2023 directed the management to recover the amount from supplier.

Audit recommends to recover the amount from supplier.

[DP No 2369]

#### ***2.5.4.24 Theft of industrial scrapped meters - Rs 28.762 million***

According to Section 5(5)(a) of Public Sector (Corporate Governance) Rules, 2013, “the principle of probity and propriety entails that company’s assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage.” Further, according to Clause 1.3.3 of Accounts Manual, “all insurance matter and claims will be handled by the Accounts department of SNGPL. Moreover, according to clause 1.3.10 of Accounts Manual “it is the duty of CFO to deal with banks and insurance companies regarding problems faced in day-to-day working”.

During audit of SNGPL for the FY 2021-22, it was revealed that 3,500 scrapped industrial meters were dispatched from central meter shop but only 400 meters were received at Manga store. FIR dated November 02, 2022 against certain employees was lodged at Police Station, Quaid-e-Azam, Industrial Area, Lahore. SNGPL management also lodged fidelity insurance claim of Rs 28.762 million with NICL which was pending.

Audit was of the view that weak internal controls resulted in theft of industrial meters.

The matter was reported to the management in June, 2023. The management in its reply dated June 15, 2023 stated that departmental inquiry was under process to probe the matter and FIR had been registered against the concerned official. The management further, informed on December 27, 2023 that initially loss was estimated to Rs 28.762 million and the same was communicated to NICL and accused were also arrested.

The DAC in its meeting held on September 26, 2023 directed the management to finalize the inquiry at the earliest and share the outcome with Audit. DAC in its meeting held on January 18-19, 2024 also directed management to pursue the case with NICL for settlement of claim within one month. DAC further directed to devise a mechanism to strengthen the security checks on stock and pursue the case vigorously. No further progress was reported till finalization of the report.

Audit recommends to conclude the inquiry, recover the loss from the accused at the earliest and share the out comes with Audit and settle the insurance claim with NICL besides devising a mechanism to strengthen the security checks on stock.

[DP Nos. 2377 & 2676]

## **HR / Employee Related Issues**

### ***2.5.4.25 Inaction against illegal network and non-finalization of disciplinary proceedings - Rs 35.427 million***

According to Para 110.3 of the SNGPL HR Manual, company encourages all disciplinary issues to be handle as soon as they come in to notice. Where management undertakes disciplinary action, its intention is to ensure that breaches of the Policy in case of under-performance are handled fairly and uniformly and without unnecessary escalation.

During audit of SNGPL for the FY 2022-23, it was observed that management did not finalize disciplinary proceedings against the employees as detailed below:

- i) The management finalized inquiry / fact-finding on August 23, 2022 and issued charge sheet to Executive Accountant Peshawar (D) on December



15, 2022 wherein he was held responsible for wrong posting of suspense account amounts of Rs 29.160 million in the Account ID 6512473000.

- ii) GM (East & West), Lahore planned system rehabilitation program (SRP) for the FY 2021-22 without issuance of work orders and work of pipe laying on these jobs were not carried out till March, 2022. Thus, belated work orders for 48 jobs were issued in March, 2022 without approval and after revision of the rates. The fact-finding enquiry on this matter to carry out detailed investigation in the matter, fix the responsibility and determine the financial loss was still pending. This resulted in loss due to payment of already work done at revised rates resulted in loss of Rs 6.267 million.

Audit was of the view that inefficient disciplinary mechanism resulted in non-finalization of disciplinary proceedings.

The matter was reported to the management in November, 2023. The management in its reply dated December 27, 2023 stated that inquiry in these cases were pending.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to finalize the inquiries within two months. No further progress was reported till finalization of the report.

Audit recommends to finalize the inquiry proceedings at the earliest.

[DP No. 2790]

## **Others**

### ***2.5.4.26 Inadmissible diversion of RLNG to domestic sector in summer months in violation of Winter Load Management - Rs 53,019.000 million***

According to ECC decision dated November 27, 2018, “SNGPL was allowed to inject RLNG volumes for consumption by domestic and commercial consumers”. Further, according to ECC decision dated May 11, 2018, “SNGPL and SSGC be allowed to manage gas loads on their system through RLNG-System gas swap mechanism”. Furthermore, Winter Load Management Plan for four months from November, 2022 to February, 2023 was issued by the Federal Government.

During audit of SNGPL for the FY 2022-23, it was observed that SNGPL diverted 17,858,314 MMBTU of RLNG from July, 2022 to October, 2022 and March, 2023 to June, 2023 to domestic and commercial consumers in violation of Gas Load Management Plan. For supply of indigenous gas, first priority was to be given to domestic sector and RLNG was required to be diverted only in case of higher demand than available for supply. SNGPL claimed the differential amount of Rs 53,019.000 million on account of diversion of RLNG in summer months.

Audit was of the view that Winter Load Management was meant for the months of November to February each year and diversion of RLNG to domestic and commercial consumers in other months did not come under the ambit of Winter Load Management and required specific approval of the competent authority.

The matter was reported to the management in November, 2023. The management in its reply dated December 27, 2023 stated that pursuant to GoP directions, SNGPL was obligated to supply blend of system gas and RLNG to 5 export oriented industrial sectors. SNGPL informed MoE (Petroleum Division) that RLNG was being diverted as system gas for 09 to 10 months in a year. SNGPL was obligated to provide system gas to the consumers of Khyber Pakhtunkhwa, however, owing to insufficient gas even in summers months, RLNG had to be diverted to domestic consumers to meet the demand of high priority sector. The reply was not tenable as selling of RLNG gas as system gas during the months of summer did not come under the ambit of Winter Load Management.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to submit the comprehensive reply regarding the matter for verification of Audit along with relevant record. No further progress was reported till finalization of the report.

Audit recommends to provide the approval of competent forum for diversion of RLNG gas as system gas during the months of summer and provide sales data for verification besides fixing responsibility for deviation from the policy.

**Note:** The issue was also reported earlier in the Audit Report for Audit Year 2022-23, vide para number 2.5.4.6 having financial impact of Rs 16,217 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2684]

***2.5.4.27 Inadmissible grant of subsidy to CPPs without having co-generation facility - Rs 7,078.490 million***

According to CCoE decision vide case No.91/04/2021 dated January 26, 2021, all such captive power plants connected with Power Grid (having electricity connections) will be disconnected from March 01, 2021 and before disconnecting gas supply to these industrial units, relevant DISCO would confirm in writing its technical viability to serve the sanctioned power load. Captive power plants not connected with Power Grid having no electricity connections shall submit their applications to respective DISCO for grid connectivity by March 31, 2021.

During special study on “Supply of RLNG to exports sectors on concessionary rates” for the FYs 2018-19 to 2021-22, it was observed that the management supplied RLNG to 60 CPPs which did not have co-generation facility on concessionary tariff (at US\$ 6.5/MMBTU) from April, 2021 to June, 2022 in violation of CCOE decision. Thereby, SNGPL extended undue benefit of concessionary rates to tune of Rs 5,035.344 million and excess blend of indigenous gas of Rs 2,043.146 million aggregating to Rs 7,078.490 million.

Audit was of the view that due to non-implementation of CCoE decision, undue benefit of Rs 7,078.490 million was extended to CPPs.

The matter was reported to Petroleum Division, DG (Gas) and SNGPL on April 28, 2023. In DAC Meeting held on September 27, 2023 the management of SNGPL stated that breakup of 60 cases consisting of 5 consumers were co-generation consumers, 6 consumers had been disconnected, 13 consumers' cases for electricity load enhancement were with respective DISCOS and 36 consumers had provided stay orders against disconnection.

The DAC directed the management to get the stated stance verified by Audit within 15 days and give updated position relating to 13 CPPs where DISCOS action was to be finalized by December 31, 2021. DAC further directed

to pursue 36 remaining court cases. No further progress was reported till finalization of the report.

Audit recommends to probe the matter for fixing responsibility for extending undue benefit besides expediting recovery proceedings against the CPPs.

[Para No. 2.3.4 of special study report on Supply of RLNG to Export Sector at Concessionary Rate Audit Year 2023-24]

**2.5.4.28 Irregular grant of subsidy due to inadmissible supply of RLNG to 02 meters at same premises – Rs 686.080 million**

According to Para 67 of Sales Manual of SNGPL, applications for industrial gas connections for generating Captive Power shall be received on prescribed Proforma along with documents such as layout plan of factory premises, photocopy of registry of land / factory (in case of owner), photocopy of lease agreement (in case of tenant). Further, according to SNGPL's letters dated January 27, 2022 & dated December 22, 2021, two Captive Power Meters cannot be installed at same premises.

During special study on "Supply of RLNG to exports sectors on concessionary rates" for the FYs 2018-19 to 2021-22 it was observed that SNGPL management installed two meters at same premises of M/s JK Spinning Mills Ltd. Faisalabad in violation of Gas Sales Agreement. In this way, Export Oriented Unit (EOU) availed subsidy of Rs 766.444 million and Rs 686.080 million simultaneously from both meters. Resultantly, installation of 2<sup>nd</sup> meter at the same premises and inadmissible subsidy of Rs 686.080 million was given to the EOU.

Audit was of the view that due to weak internal controls and poor vigilance, undue benefit was given in installation and subsidy of Rs 686.07 million to EOU on second CPP connection for the same premises.

The matter was reported to Petroleum Division, DG Gas and SNGPL on April 28, 2023. In DAC meeting held on November 30, 2023, the management stated that in-house fact-finding inquiry was conducted and report was shared with Audit. Audit contended that vigilance report and reply of EOUs clearly depicted that two meters were installed at same premises.

The DAC directed the Petroleum Division to conduct fact-finding inquiry and share the report with Audit within three months. No further progress was reported till finalization of the report.

Audit recommends to probe the matter relating to provision of two CPP connections at the same premises besides initiating recovery proceedings.

[Para No. 2.3.7 of special study report on Supply of RLNG to Export Sector at Concessionary Rate Audit Year 2023-24]

***2.5.4.29 Loss due to non-deposit of advance tax collected from CNG stations resulting in imposition of default surcharge - Rs 316.507 million***

According to Section 161 of the Income Tax Ordinance, “2001 “where a person collected tax under Division II of this Part 4 or Chapter XII or deducted tax under Division III of this Part 5 or Chapter XII fails to pay the tax to the Commissioner as required under Section 160, the person shall be personally liable to pay the amount of tax to the Commissioner.” Further, according to sub-section (1B) of the Ordinance *ibid*, “where at the time of recovery of tax under sub-section (1) it is established that the tax that was to be deducted from the payment made to a person or collected from a person has meanwhile been paid by that person, no recovery shall be made from the person who had failed to collect or deduct the tax but the said person shall be liable to pay default surcharge at the rate of twelve per cent per annum from the date he failed to collect or deduct the tax to the date the tax was paid.”

During audit of SNGPL for the FY 2022-23 it was observed that management collected advance tax from the CNG stations under Section 234 A of the Ordinance *ibid* along with gas charges during tax years 2008, 2009, 2011 and 2013 to 2021. But the management failed to deposit collected amount of Rs 2,031.012 million in Government exchequer within due time. Therefore, Tax Authorities imposed default surcharge of Rs 316.507 million on SNGPL due to late deposit of collected advance tax.

Audit was of the view that due to inactive financial management company was penalized with default surcharge.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that the company paid the amount to FBR as per advice of its Tax Consultant. Further, the company,

aggrieved with the decision of Tax Authorities was pursuing the legal course against the said demand and currently the matter was pending before ATIR.

The DAC in its meeting held on January, 18 & 19, 2024 directed the management to probe the matter regarding late deposit of tax which resulted in extra liability of default surcharge. DAC further directed to fix the responsibility and share the same with Audit. No further progress was reported till finalization of the report.

Audit recommends to identify the responsible for non-depositing of advance tax collected from CNG consumers besides pursuing the case in the court of ATIR.

[DP No. 2687]

***2.5.4.30 Absence of EOBI registration deprived the labour / workers - Rs 182.718 million***

According to Section II(i) of the Employees' Old Age Benefits Rules 1976, wherein five or more persons are employed by the employer, directly or through any other person, whether on behalf of himself or any other person, or were so employed on any day during the preceding twelve months, and shall continue to apply to every such industry or establishment even if the number of persons employed therein is, at any time after this Act becomes applicable to it, reduced to less than five "Contribution shall be payable every month by the employer of the Institution in respect of every person in his insurable employment, at the rate of six percent of his wages in the prescribed manner.

During audit of SNGPL for the FY 2022-23, it was observed that management deducted EOBI contribution from hired casual / daily wages employees without registration of non-permanent employees with EOBI. The company kept on depositing huge amounts with EOBI as employer & employee contribution of Rs 182.718 million but did not get the beneficiaries registered with EOBI. This had deprived non-permanent / casual staff of the company of their right.

Audit was of the view that negligence of the management resulted in non-registration of casual employees.

The matter was reported to the management in November, 2023. The management in its reply dated December 27, 2023 reported that the temporary

staff who became entitled to EOBI pension was being facilitated by submitting their complete record of engagement to EOBI and the benefit of pension was extended by the EOBI. It was expected that all the temporary staff would soon be registered with EOBI with effect from the date of their first engagement.

The DAC in its meeting held on January, 18 & 19, 2024 directed the management to get the stated stance verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to register each employee / worker with EOBI and also make sure that the amount deducted from the employees had been deposited against the name of each employee registered with EOBI since the beginning of their employment.

[DP No. 2792]

***2.5.4.31 Non-recovery of decreed amount from the defaulting consumers - Rs 157.003 million***

According to Clause 3.11 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 2022-23, it was observed that management failed to recover gas charges of Rs 172.557 million from 12 consumers against whom recovery was decreed in favour of the company. Further, 02 cases were decided against SNGPL due to negligence and filing of case against irrelevant persons involving Rs 6.528 million. This resulted in non-recovery from the defaulting consumers amounting to Rs 179.085 million.

Audit was of the view that negligence on the part of management resulted in non-recovery.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that in 03 cases an amount of Rs 22.082 million was recovered and appeal in 02 cases was decided against the SNGPL.

The DAC in its meeting held on January, 18 & 19, 2024 directed the management to expedite the process of attachment of property of accused. Para

was reduced to the extent of recovered and verified amount of Rs 22.082 million. DAC further directed the management to probe the matter regarding documents and share report to Audit. No further progress was reported till finalization of the report.

Audit recommends to pursue the court cases besides recovery of decreed amount.

**Note:** The issue was also reported earlier in the Audit Report for Audit Year 2021-22 vide para number 2.5.4.17 having financial impact of Rs 332.18 million. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2702 & 2791]

#### ***2.5.4.32 Non-settlement of insurance claim - Rs 24.306 million***

According to Clause 1.3.3 of Accounts Manual, “all insurance matter and claims will be handled by the Accounts department of SNGPL.” Further, according to Clause 1.3.10 of Accounts Manual, “it is the duty of CFO to deal with banks and insurance companies regarding problems faced in day-to-day working.”

During audit of SNGPL for the FY 2022-23, it was observed that the management failed to get insurance claim of Rs 24.306 million settled from National Insurance Company Limited even lapse of more than two years. This resulted in non-settlement of insurance claim amounting to Rs 24.306 million.

Audit was of the view that lack of liaison between NICL and SNGPL resulted in non-settlement of insurance claim.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that loss was assessed by surveyor and joint survey reports of the same were awaited.

The DAC in its meeting held on January, 18 & 19, 2024 directed the management to pursue the case with NICL for settlement of claim within one month. DAC further directed to provide the details of loss due to fire at Accounts and Telecom Departments and take action against the person(s) responsible for delay. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP Nos. 2675, 2677 & 2678]



#### ***2.5.4.33 Non-deposit of unclaimed dividend in Government Account - Rs 18.608 million***

According to Section 244 of the Companies Act, 2017, “where dividend declared by a company remains unclaimed or unpaid for a period of three years from the date it is due and payable, the company shall give ninety days’ notice to the shareholders to file claim. If no claim is made by the shareholder, the company shall, after ninety days from the date of publication, deposit any unclaimed or unpaid amount as well as the proceeds from the sale of shares to the Federal Government in a profit-bearing account with the State Bank of Pakistan or National Bank of Pakistan.”

During audit of SNGPL for the FY 2022-23, it was observed that total dividend payable stood at Rs 230.526 million as on June 30, 2023. Out of this an amount of Rs 18.608 million for the FY 2018-19 was added as unclaimed dividend in current year as it was not paid since more than 3 years. This resulted in undue retention of unclaimed dividend of Rs 18.608 million by the company.

Audit was of the view that weak financial management resulted in non-deposit of unclaimed dividend of Rs 18.608 million to Federal Government. The same issue was raised by Audit previously as well. However no remedial action was taken by the management so far.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 that as required under Section 244 of the Companies Act, 2017, Federal Government had not yet notified any account for such deposit.

The DAC in its meeting held on January, 18 & 19, 2024 reiterated its early directives dated 05.01.2023 as the DAC directed the management to follow up the matter with Petroleum Division / Finance Division. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

**Note:** The issue was also reported earlier in the Audit Reports for Audit Years 2022-23 and 2021-22, vide para numbers 2.5.4.35 and 2.5.4.43 having financial impact of Rs 109.039 million and Rs 111.462 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2696]

## 2.6 Sui Southern Gas Company Limited

### 2.6.1(A) Introduction

Sui Southern Gas Company Limited (SSGC) is a public limited company incorporated in Pakistan and listed in Pakistan Stock Exchange. Shareholding of Government of Pakistan in the company is 53.18%.

Main activity of the company is transmission and distribution of natural gas in the provinces of Sindh and Balochistan. The company is also engaged in certain activities related to the gas business including manufacturing and sale of gas meters, construction contracts for laying of pipelines and transportation of RLNG to SNGPL. SSGC is serving more than 3.113 million consumers in Sindh and Balochistan through pipeline network of 47,520 KMs. The company is facing multiple problems that include governance issues, operational inefficiency, weak contract and project management that have suppressed the profitability and business growth of the company over the period of time. The company has not been able to finalize its accounts for the FY 2022-23 due to non-resolution of issues with Oil and Gas Regulatory Authority (OGRA) leading to non-determination of its revenue requirements for the aforesaid financial year.

### 2.6.1(B) Comments on Company Performance

Audited accounts for the financial years 2022-23 were not finalized till finalization of this report. Working results of the company for the financial year 2021-22 as compared to the previous years are tabulated below:

(Rs in million)

Head of Account	2021-22	2020-21	2019-20	2018-19
Sales (Net)	375,559	296,128	290,240	297,167
Other Income	17,280	19,463	15,769	14,410
Total Revenues	392,839	314,771	306,009	311,577
Cost of Gas	367,840	301,878	307,291	295,127
Expenses	32,734	11,757	19,987	34,812
Total Expenses	400,574	313,635	327,278	329,939
Total Profit or Loss	(11,444)	1,955	(21,269)	(18,362)

(Source: Annual Audited Accounts)

- i) Despite an increase of 26.82% in its sales, profit of the company was reduced and converted to loss during the FY 2021-22 (from profit of Rs 1,956 million to loss of Rs 11,444 million);
- ii) The company did not comply with the provision of the statement of compliance as required under serial No. 19 of Schedule-I of Corporate Governance Rules, 2013, where the performance evaluation of members of the Board including the Chairperson and the Chief Executive would be undertaken annually by the Government for which the Government was to enter into performance contract with each member of the Board at the time of his or her appointment;
- iii) As per Note 44, finance cost on short-term borrowing from banks increased by Rs 637.042 million from Rs 1,386.695 million to Rs 2,023.737 million for the year 2021-22. This reflected SSGC's increased dependence on short-term borrowing to meet its liquidity requirements;
- iv) As per Note 31 of Audited Financial Statements for the FY 2020-21, at the end of 2021-22, trade debts of the company, receivable from different stakeholders, were Rs 109,085 million. Out of this, an amount of Rs 102,295 million, which was 94 % of total outstanding trade debts, was unsecured;
- v) As per Note 18.1, trade and other payables increased by Rs 123,898 million in FY 2021-22 from Rs 387,937 million to 511,835 million;
- vi) Trade Debts and other Receivables increased from Rs 92,133 million to Rs 109,085 million as on June 30, 2022;
- vii) External auditors accorded a qualified opinion on the accounts of SSGC for the FY 2021-22 as detailed below.
  - a. The reason for the qualification was trade debts including receivables of Rs 29,652 million with LPS Rs 151 billion and Rs 25,312 million with LPS Rs 82 billion from K-Electric Limited (KE) and Pakistan Steel Mills Corporation (Private) Limited (PSML), respectively. Significant portion of such receivables included overdue amounts, which had been considered good by management. However, due to the adverse operational and financial conditions of PSML, disputes by KE and PSML with the company on LPS, total overdue amounts from KE and PSML were likely to be recovered and timeframe over which such recovery would be made; and
  - b. Interest accrued includes interest receivable of Rs 10,957 million and Rs 5,101 million from SNGPL and WAPDA, respectively.

Due to dispute with WAPDA and SNGPL, company was unable to determine the extent to which the interest accrued amounts due from SNGPL and WAPDA were likely to be recovered and the timeframe over which such recovery will be made.

## 2.6.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 526,552.857 million were raised in this report during the current audit of SSGC. This includes recoverable amount of Rs 274,226.597 million as pointed out by Audit. Summary of the audit observations classified by nature is as follows:

(Rs in million)		
Sr. No.	Classification	Amount
1	Irregularities	
A	Distribution / UFG Losses Related Issues	23,808.844
B	Receivables Management	274,261.009
C	HR / Employee Related Irregularities	39.471
D	Procurement Related Issues	2,517.000
E	Project Management	11,030.756
F	Land Acquisition Related Issues	424.820
2	Others	214,470.957

## 2.6.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
1992-93	10	9	1	90
1994-95	2	1	1	50
2000-01	5	4	1	80
2002-03	8	7	1	88
2003-04	8	6	2	75
2006-07	13	10	3	77
2007-08	11	10	1	91
2010-11	27	20	7	74
2011-12	8	0	8	0
2012-13	2	0	2	0
2013-14	9	8	1	89
2014-15	3	0	3	0

2015-16	45	19	26	42
2016-17	39	6	33	15
2017-18	24	7	17	29
2018-19	14	0	14	0
2019-20	9	5	4	56
2021-22	2	0	2	0
<b>Total</b>	<b>239</b>	<b>112</b>	<b>127</b>	<b>47%</b>

The overall compliance of PAC directives needs improvement. Special attention is required for the years where 'NIL' compliance was reported in above table.

## **2.6.4 Audit Paras**

### **Distribution / UFG Losses Related Issues**

#### ***2.6.4.1 Loss due to UFG beyond permissible limit - Rs 23,436.992 million***

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

During audit of SSGC for the FY 2022-23, it was observed that OGRA allowed Unaccounted for Gas (UFG) losses @ 6.97% for the FY 2021-22 but the company recorded UFG losses of 17.84%. Thus, the company sustained a loss of 10.87% UFG beyond that allowed by OGRA which amounted to Rs 23,436.992 million. It was also observed that the management could not prioritize the problematic areas which needed immediate and focused intervention. One way to identify such problematic areas was the reconciliation of gas supplied and billed at Town Boarder Station (TBS) level which was not done leading to continued loss of gas and subsequent revenue loss beyond the permissible limit of OGRA. Audit would like to quote the example of Karachi city, where the number of illegal gas consumers stood at 0.700 million causing a UFG loss of 10.000 BCF annually.

It was also observed that OGRA had set 30 Key Monitoring Indicators (KMIs) like number of visits to identify theft, FIRs registered, maintaining record of gas leakage etc, aimed at reduction in UFG to allow annual UFG allowance. However, during FY 2021-22 SSGCL could only achieve 75.84% of KMI target which showed lack of commitment on the part of management to control the UFG.

Audit was of the view that weak internal controls resulted in huge UFG losses of Rs 23,436.992 million.

The matter was reported to the management in November, 2023. The management in its reply dated January 12, 2024 stated that 25 BCF out of 45 BCF, UFG volume recorded in SSGC system was contributed by Balochistan and around 75% of all domestic gas meters in Quetta were tampered. The

management of SSGC was continuously pursuing the MoE and the Provincial administration for the implementation of administrative measures to curb gas theft. Further, measures to carryout reconciliation at TBS level was being carried out.

The DAC in its meeting held on January 16, 2024, directed the management to submit region wise detail to Audit and three years trend analysis of UFG. DAC also directed to share the detail of TBS installed against targets as well as number of TBS equipped with measuring instruments and without measuring instruments along with reason for non-reconciliation of gas at TBS level. DAC further directed the management to take steps to reduce number of illegal consumers. No further progress was reported till finalization of the report.

Audit recommends to take effective steps to reduce UFG and bring UFG losses within permissible limit besides implementing the decision of the DAC. It is also recommended that tangible steps may be taken to achieve KMI targets.

**Note:** The issue was reported earlier also in the Audit Reports for Audit Years 2018-19, 2019-20, 2020-21 & 2021-22 vide para numbers 2.6.4.5, 2.6.6.10, 2.6.6.2 & 2.6.4.2 having financial impact of Rs 12,091 million, Rs 39,549.84 million, Rs 22,254 million & Rs 12,982.70 million. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2717, 2718, 2734 & 2740]

#### ***2.6.4.2 Non-recovery of gas charges decreed in favour of the company - Rs 256.166 million***

According to Para No. 3.1 of Legal Services Policy, Legal Services Department is responsible to manage and look after the organization's legal matters and to give advisory service and strategic guidance, consultation and support on legal issues, ensuring legal and regulatory compliance.

During audit of SSGC for the FY 2022-23, it was observed that the management failed to recover gas charges of Rs 256.166 million from 58 consumers against whom recovery and declaratory cases had already been decided in favour of the company. The management failed to take necessary steps to ensure recovery of decided cases amounting to Rs 256.166 million.

Audit was of the view that due to negligence of the management, outstanding dues could not be recovered from the defaulters against whom cases were decided.

The matter was reported to the management in September, 2023. The management in its reply dated January 12, 2024 stated that efforts were being made to recover dues from defaulters.

The DAC in its meeting held on January 16, 2024, directed the management to recover the amount and get verified not due amount from Audit (especially against M/s Maxco) within a week. DAC further directed to share monthly progress report to Audit. No further progress was reported till finalization of the report.

Audit recommends to intimate reasons for slow pursuance of pending declaratory cases besides expediting recovery of declaratory cases.

**Note:** The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide para number 2.6.4.5 having financial impact of Rs 574.093 million. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2723 & 2744]

#### ***2.6.4.3 Non-initiation of criminal proceedings against un-registered consumers involved in pilferage of gas - Rs 62.180 million***

According to Clause D-3 of Procedure for dealing with theft of gas cases issued by OGRA in 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.” Further, according to Clause 3.1 of Billing Manual, “Billing Department is responsible to report theft cases to Consumer Relations Department for prompt and appropriate action.”

During audit of SSGC for the FY 2022-23, it was observed that in 14 cases various areas of Karachi, Hyderabad, Nawab Shah and Quetta, unregistered persons were using gas directly from distribution lines through illegal network. It was also observed that illegal supply of gas was continued to approximately 4,900 houses in different cases. The management estimated value of stolen gas to be Rs 62.180 million. Despite such huge network of illegal



supply, no serious effort was found on record to identify the persons within SSGC responsible for gas theft. No recovery and criminal proceedings were initiated against un-registered persons involved in pilferage of gas.

Audit was of the view that weak network surveillance and ineffective management led to non-detection of laying of illegal network and pilferage of gas as well as non-initiation of criminal proceedings against theft of gas.

The matter was reported to the management in November, 2023. The management in its reply dated January 12, 2024 stated that FIRs had been lodged against the cases of direct use of gas by un-registered consumers.

The DAC in its meeting held on January 16, 2024, directed the management to pursue the criminal cases and get the efforts made in this regard verified by Audit. No further progress was reported till finalization of the report.

Audit recommends to pursue the criminal cases besides recovering the gas theft charges.

[DP Nos. 2739 & 2763]

#### **2.6.4.4 Loss due to gas theft by consumers - Rs 53.506 million**

According to Clause D-3 of Procedure for dealing with theft of gas cases, issued by OGRA in 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.”

During audit of SSGC for the FY 2022-23, it was observed that company suffered a loss amounting to Rs 67.815 million on account of gas pilferage by 95 domestic, commercial and industrial consumers.

(Rs in million)

<b>Sr. No.</b>	<b>Category</b>	<b>No. of consumers</b>	<b>Amount</b>
1	Commercial	64	49.752
2	Domestic	30	17.465
3	Industrial	01	0.598
<b>Total</b>		<b>95</b>	<b>67.815</b>

Audit was of the view that ineffective monitoring resulted in loss of Rs 67.815 million to the company in the shape of pilferage of gas.

The matter was reported to the management in August, 2023. The management in its reply dated January 12, 2024 stated that Rs 21.669 million had been recovered.

The DAC in its meeting held on January 16, 2024, reduced the para to the extent of recovered and verified amount of Rs 14.309 million and directed to expedite the recovery of balance amount of Rs 53.506 million. No further progress was reported till finalization of the report.

Audit recommends to recover the balance amount from domestic, commercial and industrial consumers.

**Note:** The issue was reported earlier also in the Audit Reports for Audit Years 2018-19, 2019-20, 2020-21, 2021-22 & 2022-23 vide para numbers 2.6.4.4, 2.6.6.12, 2.6.6.12, 2.6.6.6, 2.6.4.13 & 2.6.6.4.2 having financial impact of Rs 6,784.948 million, Rs 971.92 million, Rs 1423.493 million, Rs 240.605 million & Rs 445.005 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2757]

## **Receivables Management**

### ***2.6.4.5 Non-recovery of outstanding dues from consumers - Rs 270,026.925 million***

According to Para 4.4.1 read with Para 4.4.7 of Natural Gas Consumer Service Manual, 2011 and Para 4.5 of SSGC Recovery Policies / Procedures, supply is disconnected if the customer commits a default in the payment of two consecutive monthly bills or where outstanding amount is not secured by the Gas Security Deposit (GSD) or surpass the GSD amount. Further, according to SSGC Recovery Policies / Procedures, “company will disconnect gas supply of a customer is defaulter of payment of regular gas bills or instalment of gas bill or any amount of gas supply deposit.”

During audit of SSGC for the FY 2022-23, it was observed that the management failed to recover outstanding amount of gas charges and Late

Payment Surcharge (LPS) amounting to Rs 270,211.925 million from the power sector companies and industrial defaulters. The position is reported as under:

(Rs in million)			
<b>Organization</b>	<b>Principal</b>	<b>LPS</b>	<b>Total</b>
GENCO-I / GENCO-III / CPPA-WAPDA	3,197.000	5,379.000	8,576.000
ARL	42.000	0	42.000
K-Electric (Indigenous Gas)	29,653.000	146,761.000	176,414.000
Pakistan Steel Mills	23,052.000	61,600.000	84,652.000
Industrial defaulters (35 disconnected consumers)	527.925	-	527.925
<b>Total</b>	<b>56,471.925</b>	<b>213,740.000</b>	<b>270,211.925</b>

It may be pointed out that out of total recovery from industrial defaulters an amount of Rs 84,652.000 million was related to Pakistan Steel Mills Limited (PSML). An effort was made by both SSGC and PSML to partially offset the arrears through transfer of PSML land. However, the deal could not materialize due to slow follow up by SSGC. This resulted non-recovery of outstanding dues / settlement of Rs 270,211.925 million

Audit was of the view that weak financial management resulted in non-recovery / settlement of Rs 270,211.925 million.

The matter was reported to the management in November, 2023. The management in its reply dated January 12, 2024 stated that an amount Rs 185.673 million had been recovered and same had been verified by Audit. Further, it was also reported that company was vigorously pursuing PSML for recovery / settlement of outstanding dues.

The DAC in its meeting held on January 16, 2024 reduced the para to the extent of recovered and verified amount of Rs 185.673 million and directed to expedite the recovery of balance amount of Rs 270,026.925 million. No further progress was reported till finalization of the report.

Audit recommends to expedite the recovery process of outstanding dues.

**Note:** The issue was reported earlier also in the Audit Reports for Audit Years 2018-19, 2019-20, 2020-21, 2021-22 & 2022-23 vide para numbers 2.6.4.4, 2.6.6.12, 2.6.6.12, 2.6.6.6, 2.6.4.13 & 2.6.6.4.2 having financial impact of Rs 6,784.948 million, Rs 971.92 million, Rs 1423.493 million, Rs 240.605 million

& Rs 445.005 million. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2724, 2738, 2742 & 2750]

**2.6.4.6 Non-settlement of insurance claims - Rs 1,950.271 million**

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

During audit of SSGC for the FY 2022-23, it was observed that the company sustained a considerable loss of infrastructure and material due to floods in various regions of Balochistan and Sindh provinces during the FY 2021-22 (Annexure-4). The management lodged 24 insurance claims with NICL amounting to Rs 1,950.271 million. However, management could not get these claims settled till finalization of this report.

Audit was of the view that slackness of the management resulted in non-settlement of insurance claims of Rs 1,950.271 million.

The matter was reported to the management in November, 2023. The management in its reply dated January 12, 2024 stated that the delay in settlement of claims was due to the nature & quantum of loss. However, rigorous efforts were being made to ensure settlement of these claims.

The DAC in its meeting held on January 16, 2024 directed the management to expedite their efforts for settlement of insurance claims. No further progress was reported till finalization of the report.

Audit recommends to pursue the claims with NICL effectively for early settlement.

[DP No. 2716]

**2.6.4.7 Non-recovery of gas transportation charges from SNGPL - Rs 1,579.401 million**

According to Clause 3.2 of gas transportation agreement between SSGC and SNGPL dated January 26, 2014, regarding transportation of Zamzama field gas from Dadu delivery point to Sui delivery point, SNGPL was to pay the monthly tariff according to tariff invoices issued by SSGC to SNGPL for each month.

During audit of SSGC for the FY 2022-23, it was observed that SSGC did not recover an amount of Rs 1,579.401 million due on June 30, 2023 from SNGPL on account of gas transportation charges.

Audit was of the view that weak financial control and contract management resulted in non-recovery of Rs 1,579.401 million on account of gas transportation charges.

The matter was reported to the management in November, 2023. The management in its reply dated January 12, 2024 stated that SNGPL had been withholding payment of gas transportation charges linking it with the settlement of RLNG withheld amount relating to the period prior to May, 2020. That issue would be settled after finalization of OGRA consultant report and consequently the outstanding amount of gas transportation charges would be recovered.

The DAC in its meeting held on January 16, 2024 directed the management to pursue the matter. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter with SNGPL for early recovery of outstanding amount.

[DP No. 2748]

**2.6.4.8 Non-recovery of claim against off-spec gas - Rs 670.000 million**

According to Section 4.1.6(3) of Petroleum Exploration and Production Policy, 2012, “where the specification and quality of the gas from an approved Extended Well Testing (EWT) is acceptable to the buyer, the gas price shall entail a 5% discount from the applicable gas price for on-spec gas and 10% for off-spec gas for that Zone.”

During audit of SSGC for the FY 2022-23, it was observed that the management filed claim of Rs 1,700.000 million against off-spec gas with operators of Rehman and Sinjhorro gas fields. However, only an amount of Rs. 1,030.000 million could be realized leaving a balance of Rs 670.000 million till June 30, 2023.

Audit was of the view that poor financial management resulted in non-recovery of Rs 670.000 million on account of off-spec gas.

The matter was reported to the management in September, 2023. The management in its reply dated January 12, 2024 stated that the financial calculations of Sinjhorro off-spec gas quantities from the field for the period January, 2013 to December, 2015 were finalized. Further, this involves Federal Board of Revenue due to credit notes which would not be accepted by FBR, beyond 180 days. In order to take the impact of credit notes both tax teams of SSGC and OGDCL were on board.

The DAC in its meeting held on January 16, 2024 directed the management to conduct internal fact finding inquiry to identify the reasons for delay in execution of the agreement and expedite the recovery within one month. No further progress was reported till finalization of the report.

Audit recommends to conduct internal fact finding inquiry to identify the reasons for delay in execution of the agreement and expedite the recovery besides pursuing the matter with OGRA.

[DP Nos. 2737]

#### ***2.6.4.9 Loss to Government exchequer due to non-deposit of Stamp Duty - Rs 34.412 million***

According to Section 3 of the Stamp Act 1899, “instruments shall be chargeable with Duty of the amount indicated in schedule-I of the act *ibid.*”

During audit of SSGC for the FY 2022-23, it was observed that the management made connection agreement with 344,125 consumers during the FYs 2017-18 to 2022-23 in Karachi, Hyderabad, Nawab Shah, Sukkur and Larkana Regions. However, the management failed to deposit the stamp duty on account of these connection agreements. This resulted in loss to the Government amounting to Rs 34.412 million.

Audit was of the view that poor financial management resulted in non-recovery of Stamp Duty of Rs 34.412 million.

The matter was reported to the management in September, 2023. The management in its reply dated January 12, 2024 stated that SSGC would recover and deposit Stamp Duty @ Rs 100 from each customer who had been provided connection.

The DAC in its meeting held on January 16, 2024 directed the management to deposit due amount within one month and identify the person responsible for lapse. No further progress was reported till finalization of the report.

Audit recommends to collect the due amount of Stamp Duty and deposit the same in Government treasury besides fixing responsibility for this lapse.

[DP No. 2719]

## **HR / Employees Related Issues**

### ***2.6.4.10 Unjustified payment to employee appointed on fake degree - Rs 39.471 million***

According to para 6.9.1 of the HR Manual of SSGC, employment offer from SSGC is subject to a positive background check of the candidate and his / her qualification and references. This includes, but is not limited to, NADRA verification, Police verifications, past employee reference checks, educational documents verification, etc.

During audit of SSGC for the FY 2022-23, it was observed that an employee serving in PARCO was transferred to SSGC on February 19, 2008 on deputation basis for a period of 02 years against the post of Secretary in Grade IV. The management absorbed the employee in the SSGC as Career Executive in Grade-IV after completion of 02 years deputation period. However, on October 18, 2017 i.e. after a lapse of 07 years, the management decided to get his education documents verified, as a result of which his matric certificate was found tampered. Show cause notice was served to the employee on January 25, 2019 but it took the management 3 years to finalize disciplinary proceeding and finally he was dismissed from service on December 21, 2022. This resulted in unjustified payment of pay and allowances amounting to Rs 39.471 million to the employee.

Audit was of the view that delayed decision making resulted in unjustified payment of pay and allowances amounting to Rs 39.481 million.

The matter was reported to the management in October, 2023. The management in its reply dated January 12, 2024 stated that the matriculation certificate was found tampered after verification from concerned Board. Consequently, the petitioner was issued show cause notice on dated January 25, 2019.

The DAC in its meeting held on January 16, 2024 directed the management to conduct fact finding inquiry regarding delay in the processing of disciplinary proceedings and also provide admissibility of Rule for absorption in SSGC and share report with Audit within one month. No further progress was reported till finalization of the report.

Audit recommends to conduct fact finding inquiry regarding delay in the processing of disciplinary proceedings and also provide admissibility of Rule for absorption in SSGC and share report with Audit.

[DP No. 2736]

### **Procurement Related Irregularities**

#### ***2.6.4.11 Escalation in project cost due to defective procurement process - Rs 2,423.000 million***

According to para 3 of Procurement Department Policy Document of SSGC, Procurement department is responsible for the procurement of goods, services and works to support the business activities at SSGC.

During audit of SSGC for the FY 2022-23, it was observed that the management initiated the procurement of line pipe in December 2016 for the transmission pipeline project of 24" x 31 KM through tender inquiry # SSGC/FP/TE/7746. After evaluation of the procurement process the lowest bidder i.e. M/s Baosteel Singapore PTE Ltd was awarded the purchase order on January 04, 2017. The management did not evaluate the tendering process as per SRO 827 which supports local engineering industry by encouraging procurement of locally manufactured goods.

Therefore, the local bidder i.e. M/s Crescent Steel obtained the stay order from the High Court of Sindh on awarding of contract to foreign bidder on the



dispute of calculation of price preference as per SRO 827 with SSGCs. The case was decided on January 27, 2020 and court ordered that to float fresh tender and allowed participation of M/s Crescent steel. The management did not initiate the process from January, 2020 till September, 2021 and new tender was initiated in January, 2022 and Purchase Order No. 12//TKC/31034 dated December 27, 2023 was issued to M/s Crescent Steel. Non-evaluation of price as per SRO 827 resulted in delay of procurement of pipeline of 6 years consequently the project cost increased by Rs 2,423.000 million.

Audit was of the view that due to inefficiency and non-adherence to the provision of SRO 827 procurement process was put in litigation and procurement was delayed by six years which resulted in the escalation of project cost by Rs 2,423.000 million.

The matter was reported to the management in November, 2023. In the DAC meeting held on January 16, 2024 the management stated that BoD directed to conduct investigation through Internal Audit Department and that investigation had been completed. Further, M/s Crescent Steel & Allied Products Ltd. initiated litigation in Sindh High Court however, that was dismissed by the court.

The DAC directed the management to share the final Internal Audit Department report and decision of the Sindh High Court dated January 27, 2020 with Audit within 15 days. DAC further directed to provide the approval of BoD regarding change in scope of the project. Further, the management share the draft fact finding report, the report only narrates the reasons of delay in procurement process. In the inquiry report action against the responsible persons due to inefficiency and non-adherence to the provision of SRO 827 was not concluded.

Audit recommends to fix the responsibility on the persons at fault.

[DP No. 2732]

#### ***2.6.4.12 Blockage of funds due to excessive procurement - Rs 94.000 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 2022-23, it was observed that the management procured 22,000 meters of pipe from M/s Crescent Steel and Allied Products valuing Rs 1,032.423 million against the requirement of 20,000 meters. The management procured excess quantity of 2,000 meters which resulted in blockage of funds of Rs 94.000 million.

Audit was of the view that poor inventory control and inefficiency on the part of management resulted in blockage of funds amounting to Rs 94.000 million

The matter was reported to the management in September, 2023. The management in its reply dated January 12, 2024 stated that extra 10% increase in length was ordered keeping in view the requirement of actual survey / construction activities. Therefore, 2,000 meter additional pipe was procured and this was normal practice.

The DAC in its meeting held on January 16, 2024 directed the management to submit detailed report regarding inventory, standard practices and utilization of pipes to Audit within a week. No further progress was reported till finalization of the report.

Audit recommends to submit detailed report regarding inventory, standard practices and utilization of pipes besides improving inventory management.

[DP No. 2721]

#### ***2.6.4.13 Irregular purchase of indigenous gas without GSAs with E&P companies***

According to provisions of Sale of Goods Act, 1930 and Contract Act, 1872 all agreements or contracts should be negotiated, entered into or amended on an arms' length basis and in accordance with the provisions of rules.

During audit of SSGC for the FY 2022-23, it was observed that the management purchased 203,622,629 MMBTU gas amounting to Rs 210,963.314 million from 45 fields without executing Gas Sale Agreements with E&P

companies. In the absence of formal GSAs, purchase of gas of Rs 210,963.314 million was held irregular.

Audit was of the view that purchase of gas without entering into GSAs with E&P companies was irregular which puts the company at risk of legal complications.

The matter was reported to the management in November, 2023. In the DAC meeting held on January 12, 2024 the management stated that currently only 05 agreements were under deliberation with the respective E&P companies and 22 agreements were duly signed. Audit contended 09 agreements of Rs 113,753.314 million were verified by Audit whereas 36 agreements of Rs 97,210 million were still pending.

The DAC directed the management to share the finalized agreements and enhance the efforts to finalize the remaining agreements. No further progress was reported till finalization of the report.

Audit recommends that the practice of purchase of gas without entering into formal agreement may be avoided in future. The pending 36 agreements may be finalized immediately.

**Note:** The issue was reported earlier also in the Audit Report for Audit Year 2021-22 vide para number 2.6.4.20. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2753]

## **Project Management**

### ***2.6.4.14 Cost overrun due to non-completion of project in time-Rs 8,989.000 million***

According to Para No. 3.1 of Project & Construction Department Policy Document, Projects and Construction department is responsible for construction of major gas pipelines and commissioning of gas into those pipelines across the province of Sind and Baluchistan.

During audit of SSGC for the FY 2022-23, it was observed that the BoD and OGRA approved the project of 30” dia x 125 Km pipeline from SMS Sindh University to Pakland on March 04, 2017 and November 07, 2017 respectively with budgeted amount of Rs 5,014 million. The project was aimed to receive

indigenous gas of 247 MMCFD from gas fields of OGDCL, UEPL & PPL. As per project plan the project was to be initiated on February 24, 2017 and to be completed by December 30, 2018. SSGC could not complete this project despite lapse of more than 06 years as a result the cost of the project was increased to Rs 14,006.000 million. This resulted in increase of project cost by Rs 8,989.000 million.

Audit is of the view that poor project management of SSGC resulted in increase of project cost by Rs 8,989.000 million. Moreover, non-completion of subject gas pipeline project also resulted in non-injection of indigenous gas into system to cater to the shortage of energy in the country & saving of costly foreign exchange reserves spent on imported RLNG.

The matter was reported to the management in September, 2023. The management in its reply dated January 12, 2024 stated that project was delayed due to the non-clearance of Right of Way (ROW) by the Government of Sindh. Reply of the management is not tenable as the project was planned to complete in December 2018. Therefore, SSGC could have taken up this matter seriously with the concerned authorities and get resolved the issue in order to receive the 247 MMCFD indigenous gas from the fields of above companies which was cheaper than RLNG.

The DAC in its meeting held on January 16, 2024 directed the management to justify the delay in the project and complete the remaining work of the project at the earliest. No further progress was reported till finalization of the report.

Audit recommends to take necessary measures to complete the project so that the indigenous gas be injected in the transmission system of SSGC, besides fixing the responsibility on the persons at fault.

[DP No. 2731]

#### ***2.6.4.15 Non-commissioning of LPG Air Mix plant - Rs 762.066 million***

According to section 155 (1) of Mineral & Industrial Gases Safety rules, 2010, no person shall fill any cylinder, vessel, and container with compressed gas and no cylinder, vessel and container filled with compressed gas shall be possessed by anyone except under and in accordance with the conditions of a licence granted under these rules.

During audit of SSGC for the FY 2022-23, it was observed that the management installed LPG Air Mix plant at BELA (Balochistan) in December 2018 with a cost of Rs 762.066 million. However, the installed LPG Air Mix Plant has not yet been commissioned due to non-adherence of the Mineral and Industrial Gases Safety (MIGS), Rules 2010. Therefore, the management could not get license from the Department of Explosives, resultantly LPG Air Mix Plant could not be commissioned despite lapse of 05 years.

Audit was of the view that poor project management resulted in non-commissioning of installed LPG Air Mix Plant.

The matter was reported to the management in September, 2023. The management in its reply dated January 12, 2024 stated that the construction and equipment installation activities at LPG air mix plant were completed in December, 2018, however, the issuance of NOC from Department of Explosives, was bottleneck in commissioning of the plant.

The DAC in its meeting held on January 16, 2024 directed the management to submit a comprehensive report regarding delay in issuance of license from the Department of Explosives. DAC further directed to prepare a detailed report regarding LPG air mix plants concerning their feasibility and actual performance. No further progress was reported till finalization of the report.

Audit recommends to take effective steps to operationalize LPG Air Mix plant besides implementing the decision of DAC.

[DP No. 2730]

#### ***2.6.4.16 Non-completion of schemes for supply of gas - Rs 657.321 million***

According to approval dated September 24, 2021 and August 10, 2020, schemes for supply of gas / RLNG to two Special Economic Zones (SEZ) at Bin Qasim Industrial Park and Dhabeji were to be completed up to March 21, 2023 and December 18, 2021 respectively.

During audit of SSGC for the FY 2022-23, it was observed that the schemes for supply of 13 MMCFD gas / RLNG to Bin Qasim Industrial Park and 13.50 MMCFD gas / RLNG to Dhabeji (Special Economic Zones) were initiated with 100% funding of Rs 657.321 million from the Federal Government. However, these schemes were not completed within the stipulated time. Owing

to non-completion of development schemes by SSGC within the stipulated period the objectives of the GoP to boost the industrialization and creation of employment opportunity in Special Economic Zones could not be achieved.

Audit was of the view that poor planning and inefficient project management resulted in non-completion of gas supply schemes amounting to Rs 657.321 objectives of the GoP to boost the industrialization and creation of employment opportunity in Special Economic Zones could not be achieved

The matter was reported to the management in October, 2023. The management in its reply dated January 12, 2024 stated that supply of gas to Bin Qasim Industrial Park was delayed as Letter of Credit could not be opened for procurement of an important part of scheme i.e. filter separators. Further, the management was pursuing with the relevant stakeholders to resolve the issues for completion of gas supply schemes.

The DAC in its meeting held on January 16, 2024 directed the management to get their stance verified from Audit. DAC further directed the management to complete the project at the earliest and pursue the matter with quarters concerned. No further progress was reported till finalization of the report.

Audit recommends to take effective measures to complete the schemes for supply of gas to SEZs.

[DP Nos. 2725, & 2767]

#### ***2.6.4.17 Loss due to non-capitalization of assets - Rs 622.369 million***

According to Rule 4(3) of Natural Gas Rules, 2002, “every licensee shall file a petition with the Registrar, along with the fees specified in Schedule II, to enable the Authority to review the total revenue requirement of the licensee for the financial year, after incorporation of actual changes in the well-head prices and other relevant factors, and to determine the licensee’s revised total revenue requirement for that financial year.

During audit of SSGC for the FY 2022-23, it was observed that assets of Rs 1,785.341 million pertaining to years prior to FY 2019-20 were not capitalized in the relevant years. However, these assets were capitalized in FYs 2020-21 to 2022-22. Therefore, the company remained debarred from return on

these assets of Rs 622.369 million (1,785.341 million \* rate of return 17.43% \* 2).

Audit was of the view that in-efficiency / slackness of the management to capitalize the assets resulted in loss of Rs 622.369 million.

The matter was reported to the management in September, 2023. The management in its reply dated January 12, 2024 stated that Work in Progress of SSGC was recorded Rs 4,400.000 million in June, 2019 pertaining to FYs 2002-03 to 2018-19.

The DAC in its meeting held on January 16, 2024 directed the management to submit detailed reply to Audit within three days. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides fixing responsibility on the person(s) at fault.

[DP No. 2761]

## **Land Acquisition Related Issues**

### ***2.6.4.18 Unjustified Payment of cost of land - Rs 230.000 million***

According to Para 3.1 of Manual of Land and Estate Department of SSGC, “the land department is responsible for initiating land acquisition process including issuance of advances to Land Acquisition Collector and their subsequent adjustment for construction of pipelines and mutation of acquired land in favour of company as per procedure given in project manual and Land Acquisition Act, 1894.”

During audit of SSGC for the FY 2022-23, it was observed that BoD approved a project on March 4, 2017 for laying of 125 Km pipeline from Sales Meter Station (SMS) Sindh University to Pakland to receive indigenous gas from various gas fields. In order to lay pipeline for this project, land was allotted and challan for payment Rs. 230.000 million was issued. However, on December 08, 2020, Planning & Development Department of SSGC pointed that the said land fell in category “C” but the proposed rate was based on category “A” land. Land and State Management Department did not consult Government of Sindh for revision of rates and made unjustified payment of Rs 230.000 million on July 22, 2022 despite objection by P&D Department.

Audit was of the view that due to poor financial control and slackness on the part of management, payment of land was made on the basis of category “A” despite that land fell under category “C”.

The matter was reported to the management in November, 2023. The management in its reply dated January 12, 2024 stated that the amount of Rs 230.000 million was the collective payment for the land area falling in 03 districts. However, reservation on land related to area falling in district Thatta involving an amount of Rs 195.700 million.

The DAC in its meeting held on January 16, 2024 directed the management to submit detailed record for verification. No further progress was reported till finalization of the report.

Audit recommends to inquire the matter and fix responsibility on the person(s) found at fault.

[DP No. 2766]

#### ***2.6.4.19 Non-mutation of acquired land - Rs 194.820 million***

According to Para 3.1 of manual of Land and Estate Department of SSGC, “the land department is responsible for initiating land acquisition process including issuance of advances to Land Acquisition Collector and their subsequent adjustment for construction of pipelines and mutation of acquired land in favour of company as per procedure given in Project Manual and Land Acquisition Act, 1894.”

During audit of SSGC for the FY 2022-23, it was observed that in 15 cases the management did not initiate land mutation process despite the fact that payment was made for land acquisition. The management initiated and completed various gas supply projects on the acquired land, however, mutation of land in favour of company was pending despite payment of Rs 194.820 million.

Audit was of the view that inefficient land management put the organization at the risk of litigation.

The matter was reported to the management in September, 2023. The management in its reply dated January 12, 2024 stated that mutation of land was under process with different Revenue Offices in Sindh and Balochistan.



The DAC in its meeting held on January 16, 2024 directed the management to provide supporting documents along with the complete detail of each case to Audit within 15 days. No further progress was reported till finalization of the report.

Audit recommends to complete the process of mutation of land besides fixing responsibility for delay in completion of process of mutation of land on the person(s) at fault.

[DP No. 2728]

## **Others**

### ***2.6.4.20 Blockage of revenue due to pending litigation of 2,170 cases of Rs 184,486.000 million***

According to Clause 3.1 of Legal Department Policy Document, “Legal Services (the department) is responsible to manage and look after the organization’s legal matters and to monitor, evaluate and track the progress of Company’s cases pending in different courts.”

During audit of SSGC for the FY 2022-23, it was observed that there were 2,170 litigation cases pending at various courts as on June 30, 2023. As per data provided by SSGC, an amount of Rs 184,486.000 million was involved in these cases. Some of the cases were more than 20 years old. Ineffective pursuance of these cases leads to piling up of litigation cases which not only increase the legal expenses but also keeps a large amount of revenue under litigation. This resulted in blockage of revenue due to pending litigation of 2,170 cases of Rs 184,486.000 million.

Audit was of the view that poor monitoring and pursuance of litigation cases resulted in huge pendency involving Rs 184,486.000 million.

The matter was reported to the management in September, 2023. The management in its reply dated January 12, 2024 stated that prolonged delay in reaching resolutions of litigation cases was not within SSGC's control. Audit contended that the cases could be brought to early conclusion through effective monitoring.

The DAC in its meeting held on January 16, 2024 directed the management to provide case-wise detail of all the cases and get it verified from Audit.

Audit recommends to provide case-wise detail of all the cases and get it verified from Audit besides evaluating the performance of the Legal Department and legal counsels.

[DP No. 2727]

***2.6.4.21 Irregular supply of gas to K-Electric without GSA - Rs 29,653.000 million***

According to the decision of Cabinet Committee on Energy dated April 23, 2018, SSGC and K-Electric will initiate the process for signing of Gas Sale Agreement (GSA) for gas as well as for LNG within 15 days.

During audit of SSGC for the FY 2022-23, it was observed that the management was supplying gas to K-Electric for its power generation plant without any GSA. The management failed to resolve the pending issue with K-Electric despite lapse of 06 years resulting in irregular supply of gas worth Rs 29,653.000 million.

Audit was of the view that weak internal controls resulted in irregular supply of gas to K-Electric without GSA.

The matter was reported to the management in November, 2023. The management in its reply dated January 12, 2024 stated that GSA was not finalized due to non-resolution of issues with K-Electric.

The DAC in its meeting held on January 16, 2024 directed the management to pursue the matter for early finalization of Gas Sales Agreement and recovery of outstanding dues. No further progress was reported till finalization of the report.

Audit recommends that the matter be pursued at PAO level for early finalization of Gas Sale Agreement in order to resolve the long outstanding issue.

**Note:** The issue was reported earlier also in the Audit Reports for the Audit Years 2018-19 & 2021-22 vide para numbers 2.6.4.2 & 2.6.4.20 having financial impact of Rs 38,798 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2741]

#### ***2.6.4.22 Undue retention of funds of BESOS - Rs 331.957 million***

According to orders of Supreme Court of Pakistan in case numbers C.A.421/2018, 422/2018 and 423/2018 dated October 22, 2020, Benazir Employees Stock Option Scheme (BESOS) was executed in breach of Article of 154 of the Constitution of the Islamic Republic of Pakistan.

During audit of SSGC for the FY 2022-23, it was observed that BESOS was initiated on August 14, 2009, under which the government decided to distribute 12 percent of its equity among workers of SOEs to encourage stake and ownership, resulting in improved performance. As per above orders of Supreme Court of Pakistan, the management of SSGC was required to wind up the BESOS. However, this order by the Supreme Court was not implemented despite lapse of 03 years. This resulted in irregular retention of funds of BESOS of Rs 331.957 million.

Audit was of the view that management of SSGC retained the amount of Rs 331.957 million under BESOS in violation of orders of the Supreme Court of Pakistan.

The matter was reported to the management in September, 2023. The management in its reply dated January 12, 2024 stated that it was clear that BESOS had been declared to be ultra vires of Article 154 of the Constitution of the Islamic Republic of Pakistan and SSGC Employee's Empowerment Trust ought to be wound up accordingly. Therefore, trustees sought guidance from Petroleum Division in this regard. However, no reply had been received from them.

The DAC in its meeting held on January 16, 2024 directed the management to pursue the matter with Petroleum Division to resolve the issue. No further progress was reported till finalization of the report.

Audit recommends that the matter be pursued with Petroleum Division for early resolution of the issue in compliance of the Supreme Court decision.

[DP No. 2720]

#### ***2.6.4.23 Non-issuance of invoices to OGDCL on account of Gas Transportation Charges***

SSGC and OGDCL entered into Gas transportation agreement whereas OGDCL is willing to use about 40 Km Pesh Bogi - Pirkoh segment of Pirkoh Sui Pipeline for the transportation of Loti gas on tariff consideration and SSGCL willing to operate and maintain the said pipeline for use by OGDCL to transport Loti Gas.

During audit of SSGC for the FY 2022-23, it was observed that OGDCL was using 40 km pipeline, Pesh Bogi-Pirkoh segment of Pirkoh Sui Pipeline for the transportation of Loti gas on tariff consideration, whereas SSGCL was responsible to operate and maintain the said pipeline for use by OGDCL to transport Loti Gas. Gas Transportation Agreement between SSGC and OGDCL expired in 2013 since than SSGC was not issuing invoices of Gas Transportation Charges to OGDCL consequently the amount was also not realized from OGDCL.

Audit is of the view that poor contractual management resulted in non-recovery of outstanding amount on account of gas transportation from OGDCL.

The matter was reported to the management in November 2023. The management in its reply dated January 12, 2024 stated that the non-issuance of invoices to OGDCL was due to the fact that the pipeline has been fully depreciated and “Depreciation” was a component in the formula/mechanism for calculation of monthly transportation and matter has been taken up with OGRA. The reply of the management was not tenable because the management could not resolve the matter despite lapse of 10 years consequently the due amount on account of transportation could not be realized.

The DAC in its meeting held on January 16, 2024 directed the management to pursue the matter with OGRA.

Audit recommends to pursue the matter with OGRA for early resolution of the issue.

[DP No. 2759]

## 2.7 Other Organizations

This chapter includes paras in respect of Pakistan Mineral Development Corporation Private Ltd. (PMDC), Government Holdings Private Ltd. (GHPL), Saindak Metals Ltd. (SML) and Sui Southern Gas Company-LPG (SSGC-LPG).

### 2.7.1 Pakistan Mineral Development Corporations Private Limited

#### 2.7.1.1(A) Introduction

Pakistan Mineral Development Corporation (PMDC) was incorporated in 1974 under the Companies Act, 1913 (now the Companies Act, 2017) with an authorized capital of Rs 1,000 million. The company is engaged in the business of mining, exploration and development of mineral deposits. PMDC is the only federal entity under the administrative control of Ministry of Energy (Petroleum Division) engaged in prospecting, exploration, evaluation, mining, and marketing of minerals in the country.

PMDC gets exploration licenses and mining leases from the respective Provincial Governments. It undertakes all activities from prospecting to the marketing of the minerals in competition with other public and private sector mining companies. PMDC is operating 05 Salt Mines / Quarries and 04 Coal Mines which are spread over four provinces and it has the mining rights of the world's largest pink salt mines. The estimated reserves of salt and coal at various places are detailed below:

Projects	Location	Total Reserve (Tones)
<b>Salt</b>		
Khewara	Jhelum, 160 Km South of Islamabad	Over 1 billion
Makrach	Chakwal	37.085 million
Warcha	Khushab, 267 Km South of Islamabad	Over 1 billion
Kala Bagh	296 Km from Islamabad or 50 km from Mianwali	28.503 million
Jatta/BK	217 Km from Islamabad	Over 1 billion
<b>Coal</b>		
Collieries Degari	35 Km South East of Quetta	15.42 million
Sor-range	16 Km East of Quetta city	12.95 million
Sharigh	160 Km North-East of Quetta	28.97 million
Lakhra Collaries, Dadu	Hyderabad	54 million

## (B) Comments on Audited Accounts

The working results of the company for the FY 2021-22 as compared to previous years are given below:

(Rs in million)

Particulars	2021-22	2020-21	2019-20	2018-19
Sales	2,817.044	2,855.235	2,694.172	2,432.621
Cost of Sales	(1,948.829)	(1,787.792)	(1,833.421)	(1,763.152)
Gross Profit/(Loss)	868.215	1,067.443	860.751	669.469
Administrative Expenses	(520.092)	(494.679)	(508.698)	(457.578)
Selling Expenses	(166.181)	(147.871)	(149.722)	(146.880)
Operating Profit/(Loss)	181.942	424.893	202.331	65.011
Other Income	1,189.078	456.864	198.485	405.697
Other expenses	(68.551)	(39.621)	(19.232)	(79.476)
Profit Before Tax	1,302.469	842.136	381.584	391.232
Provision for Taxation	(467.898)	(252.009)	(62.887)	(97.155)
Net Profit After Tax	834.571	590.127	318.697	294.077

(Source: Annual Audited Accounts)

- i) Gross profit was Rs 868.215 million during the FY 2021-22, recording a decrease of 19% as compared to the previous financial year (FY 2020-21: Rs 1,067.443 million). Similarly, operating profit was Rs 181.942 million, recording a decrease of 57% as compared to the previous financial year (FY 2020-21: Rs 424.893 million);
- ii) Trade debts (receivables) increased from Rs 709.591 million in 2020-21 to Rs 895.727 million during FY 2021-22, registering an increase of 26%. Increase in trade debts indicates unsatisfactory position with regards to recovery of outstanding dues;
- iii) Trade and other payables increased by 46% to Rs 991.982 million in FY 2021-22 from Rs 677.498 million in FY 2020-21; and
- iv) Operating expense increased by 05% to Rs 520.064 million in FY 2021-22 from Rs 494.679 million in FY 2020-21.

### 2.7.1.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 1,208.100 million were raised in this report during the current audit of PMDC. This amount also includes recoverable amount of Rs 610.600 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

## Over view of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	
A	Contract Management	136.192
B	Procurement Related Irregularities	452.539
C	Receivables Management	610.600
D	HR / Employee Related Irregularities	8.769
E	Board Related Issues	-

### 2.7.1.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
2006-07	05	04	01	80
2009-10	01	-	01	-
2010-11	10	10	-	100
2011-12	11	05	06	45
2012-13	01	01	-	100
2013-14	04	04	-	100
2014-15	03	03	-	100
2015-16	08	02	06	25
2016-17	09	07	02	78
2017-18	04	04	-	100
2018-19	01	-	01	0
2021-22	02	-	02	0
<b>Total</b>	<b>59</b>	<b>40</b>	<b>19</b>	<b>68%</b>

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

#### **2.7.1.4 Audit Paras**

##### **Contract Management**

###### ***2.7.1.4.1 Undue favour to excavation contractors due to non-recovery of cost of explosives – Rs 95.788 million***

According to Clause 4.2 of Excavation Agreement, “explosives required by second party shall be provided by PMDC from its authorized magazine in such quantity as may be necessary and available with the PMDC, at actual cost-plus service charges at the rate of 10% and cost will be recovered from bills of contractor.”

During audit of PMDC for FY 2022-23, it was observed that the management supplied blasting powder (430,275 kg) and safety fuses (633,200 meters) to Salt Mines Warcha contractors at an approximated cost Rs 161 million. However, there was less recovery of costs of explosives from the excavation bills to the tune of Rs 21.101 million and Rs 65.979 million in FYs 2021-22 and 2022-23, respectively. The management cleared full payment of excavation bills without recovery of cost of explosives in violation of Excavation Agreement. This resulted in grant of undue benefit to the contractor of Rs 87.080 million and 10% service charges of Rs 8.708 million aggregating to Rs 95.788 million.

Audit was of the view that poor financial / contract management resulted in non-recovery of Rs 95.788 million due to undue favour extended to excavation contractors which impacted liquidity of PMDC.

The matter was reported to the management in November, 2023. In DAC meeting held on December 21, 2023, the management stated that the matter was under resolution at the management level and would be placed before the Board for approval.

The DAC directed the management to recover the amount as per contract. No further progress was reported till finalization of the report.

Audit recommends to expedite recovery of cost as well as service charges.

[DP No. 2407]



#### ***2.7.1.4.2 Excess payment of excavation charges – Rs 40.404 million***

According to Memo No. Prod/salt-Dev(WA)/160 dated April 14, 2006, “excavation rates were enhanced for new and existing facilities.” Further, according to Memo No. PMDC/EST/-143 dated June 12, 2014, BoD in its 155<sup>th</sup> Board meeting held on April 11, 2014, “extended the initial contract period for new salt mines to 5 years, with a possible 5 years extension based on satisfactory performance of the contractor. Further 2 years extension will be granted for meeting targets and existing contractors under the new investor policy receive corresponding extensions.”

During audit of PMDC for the FY 2022-23, it was observed that management extended undue benefit to the contractor, M/s Maqsood Khan by converting his contract of Mine No. 06 allotted under old policy on December 19, 2005 into new Investor Policy, 2006 which was meant for under development mines. Further, the contract was extended unauthorizedly for 03 years beyond maximum extendable contract period of 12 years instead of open competitive bidding under PPRA Rules. Moreover, excavation rates were enhanced multiple times in violation of contract. This resulted in payment of excess amount of Rs 40.404 million above the due amount under applicable rates of adjacent mines.

Audit was of the view that weak contract management resulted in excess payment of excavation charges of Rs 40.404 million to the contractor due to application of higher excavation rates as compared to prevailing / adjacent mine.

The matter was reported to the management in November, 2023. In DAC meeting held on December 21, 2023, the management stated that at time of implementation of NIP, mine No. 06 was in development stage under old policy and to this effect its allotment was converted into new Investor Policy. Further, after expiry of 12 years of new Investor Policy, the BoD once allowed extension in November, 2018 for 03 years but in the next meeting the same was withdrawn as deleted from the minutes of the BoD. However, BoD in its meeting No. 201<sup>st</sup> held on January 18, 2021 decided that no extension would be granted under this policy and all the allotments would be concluded through competitive bidding.

The DAC directed the management to conduct fact-finding inquiry and submit report to Audit within two months.

Audit recommends to expedite the recovery of excess paid amount besides probing the matter.

[DP No. 2420]

## **Procurement Related Irregularities**

### ***2.7.1.4.3 Irregular award of contract and non-forfeiture of security deposit – Rs 354.992 million***

According to Rule 40(1) of PPRA Rules, 2004, “without changing the cost and scope of work or services, the procuring agency may negotiate with the successful bidder (with a view to streamline the work or task execution, at the time of contract finalization) on methodology, work plan, staffing and special conditions of the contract.” Further, according to Rule 19(b) of Rules *ibid*, “failure to fulfil contractual obligations may lead to blacklisting up to three years.”

During audit of PMDC for the FY 2022-23, it was observed that a tender for explosive items was awarded to M/s Chiniot Safety at Rs 648 per kg amounting to Rs 330.745 million for the period of six months from March 01, 2023 to August 31, 2023. As per tender documents the contract was required to be awarded for the period of one-year from February, 2023 to January, 2024 but contract was awarded for six months resulting in change of scope after bid evaluation. It was worth mentioning that M/s Chiniot Safety had previously defaulted in supplying the contracted quantity, causing significant revenue loss of Rs 2.000 billion in salt mine projects. Despite these defaults, the management did not initiate the blacklisting process under PPRA Rules, and allowed the contractor to participate again in tender process. Further, management failed to forfeit the security deposit of Rs 24.248 million, as per Clause 14 of the Excavation Agreement and the released security of Rs 8.86 million for the period December 01, 2020, to November 30, 2021. This resulted in irregular award of contract and non-forfeiture of security deposit of Rs 354.992 million.

Audit was of the view that weak procurement management resulted in irregular award of contract due to change in scope of contract as well as non-forfeiture of security deposits.

The matter was reported to the management in November, 2023. In DAC meeting held on December 21, 2023, the management stated that as per Clause

14 of the tender documents, the management reserves the right to increase or decrease the quantities mentioned in the tender to any limit before placing the purchase order and to increase or decrease the contracted quantities up to 15% after the order was placed. The contract for gun powder and safety fuses was awarded to successful bidder M/s Chiniot Safety Fuses and M/s Araka Enterprises. Further, PMDC released the security after satisfactory report from the concerned projects. Further, the matter of release of security money for the period from February 01, 2022 to January 31, 2023 was pending.

The DAC directed the management to conduct fact-finding inquiry and submit report to Audit within two months.

Audit recommends to probe the matter besides fixing responsibility on the concerned and expedite recovery of security deposits.

[DP Nos. 2408 & 2409]

***2.7.1.4.4 Irregular award of excavation contract without open competition – Rs 97.547 million***

According to Clause 12(2) of PPRA Rules, 2004, “all procurement opportunities over three million Pakistani 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, Board of Directors of PMDC in its 201<sup>th</sup> meeting dated January 18, 2021, decided no extension / new allotment will be granted under new investor policy and PMDC to switch to raising contracts for excavation of minerals through competitive process.”

During audit of PMDC for the FY 2022-23, it was observed that management allowed the contractors to continue excavation work till finalization of new contracts in respect of Warcha Jansukh and Koriyan Mines despite expiry of their contracts under either new Investor Policy or tender contracts. The management failed to initiate the process of floating tenders under PPRA Rules before the expiry of contracts and contractors were paid Rs 93.356 million on account of excavation charges. Further, management granted extension of 05 years in five other excavation contracts related to Mines of Makrach project under new Investor Policy, 2006 despite the fact that Policy was abolished in January, 2021. In this regard, management was required to award the contracts

through open competition under PPRA Rules as per direction of BoD. However, in defiance to Board's directives, the Finance Department of PMDC allowed to proceed for payment of Rs 54.191 million of excavation charges to contractors. This resulted in irregular award of excavation contracts without open competition of Rs 97.547 million.

Audit was of the view that weak procurement mechanism resulted in irregular award of excavation contract without open competition and irregular extension of excavation contract under New Investor Policy.

The matter was reported to the management in November, 2023. In DAC meeting held on December 21, 2023, the management stated that tenders were conducted and scrapped due to high prices. In the meantime, the affairs of the mines were continued on departmental basis on the lowest rates in vicinity till finalization of tenders in general. Further, the BoD in its 201<sup>th</sup> meeting held on January 18, 2021 decided that "going forward, no extension / new allotment would be granted under New Investor Policy. However, within the maximum of 12 years and the contracts already signed with the investors / contractors would be honoured.

The DAC directed the management to conduct fact-finding inquiry on case-to-case basis and submit report to Audit within two months. No further progress was reported till finalization of the report.

Audit recommends to probe the matter besides fixing responsibility on the persons at fault as well as ensure competitive bidding process.

[DP Nos. 2413 & 2416]

## **Receivables Management**

### ***2.7.1.4.5 Non-recovery of share of profit - Rs 610.600 million***

According to Clause 5.1 of Agreement between PMDC and M/s MCC Huage Duddar Mining Company Private Ltd. (MHD) signed in 2003, "the profit accruing from project operations after the loans and supplier's credits and the interests thereof have been fully repaid, shall be appropriated between MHD and PMDC in the ratio of 80:20 and in case the distributable profit in any financial year exceeds the projection of the M/s ENFI's feasibility study by 20% or more the profit-sharing ratio for that year shall be changed 75:25."

During audit of PMDC for the FY 2022-23, it was observed that PMDC did not receive its share of profit of US\$ 14.896 million for the calendar years 2016 to 2019 from MHD. The management did not make concrete efforts for early recovery despite lapse of 06 years. This resulted in non-recovery of its due share of US\$ 14.896 million equivalent to Rs 4,230.469 million.

Audit was of view that weak financial management and poor planning resulted in non-recovery of its share.

The matter was reported to the management in November, 2023. In DAC meeting held on December 21, 2023, the management stated that an amount of Rs 3,612.262 million (US\$ 12.74 million) was received up to November 21, 2023. The efforts were being made to recover the remaining amount of Rs 610.600 million (US\$ 2.15 million).

The DAC reduced the para to the extent of recovered and verified amount of Rs 3,612.262 million (US\$ 12.74 million) and directed to expedite the recovery of outstanding amount of Rs 610.600 million (US\$ 2.15 million) within one month. No further progress was reported till finalization of the report.

Audit recommends to expedite the recovery of balance amount.

[DP No. 2417]

## **HR / Employee Related Issues**

### ***2.7.1.4.6 Excess payment of Bonus to employees - Rs 8.769 million***

According to inter departmental memo No. PMDC/CA-2(4) dated May 03, 2023 issued by Company Secretary to DGM (F&A), BoD in its 224<sup>th</sup> meeting dated April 07, 2023, approved the recommendation of 10<sup>th</sup> finance meeting held on April 04, 2023 in respect of payment of one month's basic salary as profit bonus to all employees of PMDC.

During audit of PMDC for the FY 2022-23, it was observed that management paid Bonus at the rate of one month gross salary instead of one month basic salary for the FY 2021-22. The HR / Admin Department vide notification dated April 13, 2023 issued instructions for payment of Bonus @ one month salary before the approval of minutes of BoD meeting. As per procedure for issuance of implementation memos (191<sup>th</sup> BoD meeting dated February 13, 2020), implementation memo was required to be issued after

signatures of the Chairman. In this case, memo for Bonus equal to one-month basic salary was issued by Company Secretary on May 03, 2023 whereas payment for Bonus equal to one month gross salary was made on April 13, 2023. This resulted in excess payment of Bonus of Rs 8.769 million to employees in violation of Board's directives / approved procedure.

Audit was of the view that weak internal controls resulted in excess payment of Bonus to employees.

The matter was reported to the management in November, 2023. In DAC meeting held on December 21, 2023, the management stated that Bonus were paid in accordance with office order No. PMDC/CA-2 (4) dated May 03, 2023, as approved by the BoD.

The DAC directed the management to conduct fact-finding inquiry and submit the report to Audit within two months and get it regularized by the BoD. No further progress was reported till finalization of the report.

Audit recommends to expedite recovery of excess paid amount of Bonus besides fixing responsibility on the persons responsible for excess payment in violation of approved procedure of BoD.

[DP No. 2410]

#### ***2.7.1.4.7 Non-finalization of inquiry of employees***

According to letter No. D.O.6(28)2011-DG-11 dated March 08, 2011 issued by Cabinet Secretariat Establishment Division, "the Prime Minister had been pleased to direct those measures should be taken to authenticate degrees / certificates of all Federal Government employees of the respective Ministries / Divisions, their attached departments, subordinates' offices and autonomous bodies under their administrative control." Further, as per judgment of Supreme Court of Pakistan (case 2009 SCMR 1492), "no leniency should be shown in favour of such employees possessing fake degrees. Supreme Court of Pakistan recommended authorities to examine the possibility of getting registered criminal case against such employees so that in future no one should dare to commit such misconduct."

During audit of PMDC for the FY 2022-23, it was observed that the management started the process of verification of academic degrees of all employees in FY 2022-23 wherein 03 degrees were found fake as relevant

Educational Board did not verify their credentials / transcript. Therefore, the company initiated inquiries against the concerned employees. The inquiry committee did not finalize the inquiry of 03 employees having fake degrees despite lapse of one year.

Audit was of the view that due to weak internal controls, the inquiry committee failed to finalize the inquiry against employees.

The matter was reported to the management in November, 2023. In DAC meeting held on December 21, 2023, the management stated that inquiry was finalized and the disciplinary proceedings had been initiated.

The DAC directed the management to identify the persons responsible for non-verification of degrees during probation period and expedite the disciplinary proceedings.

Audit recommends to probe in the matter besides expediting the disciplinary proceedings.

[DP No. 2421]

#### ***2.7.1.4.8 Irregular appointment of Managing Director / Chief Executive Officer***

According to Clause 2(1) and 3 of Public Sector Companies (Appointment of Chief Executive) Guidelines, 2015 read with Rule 5(2) of Public Sector (Corporate Governance) Rules, 2013, “every public sector company shall appoint its Chief Executive in accordance with Schedule-I to the Guidelines. While making appointment of the Chief Executive, the Board shall evaluate the candidates based on the fit and proper criteria specified in Schedule-II to the guidelines.

During audit of PMDC for the FY 2022-23, it was observed that hiring process for Chief Executive was initiated on February 21, 2021. HR Committee shortlisted 45 candidates from 105 applicants on May 19, 2021. Pursuant to Board interviews and evaluations, 06 candidates were selected based on weighted averages and sent to Petroleum Division on July 19, 2021. Later BoD quashed the Chief Executive hiring process on February 24, 2022 in its 218<sup>th</sup> meeting and decided to re-advertise on March 05, 2022. Audit observed following irregularities:

- i) Advertisement mentioned 5 years' experience, contrary to the requirement of at least 10 years' experience of Chief Executive or senior management level;
- ii) Shortlisting of two candidates were unjustified owing to irrelevant qualifications and insufficient experience;
- iii) Re-advertisement published in March, 2022 with the same criteria in defiance to Guidelines *ibid*;
- iv) Despite deficiencies, nomination of GM (HSE) along with other 02 candidates were forwarded for appointment on April 10, 2023;
- v) Acting Chief Executive extended the contract of GM, HSE in January, 2023 which was going to expire in February 02, 2023 and BoD appointed GM, HSE as Chief Executive on additional charge basis as stop gap arrangement in June, 2023; and
- vi) Finally, GM, HSE was appointed as regular Chief Executive in September, 2023 despite these irregularities.

Audit was of the view that weak HR management resulted in grant of undue favour to the incumbent as well as irregular appointment of Chief Executive.

The matter was reported to the management in November, 2023. In DAC meeting held on December 21, 2023, the management stated that no undue favor was extended to GM (HSE) in granting Additional Charge of Acting MD by BoD. Further, minimum 10 years' experience was required under Guidelines whereas PMDC required overall 20 years' experience including five years' experience at Senior management level.

The DAC directed the management to submit detailed pointwise reply to Audit. No further progress was reported till finalization of the report.

Audit recommends to investigate the matter besides improving oversight of BOD.

[DP No. 2426]



## **Board Related Issues**

### ***2.7.1.4.9 Appointment of Chairman without approval from competent forum***

According to Section 4(4) of Public Sector Companies (Corporate Governance) Rules, 2013 amended vide S.R.O. No. 275(I)/2017 dated April 21, 2017 and S.R.O. No. 715(I)/2019 dated July 01, 2019, “the Chairman of the Board shall be elected by the Board of Directors of the Public Sector Company. However, this provision shall not apply where Chairman of the Board is appointed by the Government.”

During audit of PMDC for the FY 2022-23, it was observed that BoD in its 195<sup>th</sup> meeting held on June 17, 2020 and 200<sup>th</sup> BoD meeting held on December 10, 2020 elected two members as Chairman of BoD for distinct period without seeking approval of Federal Cabinet. Despite the fact that Petroleum Division approved both candidates as Director and not as Chairman of BoD. Further, while electing chairman in 195<sup>th</sup> meeting held on June 17, 2020, the Director of BoD (Joint Secretary, MoE-PD) informed the Board that such written nomination as Chairman from GoP was merely a precedent and not a requirement as per Rule 4(4) of the Public Sector Companies (Corporate Governance) Rules, 2013. This resulted in appointment of Chairman without approval from competent forum as well as payment of Rs 1.460 million as monthly cooperation fee, issuance of monthly fuel limit of 300 liters and allocation of locally assembled 1300cc car with driver to Chairman was unjustified.

Audit was of the view that weak regulatory oversight and laxity on the part of government nominated Directors resulted in appointment of Chairman without approval from competent forum.

The matter was reported to the management in November, 2023. In DAC meeting held on December 21, 2023, the management stated that BoD conducted fair and transparent election process of the Chairman in its 195<sup>th</sup> meeting held on June 17, 2020 wherein the Board unanimously elected its Chairman. There was no mandatory legal requirement of any statutory rules and regulation that only Federal Cabinet could select the Chairman.

The DAC directed the management to get the legal opinion from Petroleum Division.

Audit recommends to seek legal opinion from Petroleum Division on competent forum for appointment of Chairman of BoD.

[DP No. 2425]

***2.7.1.4.10 Deficient composition / role of BoD and its committees resulting in decline in core business activity***

According to Section 4(2) of Public Sector Companies (Corporate Governance) Rules, 2013 amended vide S.R.O. No. 275(I)/2017 dated April 21, 2017 and S.R.O. No. 715(I)/2019 dated July 01, 2019, “Chairman has a responsibility to lead the Board and ensure its effective functioning and continuous development, he shall not be involved in day-to-day operations of the Public Sector Company.” Further, according to Rule 5(7) of *ibid*, “the Board shall also formulate significant policies of the Public Sector Company.”

During audit of PMDC for the FY 2022-23, it was observed that the BoD and its committees conducted total 158 meetings during last 03 years however, BoD and its committees failed to effectively fulfill their responsibilities vested under rules as detailed below:

- i) Three Board committees were formed without observance of Rule 12(2) of *ibid*;
- ii) Fourteen BD committee meetings approved only one Business Plan of FY 2021-22, lacking alignment with primary objectives of the company;
- iii) Twenty-eight Board / Committee meetings in four months (Mar-Jun 2023) focused on general agendas, ignoring operational improvement;
- iv) Performance of senior management was not evaluated against set objectives and key performance indicators as per Rule 8(2).
- v) Weak monitoring led to non-achievement of production targets for salt ranging from 72%-83% and coal ranging from 62%-93% during Board tenure;
- vi) Board failed in succession planning as per Rule 12(c) which was evident as 12 interim MD appointments and 04 DGMs against 12 sanctioned posts;
- vii) PMDC failed to formulate significant policy, such as identifying / monitoring principal risks, procurement / marketing of goods, and asset / investment management as per Rule 5(7);

Audit was of the view that weak regulatory oversight resulted in ineffective role of BoD and its committees leading to decline in core business activity of the company.

The matter was reported to the management in November, 2023. In DAC meeting held on December 21, 2023, the management stated that the observation was noted for future compliance. Further, the present Board and management was working on the long-term development, operational plans, short term business and succession planning of PMDC. Furthermore, former Board took up urgent matters only besides the approval of budget estimates, annual audited accounts and conducting AGM.

The DAC directed the management to submit compliance report to Audit within one month. No further progress was reported till finalization of the report.

Audit recommends to improve corporate governance of the company.

[DP No. 2428]

## 2.7.2 Government Holdings (Private) Limited (GHPL)

### 2.7.2.1(A) Introduction

Government Holding Private Limited (GHPL) was incorporated as a private ltd. company on January 15, 2000 under the Companies Ordinance, 1984 (Now the Companies Act, 2017) and its registered office is situated at 5<sup>th</sup> Floor Petroleum House Ataturk Block, Islamabad. The company is fully owned and controlled by Federal Government through Ministry of Energy (Petroleum Division).

GHPL has two subsidiary companies i.e. ISGSL and PLL with 100% shareholding. GHPL holds working interests in Abu Dhabi Offshore Block 5 through Pakistan International Oil Limited (PIOL), a consortium of OGDCL, PPL, MPCL and GHPL. GHPL also acquired 8.33% equity stake in Reko Diq project on instructions of Government of Pakistan Reko Diq project is owned 50% by Barrick, 25% by three SoEs i.e. GHPL, OGDCL & PPL, 15% by Government of Balochistan on fully funded basis and 10% on free carried basis.

### (B) Comments on Company Performance

Contents	(Rs in million)			
	2022-23 (Initialled)	2021-22	2020-21	2019-20
Sales Net	126,035.66	98,960.64	67,063.22	71,520.12
Royalty & other levies	(15,262.78)	(11,359.39)	(7,600.14)	(8,058.83)
Operating & others expenses	(18,410.83)	(16,161.79)	(13,168.13)	(13,985.29)
Gross Profit	92,362.06	71,439.47	46,294.95	49,476.01
Other income	328.59	149.20	0	4,670.23
Exploration and prospecting expenditure	(447.90)	(685.93)	(561.33)	(598.31)
General and administrative expenses	(1,494.12)	(763.14)	(555.34)	(536.56)
Other expenses	(11,156.46)	(7,070.14)	(1,320.29)	(1,705.21)
Operating Profit	79,935.18	62,529.75	44,852.11	51,306.17
Finance Cost/Income	6,547.39	5,163.27	3,548.91	(528.38)
Profit before Taxation	85,799.42	65,179.47	48,401.02	50,777.79
Taxation	(36,638.99)	(21,989.15)	(14,944.47)	(17,634.04)
Profit after taxation	49,160.43	43,190.32	33,456.56	33,143.76

(Source: Annual Audited Accounts)

- i) GHPL's General and administrative expenses were within the range of 0.50% to 0.80% of net sales during the last four FYs. However, these expenses increased to 1.20% of net sales during FY 2022-23. These expenses also increased by 96% as compared to previous FY 2021-22. Major increase was noticed under heads of salaries and Business Development;
- ii) Exploration and prospecting expenditure for FYs 2022-23, 2021-22, 2020-21 and 2019-20 were Rs 447.90 million, Rs 685.93 million, Rs 561.33 million, and Rs 598.31 million respectively whereas there was no increase in production of oil, gas and LPG;
- iii) Trade receivables increased by 36% to Rs 191,708.859 million in FY 2022-23 from Rs 141,458.170 million in FY 2021-22, due to low recovery of revenue mainly from SNGPL and SSGC; and
- iv) Trade and other payables increased by 39% to Rs 26,207.000 million in FY 2022-23 from Rs 18,788.000 million in FY 2021-22.

### 2.7.2.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 99,319.408 million were raised in this report during the current audit of GHPL. Summary of the audit observations classified by nature is as under:

#### Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	
A	Investment Management Related Issues	89,550.000
B	HR / Employees Related Irregularities	19.348.000
C	Financial Management Related Issues	158.560
D	JV Related Issues	9,591.500

### 2.7.2.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	% age of Compliance
2010-11	03	-	03	-
2011-12	01	01	-	100
2012-13	03	03	-	100

2013-14	05	04	01	80
2014-15	02	-	02	-
2017-18	03	03	-	100
2021-22	01	-	01	-
<b>Total</b>	<b>18</b>	<b>11</b>	<b>07</b>	<b>61</b>

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

## **2.7.2.4 Audit Paras**

### **Investment Management Related Issues**

#### ***2.7.2.4.1 Investment in Reko Diq project without ensuring cash flows for future investment - Rs 89,550.000 million***

According to Companies Act, 2017, “the business of the company shall be managed by the board.” Further, Finance, Procurement and Risk Management Committee of Board in its meeting held on August 25, 2022, apprised that estimated sales volume for the FY 2022-23 would decrease as major fields are on natural decline / depletion.

During audit of GHPL for the FY 2022-23, it was observed that BoD in its meeting held on June 15, 2023 resolved, in compliance of ECC’s decision dated March 15, 2022, that reserves of Rs 51.230 billion be reallocated back to accumulated profits and new reserves of Rs 20.000 billion be accumulated over next four years by setting aside Rs 5.000 billion each year for Reko Diq project. According to Board Audit Committee meeting held on May 10, 2023, phase-1 for development of Reko Diq would continue till year 2028 and production of copper and gold would start in 2028. The committed investment of GHPL for phase-1 would be US\$ 398 million (equivalent to Rs 89,550.000 million) over the next five years. GHPL also had other investment commitments in various ventures which require future financial cover. Audit contended that in this scenario GHPL invested in Reko Diq project without due diligence and position of cash flows was not properly assessed. Therefore, funds created to fulfil other objectives were also reversed to fund investment in Reko Diq project. Further, GHPL share of Rs 89,550.000 million in Reko Diq project would be paid in US dollars and provision for maintaining funds in US dollars was not created nor US dollar account was maintained by the management.

Audit was of view that weak financial management of GHPL resulted in commitment of investment in US dollars without ensuring availability of funds as well as requisite foreign currency.

The matter was reported to the management in September, 2023. The management in its reply dated December 11, 2023 stated that GHPL business was not exposed to any liquidity risk. The company maintains a healthy cash flow position which could be gauged by the fact that its cash and cash

equivalents as of June 30, 2023, were US\$ 0.130 billion. GHPL had full capacity to fulfil its commitment towards the Reko Diq Project.

The DAC in its meeting held on December 22, 2023 directed the management to share the sensitivity analysis of liquidity of company and detail of dollar account with Audit. No further progress was reported till finalization of the report.

Audit recommends to ensure arrangement of funds to complete the Phase-I of Reko Diq project. Further, BoD direction to open US dollar account and to maintain funds in dollars be implemented.

[DP No. 2389]

## **HR / Employee Related Irregularities**

### ***2.7.2.4.2 Irregular grant of advance for purchase of vehicles - Rs 19.348 million***

According to Para 4.5.2 relating to Advance for the Purchase of Vehicle under GHPL Service Rules, 2012, “the advance shall only be granted to an employee, excluding employees on contract and deputation, having minimum three (3) years of regular service period with the company.”

During audit of GHPL for the FY 2022-23, it was observed that the management granted advance for purchase of vehicles to six contract employees amounting to Rs 19.348 million during FYs 2019-20 to 2021-22 in violation of Service Rules as advance was admissible to permanent employees only.

Audit was of the view that weak internal controls resulted in grant of inadmissible advances to contractual employees for purchase of vehicles in violation of Service Rules.

The matter was reported to the management in September, 2023. The management in its reply dated December 11, 2023 stated that Vehicle Monetization Policy, 2012 was applicable to the contractual and permanent employees. In revised GHPL Service Rules effective from July 20, 2022, the clarity regarding vehicle loan had been duly approved by Board of Directors and implemented accordingly. Audit contented that the pointed-out cases were relating to “Advance for Vehicle” as clearly mentioned on the Sanction Documents and were not relating to monetization.



The DAC in its meeting held on December 22, 2023 directed the management to share the Policy with Audit for verification. No further progress was reported till finalization of the report.

Audit recommends to recover the outstanding balance of advances in lump sum besides getting in-admissible payment be regularized from BoD.

[DP No. 2398]

#### ***2.7.2.4.3 Extension in contract of Managing Director without approval from Federal Cabinet***

According to Rule 5(2) of the Public Sector Companies (Corporate Governance) Rules, 2013 “the Board shall evaluate the candidates based on the fit and proper criteria and the guidelines specified by the Commission for appointment to the position of the Chief Executive and recommend at least three candidates to the Government for its concurrence for appointment of one of them as Chief Executive of the public sector company, except where the Chief Executive is nominated by the Government. On receiving concurrence or nomination of the Government, as the case may be, the Board shall appoint the Chief Executive in accordance with the provisions of the Ordinance. The Board shall also be responsible for development and succession planning of the Chief Executive.” Further, according to Section 18(1) of State Owned Enterprises (Governance and Operations) Act, 2023 “the Board shall appoint a Chief Executive Officer to the state-owned enterprise under a performance based contract for a specified period.”

During audit of GHPL for the FY 2022-23, it was observed that BoD in its 179<sup>th</sup> meeting held on June 22, 2023 decided that the term of Managing Director be extended till the appointment of new Managing Director or 60 days whichever is earlier commencing from June 19, 2023 after expiry of contract of Managing Director on June 18, 2023. However, the extension was not got approved from the Federal Government as required by the rule *ibid*. It is worth mentioning that management had initiated process of recruitment of Managing Director and post was advertised on May 21, 2023.

Audit was of the view that weak regulatory oversight and laxity on the part of Directors in observance of law resulted in extension in tenure of Managing Director without approval of Federal Government.

The matter was reported to the management in September, 2023. The management in its reply dated December 11, 2023 stated that as per Section 18(1) of the SOE Act, 2023, the board was authorized to appoint MD. The contract of existing MD was accordingly temporarily extended by the board as the recruitment process for the appointment of regular MD / CEO through advertisement was going on.

The DAC in its meeting held on December 22, 2023 directed the management to refer the matter to Law Division for seeking clarification on audit observation.

Audit recommends that irregular extension in tenure of Managing Director be regularized / approved from the Federal Government.

[DP No. 2401]

### **Financial Management Related Issues**

#### ***2.7.2.4.4 Provision of loans of Rs 150.000 million to subsidiary in violation of Companies Act, 2017***

According to Section 199 (2 & 6) of Companies Act, 2017 “a company shall not invest in its associated company by way of loans or advances except in accordance with an agreement in writing and the return on such investment shall not be less than the borrowing cost of the investing company.”

During audit of GHPL for the FY 2022-23, it was observed that funds of Rs 150.000 million were paid by GHPL to ISGS on December 30, 2022 without any agreement as required under above mentioned provision. In 59<sup>th</sup> Board Audit Committee meeting held on June 13, 2023 it was informed by the management that GoP (Finance Division) will reimburse all operating expenses paid to ISGS and this loan of Rs 150 million was also provided by GHPL to ISGS on the instructions of GoP (Finance Division). If interest was charged on such loan by GHPL, it would be paid by GoP (Finance Division). This showed that loan of Rs 150.000 million was given to subsidiary in violation of Companies Act, 2017.

Audit was of the view that weak management resulted in grant of loan of Rs 150.000 million without keeping in view compliance of provision of Companies Act, 2017.

The matter was reported to the management in September, 2023. The management in its reply dated December 11, 2023 stated that funds were provided to ISGS as per decision of ECC as a stopgap arrangement, to meet the immediate funding requirements of ISGSL. These funds would be reimbursed as actual to GHPL by the Finance Division from GIDC funds within three months of the cash call made by ISGSL.

The DAC in its meeting held on December 22, 2023 directed the management to make agreement in the light of ECC decision.

Audit recommends to investigate the violation of the Companies Act, 2017 and remedial measure be taken for its implementation.

[DP No. 2392]

#### ***2.7.2.4.5 Irregular payment of foreign travel expenses - Rs 8.560 million***

According to Para 5.1 of GHPL Service Rules 2012, “the employees shall be entitled to hotel accommodation, TA/DA and incidental allowances on official visit(s) as per the admissible rates. In the case of self-arrangement for accommodation, the consolidated TA/DA rate plus incidental allowance as per rates shall apply.”

During audit of GHPL for the FY 2022-23, it was observed that management paid foreign travel expenses to Managing Director, GHPL along with two Government officials for travelling to USA in January, 2023 in connection with litigation proceedings of Reko Diq. Audit contended that the expenses incurred by two Government officials were inadmissible as they were not employees of GHPL and their travel expenses should had been borne by their respective departments. Further, these expenses were incurred on account of newly formed company i.e. PMPL which had to look after the affairs of Reko Diq project therefore, these expenses should be charged to the accounts of PMPL instead of GHPL. This resulted in irregular expenses of Rs 8.560 million on foreign travel.

Audit was of the view that due to weak internal controls, travel expenses of subsidiary company as well as officials relating to other departments were paid from GHPL funds.

The matter was reported to the management in September, 2023. The management in its reply dated December 11, 2023 stated that as per directions of

Petroleum Division travel expenses were paid to complete Reko Diq investment formalities.

The DAC in its meeting held on December 22, 2023 directed the management to take up the issue with concerned offices for provision of certificates that expenses were not drawn from budgets of their respective offices.

Audit recommends to charge the travelling expenses to the accounts of PMPL and recover expenses from two Government officials.

[DP No. 2399]

#### ***2.7.2.4.6 Sale of LPG share of GHPL through JV operators without LPG sales agreements***

According to Article 8.2 of Joint Operating Agreement of PCAs, “each of the working interest owners shall have the obligation to lift and separately dispose of its entitlement in all petroleum produced and / or stored at such times, in such quantities and in accordance with such procedures as may be agreed by all working interest owners.”

During audit of GHPL for the FY 2022-23, it was observed that GHPL was JV partner with other working interest owner in concessions and leases. GHPL authorised JV operators to sell LPG on its behalf, however, no LPG sale agreements were executed with POL, UEPL & OGDCL authorising them to sell GHPL’s share of LPG. During FY 2022-23 operators sold GHPL’s share of LPG of 46,197 M. Tone equivalent to an amount of Rs 10,978.290 million. This resulted in sale of LPG of Rs 10,978.290 million without executing LPG sales agreements as required under JOAs.

Audit was of the view that due to weak financial management, LPG sales agreements were not executed with operators by GHPL and without legal agreement for disposal of LPG, GHPL could not ensure recovery of sales revenue in case of any dispute between JV partners.

The matter was reported to the management in September, 2023. The management in its reply dated December 11, 2023 stated that LPG disposal agreements with PPL, UEPL and MOL had been executed whereas LPG disposal agreements with the rest of the operators had been finalized and were in the process of execution after seeking necessary approvals.

The DAC in its meeting held on December 22, 2023 directed the management to finalize the LPG agreements with OGDCL and POL and share the price comparison of executed agreements with Audit. No further progress was reported till finalization of the report.

Audit recommends to execute LPG sales agreement with operators at competitive prices besides implementing decision of DAC.

[DP No. 2396]

**2.7.2.4.7 Non-conduct of audits of JVs accounts / related record by non-operators**

According to Article 22.2 of PCA read with Clause 5(b) of JOA, “a non-operator, upon at least thirty days advance written notice to operator and other non-operator, shall have the right at its sole expense to audit the Joint Account and related records for any calendar year or portion thereof within twenty four months period following the receipt of the audited accounts of such calendar year.”

During audit of GHPL for the FY 2022-23, it was observed that GHPL did not conducted non-operator audit of 45 blocks out of 66 blocks / concessions. However, non-operator audit of 11 blocks was partially conducted. The minutes of Board Audit Committee revealed that internal audit department in last three and half years conducted non-operator audits of JV accounts resulting in credits / reversal of JV expenses to GHPL of over US\$ 600,000. Audit contended that non-operator audits were outstanding, despite the fact that as a result of non-operator audit, GHPL got credit / reversal of JV expenses of over US\$ 600,000 equivalent to Rs 165.000 million. It was also observed that internal audit department was working with 2 employees against the sanctioned post of 5 employees since 2019 despite the fact that GHPL had large portfolio of JVs.

Audit was of the view that weak oversight resulted in non-conduct of audit of JV’s accounts / related record by non-operators.

The matter was reported to the management in September, 2023. The management in its reply dated December 11, 2023 stated that blocks were selected for non-operator audit on the basis of cost-benefit analysis. Audit requires that the working / evidence of factors for selection of non-operator audit

along with statement showing time-gap as mentioned in reply may be shared with Audit.

The DAC in its meeting held on December 22, 2023 directed the management to complete JV audit activities and share the same with Audit. No further progress was reported till finalization of the report.

Audit recommends to complete the non-operator audit of the outstanding JVs.

[DP No. 2397]

## **JV Related Issues**

### ***2.7.2.4.8 Revenue loss due to delay in completion of Zafir Gas Processing Facility - Rs 8,453.000 million***

According to Section 6 of Field Development Plan of Gambat South Block dated March 14, 2018, “the third gas processing facility (GPF-III) was to be installed near Wafiq X-1 location to cater the production of Wafiq X-1 and Zafir X-1 fields. The processing facility would be commissioned by October, 2018 and plant would be able to produce 40 MMSCFD of pipeline quality gas, 600 BBL/d of condensate and 12 M. Tones / day of LPG.”

During audit of GHPL for the FY 2022-23, it was observed that GHPL entered into Joint Venture with PPL (operator) in Gambat South Block with 25% share. According to Field Development Plan submitted to DG (PC) on March 14, 2018, PPL committed to install Zafir Gas Processing Facility (GPF-III) by October, 2018 for Zafir X-1 and Wafiq X-1 fields with capacity of 40 MMSCFD of pipeline quality gas, 600 BBL/d of condensate and 12 M. Tones / day of LPG. However, during TCM / OCM held in July 28, 2022, PPL informed that commencement of construction work of plant was subject to resolution of legal impediments / legal cases by the EPCC contractor.

Audit was of the view that non-completion of Zafir gas processing facility led to revenue loss of Rs 33,813.000 million to the JV, including GHPL’s share of Rs 8,453.000 million for the period from November, 2011 to June, 2023. GHPL could not play its part as JV partner which resulted in the loss of Rs 8,453.000 million to the organization. It may also be pointed out that extraordinary delay had resulted in lack of extraction of important domestic resource relying on imported products by that extent.

The matter was reported to the management in September, 2023. The management in its reply dated December 11, 2023 stated that contractor could not complete the facility within scheduled time despite follow up with the contractor therefore, operator terminated the contract in May, 2019. The contractor went into litigations against termination of contract at different forums and got stay order which were being pursued.

The DAC in its meeting held on December 22, 2023 directed the management to pursue the case vigorously.

Audit recommends to take up the matter with JV operator to find a solution to end litigation with contractor and share way forward / plan for completion of the project by the operator / JV partners with proposed completion date.

[DP No. 2381]

***2.7.2.4.9 Delay in settlement of insurance claim of TAL block fire incident - Rs 1,138.500 million***

According to Article 22.2 of PCA read with Clause 10.2 of JOA, “operator shall duly file all claims with respect to insurance arranged and maintained by the operator and shall take all necessary and proper steps to collect the proceeds.”

During audit of GHPL for the FY 2022-23, it was observed that a fire incident occurred on September 21, 2022 at TAL block’s warehouse, in which GHPL holds 15% working interest, caused extensive damage to inventory / spares. MOL (operator) filed an insurance claim with relevant insurers / loss adjuster based on initial estimates of US\$ 33 million equivalent to Rs 7,590.000 million having GHPL’s share of Rs 1,138.500 million. Further, operator developed consensus with all JV partners for the appointment of a single loss adjuster to assess the claims pertaining to all JV partners. However, this claim valuing Rs 7,590.000 million having GHPL’s share of Rs 1,138.500 million had yet to be realized despite lapse of more than fourteen months.

Audit was of the view that weak pursuance by GHPL, the management could not sensitize the operator on the issue.

The matter was reported to the management in September, 2023. The management in its reply dated December 11, 2023 stated that GHPL was actively

pursuing the settlement of insurance claim and loss adjustor had verified the partial settlement based on procurements till July, 2023 amounting to approximately US\$ 13 million and this amount was expected to be received during December, 2023.

The DAC in its meeting held on December 22, 2023 directed the management to pursue the recovery of insurance claim.

Audit recommends to actively pursue the matter with JV operator for settlement of insurance claim.

[DP No. 2388]



## 2.7.3 Saindak Metals Limited (SML)

### 2.7.3.1(A) Introduction

Saindak Metals Private Ltd (SML) was incorporated in Pakistan as a private limited company on April 15, 1974 under the name of Resource Development Corporation Private Ltd. The name of the company was changed to Saindak Metals Private Ltd on October 03, 1993. SML was converted into public limited company on January 16, 1996. The registered office of the company is situated at Quetta and equity of the company is owned by GoP. The main objectives of the company are exploration, mining and metallurgical processing of copper, gold and other minerals located at Saindak in District Chagai, Balochistan.

SML leased its main plant to M/s MCC Resource Development Private Ltd (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 No. 4 dated March 10, 2022 the lease agreement was extended up to October 31, 2037.

### (B) Comments on Audited Accounts

The working results of the company for the FY 2021-22 as compared to previous years are as under:

(Rs in million)

Year	2021-22	% Inc / (Dec)	2020-21	% Inc / (Dec)	2019-20
Income	6,593.240	136.21	2,791.18	73.21	1,611.45
Administrative and general expenses	410.791	3.25	397.851	(4.777)	417.809
Share of Government of Balochistan	2,597.763	152.57	1,028.500	140.578	427.512
Operating profit / (loss)	4,660.599	241.480	1,364.82	78.15	766.124
Exchange loss	0	0	22.807	(56.575)	52.521
Other income	1,075.914	67.47	642.435	(18.448)	787.77
Profit / (loss) before Taxation	4,660.513	134.85	1,984.46	32.18	1,501.37
Taxation	2,223.838	267.914	604.445	28.406	470.731
Profit for the year / Profit after tax	2,436.674	76.56	1,380.01	33.90	1,030.64

Accumulated Profit / (Losses)	0.401	-	30.466	-	-35.624
Total Comprehensive Income	2,437.076	72.783	1,410.48	41.75	995.017

(Source: Annual Audited Accounts)

- i) Administrative & general expenses increased by 3.25% from Rs 397.851 million in 2020-21 to Rs 410.791 million in 2021-22;
- ii) Books of accounts showed an outstanding liability of Rs 15,734 million to GoP. The said amount was repayable in instalments on demand to GoP, yet the repayment schedule of this liability had not been defined;
- iii) BoD expenses showed an increase of 321% from Rs 3.122 million in 2020-21 to Rs 13.142 million in 2021-22;
- iv) Trade and other payables of the company increased by 21.27% as they were Rs 59.480 million in 2021-22 as compared to Rs 49.045 million in 2020-21. Such a sharp increase in trade debts shows a weak credit policy of the management;
- v) The management placed an amount of Rs 17,338.258 million in 2021-22 and Rs 11,178.87 million in 2020-21 in short-term investments on interest rates of 7.76% to 15%. The surplus should had been placed in long-term investments to earn high profits; and
- vi) The company has a negative equity of Rs 504.991 million (2021: Rs 2,942 million) and an accumulated loss of Rs 504.992 million as of June 30, 2022 (2021: Rs 2,942 million). The company's current liabilities exceeded its current assets by Rs 2,371 million in 2021-22 as compared to Rs 5,337 million in 2020-21.

### 2.7.3.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 2,487.508 million were raised in this report during the current audit. Summary of the audit observations classified by nature is as under:

#### Overview of Audit Observations

(Rs in million)		
Sr. No.	Classification	Amount
1	Irregularities	-
A	Contract Management	15.610
B	Financial Management	2,471.898

### 2.7.3.3 Compliance of PAC Directives:

<b>Audit Year</b>	<b>Total Directives</b>	<b>Compliance Reported</b>	<b>Compliance Awaited</b>	<b>%age of Compliance</b>
2010-11	3	3	0	100
2013-14	4	4	0	100
2015-16	4	0	4	0
2016-17	1	0	1	0
2017-18	4	4	0	100
2019-20	4	4	0	100
<b>Total</b>	<b>20</b>	<b>15</b>	<b>5</b>	<b>75%</b>

The overall compliance of PAC directives needs improvement.

## **2.7.3.4 Audit Paras**

### **Contract Management**

#### ***2.7.3.4.1 Finalization of lease contract without performance bank guarantee of US\$ 70,000 equivalent to Rs 15.610 million***

According to Clause 20 of lease contract dated November 30, 2001, “on or before the effective date, lessee shall deliver to lessor the performance guarantee substantially in the form and substance set out in Annex-10 attached hereto duly executed by lessee or its parent company. Lessee’s failure to do so shall be deemed to constitute a breach and shall entitle lessor to terminate the Lease Contract.”

During audit of SML for the FYs 2019-20 to 2021-22, it was observed that addendum No. 4 was made at Islamabad on March 10, 2022 effective from November 1, 2022 between the SML and MCC/MRDL for the extension of the term of the lease contract until October 31, 2037 but Saindak Metals Limited management finalized the lease contract with MCC/MRDL without a performance bank guarantee. As per lessee contract Clause 5(i)(a) the annual rent payable by the lessee to the lessor starting from the date of effective shall be US\$ 700,000. This resulted in non-obtaining of a performance bank guarantee of US\$ 70,000 (US\$700,000 X 10%) Rs 15.610 million (70,000 x Rs 223).

Audit was of the view that weak financial management resulted in the execution of the lease contract without obtaining performance bank guarantee.

The matter was reported to the management in March, 2023. In DAC meeting held on September 26, 2023, the management stated that the company had written a letter to MCC/MRDL (Lessee) regarding the revalidation and submission of performance bank guarantee as soon as possible.

The DAC directed the management to submit revalidated performance bank guarantee within two months. No further progress was reported till finalization of the report.

Audit recommends to obtain re-validated performance bank guarantee from the contractor.

[DP No. 2321]

#### ***2.7.3.4.2 Non-compliance of contract regarding conducting pre-feasibility study for setting up copper refinery***

According to Clause 6 of Addendum No. 2 dated May 18, 2011 of the lease contract signed between M/s Metallurgical Corporation of China Ltd (MCC) and SML, MCC/MRDL, at its own cost shall carry out a pre-feasibility study for setting up a copper refinery of an optimal size and at an appropriate site within Balochistan and submit the same to Government of Balochistan as early as possible. If the refinery option is economically feasible and the GoB decides to go ahead with this venture, MCC/MRDL shall provide technical and financial support to GoB for its execution.

During audit of SML for the FYs 2019-20 to 2021-22, it was observed that contractual obligation of pre-feasibility study was not fulfilled by the MCC/MRDL management despite lapse of twelve years. The SML management failed to get the job done from the lessee as per contract.

Audit was of the view that in the absence of a pre-feasibility study, the objective of establishment of a copper refinery would remain elusive and the benefits that such a refinery could bring for the people of the area through employment generation and for the country. The refinery could add value to the current exports.

The matter was reported to the management in March, 2023. In DAC meeting held on September 26, 2023, the management stated that MCC/MRDL informed that they had already conducted discussions with SML and GoB, where GoB had provided essential conditions including copper refinery site option.

The DAC directed the management to submit a report to ensure implementation of Clause 6 of Addendum No. 2 dated May 18, 2011 regarding setting up a copper refinery within one week. No further progress was reported till finalization of the report.

Audit recommends to take disciplinary action against the officers / officials responsible for non-compliance of provisions of the contract besides ensuring setting up of copper refinery and submit report as per decision of DAC.

[DP No. 2324]

#### ***2.7.3.4.3 Non-compliance of Clause 10 of the lease contract regarding employment and training***

According to Clause 10 of the lease contract with MCC / MRDL dated September 30, 2001, lessee hereby covenants with lessor that it shall employ only such expatriate professionals who have sufficient knowledge and expertise and such expatriates shall be replaced by qualified Pakistani staff gradually as provided in the employment plan. Further, according to agenda item No. 3 of minutes of SML / MRDL management meeting held on February 06, 2018, management noted that as per Clause 10 of agreement with MCC / MRDL after 10 years there should have been only 30-50 Chinese employees.

During audit of SML for the FYs 2019-20 to 2021-22, it was observed that as per agreement with MCC / MRDL, only 30-50 Chinese were required to be working at the project site but more than 200 Chinese were employed violating contractual obligations and employment plan. This Clause was to be implemented in letter and spirit but MCC / MRDL violated it.

Audit was of the view that non-compliance of Clause 10 of lease contract resulted in unemployment and non-upgradation local human resource.

The matter was reported to the management in April, 2023. In DAC meeting held on September 26, 2023, the management stated that extensive on-job training had been imparted, with 800 trained staff transitioning to the local industry. SML management was monitoring activities and was satisfied with the employment and training conducted by MCC / MRDL.

The DAC directed the management to present evidence of Chinese trainers. DAC further directed to present a detailed report about the persons trained during the period and reduce the number of expatriates. No further progress was reported till finalization of the report.

Audit recommends to implement the Clauses of the contract regarding employment and training besides implementing the decision of DAC.

[DP No. 2330]

## **Financial Management**

### ***2.7.3.4.4 Non-implementation of BoD decision regarding CSR spending of Rs 1,872.000 million***

According to Sr. No. 3.6 of minutes of 153<sup>rd</sup> BoD meeting of SML held on June 30, 2022, the board discussed the spending of 5% profit of SML being deposited in the GoB's account No. 01 against CSR and advised the management to take up the matter with GoB for ascertaining detail of the CSR amount spent. Board also advised the management to write a letter to the GoB to form a committee with SML representation to supervise the spending of funds of CSR for development in specified areas for which the amount is provided because under the rulers, SML is responsible for spending of CSR in the relevant areas and for intended purpose.

During audit of SML for the FYs 2019-20 to 2021-22, it was observed that an amount of Rs 1,872.000 million (US\$ 12.419 million) for the FYs 2013 to 2021 was provided to GoB for CSR. However, management of SML and MCC/MRDL had not devised any monitoring mechanism for spending of CSR funds. Further, the detail of projects / schemes on which CSR funds were spent was not provided to Audit. SML Board advised to the management to take up matter with GoB to constitute a committee for supervising the spending of the funds, but no progress had been made. This resulted in non-implementation of board's directives to constitute committee for supervision of the CSR funds of US\$ 12.419 million equivalent to Rs 1,872.000 million.

Audit was of the view that Petroleum Division had issued Social Welfare Guidelines for utilization of Social Welfare funds contributed by Exploration and Production companies' agreements for utilization in & around the license / lease areas in a fair and transparent manner. In the same manner, the guidelines for the utilization of CSR funds should had been framed.

The matter was reported to the management in March, 2023. In DAC meeting held on September 26, 2023, the management stated that the contractual agreement does not impose an obligation on SML to oversee the utilization or spending of these funds. The GoB has its own system to manage and control the budget allocated for CSR activities. It was important to note that the agreement does not include any Clause that grants SML, the authority or responsibility to monitor the spending of the CSR funds.

The DAC directed the management to take up the matter with GoB through the Petroleum Division.

Audit recommends to take up the matter with GoB through Petroleum Division to monitor the spending of the CSR funds.

[DP No. 2333]

**2.7.3.4.5 Non-refund of Sales Tax on Services withheld by Balochistan Revenue Authority - Rs 407.000 million**

According to Rule 28, of General Financial Rules, “no amount due to the Government should be left outstanding without sufficient reason”.

During audit of SML for the FYs 2019-20 to 2021-22, it was observed that Balochistan Revenue Authority recovered an amount of Rs 407.000 million pertaining to the financial year 2018-2019 from SML by attaching accounts on the plea that it had provided services to M/s MCC/MRDL. SML filed appeal before Appellate Tribunal, Balochistan, against the decision of Commissioner (Appeals) of BRA. The appeal was decided in favour of SML on November 25, 2022 for refund of Rs 407.000 million to SML. The management failed to recover this huge amount from BRA despite lapse of reasonable time, which prima facie, caused loss to the SML.

Audit was of the view that weak follow up resulted in non-refund of Sales Tax on Services withheld by Balochistan Revenue Authority.

The matter was reported to the management of SML in March, 2023. In DAC meeting held on September 26, 2023, the management stated that after favourable decisions, SML applied for refund of Rs 407.000 million withheld by BRA.

The DAC directed the management to pursue the refund case and get it verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter with Balochistan Revenue Authority for early refund of withheld amount.

[DP No. 2325]



**2.7.3.4.6 Imprudent investment of Rs 500.000 million in short term securities / bonds against Board's directives resulting in loss of interest income of Rs 192.898 million**

According to Sr. No. 2.6 of the 115<sup>th</sup> Board's meeting held on September 08, 2012, regarding investment of Rs 500.000 million for the years 2012-13, "board appreciated the approach of the SML management in the best interest of organization and its survival in case of financial crises, as such the investment of Rs 500.000 million to be deemed as strategic investment and may be invested for 05 years. For the time being Rs 500.000 million may be invested in banks and Government securities / bonds to earn revenue / profit for the company. Director General (Mineral) and Additional Chief Secretary, GoB proposed, for investment of Rs 500.000 million business plan may be discussed in Board Finance Committee and same may be placed before the board for final approval."

During audit of SML for the FYs 2019-20 to 2021-22, it was observed that the management had received profit share of Rs 1,534.433 million for FY 2018-19 and Rs 2,710.397 million for FY 2019-20. The management invested these funds in short-term deposits of 3 to 12 months in different banks at 6.5% markup rates instead of investing in strategic investments / banks and Government securities / bonds for the long-term period at higher rates. This resulted in non-compliance of Board's directives regarding investment of funds in strategic investments as well as loss of interest income due to short-term investment at low rates as detail below:

(Rs in million)

Year	Share of profit received on	Profit share	long term interest rates on saving certificates	Long-term investment Profits	Short term bank interest rates	Short-term investment profits from banks	Difference
2019	September 18, 2020	1,534.433	12.0	184.132	6.5%	99.738	(84.393)
2020	June 11, 2021	2,710.397	10.5	284.591	6.5%	176.175	(108.505)
			<b>Total</b>	<b>468.958</b>		<b>275.914</b>	<b>192.898</b>

Audit was of the view that weak financial management resulted in non-investment of funds in a strategic investment and loss of interest income.

The matter was reported to the management in April, 2023. In DAC meeting held on September 26, 2023, the management stated that it was committed to develop a comprehensive document for investment and it would be presented before board for approval. Subsequently, a strategic plan for long-term investment would be finalized. Newly formulated investment policies were also currently under the Board's deliberation. Once these policies finalized and approved by the Board, the management would subsequently explore the possibility of incorporating long-term investment strategies.

The DAC directed the management to share the agenda item and minutes of BoD meeting held on September 8, 2012 & February 12, 2020 along with reasons of non-compliance of Board's decisions to Audit for verification within one week. DAC further, directed the management to submit detailed revised reply including the decision of the board and the agenda presented before the board.

Audit recommends to submit detailed revised reply and share the agenda item, minutes of BoD meeting along with reasons of non-compliance of Board decisions to Audit for verification.

[DP Nos. 2328 & 2329]

## **2.7.4 SSGC LPG Ltd. (SLL)**

### **2.7.4.1 Introduction**

SSGC LPG Limited (SLL) started terminal operations in January, 2012 after acquisition of Progas assets in October, 2011. After which SLL started bottling operations in June, 2012 at the Port Qasim Plant and at the Hattar Plant in July, 2012. The first supply to the air mix segment (SNG) was made in April, 2012.

SLL is a fully integrated LPG marketing and distribution company capable of giving customers reliable and economic supply of product. Supply chain of the company extends from allocation from local producers and a fully owned import terminal at Port Qasim to supply consumer retail packs of LPG. Activities of the company start from the import of LPG extended to the storage, bottling, distribution and marketing of LPG both in bulk tanks and cylinders.

SLL has its main office in Karachi, regional offices in Islamabad, Lahore and a terminal office at Port Qasim, Karachi. Regional Distribution Centres are located in Haripur near Islamabad, Lahore. The company at present has 109 employees with qualified and experienced staff from the LPG industry. It has over 160 dealers nationwide.

### **2.7.4.2 Classified Summary of Audit Observations**

Audit observations amounting to Rs 593.113 million were raised in this report during the current audit. Summary of the audit observations classified by nature is as under:

#### **Overview of Audit Observations**

(Rs in million)

<b>Sr. No.</b>	<b>Classification</b>	<b>Amount</b>
1	Irregularities	-
A	Procurement and Contract Related Issues	2.278
B	Others	590.835

### 2.7.4.3 Audit Paras

#### Procurement and Contract Related Issues

##### 2.7.4.3.1 Irregular award of contract for procurement of services of Chartered Accountant - Rs 2.278 million

According to Section 20 of PPRA Rules, 2004, “the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.” Further, according to Rule 12(1) of ibid, “procurement over five hundred thousand Pakistani rupees and up to the limit of three million Pakistani rupees shall be advertised on the authority’s website in the manner 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 SLL for the FYs 2019-20, to 2021-22, it was observed that the management incurred an expenditure of Rs 2.278 million on the procurement of services of Chartered Accountants firm for the audit of accounts for the FYs 2019-20 to 2021-22. The tender for these services were not uploaded on the authority as well as company’s website as detailed below:

(Rs in million)

Sr. No.	Name of Firm	Year of Audit	Amount
1	M/s Delottee	2019-20	0.884
2	M/s BDO Ebrahim & Co	2020-21	0.630
3	-do-	2021-22	0.764
		<b>Total</b>	<b>2.278</b>

Audit was of the view that the expenditure for procurement of services of Chartered Accountant Firms without uploading tender was irregular.

The matter was reported to the management in August, 2023. The management in its reply dated September 01, 2023 stated that SLL followed the procedure adopted by parent company and appointed the same auditors. Parent company i.e. SSGC appointed M/s Deloitte Yusuf Adil as their auditors till 2020 and SLL followed this practice. However, in 2021 SSGC changed auditors and appointed M/s BDO Ebrahim & Co therefore, SLL changed their auditors as per the recommendation of the Board.

The DAC in its meeting held on September 25, 2023 directed the management to take up the matter with PPRA for clarification. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2361]

## **Others**

### **2.7.4.3.2 Abnormal delay in refund of Income Tax of Rs 517.935 million**

According to Section 170 of Income Tax Ordinance, 2001, “a taxpayer who has paid tax in excess of the amount which the taxpayer is properly chargeable under this Ordinance may apply to the Commissioner for a refund of the excess tax paid.”

During audit of SLL for the FYs 2019-20 to 2021-22, it was observed that the management paid Advance Income Tax in different years which had to be refunded from Income Tax Department. However, the same had been pending since 2012. Total refund of Income Tax amounting to Rs 517.935 million had been reflected in the Financial Statement as on June 30, 2022.

Audit was of the view that weak follow up by the management of SLL resulted in delay in getting refund of Income Tax.

The matter was reported to the management in August, 2023. The management in its reply dated September 01, 2023 stated that the company had regularly followed up the matter through its tax lawyers. All the previous returns of Income Tax were open and will now be finalized upon which the amount of refund will be determined by the tax department.

The DAC in its meeting held on September 25, 2023 directed the management to pursue the matter with FBR vigorously. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter with FBR to finalize the case of refund of Income Tax.

[DP No. 2357]

#### ***2.7.4.3.3 Irregular payment of Signature Bonus to OGDCL for purchase of LPG - Rs 72.900 million***

According to decision of OGRA dated June 22, 2018, “the Authority decides that LPG producers, in public or private sector, cannot charge signature bonus, as per approved LPG Policy.”

During audit of SLL for the FYs 2019-20 to 2021-22, it was observed that the company entered in sale purchase agreement with OGDCL (LPG producer) for procurement of LPG from February, 2017 to February, 2022 for 05 M. Tone per day for the period of 05 years and paid Signature Bonus of Rs 72.900 million to OGDCL. This resulted in irregular payment of Signature Bonus of Rs 72.900 million in violation of approved LPG policy.

Audit was of the view that weak financial controls resulted in irregular payment of Signature Bonus.

The matter was reported to the management in August, 2023. The management in its reply dated September 01, 2023 stated that the company approached OGDCL for getting the refund of the balance amount of Signature Bonus however, OGDCL replied that OGRA decision was prospective and OGDCL would not charge Signature Bonus in future. However, the amount already paid was for signing the contract for allocation of LPG and this amount or any part thereof would not be returned.

The DAC in its meeting held on September 25, 2023 directed the management to take up the matter with OGRA and conclude the matter within one month. No further progress was reported till finalization of the report.

Audit recommends to take up matter with OGDCL for refund of irregular paid signature bonus besides implementing the decision of DAC.

[DP No. 2354]

#### ***2.7.4.3.4 Non-compliance of the Public Accounts Committee (PAC) Directives***

According to Para 1 of National Assembly Secretariat (Public Accounts Committee Wing) OM No. P.10 (4&7)/2012-PAC dated September, 03 2012, “the Public Accounts Committee directed in its meeting held on August, 29 2012 that the agenda and minutes of all the meetings of all the Executive Boards of all the State Corporations / Concerns, Autonomous and Semi-Autonomous Bodies,

the audit of which may be conducted by the Auditor-General of Pakistan, must be brought on the websites of the said organizations immediately before and after holding the said meetings, accordingly.” Further, Part-2 of directions ibid, states that the Compliance Report on the above directives may be furnished to this Secretariat for the perusal of Public Accounts Committee.”

During audit of SLL for the FYs 2019-20 to 2021-22, it was observed that 27 meetings of BoD were held during the year. However, the management did not comply with the PAC directives for uploading / publication of the minutes on its website. Audit contended that this shows clear violation of PAC directives by the management and reflects lack of transparency in the business of the company as BoD minutes were not made available to the stakeholders.

Audit was of the view that due to negligence of managements of the PSEs, the desired information was not available at website.

The matter was reported to the management in August, 2023. The management in its reply dated September 01, 2023 stated that the directives of PAC pertain to information which was not confidential nature and its dissemination may not be in the interest of the company and may also be in contravention of the Company Ordinance, 1984 and the Code of Corporate Governance. Therefore, it was not appropriate to legally comply with the directives of PAC.

The DAC in its meeting held on September 25, 2023 directed the management to implement the directives of the PAC.

Audit recommends to implement the PAC directives in letter and spirit.

[DP No. 2362]





## Chapter-3 Cabinet Division

### 3.1 Oil and Gas Regulatory Authority

#### 3.1.1 (A) Introduction

Oil and Gas Regulatory Authority Ordinance was established under Oil & Gas Regulatory Authority Ordinance, 2002. The objective of the Authority was to foster competition, increase in private investment and ownership in the midstream (storage & carrying) and downstream (storage & distribution) petroleum & gas industry of Pakistan, protect the public interest while respecting individual rights and to provide effective and efficient regulations for related matters. The Authority comprises of Chairman / Chairperson and three Members viz; Member (Gas), Member (Finance) and Member (Oil). They can serve for maximum of two terms, subject to retirement on attaining the age of 65 years. The Authority has the exclusive power to grant licenses for regulated activities with regard to Natural Gas, Compressed Natural Gas (CNG), Liquefied Petroleum Gas (LPG), Liquefied Natural Gas (LNG) and Oil sectors.

#### (B) Audit Profile of OGRA

Audit profile of OGRA under Cabinet Division is under:

(Rs in million)					
Sr. No.	Description	Total No.	Audited	Expenditure audited FY 2022-23	Revenue / Receipts audited FY 2022-23
1	Formation / Autonomous Body (OGRA)	1	1	1,107.495	1,339.736

*(Source: Annual Audited Accounts)*

#### 3.1.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 129,200.930 million were raised in this report during the current audit of OGRA. This amount also includes recoveries of Rs 210.973 million as pointed out by Audit. Summary of the audit observations classified by nature is as under:

### Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Defective Financial Management	443.353
B	Violation of Rules / Regulations	128,757.577

### 3.1.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
2006-07	5	4	1	80
2009-10	1	0	1	-
2010-11	7	7	0	100
2012-13	1	0	1	0
2013-14	14	12	2	86
2014-15	14	11	3	79
2015-16	3	1	2	33
2016-17	1	1	0	100
2017-18	27	16	11	59
2018-19	19	12	7	63
2019-20	13	4	9	31
<b>Total</b>	<b>105</b>	<b>68</b>	<b>37</b>	<b>65%</b>

The overall compliance of the PAC directives was very poor and required immediate attention of PAO.

### **3.1.4 Audit Paras**

#### **Financial Management**

##### ***3.1.4.1 Non-deposit of surplus to the Federal Consolidated Fund - Rs 232.380 million***

According to Section 17(4) of OGRA Ordinance, 2002, any surplus of receipts over the actual expenditure in a year, after payment of tax, shall be remitted to the Federal Consolidated Fund and any deficit from the actual expenditure should be made up by the Federal Government.

During audit of OGRA for the FY 2022-23, it was observed that the Authority did not deposit the surplus amount of Rs 232.380 million for the FY 2022-23 into Federal Consolidated Fund (FCF). It was also observed that OGRA has not complied with Treasury Single Account of the Government of Pakistan.

Audit was of the view that non-compliance of the Rules resulted in non-deposit of surplus receipts to the tune of Rs 252.380 million in FCF.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that surplus funds would be deposited after finalization of annual audited accounts. However, the Deputy Secretary (Expenditure Cabinet) emphasized that Finance Division on January 31, 2023 expanded the scope of Treasury Single Account and OGRA became part of Treasury Single Account, therefore cash management of OGRA would be dealt according to PFM Act, 2019.

The DAC directed OGRA to comply with requirements of PFM, Act, 2019 / Treasury Single Account. No further progress was reported till finalization of the report.

Audit recommends to deposit surplus in FCF besides ensuring the compliance of PFM, Act, 2019 regarding Treasury Single Account.

**Note:** The issue was reported earlier also in the Audit Reports for Audit Years 2020-21 & 2021-22 vide para numbers 3.1.7.3 & 3.1.4.3 having financial impact of Rs 1,026.259 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2605]

**3.1.4.2 Short recovery of annual fee from OMCs, refineries and oil plants  
- Rs 210.973 million**

According to Clause b of Schedule II of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, annual fee of oil marketing companies, lubricant marketing companies and refineries is payable in advance at prescribed rate, for the first year and escalated with Government of Pakistan's CPI in subsequent years.

During audit of OGRA for the FY 2022-23, it was observed that Authority did not enhance the annual fee on the basis of escalation with Government of Pakistan's Consumer Price Index and continued to collect from 107 oil marketing companies (OMCs), lubricating marketing companies and 05 refineries, since 2018. This resulted in short recovery of annual fee to the tune of Rs 210.973 million.

Audit was of the view that weak financial management and non-observance of rules resulted in short recovery of annual fee.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that it had formulated Fee and Charges Rules, 2023 and sent to Cabinet Division on August 02, 2023 for vetting by Law and Justice Division. After promulgation of the said Rules, fee Clauses of all the rules would be amended and should be dealt accordingly. Audit contended that till the approval of new rules, the existing rules have to be followed.

The DAC was not satisfied with the stance of OGRA and directed that a fact-finding inquiry be carried out in the matter by the Joint Secretary (RA), Cabinet Division within one month. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility on persons at fault and recover annual fee on escalation basis from 2018 onward.

[DP No. 2598]

## **Violation of Rules / Regulations**

### ***3.1.4.3 Undue delay in finalization of RLNG prices - Rs 103,082.892 million***

According to Section 6(2)(r) of OGRA Ordinance 2002, “the Authority administers or establishes prices, for those categories of petroleum for which Federal Government establishes prices and may delegate the function to the Authority from time to time.” The DG (Gas) vide letter No. DGO(AC)-5(235)/15-LNG-Vol.-I-Pt dated June 27, 2016 issued guidelines for determination of sales price of RLNG after approval from the ECC of the Cabinet and advise to implement the decision of ECC.

During audit of OGRA for the FY 2022-23, it was observed that the Authority failed to notify final RLNG price since the start of import of RLNG in 2015. This has resulted in multiple issues of payment between buyers and sellers of RLNG. For instance, an estimated value for differential amount of Rs 103,082.892 million had accrued on SNGPL as payable to PSO and PLL. Further, SNGPL was also facing legal issues with the consumers of RLNG due to non-finalization of price.

Audit was of the view that the OGRA failed to discharge its regulatory function regarding notification of final RLNG price resulting in accumulation of huge amount of Rs 103,082.892 million.

The matter was reported to OGRA in August, 2023. In DAC meeting held on January 03, 2024, OGRA stated that scrutiny of data regarding determination of RLNG prices were at final stage and final RLNG prices would be notified by March, 2024.

The DAC directed OGRA to notify final RLNG prices at the earliest. No further progress was reported till finalization of the report.

Audit recommends to finalize RLNG prices without further delay and fix responsibility on the persons at fault for delay in finalization of price of RLNG.

[DP No. 2578]

### ***3.1.4.4 Unjustified capitalization of meter replacement cost of SSGC despite failure to reduce UFG - Rs 15,147.195 million***

According to Rule 17(h & J) of Natural Gas Rules, 2002, “tariff should generally be determined taking into account a rate of return as provided in the

license, prudent operation and maintenance cost, depreciation, Government levies and if applicable, financial charges and cost of natural gas. And only such capital expenditure should be included in the rate base as is prudent, cost effective and economically efficient.”

During audit of OGRA for the FY 2022-23, it was observed that the Authority allowed SSGC the capitalization of Rs 12,000.000 million for replacement of 50% of its total domestic meters with new ones to reduce UFG from 2013-14 to 2018-19. These expenditures were capitalized and its incidence was passed on to general public. Despite this, UFG of SSGC increased to 18.28% from 13.82%. This resulted in unjustified determination of final revenue requirement amounting to Rs 15,147.195 million of SSGC despite failure to reduce UFG.

Audit was of the view that due to weak monitoring, the OGRA failed to protect interest of consumers because SSGC could not reduce its UFG losses despite incurring huge expenditure on meter replacement.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that factors contributing towards the UFG include gas theft, leakages etc. The “meter replacement” activity serves as a contributing element within the broader UFG reduction strategy.

The DAC directed OGRA that legal provision regarding change / replacement of gas meters may be shared with Audit for verification. No further progress was reported till finalization of the report.

Audit recommends to justify capitalization of meter replacement cost without ensuring that their intended purpose was achieved or not.

[DP Nos. 2587]

***3.1.4.5 Excess expenditure due to imprudent decision making by OGRA - Rs 10,454.696 million***

According to Section 6(2)(u) of OGRA Ordinance, 2002, “the Authority shall oversee the capital expenditure to be made by licensees for natural gas in connection with any regulated activity pertaining to natural gas.”

During audit of OGRA for the FY 2022-23, it was observed that OGRA approved a project for laying of 230 Km pipeline of 18” diameter at total cost of

Rs 18,495 million on June 24, 2022 for injection of gas of Bannu West gas fields in to SNGPL network. Member (Gas) pointed out that the similar purpose could be achieved through 70-100 kms instead of 230 km long pipeline. The issue was first communicated to SNGPL in July, 2022 and again in November, 2022. However, SNGPL replied on December 06, 2022 that the Authority raised query after lapse of 120 days and completion of 150 Km pipeline. This resulted in imprudent decision by the Authority leading to approval of project which was not cost effective with an excess cost of Rs 10,454.696 million.

Audit was of the view that lack of due diligence resulted in undue transfer of burden of Rs 10,454.696 million to the end consumers of SNGPL.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that selection of pipeline route did not necessarily mean selecting the shortest route.

The DAC was not satisfied with the stance of OGRA and decided that a fact-finding inquiry may be carried out at the level of Cabinet Division, within a month by Joint Secretary (RA) (Chairman) and Chief Finance & Accounts Officer (Member). No further progress was reported till finalization of the report.

Audit recommends to fix responsibility on persons at fault for slack pursuance and lack of due diligence.

[DP No. 2583]

#### ***3.1.4.6 Ineffective regulatory oversight of LPG sector - Rs 29.620 million***

LPG (Production & Distribution) Rules, 2001 and Policy 2016 regulate the business of LPG in Pakistan wherein OGRA, as the regulator, has been assigned to fulfil the following conditions:

- i) Registration of authorized distributors of LPG marketing companies and maintaining their database (Clause 3.6.4 of Policy);
- ii) Ensuring provision of serial number of their cylinders to OGRA by LPG marketing companies each year, confirming that the cylinders have been properly tested as per requirement of the LPG Rules / Standards (Clause 3.6.7 of Policy); and
- iii) Ensure that no licensee shall operate its works including filling plants, storage, transportation and distribution of LPG unless the same are insured (Rule 27 of Rules).

Further, the Senate Standing Committee on Cabinet on February, 2023 directed OGRA to enhance penalty to be imposed on manufacturers selling sub-standard cylinders through legal provision. OGRA committed for establishment of dedicated enforcement department to safeguard the public interest and enforce safety standards in collaboration with local / district management.

During audit of OGRA for the FY 2022-23, it was observed that as per website of OGRA, 280 LPG marketing companies were operating in the country. Out of these, only 95 provided the list of their 5,924 authorized distributors. OGRA, however, could not register these distributors meaning thereby that it could not recover the registration fee from these distributors to the tune of Rs 29.620 million. OGRA could not ensure submission of list of distributors from remaining 185 companies.

Further, OGRA did not ensure compliance of policy regarding submission of annual list of their cylinders by marketing companies. OGRA also failed to take steps, as committed before Senate Standing Committee, for establishment of dedicated enforcement department for LPG safety. Moreover, OGRA did not provide details regarding insurance against loss and damage to the public life and property by LPG marketing companies.

Audit was of the view that due to weak monitoring of LPG sector resulted in revenue loss of Rs. 29.620 million and non-compliance of safety standards to safeguard human lives and property.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that it was constantly pursuing marketing companies for registration of their distributors and action against illegal LPG decanting shops, illegal manufacturers fall under purview of the provincial / district authorities which involved sealing of illegal shops / registration of FIRs against the offenders. Further, it was stated that under the provisions of LPG Rules, 2001, the responsibility of insurance against loss and damage to the life and property was on the licensee. OGRA had been obtaining valid insurance certificate from the applicants / LPG companies. Audit contended that reply was not tenable as according to policy and licence conditions, companies were required to submit detail of cylinders to OGRA.

The DAC directed OGRA to ensure the availability of all the lists of authorized distributors immediately and to ensure compliance with LPG Policy,



2016. DAC further directed OGRA to ensure that a mechanism be developed for insurance of LPG marketing companies and the insurance certificates of all 280 LPG marketing companies were verified from Audit, without delay. No further progress was reported till finalization of the report.

Audit recommends to ensure compliance of LPG (Production & Distribution) Rules 2001 and Policy 2016 by the regulator.

[DP Nos. 2585, 2589 & 2594]

#### ***3.1.4.7 Irregular purchase of vehicles during ban period - Rs 22.024 million***

According to Finance Division's direction dated February 27, 2023 "there shall be a complete ban on purchase of all types of vehicles till June, 2024".

During audit of OGRA for the FY 2022-23, it was observed that the Authority purchased four vehicles for Rs 22.024 million in violation of Government's instructions. This resulted in irregular purchase of vehicles during ban period.

Audit was of the view that non-compliance of Finance Division's instructions resulted in purchase of vehicles during ban period.

The matter was reported to the management in September, 2023. In the DAC meeting held on January 03, 2024, OGRA stated that Finance Division's referred OMs regarding austerity measure was not applicable on OGRA. Audit contended that since the expenses of the Authority directly linked with the FCF, therefore, it was bound to abide by these instructions.

The DAC directed OGRA to get the reported matter regularized from Finance Division. Besides, exemption may be sought from Finance Division in future. No further progress was reported till finalization of the report.

Audit recommends to get the matter regularized from Finance Division besides ending practice to violate directions of Finance Division in future.

**Note:** The issue was reported earlier also in the Audit Reports for Audit Years 2021-22 & 2022-23 vide para numbers 3.1.4.7 & 3.1.4.6 having financial impact of Rs 22.404 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2606]

#### ***3.1.4.8 Irregular hiring of third-party inspector for CNG - Rs 21.150 million***

According to Sections 48 (3) & (7) of PPRA Rules, 2004, “any bidder feeling aggrieved by any act of the procuring agency after the submission of his bid may lodge a written complaint concerning his grievances within seven days of announcement of the technical evaluation report and five days after issuance of final evaluation report.” Any bidder or party not satisfied with the decision of the GRC may file an appeal before the authority (i.e. PPRA) within thirty days of communication of the decision”. Further, according to Clause V of expression of interest for pre-qualification of third-party inspectors to inspect CNG works / installations / stations published in the daily Dawn Islamabad on December 07, 2019 “TPI should have no direct / indirect interest in the CNG industry.”

During audit of OGRA for the FY 2022-23, it was observed that the management invited applications for third party inspectors (TPI) of CNG in December 2019, in which six firms were qualified. One of the two disqualified firms namely M/s Askari Trading lodged complaint with Grievance Redressal Committee (GRC) after expiry of the stipulated seven days’ period. On rejection of its complaint by GRC, the firm filed the appeal before OGRA, which admitted it and set aside the decision of the GRC. As per PPRA Rules, appeal against GRC could only be lodged with PPRA and not OGRA. Subsequently, contract for inspection of 423 CNG stations was awarded to the firm for Rs 21.150 million in violation of set criteria.

Audit was of the view that due to non-compliance of PPRA Rules, the award of contract of Rs 21.150 million was irregular.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that conflict of interest about M/s Askari Trading was noted. The company made appeal before OGRA which was decided under Section 10 and 12 of OGRA Ordinance, 2002. However, CF&AO opined that contention of Audit was correct.

The DAC directed OGRA to refer the matter to PPRA for consideration and decision. No further progress was reported till finalization of the report.

Audit recommends to conduct a fact-finding inquiry and fix responsibility on persons at fault.

[DP No. 2575]

#### ***3.1.4.9 Defective determination of sales price of gas resulting in discrimination in sales prices for fertilizer sector***

According to Section 8(1) of OGRA Ordinance 2002, “the Authority shall determine an estimate of the total revenue requirement of each licensee for natural gas engaged in transmission, distribution and sale of natural gas to a retail consumer for natural gas, in accordance with the rules, and on that basis advise the Federal Government the prescribed price of natural gas for each category of retail consumer for natural gas.” Further according to Section 8(4), “if the Federal Government fails to advise the Authority within specified time, the Authority shall notify in the official Gazette the prescribed price as determined by the Authority to be the sale price for the said category of retail consumers for natural gas.”

During audit of OGRA for the FY 2022-23, it was observed that OGRA increased sale price of gas w.e.f. January 01, 2023 for fertilizer producers on the system of SNGPL and SSGC to Rs 510 per MMBTU for feed-stock and Rs 1,500 per MMBTU for fuel on February 15, 2023. Gas was being supplied to fertilizer sector not only by SNGPL and SSGC but also by MPCL. However, the price for MPCL was not changed which was at Rs 302 per MMBTU for feed-stock and Rs 1,023 per MMBTU for fuel. From January, 2023 to June, 2023, MPCL supplied gas of 34.549 MMBTU for feed stock and 7.849 MMBTU for fuel stock to five fertilizer producers on its system. This resulted in reduction in GDS to be deposited by MPCL in the government exchequer.

Audit was of the view that unjustified decision of the Authority led to supply of gas to different fertilizer producers at different rates without any cogent reason.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that gas sales price was to be fixed by Federal Government and not by OGRA. Audit contended that there was disparity between different gas companies and needed to be addressed at appropriate level.

The DAC was not satisfied with the stance of OGRA and therefore directed to OGRA to arrange a presentation in this regard at the earliest possible. OGRA was further directed to furnish revised reply to audit in-consultation with

DG (Gas), within a week, elaborating legal position. OGRA was also directed to provide a copy of license to Audit about MPCL.

Audit recommends that the issue of disparity should be taken at appropriate level and resolved.

[DP No. 2576]

#### ***3.1.4.10 Non-finalization of 632 appeals since 2015***

According to Section 12(1) of Oil and Gas Regulatory Authority Ordinance 2002, “the Authority shall hear and decide the appeal, within ninety days from the date of its presentation”.

During audit of OGRA for the FY 2022-23, it was observed that the Authority was taking more than specified period of time in deciding fate of appeals against decision of designated officer on complaints against the gas utility companies or their consumers. It was noticed that 133 appeals were decided with a delay of more than 04 years. Further, 632 appeals were pending before the Authority for decision since 2015.

Audit was of the view that due weak regulatory oversight the Authority failed to protect interests of consumers and licensees.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that Authority made diligent efforts to decide maximum number of appeals during last fiscal year although it was an ongoing process and back log was being cleared out expeditiously.

The DAC directed OGRA to decide left over appeals expeditiously. No further progress was reported till finalization of the report.

Audit recommends to decide the appeals pending before the Authority at the earliest besides ensuring decision of appeals within stipulated time in future.

[DP No. 2579]

#### ***3.1.4.11 Non-conducting inspection of oil tankers and containers posing serious risk to human life and property***

According to Section 6(2)(o) of OGRA Ordinance 2002, “the Authority shall safeguard the public interest, including the national security interest of Pakistan in relation to regulated activities in accordance with this Ordinance,

Rules and Regulations.” Further, a committee of OGRA in its report on oil tanker accident at Ahmad Pur East (Bahawalpur) vide report dated July 06, 2017 recommended “OGRA to ensure implementation of the OGRA notified technical standards for road transport vehicle, container and equipment for transportation of Petroleum 2009 through its third-party inspectors or its own.” The committee also recommended that “each OMC to furnish a timeline action plan for conversion of tank lorries of their contractor to the applicable safety laws / rules and regulations in the shortest possible time period.”

During audit of OGRA for the FY 2022-23, it was observed that the Authority did not fulfil its responsibility for inspection of oil tankers and LPG containers as required by the recommendations of the inquiry committee stated above. Mechanism for inspection to ensure adherence to technical standards and safety protocols by OMCs / LMCs was also not developed. By not conducting inspections the authority was putting lives and property of general public at risk.

Audit was of the view that lack of monitoring mechanism resulted in use of non-compliant vehicles for transportation of petroleum products.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that transportation through oil tankers was not a regulated activity and did not require OGRA’s license under the Oil Rules, 2016. It was further elaborated that reported matter actually pertained to Department of Explosives. Audit contended that under OGRA Ordinance, it is the responsibility of Authority to safeguard the public safety.

The DAC directed OGRA to furnish revised reply to Audit, within a week, elaborating effort made by OGRA being regulator to safeguard human life while transporting petroleum products. No further progress was reported till finalization of the report.

Audit recommends to take corrective action to ensure compliance of technical standards and safety protocols for safety of human lives and property in future.

[DP No. 2577]

#### ***3.1.4.12 Ineffective regulatory oversight and non-compliance of LPG Policy and conditions of licences***

According to Clause (viii) of License for construction of LPG storage and filling plant, “quarterly report on prescribed proforma shall be submitted to the authority on regular basis.” Further, according to Clause (xii) of Filling and Marketing License of LPG, “monthly distribution report on the prescribed proforma shall be submitted to the authority on regular basis.” Furthermore, according to Clause (xvi) of License for CNG station, “progress report will be submitted to Authority on regular basis.” Moreover, according to Section 3.6.2 of LPG Production and Distribution Policy, 2016, “OGRA will also apprise the Petroleum Division about the implementation status of this Policy on a quarterly basis.”

During audit of OGRA for the FY 2022-23, it was observed that Authority did not provide copies of reports / returns submitted by the licensees. The Authority also did not ensure submission of reports / returns by the licensees in compliance with the conditions of licenses issued to licensees. Further, copies of reports about the implementation status of LPG Production and Distribution Policy, 2016 submitted to Petroleum Division were not provided to Audit. The non-provision of the returns / reports indicated that OGRA failed to ensure compliance of provisions of LPG Production and Distribution Policy, 2016 and conditions of licenses issued to CNG / LPG marketing companies.

Audit was of the view that due to weak monitoring, the Authority failed to enforce compliance of the conditions of licenses and provisions of LPG Production and Distribution Policy, 2016.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that monthly distribution reports were updated on regular intervals on monthly basis and also available on OGRA’s website. Likewise, each file in respect of CNG stations was made available for perusal by the audit team. Hence, the question about improper performance of regulatory functions did not arise. Audit contended that reply was not tenable as OGRA did not ensure compliance with license conditions and LPG Policy, 2016 requiring submission of returns by the licensees. Further, licenses were issued under rules and compliance to license conditions was not

only mandatory for licensees but also it was one of the core responsibilities of OGRA to ensure compliance.

The DAC directed OGRA to ensure compliance with license conditions and LPG Policy, 2016. No further progress was reported till finalization of the report.

Audit recommends to ensure compliance with license conditions besides, taking steps to improve monitoring mechanism and compliance with the Policy by the Regulator.

[DP No. 2595]

#### ***3.1.4.13 Non-determination of final wellhead gas price in respect of 73 fields***

According to Rule 3 of Natural Gas Wellhead Price Regulations, 2009, “the Authority on its motion or upon application made to it by a producer or any interested person shall determine the well-head price in accordance with the terms and conditions of the relevant agreement and the well-head price so determined shall be notified in the official gazette.”

During audit of OGRA for the FY 2022-23, it was observed that wellhead gas price data of DG (Gas) showed that Authority failed to notify the final wellhead gas prices in 73 cases. This resulted in non-determination of final wellhead gas prices of these fields.

Audit was of the view that due to weak regulatory oversight, the Authority failed to determine final wellhead gas price for the producers of natural gas which may lead to litigation in future.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that wellhead prices were determined on completion of requisite documentation and due scrutiny. However, Audit suggestions had been noted.

The DAC directed OGRA to resolve the issue at the earliest. No further progress was reported till finalization of the report.

Audit recommends to ensure finalization of wellhead gas prices in the pointed out 73 cases without further delay.

[DP No. 2603]

***3.1.4.14 Non-compliance of ECC decision regarding verification of RLNG diverted to domestic / commercial sector***

According to ECC's decision dated July 03, 2020, OGRA was provisionally allowed recovery of RLNG revenue shortfall considering the month wise actual RLNG volumes diverted to domestic / commercial sectors by SNGPL and any amount available in the deferral account would also be adjusted while actualizing the RLNG sale price subject to verification of volumes supplied to domestic and commercial consumers by OGRA.

During audit of OGRA for the FY 2022-23, it was observed that funds amounting to Rs 81,554 million were released by DG (Gas) as subsidy to SNGPL on account of RLNG diversion to domestic sector from 2021-22 to 2022-23. As per ECC's decision, OGRA was required to verify RLNG volumes diverted to domestic / commercial sectors by SNGPL but the Authority failed to do the same despite lapse of more than 3 years. This resulted in non-verified payment of subsidy to SNGPL for RLNG diversion.

Audit was of the view that due to weak regulatory oversight, the Authority failed to verify RLNG diverted to domestic / commercial sectors which may lead to litigation in future.

The matter was reported to the management / DG (Gas) in September, 2023. DG (Gas) in its reply dated December 14, 2023 stated that as per SNGPL's claims, company had diverted RLNG of Rs 354.600 billion from 2018 to September, 2023. If any variation would be identified in third party audit report by OGRA, the same would be later adjusted. Audit contended that payment on RLNG diversion without verification of actual monthly volume by OGRA was violation of ECC's instructions.

The DAC in its meeting dated December 20, 2023 directed the DG (Gas) to pursue the matter with OGRA for early finalization of 3<sup>rd</sup> party audit of RLNG



and finalize / adjust the amount. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility on the person(s) responsible for non-compliance of ECC's directives besides early finalization of 3<sup>rd</sup> party audit of RLNG.

[DP No. 2508]



## **THEMATIC AUDIT**



## **Chapter-4**

### **Thematic Audit**

#### **Licensing Regime of Department of Explosives**

##### **4.1 Introduction**

Department of Explosives (DoE) issues licences to manufacturers, importers and exporters of explosives as well as for their transportation, storage and sale. Licences are also issued for refining & blending of petroleum, handling of compressed / liquified gases, petro-chemicals and other inflammable substances. DoE regulates and controls the production, handling, storage, transportation and use of explosives with a view to prevent accidents, unauthorized use, and potential threats to public security.

The licensing regime of DoE is instrumental in regulating the use of explosives for industrial and commercial purposes. Industries that commonly use explosives include mining, construction, quarrying and certain areas of exploration & production (E&P) sector where explosives are used in blasting, excavation and well perforation.

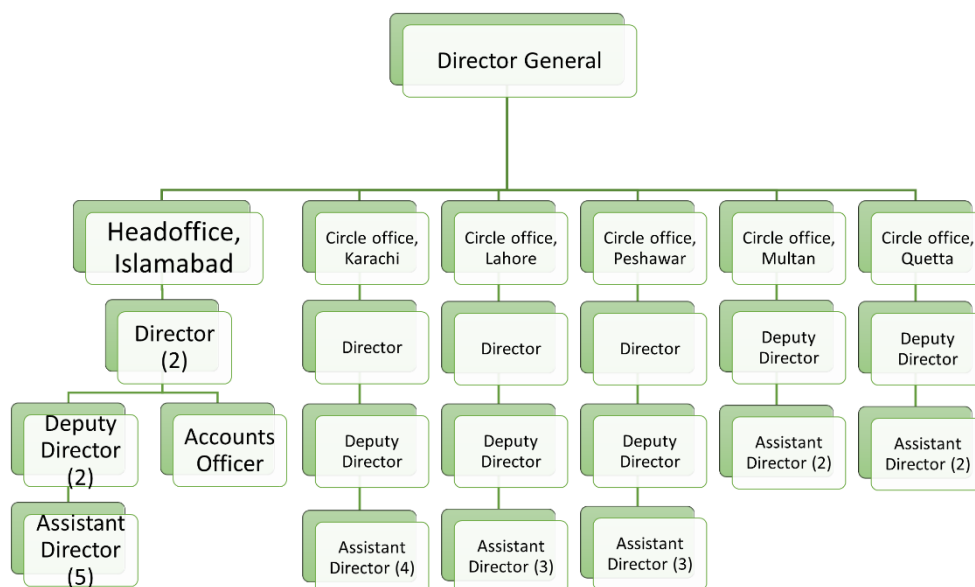
Realizing the importance of licensing regime of DoE with cross sectoral influences, thematic audit was undertaken to identify gaps and their probable solutions.

##### **4.2 Background**

DoE used to work under the Industries and Production Division. Its control was entrusted to Petroleum Division on April 14, 2020. Legal foundations for DoE were drawn from Explosives Act, 1884. Currently, Explosives Rules, 2010 are in place to govern manufacturing, storage, possession, sales, use, transport, import and export of explosives. Petroleum Act, 1934, Petroleum Rules, 1937, Carbide of Calcium Rules, 1937 and Mineral & Industrial Gas Safety Rules, 2010 authorize DoE to issue licence for storage, transport, sale and import of hydrocarbons.

On June 30, 2023, there were overall 29,363 active licences for hydrocarbon whereas 380 licences for explosives. Twelve types of licences are issued under Petroleum Rules and eight types of licences are issued under Explosives Rules.

Organizational Chart of DoE is as follows:



#### 4.2.1 Types of Licenses issued under Petroleum Act, 1934

Form Name	Type of license
A	License for storage of mineral gas for distribution
B-1	License to manufacture / store / sale and dispense compressed natural gas
C	License to store Carbide of Calcium
K	License to store petroleum in a tank or tanks in connection with a dispensing unit for fuelling motor conveyances
L	License to import dangerous petroleum and to store petroleum in installations (Bulk Depots and in industries for self-consumption)
M	License to import and store dangerous petroleum otherwise than in bulk and to store otherwise than in bulk (a) non-dangerous petroleum in quantity exceeding 25,000 liters or (b) partly dangerous petroleum and partly non-dangerous petroleum
N	License to store and sale liquefied petroleum gas in a tank or tanks & dispense liquefied petroleum gas in connection with a dispensing unit for fuelling motor conveyances
O	License to import/store/sale liquefied petroleum gas in installation (Plants) for filling in cylinders
P	License to store liquefied petroleum gas of quantity exceeding to 100 liters for self-use in industries and other places

Q	License to transport petroleum product in bulk on land by mechanically propelled vehicle
R	License to transport liquefied petroleum gas in bulk on Land by mechanically propelled vehicle
S	License to transport compressed natural gas in bulk on Land by mechanical propelled Vehicle transport liquefied petroleum gas in bulk on Land by mechanically propelled vehicle

#### 4.2.2 Types of Licenses issued Explosives Act, 1884

Form Name	Type of license
EL-01	License (a) to manufacture Explosives other than fireworks, gunpowder and ANFO at site. (b) To manufacture fireworks and or gunpowder more than 15 kgs
EL-02	License to possess and sell Explosives
EL-03	License to possess and use Explosives
EL-05	License To possess and sell from a shop small-arms nitro-compound not exceeding 25 kgs or fireworks not exceeding 200 kgs or gun powder not exceeding 50 kgs and safety fuse not exceeding 10000 meters
EL-06	License to transport petroleum product in bulk on land by mechanically propelled vehicle
EL-08	License to import Explosives
EL-09	License to export Explosives otherwise than by land
EL-10	Grant of public display of fireworks

### 4.3 Establishing the Audit Theme

#### 4.3.1 Reasons for Selection

Intrinsic intricacies and sensitivities involved in licensing regime of DoE required detailed study of underlying dynamics to assess the effectiveness of controls for ensuring implementation of the stated purpose of licensing regime. Thematic Audit of DoE was aimed at evaluation of the process of granting, monitoring and enforcement of terms and conditions of licenses to regulate sensitive sectors of petroleum and explosives. Purpose of this audit was to assess whether the stipulated regulations were being followed effectively, identifying potential gaps, risks and weaknesses of the licensing process.

#### 4.3.2 Purpose

Thematic Audit was to analyse functioning of licensing regime of DoE highlighting mismanagement in the process leading to public insecurity. Therefore, in the public interest it was required that the licensing process be

examined to identify areas for improvement ensuring compliance with relevant regulatory standards. The focus of Thematic Audit was to ascertain whether safety measures were in compliance with applicable laws, regulations, and industrial standards and to review the processes related to grant, amendment, monitoring and renewal of all licenses under the administrative domain of the department.

#### **4.3.3 Scope / Objective**

The audit was conducted for the FY 2022-23 with the following scope:

- i) to check the strength of mechanism available for issuance, monitoring and enforcement of licenses;
- ii) to ascertain whether retail outlets of petroleum products are established after obtaining licenses from DoE or otherwise;
- iii) to assess compliance with terms and conditions for grant of permanent and short-term licenses under Explosives Rules, 2010;
- iv) to check whether Department had close liaison with other stakeholders i.e. OGRA, OMCs & District Authorities; and
- v) to check the internal controls of the Department with regard to collection of fees and dues accrued on account of licenses.

#### **4.4 Legal framework Governing the Licensing Regime**

The licensing regime of the DoE is governed under the following acts and rules:

- i) Explosives Act, 1884;
- ii) Explosives Rules, 2010;
- iii) Petroleum Act, 1934;
- iv) Petroleum Rules, 1937 (amended 2010);
- v) Carbide of Calcium Rules, 1937; and
- vi) Mineral and Industrial Gases Safety Rules, 2010.

In pursuance of above-mentioned legal instruments, DoE had notified detailed procedure for issuance, renewal, monitoring, inspections, inquiries, suspension and cancellation of licenses. Explosives and Petroleum Rules provide the required documents for each category of license. Licensing process involves various steps including verifications, NOCs, approvals of various Government departments and physical inspections by the respective regional office of DoE.



#### **4.5 Stakeholders and governmental organizations identified as directly / indirectly involved**

Following stakeholders and government organizations involved in licensing regime of DoE are enumerated as under:

- i) Ministry of Energy (Petroleum Division);
- ii) Oil & Gas Regulatory Authority (OGRA);
- iii) Ministry of Interior;
- iv) Concerned District Authorities;
- v) Defence Production Division;
- vi) Oil Marketing Companies (OMCs);
- vii) LPG / LNG / CNG Marketing Companies;
- viii) Explosives manufacturers, suppliers & users;
- ix) Public safety organizations i.e. fire-fighting departments, emergency response teams, and bomb disposal units; and
- x) General public.

#### **4.6 Role of important organization**

##### **Petroleum Division**

Petroleum Division is the administrative division of the DoE which makes amendments, frames rules, regulations, guidelines and policies to be submitted to the Federal Government for approval and circulation of the same amongst all stakeholders thereafter. Petroleum Division is responsible for issuance of instructions and directives to DoE from time to time in order to ensure that the Department carries out its operations with regard to vigilance of activities of the license holders. The division ascertains that the government policies and instructions are implemented as per rules and regulations through DoE. The subject of “explosives” had been devolved to provinces after 18<sup>th</sup> amendment in the Constitution of the Islamic Republic of Pakistan. However, Federal Government was still administratively controlling DoE. Its control to the respective provincial governments had not yet been transferred. DoE liaises with other governmental stakeholders through Petroleum Division.

##### **OGRA**

OGRA is, ab initio, enshrined with the task to regulate oil and gas sector in terms of qualitative and quantitative derivatives. It also issues marketing

licenses to OMCs, CNG stations, LPG, LNG companies and gas utility companies. DoE authorizes Oil Marketing Companies (OMCs) for storage of petroleum products in such a manner to determine the establishment of number of retail outlets in the provinces in addition to ensuring security and safety of human lives and property. After July, 2021 DoE in close liaison with OGRA is ensuring implementation of retail outlets vs developed storage capacity.

### **Ministry of Interior**

Ministry of Interior is responsible for enforcing law and order through provincial governments and Law Enforcement Agencies in order to safeguard human lives and property within the country. To ascertain the prime objective of security of the nationals of Pakistan, it extends guidelines, SoPs and instructions for manufacturing, storage, use and transportation of explosives within the country in consultation with DoE. No Objection Certificate (NOC) from Ministry of Interior is mandatory for grant of licenses for manufacturing, storage and sale of explosives and petroleum products.

### **Defence Production Division**

Défense Production Division (DPD) procures and manufactures arms, weapons, ammunition, equipment, stores and explosives for defence forces. It also procures / imports warfare equipment and ammunitions from local and international manufacturers of explosives. In this way, DPD eliminates illegal production and procurement of explosives by unauthorized persons. DoE plays vital role in furthering the mandate of DPD by submitting cases to it for seeking No Objection Certificate before issuance of licenses for explosives under Explosives Rules, 2010.

### **District Authorities**

An applicant, aspirant of establishing retail outlets for marketing and sale of petroleum products, applies to the concerned district authorities for seeking NOC for the site proposed. The District Authority i.e. Deputy Commissioner grants NOC to the applicant regarding establishment of retail outlets of petroleum products after obtaining necessary reports from concerned Assistant Commissioners, Highway Department, Civil defence, Sui Gas Company, Environment Department, Municipal Corporation, Electricity Utility Company, Irrigation Department, Telephone Department, Police Department, Forest Department, Revenue Department and Building Control Authority. Further, Rule

130 of Explosives Rules, 2010 and Rule 131 of Petroleum Rules, 1937 empower district authority to check and inform DoE of the action taken on any reports of infringements of the relevant Acts or the Rules.

#### 4.6.1 Organization Financial

Federal Government provides recurring and non-recurring budget to the DoE. Non-tax receipt of the department includes license fees, renewal fees which become part of Federal Consolidated Fund. Detail of financials of the DoE for the last three years are given as under:

(Rs in million)

Sr. No.	FYs	Receipts		Expenditure	
		Target	Realized	Allocation	Expenditure
1	2020-21	350	662	91	86
2	2021-22	848	548	96	93
3	2022-23	2000	512	102	108

(Source: DoE Receipt and Expenditure Statements)

Department could not achieve receipt targets due to weak receipt collection mechanism and unrealistic receipt target.

#### 4.7 Field Audit Activity

##### 4.7.1 Methodology

Thematic Audit of Licensing Regime of Department of Explosives (DoE) was planned and conducted in accordance with the Government Auditing Standards based on guidelines of the International Organization of Supreme Audit Institutions (INTOSAI). During the entire auditing cycle, the team followed a gradual and integrated approach which comprised planning at execution stage, examining compliance with laws, rules, regulations, instructions, computer-aided techniques, organizational files / documents and interviewing the various tiers involved. The audit methodology was based on structured approach starting from study of relevant rules and regulations, licensing process, organizational structure, previous audit reports and budget and expenditure statements of previous years. Field activity included analysing data of the license issued and receipts actualized, walk through the process, reviewed license applications and inspection reports.

## **4.8 Audit Analysis**

### **4.8.1 Review of Internal Controls**

Internal controls are the procedures and practices put in place by the department to ensure compliance with laws and regulations. The review of internal controls in the licensing regime of the DoE is an essential process to ensure the effectiveness and efficiency of the regulatory framework. This includes evaluating the adequacy and effectiveness of processes such as application processing, license issuance, monitoring and enforcement. Audit observed several potential internal control weaknesses i.e. shortage of human resource, weak logistics support, lack of automation and financial constraints badly effecting performance of the department. Under-staffed and insufficient number of territorial offices of DoE were hampering effective monitoring and inspection by the department. Thus, disabling the DoE to discharge its prime responsibilities in an effective and efficient manner weaknesses may compromise the effectiveness and integrity of the licensing process, potentially leading to safety and security risks. Internal audit mechanism did not exist in the department to provide assurance, identify risks, ensure compliance, improve operational efficiency and support the achievement of organizational targets.

### **4.8.2 Critical Review**

Audit highlighted systemic flaws in the DoE's regulatory framework of explosives sector, in the wake of 18<sup>th</sup> amendment and its supervision practices and enforcement mechanisms. Federal Government was not authorised to get any legislation on the subject but the functions were not yet devolved to the provinces creating a dichotomy of authority. The department failed to enforce license conditions, allowing manufacturing companies to manufacture unlimited quantities of explosives during the year. The current system suffers from several shortcomings that hinder the efficient and effective regulation of Explosives and pose serious safety risks. Gaps mentioned may pose a threat of blasts and damage to lives and property. The critical issues were identified during the course of audit are as under:

- i) Non-imposition of penalty on non-submission of fortnightly reports by licensees;

- ii) Issuance of licenses for possession and sale of explosives without security deposits;
- iii) Inadequate monitoring and supervision; and
- iv) Ineffective liaison with district authorities allowing illegal sale of petroleum products.

### **4.8.3 Significant Audit Observations**

#### ***4.8.3.1 Illegal storage of explosives manufactured***

According to SoPs issued by Ministry of Interior, EL-01 license holder (manufacturer) would store product in the magazine, for which specific EL-02 for storage (within factory area) had to be obtained. It was observed that licensee (No. RAD/490/E) stored explosives after manufacturing, at premises without having valid license EL-02 till July, 2023. This situation highlighted gaps in licensing regime which put life and property at risk.

[DP No. 2496]

#### ***4.8.3.2 Non-conduct of inquiry of blasts occurred at the licensed premises***

Inquiry into serious accidents is mandatory for ascertaining the causes and circumstance of the accident and report should be issued as per Explosives Act, 1884. It was observed that two blasts on May 31, 2010 and March 21, 2012, occurred at premises of Licensee No. RAD/595/E having licence for manufacturing of Safety Fuse and Gun Powder. In these incidents four persons lost their lives and several other injured besides damage to the magazine. FIR was also registered on March 23, 2012 at Police Station Dumman, Chakwal. DoE did not conduct inquiry to identify the circumstances responsible for these blasts. This situation reflected weak enforcement of licensing terms and conditions.

[DP No. 2494]

#### ***4.8.3.3 Non-observance of mandatory safety conditions at the time of issuance of Form L licenses***

Audit observed that Form L licenses were issued to 12 oil terminals at Karachi without fulfilling mandatory safety measures / conditions. Inquiry Commission on shortage of petroleum products in 2020, highlighted discrepancies in safety measures for oil terminals. Subsequently, an inquiry was

conducted by Petroleum Division for probing issuance of licences to oil terminals without fulfilment of safety conditions. A Deputy Director and Assistant Director were found guilty of misconduct and were dismissed from service. Penalty of Rs 9.208 million was imposed on involved oil terminals. During inquiry the cross examination and written statements revealed that licenses in Form “L” were issued without inspection and without observing the conditions under the law. This glaring violation of safety conditions highlighted serious breaches in licensing regime of DoE.

[DP No. 2488]

#### ***4.8.3.4 Cumbersome process of licensing***

To obtain license from DoE is a cumbersome and time-consuming process. There were numerous NOCs, approvals and documents required that delay the issuance of licenses. This not only caused delay for businesses that require licenses for their operations but also created potential opportunities for clandestine activities involving explosives. This pointed out that licensing regime was not inclined towards ease of doing business. A streamlined and simplified licensing process would not only save time and resources but also enhance the department’s ability to monitor and regulate the explosives and petroleum industry effectively.

#### ***4.8.3.5 Missing provision of LPS in legal framework***

There was no mechanism for recovery of outstanding amount from defaulters. Moreover, no default surcharge was included in the rules to discourage non-submission of fees in time. It was observed that the department did not recover the difference of annual renewal fee amounting to Rs 441 million from Licence No. RAD/173/E for the period from 2000 to 2011 till now. It is pertinent to mention here that without default surcharge the concept of time values of money was baseless.

#### ***4.8.3.6 Weak monitoring and supervision***

Lack of regular monitoring and supervision is necessary for effective implementation of terms and conditions of license. The management reported that physical inspection of each licensee of explosives once in a year had been conducted but no such inspection reports were found on record. There should be a proper format of inspection reports i.e. stock taking report and checklist of

safety measures. Sporadic incidents of blasts were found in record of DoE which could have been avoided through effective monitoring and supervision.

[DP No. 2501]

#### ***4.8.3.7 Lack of action on fortnightly reports***

It is mandatory under license condition that every explosive licensee submits fortnightly report to DoE. The fortnightly reports submitted by licensees were required to be evaluated and monitored as per license granted for manufacturing, possession and sale of the licensees in line with the quantities granted in license. Audit observed that these reports were not evaluated and were dumped in the office. The fortnightly report of Licence No. HZD/05/E showed less quantity of 160,000 meter and 337,250 meter of safety fuses than received from M/s Wah Associates and M/s Wah Blasting Associates respectively. It was serious issue which depicted that Department of Explosives was not performing its functions assigned under the law.

[DP Nos. 2489 & 2495]

#### ***4.8.3.8 Non-maintenance of computerised database***

DoE was not maintaining computerized database for explosive records (manufacturing, sales, use, oil supply chain to account for opening / closing stocks, purchases and imports), number of retail outlets according to developed storage of OMCs and other movements. Further, the record of licenses of petroleum products granted, suspended and expired was also not maintained.

#### ***4.8.3.9 Missing recovery mechanism of Renewal Fee of licenses***

Collection of fees from licensees is the responsibility of the DoE but it did not have a mechanism to recover the amount of renewal fees from the licensees well in time. It was observed that there was a significant variation between budget estimates and actual collection of receipts. This revealed that department collected 25.6% of target of receipt during FY 2022-23.

[DP No. 2480]

#### ***4.8.3.10 Issuance of licenses for possession and sale of explosives without security deposits***

The applicant desirous to obtain a license in Form EL-02 for possession and sale of Explosives shall deposit a refundable security of half million rupees

in usual head of account of the department of Explosives. It was observed that 09 licenses in Form EL-02 within the same premises having license in Form EL-01 had granted by the department without security. This resulted in non-deposit of security of Rs 4.5 million by the licensees.

[DP No. 2483]

### **Departmental Responses**

- i) DoE replied that license No. RAD/490/E was granted as per Form EL-01 of Explosives Rules, 2010 in favour of M/s Wah Associates but EL-02 (No. RAD/527/E in Form EL-02) was granted on pointation on July 31, 2023;
- ii) DoE replied that explanations had been served to the concerned officers for non-conducting the inquiry in case of blasts;
- iii) DoE replied that as per recommendations of JIT only M/s FOTCO was penalized with penalty of Rs 1 million which the said company had already deposited. No such penalty was admissible upon the remaining oil terminals and the said cases were regularized while submitting the requisite particulars and fulfilling the requirement of Petroleum Rules, 1937;
- iv) DoE replied that the department followed the ease of doing initiative of the Federal Government and as per prevailing rules District Administration had the mandate to the NOCs which may cause delay in the issuance of licenses;
- v) DoE replied that if licensee did not submit renewal particulars on time, double fee would be charged and fee was not paid in the following month, license would be liable to pay three times of the license fee;
- vi) DoE replied that as per recommendations of the inquiry committee, M/s Wah Nobel Private Ltd. was directed to make modifications in the procedure of manufacturing of such explosives. Further, directions had also been issued to all regional offices for increasing the frequency of inspections to ensure compliance. DoE further, replied that there was shortage of staff for monitoring;



- vii) DoE replied that letter had been issued to Director, Regional Office, Peshawar for clarification from M/s Biafo Industries Private Ltd. regarding non showing / mentioning the actual quantity of safety fuse received from M/s Wah Blasting Associates, on receipt of explanation/clarification from M/s Biafo Industries Private Ltd. necessary action would be taken under Explosives Rules, 2010;
- viii) DoE replied that the software project was at planning phase and when it would be deployed, it would strengthen the regulatory regime of the department;
- ix) DoE replied that the revenue collection for the FY 2021-22 was Rs 550 million and in this context, DoE planned a target of Rs 600 million for the FY 2022-23 and the same was conveyed to Petroleum Division for onward submission to Finance Division but Finance Division conveyed a target of Rs 2,000 million which was not in line with factual position. Keeping in view high target given last year the ministry rationalized the targets for the year 2023-24 to Rs 1.100 billion; and
- x) DoE stated that all the licensees having license in Form EL-02 of Explosives Rules, 2010 within the same premises having license in Form EL-01 of Explosives Rules, 2010 have been directed to submit the refundable security of Rs. 0.500 million

#### **4.10 Recommendations**

Based on findings of Thematic Audit of the licensing regime of DoE, following recommendations are proposed to improve effectiveness, transparency, and efficiency of department:

- i) DoE may initiate the matter of devolution of the functions to provinces in line with the Constitution of the Islamic Republic of Pakistan. That would improve coordination between agencies engaged with the relevant legislation.
- ii) DoE may computerize the whole licensing regime enabling applicants to track their applications. This would ensure transparency and ease of doing business. Further, clear guidelines and timeframes for processing applications may be prescribed to ensure consistency and efficiency in the licensing process;

- iii) Monitoring and evaluation mechanism to ensure that licensees comply with safety protocols and regulations may be developed to ensure regular inspections, safety audits, and risk assessments to assess licensees' performance, identify potential violations and take prompt corrective measures when necessary;
- iv) There had to be a mechanism for imposing and identifying penalties through an automated system in addition to scrutiny of fortnightly returns and issuance of penalty notices to licensees for non-compliance;
- v) A risk assessment framework that categorizes licensees based on the potential risks associated with their activities may be developed. This model would allow DoE to allocate resources effectively, conduct more rigorous inspections and audits for high-risk licensees, and streamline the licensing process for low-risk applicants;
- vi) Collaboration and communication channels with other relevant stakeholders such as police, industry associations, and other government agencies need to be enhanced. This collaboration would foster information sharing, align regulatory efforts, and enable a more holistic approach to ensure the safety and security of Explosives materials and eradicate illegal sale of petroleum products; and
- vii) A comprehensive training program for both DoE staff and licensees may be devised. This training should focus on technical knowledge, safety protocols, and best practices for handling explosives. The department should also allocate adequate resources and invest in technology to support the licensing regime.

By implementing these recommendations, DoE could significantly improve its licensing regime. These measures would enhance monitoring, efficiency, and safety, ultimately reducing the risks associated with the handling and storage of explosives.

#### **4.10 Conclusion**

The licensing regime of DoE is complex and multifaceted involving several governmental and private stakeholders. Non-devolution of functions to the provinces despite lapse of considerable time after 18<sup>th</sup> amendment has created serious operational, monitoring and efficiency challenges for the department. Resultantly, reforms required to achieve the goal of best practices

relating to licensing regime of DoE were not undertaken. Shortage of staff, manual record keeping, missing real time database, missing recovery mechanism for renewal of licenses and weak inspections regime are posing serious threats to the working of the department. The licensing regime is also influenced by various regulations, standards, and guidelines that aim to ensure the safe manufacture, handling, and use of explosives and encompasses various stakeholders such as manufacturers, importers, distributors, users, and regulators, who play a role in ensuring compliance with licensing requirements and safety standards. However, the licensing regime of DoE is a multifaceted landscape that requires careful attention to detail technical expertise and collaboration among different stakeholders to ensure the safe and responsible use of explosives. Licensing regime of DoE lacks proper monitoring and evaluation of licensees. However, areas of improvement include streamlining the licensing process and embracing digital solutions for efficiency.

Overall, Thematic Audit of the licensing regime of DoE has provided valuable insights into the shortcomings of the current system. The recommendations presented in the audit report can serve as a roadmap for DoE to enhance their licensing regime. The implementation of the recommendations would not only enhance the licensing regime but also build the trust of stakeholders and the public in the regulatory authorities. The licensing regime helps in maximizing the government's revenue by collecting fees from licensees. This revenue can then be utilized for the development of the country's infrastructure, social welfare projects, and economic growth.



## **IMPACT AUDIT**



## **Chapter-5**

### **Impact Audit**

#### **Development Scheme No. 842 - “Energy for All”**

##### **5.1 Introduction**

With increasing population, Pakistan’s energy demand is also on the rise. The issue of clean domestic fuel is more pronounced in rural areas where 61.18% of the population lives<sup>41</sup>. The natural gas provision can help in mitigating socio-economic hardships associated with the use of coal, wood and other conventional sources, which have their environmental impact as well. In cities, the population is concentrated and laying pipelines from their own resources is not an issue for gas distribution companies due to financial viability of such projects. However, when it comes to deprived areas, lack of business potential necessitates the intervention of the Government funding which is provided through Public Sector Development Programme.

Keeping in view the socio-economic development goals of the country, Government of Pakistan (GoP) initiated various development schemes for supply of natural gas to the deprived areas. Sui Northern Gas Pipelines Ltd. (SNGPL) and Sui Southern Gas Company Ltd. (SSGC) - two public sector gas utility companies engaged in transmission and distribution of natural gas – are entrusted with execution of these gas supply schemes. One of such schemes titled “Scheme No. 842 - Energy for All” was initiated in 2017-18 through Public Sector Development Programme (PSDP) at the cost of Rs 12,500.000 million.

##### **5.1.1 Background of the Scheme**

Impact audits have been started from the audit year 2023-24 by the office of the Auditor-General of Pakistan which aim at determining the impact of government initiatives or programs with special focus on determining the outcomes attributable to an initiative, new program or recent change to an existing program by separating other contributing factors or variables. The impact audit reports shall benefit the stakeholders in understanding the net results of the programs and initiatives in a more systematic manner and if timely addressed, shall lead to improving service delivery, financial management and

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<sup>41</sup> Census of Pakistan, 2023

better governance. “Scheme No. 842-Energy for All” was selected for impact audit to look into the impact of government spending with special reference to the transfer of benefits to the ultimate beneficiaries.

Feasibility studies of gas supply schemes, identified by the public representatives, are prepared by the relevant gas companies. Finance Division allocates funds to the relevant gas distribution company. “Scheme No. 842-Energy for All” included 44 schemes to supply natural gas to 221,655 deprived households. However, three (3) gas supply schemes were completed and 5,409 households were gassified by utilizing funds of Rs 286.039 million. Audit focused on the impact of these three gas supply schemes on the lives of the people who were provided natural gas through these schemes.

### **5.1.2 Role of the Project**

One of the purposes of Gas Development Schemes was provision of gas to population of selected localities. Initially there were 44 schemes in the project. However, funds were released for only 34, which were to cater for 221,655 connections. The intended objective of the project was to shift from traditional fuel sources to natural gas for improved environmental, social and financial impact.

## **5.2 Overview**

Impact Audit was undertaken in order to assess long term outcome of the gas development schemes i.e. “Scheme No. 842-Energy for All” under PSDP programme 2017-18. This Programme included 44 schemes with a financial outlay of Rs 8,377.530 million. Out of this amount, funds to the tune of Rs 5,890.870 million for 34 schemes were released for gasification of 221,655 households. A substantial amount of Rs 5,370.600 million for 25 schemes got lapsed resulting into non-provision of gas supply to 181,871 households. Merely three (3) out of remaining nine (9) schemes were completed. Under these three (3) completed schemes, 6,056 households were planned for gas supply. A total number of 5,409 households were gassified leaving a balance of 647 households.

Gas supply schemes were to be executed by both SNGPL and SSGC. SNGPL completed three (3) schemes while SSGC could not initiate development work.



### **5.3 Scope and Methodology**

#### **a. Scope**

Impact Audit was carried out for three (3) completed schemes for gas supply to various villages of UC Darya Gali and UC Numbal of Tehsil Murree and UC Mangowal (selected villages) of District Chakwal. Since the schemes were planned and executed during the FY 2017-18, therefore, the scope was confined to the FY 2017-18. A total number of 5409 households were provided with natural gas facility leaving 647 households without gas connections.

#### **b. Methodology**

Audit methodology comprised of following procedures:

- i) desk audit of feasibility reports, documents regarding funds released & surrendered;
- ii) analysis of funds allocated, released and utilized;
- iii) review of execution documents regarding completed schemes
- iv) analysis of targeted consumers;
- v) field visits and interview with consumers;
- vi) data collection through questionnaires; and
- vii) analysis of environmental, social and financial impact.

### **5.4 Findings**

#### **5.4.1 Impact Analysis of completed gas schemes**

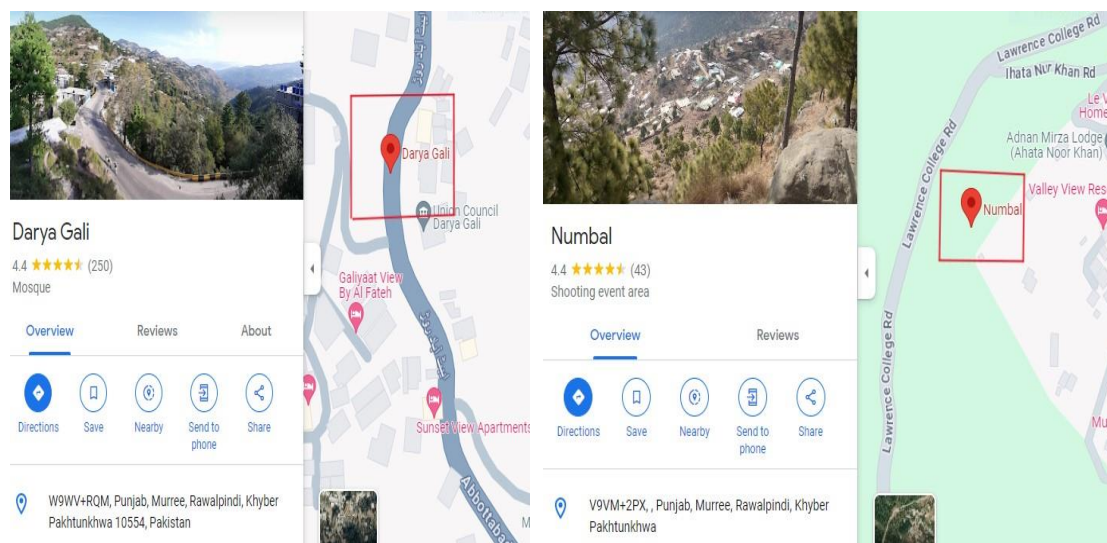
Questionnaire was framed and administered to obtain viewpoint of gas consumers regarding outcomes of gas supply. Data helped to assess the effectiveness of gas supply as enumerated below:

##### **Financial impact**

#### **5.4.1.1 Financial impact to the resident of UCs Numbal and Darya Gali**

There were 3,767 number of connections, out of which audit team conducted a survey by visiting 430 (11.41%) households of two Union Councils of Tehsil Murree namely Darya Gali and Numbal to assess the impact of gas

schemes on the lives of the general public. Geographical location of these Union Councils is depicted in the following picture:

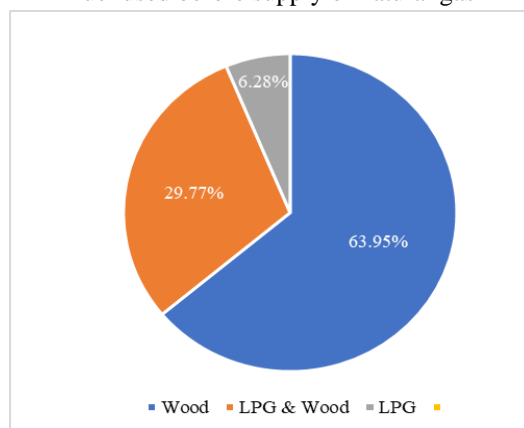


UC Dary Gali

UC Numbal

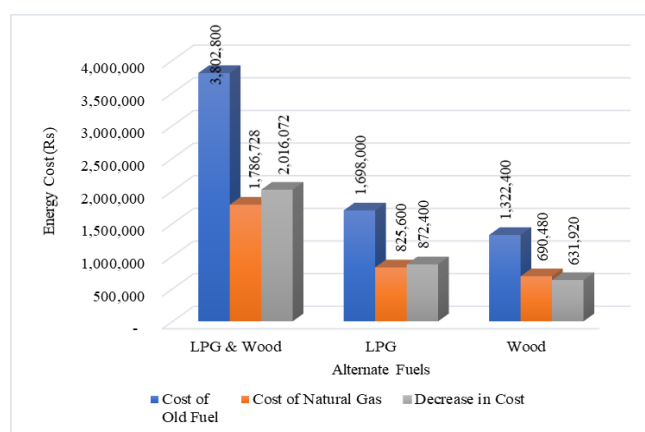
In a sample of 430 households, there was a population of 2,213. The survey revealed that 63.95% households were using wood, 29.77% were using mix of wood & LPG, remaining 6.28% were using LPG as their primary fuel source for cooking and heating prior inception of the schemes. A significant cost cutting impact was witnessed due to these schemes during the study. Following graphs showed comparative position of different types of fuel sources used by 430 households before provision of gas:

Fuel used before supply of natural gas



According to the survey results accumulated annual total cost of sample households of traditional fuel sources i.e. wood, LPG and coal in these localities was estimated at Rs 6.823 million (i.e. Rs 15,905 per household). The cost of fuel using gas was estimated at Rs 3.302 million (i.e. Rs 7,700 per household) after completion of the schemes. Thus, the cost of using gas is approximately 50% lower than the cost of using alternative fuels i.e. wood, LPG and coal. Gassified households were able to save 50% of their fuel cost after completion of these schemes enabling them to meet other expenses through savings.

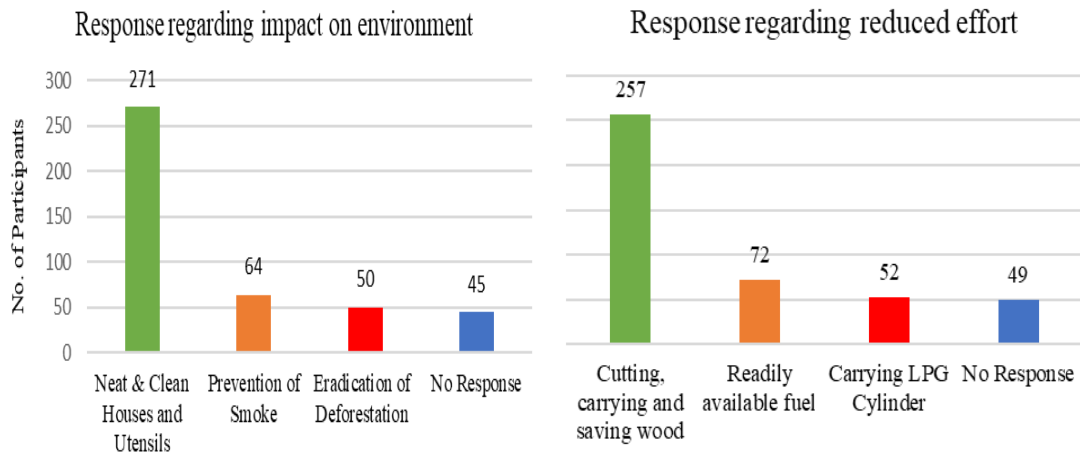
Cost comparison of different fuels is depicted below:



## Social Impact

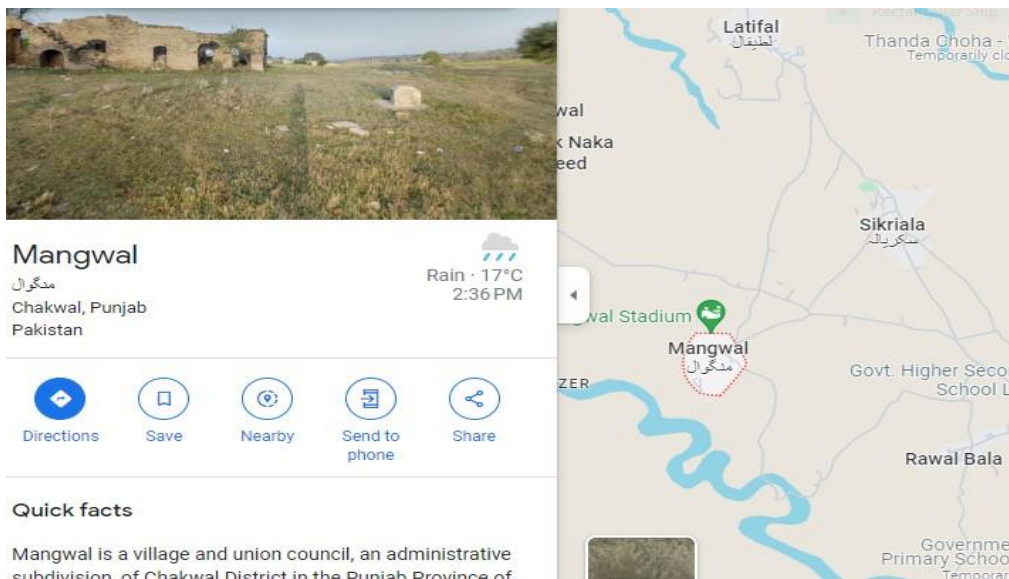
### 5.4.1.2 Villages of UCs Darya Gali and Numbal, Murree

The survey of 430 households revealed that 63.95% households were using wood, 29.77% were using mix of wood & LPG, remaining 6.28% were using LPG as their primary fuel source for cooking and heating before inception of the schemes. Analysis of data collected during survey indicated various improvements in their fuel collection, storage and transportation after completion of these schemes. Respondents reported that difficulties in the process of fuel availability, especially in winter season, like cutting, carrying and storing of wood / cylinders were resolved. Participants further responded an improvement in the cleanliness of house and utensils due to absence of smoke and improved living standard. Following graphs showed the responses of 430 participants of the survey:

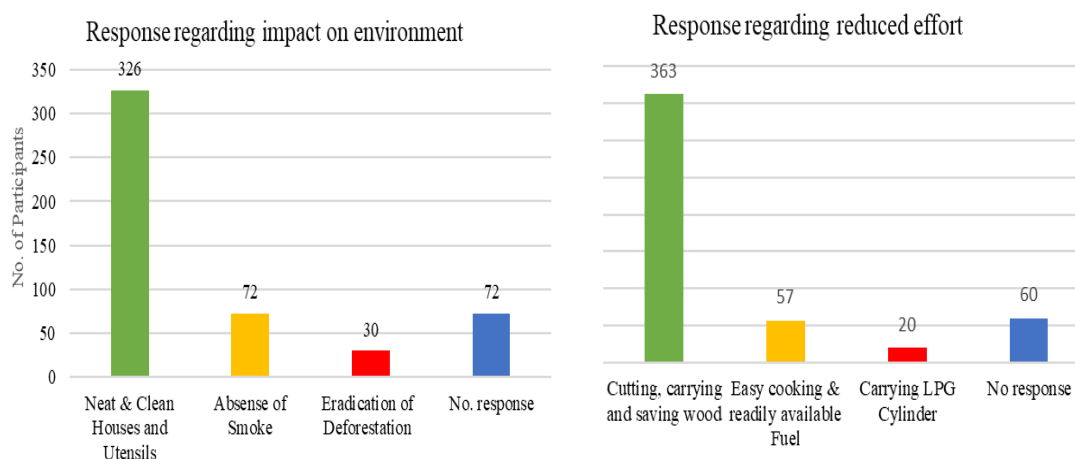


#### 5.4.1.3 Villages of UC Mangowal, District Chakwal

There were 1,642 number of gas connections in UC Mangowal, District Chakwal. Audit team conducted survey by visiting 500 (30.15%) households having a population of 2,814. A large portion of people (87.47%) were using wood, 9.3% people were using mix of wood & LPG and remaining 3.23% were using only LPG as their primary fuel source for cooking and heating before introduction of gas schemes. Geographical location of the Union Council is depicted in the following picture:



The sample households mentioned various improvements after commissioning of gas scheme. Most of the respondents reported that the difficulties during the process for provision of wood i.e. cutting, carrying & storing issues were resolved. Some participants opined improvement in cleanliness and living standards. Following figures depicts the different types of responses by 500 participants of survey after the provision of natural gas:



## Environmental Impact

### 5.4.1.4 Reduction in CO<sub>2</sub> emission in Darya Gali, Numbal and Mangowal

Provision of gas to the consumers who were using alternative fuel previously brought positive impact on the environment of the area. Impact of provision of gas significantly reduced CO<sub>2</sub> emission and de-forestation. Data revealed the following impacts:

Locality	Total MMBTU of gas used	Equivalent No. of trees*	CO <sub>2</sub> emission in case of wood usage (Tons)**	CO <sub>2</sub> emitted by burning gas (Tons)***	Difference in CO <sub>2</sub> emission (Tons)
UCs Darya Gali and Numbal	77,525	4,180	8,640	4,535	4,105
UC Mangowal	27,240	1,469	3,036	1,593	1,443
<b>Total</b>	<b>104,765</b>	<b>5,649</b>	<b>11,676</b>	<b>6,128</b>	<b>5,548</b>

\*Burning 18.55 MMBTU gas can save one tree

\*\*2.067 Ton CO<sub>2</sub> emitted on burning of one tree

\*\*\*0.0585 Ton CO<sub>2</sub> emission by burning one MMBTU natural gas

The above table shows that provision of gas to the localities previously burning wood as source of fuel brought significant and beneficial impact on

reducing carbon emissions. 104,765 MMBTU gas burned in the localities of three UCs which were estimated to be emitting 6,128 Tons of CO<sub>2</sub>, as compared to 11,676 Tons of CO<sub>2</sub> in case of burning wood. Resultantly, 5,548 Tons of CO<sub>2</sub> emission were reduced each year. This reduction in CO<sub>2</sub> emissions is equivalent to planting approximately 5,649 trees. Simultaneously, 5,649 trees were saved meaning thereby enhanced absorption by 378.465 Tons of CO<sub>2</sub>.

## 5.5 Conclusion

The impact analysis of completed gas schemes in various localities, namely UCs Darya Gali, Numbal, and Mangowal, reveals significant financial, social, and environmental benefits. However, only 03 out of 44 schemes were completed, highlighting the lack of realistic planning and execution. The comparison of alternate fuel before and after provision of natural gas highlights the transformative potential of gas development schemes as detailed below:

Condition without scheme	Condition with scheme
<p>The households using alternate fuel were previously facing the following problems:</p> <ul style="list-style-type: none"> <li>i) LPG was more expensive and risky fuel,</li> <li>ii) Cutting, carrying and storing wood;</li> <li>iii) Burning wood creates smoke that makes houses and utensils black;</li> <li>iv) Carrying woods and LPG cylinders was time consuming activities; and</li> <li>v) More emissions of carbons from burning of woods.</li> </ul>	<ul style="list-style-type: none"> <li>i) Gas was a relatively economical and clean source of energy as compared to alternatives like wood or LPG, which could reduce pollution and environmental impact in the areas;</li> <li>ii) People relied on firewood or other biomass for heating and cooking, however, supply of gas reduced deforestation and the strain on local ecosystems;</li> <li>iii) Supply of gas reduced storage space and cost of alternate fuels;</li> <li>iv) The use of gas for cooking led to better indoor air quality, reduced health problems associated with wood or biomass cooking methods;</li> <li>v) Expansion in the distribution network also increased job opportunities and source of earning to locals; and</li> <li>vi) Beneficial impact on reducing carbon emissions.</li> </ul>

Audit recommended that based on the positive outcomes observed in the surveyed areas, there was a need to expand gas schemes to deprived communities. This expansion should prioritize areas with high reliance on

traditional fuel sources and limited access to clean energy alternatives. For this purpose, incomplete gas development schemes may be completed to achieve the desired target for supply of gas to 221,655 households as envisaged in the feasibility reports.

By implementing these recommendations, Petroleum Division may accelerate the transition towards cleaner energy solutions, fostering sustainable development and improving the overall well-being of communities with ultimate target of mitigating the effects of use of traditional fuel sources.





## **ANNEXURES**



**Annexure-1**

**MFDAC PARAS**

(Rs in million)

<b>Sr. No.</b>	<b>Formations</b>	<b>AIR File No.</b>	<b>Para No. / DP No.</b>	<b>Descriptions</b>	<b>Amount</b>
1	DG Admn / SP	F-12-2023	2561	Non-implementation of Decisions taken by CCOE regarding Sustainable LPG Supply Chain Policy	-
2	DG Admn / SP	F-12-2023	2562	Non-implementation of Decisions taken by CCOE regarding Sustainable LPG Supply Chain due to non-implementation of PM Office instructions regarding solarization of Government Policy	-
3	DG Admn / SP	F-12-2023	2563	Non-implementation of ECC decisions relating to review of subsidy provided to export industry	-
4	DG Admn / SP	F-12-2023	2565	Non-implementation of ECC decision allowing GHPL Assignment of working interest in Wali, Jandran West Saruna & Pezu blocks of OGDCL	-
5	DG Admn / SP	F-12-2023	2566	Non-implementation of ECC decision regarding Annual Financial Review of Saindak Metals Limited	-
6	DG Admn / SP	F-12-2023	2567	Partial implementation of CCoE decision relating to Report on delay in dry docking of EEPTL	-
7	DG Admn / SP	F-12-2023	2568	Slack pursuance by the Petroleum Division in implementation of the decisions taken by the Economic Coordination Committee of the Cabinet	-
8	DG Admn / SP	F-12-2023	2569	Non-implementation of Cabinet, ECC, CCoE and CCIR decision	-
9	DG Admn / SP	F-12-2023	2559	Irregular payment of pay and allowance during absent / EOL	0.236
10	DG Admn / SP	F-12-2023	2560	Loss to Government due to non-recovery of Utility Charges from contractor Cafeteria	0.262
11	DG Admn /	F-12-2023	2564	Loss to Government due to non-recovery of outstanding dues from	0.343

	SP			M/s Uni Brother (Ex- Contractor of Cafeteria)	
12	DG Admn / SP	F-12-2023	2570	Unjustified withdrawal of POL by maintaining defective / bogus log books	0.568
13	DG Admn / SP	F-12-2023	2557	Less recovery of rent from Public Sector Entities housed at Petroleum House Islamabad	16.257
14	DG Admn / SP	F-12-2023	2558	Loss to Government due to less charging of rent from Public Sector entities housed	91.939
15	DG Gas	F-11-2023	2510	Non-Finalization of Gas Price	-
16	DG Gas	F-11-2023	2515	Non recovery of GIDC from consumers not involving any litigation / Circular debt	14,301.628
17	DG LG	F-13-2023	2548	Non-payment of Government dues on sale of LPG by suppressing of production quantity	1.882
18	DG LG	F-13-2023	2556	Failure to monitor the implementation of LPG Policy and Rules	-
19	DG LG	F-13-2023	2555	Non-payment of default surcharge on delayed payment of Petroleum Levy on LPG	0.662
20	DG LG	F-13-2023	2552	Slack pursuance of court case resulted in non- deposit of petroleum levy collected from consumers by JJVL	890.033
21	DG PC	F-10-2023	2530	Non-submission of Annual Training Funds and detail of unspent balance by E&P Companies	-
22	DG PC	F-10-2023	2573	Slow E& P activities due to non-achievement of operational targets by PD and PSEs	-
23	DG PC	F-10-2023	2538	Un-justified booking of training fund obligation without any payment	6.982
24	DG PC	F-10-2023	2545	Un-justified excess expenditure under “technical assistance- from head office” when few technical activities were done	37.058
25	DG PC	F-10-2023	2539	Booking of disputed expense resulting in reduction in profit of JV partners	75.639
26	DG PC	F-10-2023	2531	Non-deposits of Training Fund and Social Welfare Obligation	163.901
27	DG PC	F-10-2023	2671	Un-justified expenditure without performing the core activity of Prospecting (Geophysical and data processing services)	172.889

28	DG PC	F-10-2023	2536	Booking of disputed expense resulting in reduction in profit of JV partners	183.637
29	DG PC	F-10-2023	2527	Non-revocation of NIM West lease resulted in non-injection of 2.16 BCF gas into system and loss of potential revenue of US\$ 5.282 million including Royalty	196.185
30	DG PC	F-10-2023	2533	Disposal of plant, machinery, installation and facilities without payment of Customs Duty on proceeds from sale of scrap, junk and obsolete items	273.909
31	DG PC	F-10-2023	2522	Irregular deposit of Social Welfare Obligations in the Training Account of DG (PC)	392.354
32	DG PC	F-10-2023	2535	Booking of disputed expense resulting in reduction in profit of JV partners	422.220
33	DG PC	F-10-2023	2534	Non-Execution of PCA despite lapse of 24 years resulted in non-deposit of training fund	714.424
34	DG PC	F-10-2023	2528	Non revocation of Kandra lease resulted in non-injection of 236.25 BCF gas into system of US\$ 125.466 million and non-recovery of Royalty	4,661.863
35	DG PC	F-10-2023	2571	Non-realization of liquidated damages or non-transfer of work commitment to other blocks of surrendered blocks	8,348.177
36	DOE	F-07-2023	2487	Non implementations of recommendations of inquiry committee	-
37	DOE	F-07-2023	2492	Ineffective liaison with district authorities resulting in illegal sale of petroleum products by dabba stations / mini petrol pumps in shops	-
38	DOE	F-07-2023	2493	Excess Licenses of Form "K" issued to retail outlets by Department of Explosives beyond allowed limit by OGRA	-
39	DOE	F-07-2023	2500	Non- Cancellation of Explosive Storage License No RAD 474/E in Form EL-02 granted to M/s Araka	-
40	DOE	F-07-2023	2502	Non framing of SOPs regarding installation electric vehicles charging stations at the premises of existing retail outlets	-

41	DOE	F-07-2023	2504	Non-compliance of instruction of Ministry of Interior to prevent illegal trade of commercial explosive	-
42	DOE	F-07-2023	2505	Non-initiation of Security Clearance from Ministry of Interior of M/s Iqbal and Sons	-
43	DOE	F-07-2023	2506	Irregular recruitment of officials without observing the recruitment criteria approved by the Federal Government	-
44	DOE	F-07-2023	2482	Non-realization of difference of renewal fee recoverable form different OMCs	2.966
45	DOE	F-07-2023	2485	Blockage of revenue due to non-renewal of expired licenses	3.319
46	DOE	F-07-2023	2478	Non/short deduction of Benevolent Fund and Group Insurance from the Salaries of employees of Department of Explosive	5.192
47	DOE	F-07-2023	2477	Unauthorized/Excess expenditure over and above the budget allocation-Rs 6.293 million	6.293
48	DOE	F-07-2023	2479	Excess payment of Rent of office buildings	8.594
49	DOE	F-07-2023	2481	Non imposition of penalty on non-submission of fortnightly reports	28.950
50	DOE	F-07-2023	2476	Variation in of figures receipts between AGPR and DG Explosive, under head C03506 (Industrial Safety-Explosive Department)	61.110
51	GHPL	F-08-2023	2384	Loss due to export of condensate at lower price	7.490
52	GHPL	F-08-2023	2385	Non-recovery of sale proceeds from M/s E-Gas	140.200
53	GHPL	F-08-2023	2386	Loss of potential revenue from Chachar field due to non-offtake of gas by GENCO-II	79.869
54	GHPL	F-08-2023	2393	Non-Finalization of JV accounts by the operators for the period 2021 & 2022	-
55	GHPL	F-08-2023	2394	Non-finalization of Deed of Assignment with operators of farm-in JVs	-
56	GHPL	F-08-2023	2390	Non-disposal of facilities / installations including pipeline and allied accessories through bidding of Panjpir field	-
57	GHPL	F-08-2023	2391	Non-recovery of outstanding loan with interest from PLL & ISGS	18.783

58	GHPL	F-08-2023	2395	Non-renewal of leases of fields despite lapse of considerable period	-
59	GHPL	F-08-2023	2403	Wasteful expenditure on sound proofing due to award of work at same portion twice	1.250
60	GHPL	F-08-2023	2387	Loss due to delay in completion of surface facilities at Dhok Sultan	1.402
61	GHPL	F-08-2023	2405	Non recovery of security guard charges from SML of Rs 2.21 million	2.210
62	GHPL	F-08-2023	2400	Award of statutory audit for FY 2021-22 with delay and at unjustified high audit fee	2.300
63	GHPL	F-08-2023	2402	Splitting of procurement in violation of PPRA Rules, 2004	4.384
64	GHPL	F-08-2023	2382	Loss of interest due to delay in finalization of deal beyond stipulated date for Reconstituted Reko Diq Project	1,596.610
65	GSP	F-08-2023	2622	Unauthorized payment of rent accommodation due to non-stoppage of House Rent Allowance	-
66	GSP	F-08-2023	2623	Unjustified payment of Rs. 0.811 million on account of travelling allowance without the approval of controlling officer	-
67	GSP	F-08-2023	2619	Renewal of lease agreement with NBP at the rate lower than prescribed rate of PPWD resulting into loss to the Government	1.255
68	GSP	F-08-2023	2618	Non deduction of Sales Tax on services resulting into non recovery of tax	1.260
69	GSP	F-08-2023	2625	Irregular payment of honorarium without deducting Income Tax	1.470
70	GSP	F-08-2023	2620	Unjustified procurement due to violation of PPRA, Rules, 2004	8.946
71	OGDCL	F-15-2023	2584	Irregular approval of SNGPL's cost of gas claim without wellhead price notification	987.901
72	OGDCL	F-15-2023	2643	Uneconomical and inefficient hiring of contractor rig resulting in non-achievement of drilling targets	439.004
73	OGDCL	F-15-2023	2645	Unsuccessful development wells and non-finalization of drilling on development wells despite lapse of several years	-
74	OGDCL	F-14-2023	2665	Misuse of medical facility after the death of widow	-
75	OGDCL	F-14-	2668	Non finalization of disciplinary	-

		2023		inquiry against fake / bogus degree holders	
76	OGDCL	F-14-2023	2669	Delay in finalization of disciplinary action due to stay order issued by the court	-
77	OGDCL	F-15-2023	2670	Non-provision of access to SAP-ARIBA for audit of 400 procurement cases	-
78	OGDCL	F-14-2023	2666	Non recovery of outstanding dues from Ex-employee	3.629
79	OGDCL	F-15-2023	2647	Irregular award of rig repairing contract due to determination of scope of work by the Karachi Shipyard & Engineering Works (KS&EW)	62.601
80	OGDCL	F-15-2023	2629	Loss due to non-recovery of risk and cost due to defective bidding documents and mis-procurement due to financial bid evaluation	686.400
81	OGDCL	F-15-2023	2636	Loss due to unjustified deployment of Rigs N-1 & N-4 for work over jobs resulting in excess cost	1,564.670
82	OGDCL	F-14-2023	2660	Loss due to delay in finalization of deal beyond stipulated date for Reconstituted Reko Diq Project on account of interest payment	1,596.610
83	OGDCL	F-14-2023	2661	Unjustified award of performance bonus despite non-achievement of operational targets	2,161.976
84	OGDCL	F-15-2023	2626	Unjustified annulment of 1st tender of Uch Compression Project resulted in increased project cost	4,078.500
85	OGDCL	F-15-2023	2639	Loss due to inaction for repair and up-gradation of rigs resulting in decline in drilling operations and hiring of contractor rigs	8,409.927
86	OGDCL	F-15-2023	2646	Non / delayed-production from discovered fields due to non-development of fields resulted in loss of potential revenue	12,747.000
87	OGDCL	F-15-2023	2634	Defective technical evaluation of KPD-TAY Compression Project	12,988.646
88	OGDCL	F-14-2023	Para-336	Non-completion of inquiry for hiring of already hired land	-
89	OGRA	F-06-2023	2580	Non-action against M/s Cnergyico Refinery despite less production than target production	-
90	OGRA	F-06-	2582	Issuance of wellhead price	-



		2023		notification of expired lease	
91	OGRA	F-06-2023	2586	Irregular oil refining business by two oil refineries	-
92	OGRA	F-06-2023	2590	Shortfall of storage capacity due to non-compliance of committed work program by OMCs	-
93	OGRA	F-06-2023	2591	Unjustified establishment of market infrastructure	-
94	OGRA	F-06-2023	2592	Non-action against oil marketing companies operating 3,240 excessive retail outlets	-
95	OGRA	F-06-2023	2593	Unjustified resolution of complaints and non-follow up of complaints	-
96	OGRA	F-06-2023	2600	Poor regulatory oversight resulting in sale of petroleum products by OMCs despite revocation of license	-
97	OGRA	F-06-2023	2601	Non-follow up of authority's directives issued to gas utility companies	-
98	OGRA	F-06-2023	2602	Non-imposition of penalty on retail outlets / petrol pumps despite involving in overcharging during inspection	-
99	OGRA	F-06-2023	2604	Non-framing of Financial / Service Rules and non-vetting of Regulations from the Finance Division	-
100	OGRA	F-06-2023	2608	Loss due to non-curtailement of POL entitlement by 30% in compliance with the austerity measures announced by the Federal Government	7.930
101	OGRA	F-06-2023	2588	Excess determination of revenue requirement due to capitalization of non-operative LPG Air Mix Plant	14.454
102	OGRA	F-06-2023	2581	Non/ short-realization of annual fee from licensees	37.800
103	OGRA	F-06-2023	2607	Un-justified grant of extensions to contractors of new office building and non-imposition of liquidated damages	95.475
104	OGRA	F-06-2023	2599	Non-issuance of price notification resulted in Irregular sale of RLNG	10,804.238
105	PMDC	F-09-2023	2411	Non-imposition of penalty on excavation contractors due to short production of quantity	4.752
106	PMDC	F-09-2023	2424	Irregular selection of members and composition of Board	-
107	PMDC	F-09-	2427	Undue favour to Company Secretary	-

		2023		by granting performance increment	
108	PMDC	F-09-2023	2418	Short receipt of security deposits	0.401
109	PMDC	F-09-2023	2422	Loss due to application of lesser sales price	0.515
110	PMDC	F-09-2023	2415	Non encashment of security money due to late delivery of goods	1.384
111	PMDC	F-09-2023	2412	Non-recovery of sales revenue from Utility Stores Corporation	6.538
112	PMDC	F-09-2023	2419	Non-determination of long-term loans to employees at amortized cost as per IFRS-9	155.375
113	PMDC	F-09-2023	2423	Non-recovery of share of profit from Kurram soapstone mining project	27.559
114	PPL	F-15-2023	2780	Irregular appointment of manager HR talent management	-
115	PPL	F-08-2023	2783	Failure to conduct timely audit of audit projects of FY 2019-2020 and outstanding audit recommendations	-
116	PPL	F-10-2023	2799	Non-achievement of targeted Development Plan - 2022-23	-
117	PPL	F-10-2023	2800	Irregular Procurement of Lubricants by direct contracting	6.882
118	PPL	F-09-2023	2787	Irregular/un-economical procurement of Engine Oil in violation of PPRA Rules	7.163
119	PPL	F-15-2023	2777	Loss due to sale of fixed assets at a price less than Book Value	12.678
120	PPL	F-10-2023	2796	Improper recording of inventory stock	30.255
121	PPL	F-15-2023	2770	Non-realization / payment of Gas Development Surcharge (GDS)	81,393.311
122	PSO	F-07-2023	2434	Non-recovery of decreed amount after winding up of Southern Electric Power Company Limited	175.388
123	PSO	F-07-2023	2436	Provision of mis-information to Audit Team	-
124	PSO	F-04-2023	2442	Deviations from Health, Safety, and Environment (HSE) protocols resulting in fatal incidents at PSO	-
125	PSO	F-04-2023	2444	Costly procurement due to defective contract management	82.702
126	PSO	F-05-2023	2448	Short-comings noticed in the procurement software SAP Ariba being used at PSO	-
127	PSO	F-07-2023	2451	Non-settlement of Land of LPG Plant issue with National Refinery Limited	-
128	PSO	F-05-	2472	Closure of 679 PSO Outlets resulting	-

		2023		in Market Share decline Despite a Substantial Increase in Marketing Costs	
129	PSO	F-05-2023	2465	Non-black listing of the bidder who failed to complete the project and mis-procurement of leftover work through confirmatory service order	9.819
130	PSO	F-05-2023	2450	Unauthorized Insurance and payment of premium for employees owned vehicles	19.346
131	PSO	F-07-2023	2441	Non-Recovery of Late Load Penalty from the sellers	47.869
132	PSO	F-05-2023	2432	Unjustified Advance Payments to Lessor on Fabricated Lease Agreement	58.500
133	PSO	F-06-2023	2433	Losses Incurred due to Theft of POL Products via Clamping at Receipt Pipeline from PARCO at Faisalabad	172.834
134	PSO	F-05-2023	2473	Abnormal losses of POL product	197.310
135	PSO	F-05-2023	2464	Mis-procurement in award of contracts after negotiation in violation of PPRA Rules, 2004	274.384
136	PSO	F-05-2023	2455	Loss due to excess payment to seller and non-recovery of late arrival damages	313.650
137	PSO	F-05-2023	2453	Over payment to seller due to application of incorrect conversion factor of Mogas RON 92 from MT to Barrels	366.146
138	PSO	F-07-2023	2445	Suboptimal Margin Fixation at Karachi Aviation Despite Substantial Sales Resulting in a Reduced Earnings	654.819
139	PSO	F-07-2023	2475	Non-recovery of distribution margin on non-uptiftment of monthly minimum quantities of PMG, HSD and Lubes by the dealers	2,675.320
140	PSO	F-05-2023	2463	Non-implementation of ECC decision regarding increase in LNG margin from 2.50 % to 3.75% resulting in non-recovery	14,232.000
141	PSO	F-05-2023	2454	Inventory loss of due to lower-than expected sales	14,700.000
142	PSO	F-07-2023	2459	Waiver of overdue balances of GENCOs and HUBCO	74,000.000
143	SML Quetta	F-13-2023	2322	Non-auction of off-road / condemned vehicles	-

144	SML Quetta	F-13- 2023	2323	Non-compliance of the clause of the Lease Contract regarding local procurement	-
145	SML Quetta	F-13- 2023	2326	Non-conducting of Physical Verification of Fixed Assets	-
146	SML Quetta	F-13- 2023	2331	Blockage of revenue due to non-auction / sale of copper slag	-
147	SML Quetta	F-13- 2023	2334	Irregular composition of Committee for the Investment of funds	-
148	SML Quetta	F-13- 2023	2327	Non-obtaining of indemnity bond	7.805
149	SML Quetta	F-13- 2023	2332	Unusual increase in Board expenses from Rs 3.122 million to Rs 13.143 million	13.143
150	SML Quetta	F-13- 2023	2335	Short contribution to Social Development of Local population	56.744
151	SNGPL	F-24- 2023	2367	Non-transparent technical evaluation	132.192
152	SNGPL	F-24- 2023	2368	Non-action against supplier for defective pipe	-
153	SNGPL	F-24- 2023	2371	Non-auction of scrapped vehicles and machinery	51.016
154	SNGPL	F-24- 2023	2374	Excess payment of port charges	0.778
155	SNGPL	F-24- 2023	2379	Unauthorized sale of tempered vehicle	1.176
156	SNGPL	F-18- 2023	2680	Loss due to non-recovery of burnt pipe cost from contractor	3.412
157	SNGPL	F-24- 2023	2373	Loss due to delay in procurement of domestic gas regulators	4.739
158	SNGPL	F-24- 2023	2378	Non-auction of Bullet Proof Vehicle despite NOC from Ministry of Interior Rs 5,752,909 resulting in decrease in value due to deterioration of vehicles day by day	5.752
159	SNGPL	F-24- 2023	2372	Non-recovery of liquidated damages due to delay in supply of contracted items	6.111
160	SNGPL	F-19- 2023	2679	Non-recovery of refundable security from NHA	35.500
161	SNGPL	F-19- 2023	2688	Non-recovery from domestic defaulters having more than one connection	7.180
162	SNGPL	F-24- 2023	2380	Un-justified auction of five Toyota Fortuner	27.453
163	SNGPL	F-18- 2023	2697	Unjustified delay in finalization of pilferage charges & non-recovery of pilferage gas charges	40.459

164	SNGPL	F-24-2023	2370	Discrepancies in store inventory showing poor performance of Stores department	100.166
165	SNGPL	F-24-2023	2366	Non-transparent procurement of domestic meters due to undue exaggeration in demand	890.887
166	SNGPL	F-24-2023	2713	Loss due to belated submission of fidelity insurance claim	10.000
167	SNGPL	F-24-2023	Para-3	Un-necessary procurement of LPG Air Mix Plant resulting into blockage of funds	525.951
168	SNGPL	F-24-2023	Para-10	Un-necessary auction of three Honda Civic	8.49
169	SNGPL	F-24-2023	Para-18	Improper protection of valuable store items	0
170	SNGPL	F-24-2023	Para-19	Non-installation of CCTV Cameras in store sheds	0
171	SSGC	F-14-2023	2336	Non completion of electronic automation procurement process within deadline in violation of directives of Board	-
172	SSGC	F-14-2023	2350	Improper Physical Verification of Stock / Store Items	-
173	SSGC	F-14-2023	2351	Shortage and Missing of Stock during Physical Verification	-
174	SSGC	F-14-2023	2352	Non provision of gas connection in violation of Performance and Service Standard, 2003	-
175	SSGC	F-14-2023	2353	Irregular retention of residential units at KT for inadmissible years	-
176	SSGC	F-14-2023	2758	High UFG due to weak control over sales meter stations in Nawab Shah region	-
177	SSGC	F-14-2023	2765	Loss due to unaccounted for gas (UFG)	3,842.319
178	SSGC	F-12-2023	2722	Loss due to illegal removal of billable credit from consumers' ledger through CC&B	241.418
179	SSGC	F-12-2023	2729	Failure of the management to lay gas network within 5 Km radius of gas producing fields in violation of Supreme Court, Council of Common Interest and Prime Minister's directives	-
180	SSGC	F-12-2023	2733	Non- conducting of investigation / inquiry in compliance of the direction of BoD	-
181	SSGC	F-14-	2749	Excess working strength against	-

		2023		sanctioned strength in various departments of the company	
182	SSGC	F-14-2023	2752	Non recovery of liquidated damages from the contractor	623.329
183	SSGC	F-14-2023	2755	Non-transferring of property in the name of SSGCL despite lapse of 51 years	-
184	SSGC	F-13-2023	2756	Sale of vehicles to executives of the Company in violation of Board Audit Committee's directives	-
185	SSGC	F-13-2023	2762	Non-implementation of vehicles monetization policy resulting in non-auction of vehicles	168.550
186	SSGC	F-11-2023	2764	Loss of gas due to delay in completion of Rehabilitation Scheme	-
187	SSGC	F-14-2023	2768	Non-finalization and non-submission of Annual Accounts 2022-23	-
188	SSGC	F-14-2023	2342	Non-imposition of liquidity damages charges	1.017
189	SSGC	F-14-2023	2349	Non-replacement of defective /rejected material resulting into loss of Rs. 1.473 million	1.473
190	SSGC	F-13-2023	2769	Loss to SSGC due to un-justified increase in salary of Managing Director	2.065
191	SSGC	F-11-2023	2760	Inordinate delay in completion of reinforcement scheme - Excess escalation charges & non-deduction of LD Charges	2.162
192	SSGC	F-14-2023	2344	Delay in filing of recovery suit resulted into dismissal of case being time barred	3.003
193	SSGC	F-14-2023	2338	Irregular award of contract to highest bidders	3.020
194	SSGC	F-14-2023	2340	Loss due to procurement of operation vehicles at higher prices	3.094
195	SSGC	F-14-2023	2345	Non-recovery due to non-pursuance of Recovery Suit	3.400
196	SSGC	F-14-2023	2346	Acquittal of Accused due to failure of Prosecution to prove charge	3.543
197	SSGC	F-14-2023	2745	Irregular award of contract to 2 <sup>nd</sup> lowest bidder amounting to Rs.31.180 million – causing loss	4.855
198	SSGC	F-14-2023	2341	Unjustified award of contract despite poor performance of the Supplier	6.255
199	SSGC	F-14-2023	2347	Sale of vehicles to executives of the company at lower cost resulting into loss to the company	7.846

200	SSGC	F-14-2023	2801	Illegal use of authority to get more amenities than allowed resulting in loss	11.904
201	SSGC	F-14-2023	2337	Loss due to non-finalization of evaluation of the bid within bid validity period	13.254
202	SSGC	F-14-2023	2343	Loosing of theft & recovery cases due to poor performance of the Legal Firms / Legal Counsels	20.140
203	SSGC	F-14-2023	2754	Short deduction of income tax from salary of employees	22.706
204	SSGC	F-12-2023	2747	Non-utilization of funds under PSDP	112.501
205	SSGC	F-14-2023	2751	Irregular payment of bonus to Staff	256.728
206	SSGC	F-14-2023	2348	Blockage of funds due to unnecessary procurement	482.319
207	SSGC	F-14-2023	2746	Non- initiation of project for injection of 15 MMCSDF gas from Jhal Magsi Field since 2011	2,202.000
208	SSGC	F-14-2023	2726	Un-justifiably laid and commissioned transmission pipeline 30" x 17km from CTS Bin Qasim to Pakland since December 2020	2,213.000
209	SSGC	F-14-2023	2743	Non- payment of cost of withheld RLNG to SNGPL - Rs 25,000 million	25,000.000
210	SSGC LPG	F-03-2023	2355	Loss due to payment of escalation charges of Rs 9.99 million and excess payment of Rs 1.366 million due to non-completion of contract	9.990
211	SSGC LPG	F-03-2023	2358	Irregular appointment and promotion / up-gradation of Head of HR / Admn from Grade-VI to Grade-VII	-
212	SSGC LPG	F-03-2023	2363	Poor performance of company due to significant decrease in profit of LPG Business	-
213	SSGC LPG	F-03-2023	2360	Non-deduction of LD Charges due to delay in supply of LPG Metal Commercial Cylinders and Cylinder's compact Valves	3.240
214	SSGC LPG	F-03-2023	2359	Non recovery from various customers	10.750
215	SSGC LPG	F-03-2023	2356	Irregular award of contract to one /single bidder	60.235
216	SSGC LPG	F-03-2023	2364	Mis-procurement in award of contract for the procurement of LPG for	257.630

**Annexure-2(i)**

**Audit profile of Ministry of Energy (Petroleum Division)**

(Rs in million)

Sr. No.	Description	Total Nos.	Audited	Expenditure involved FY 2022-23	Revenue / Receipts involved FY 2022-23
<b>1</b>	<b>MoE (PD)/Bodies/Dep.</b>				
	<b>Audited MoE (PD)/Bodies/Dep.</b>				
(i)	Ministry of Energy (PD)	1	1	486.333	781,187.862
(ii)	GSP	1	1	1,227.819	-
(iii)	Department of Explosives	1	1	108.492	512.000
	<b>Sub-total</b>	<b>3</b>	<b>3</b>	<b>1,822.644</b>	<b>781,699.862</b>
	<b>Un-Audited MoE(PD)/Bodies</b>				
(i)	HDIP (expenditure & receipts)	1	-	113.000	-
	<b>Profile of MoE (PD)/Bodies/Dep.</b>	<b>4</b>	<b>3</b>	<b>1,935.644</b>	<b>781,699.862</b>
<b>2</b>	<b>Autonomous Bodies / PSEs etc. under the PAO</b>				
	<b>Audited Autonomous Bodies / PSEs etc. under the PAO</b>				
(i)	OGDCL	1	1	390,357.067	623,734.799
(ii)	PPL	1	1	223,365.042	344,588.401
(iii)	PSO	1	1	3,408,698.584	3,618,971.905
(iv)	SNGPL	1	1	1,363,517.394	1,485,256.305
(v)	SSGC-LPG	1	1	17,853.582	19,758.556
(vi)	SSGC	1	1	438,091.542	445,116.878
(vii)	GHPL	1	1	69,515.909	117,790.735
(viii)	SML	1	1	2,984.197	7,374.257
(ix)	PMDC	1	1	3,195.326	4,401.986
	<b>Sub-total</b>	<b>9</b>	<b>9</b>	<b>5,917,578.643</b>	<b>6,666,993.822</b>
<b>3</b>	<b>Un-Audited Autonomous Bodies / PSEs etc. under the PAO</b>				
(i)	LCDCL	1	-	-	-
(ii)	KPOGCL	1	-	396.730	130.862
(iii)	ISGS	1	-	706.525	8.363
(iv)	PLL	1	-	445,809.272	466,721.412
(v)	ENAR	1	-	159.464	109.030
(vi)	MARI	1	-	180,349.641	172,231.891
(vii)	PARCO	1	-	-	-
	<b>Sub-total</b>	<b>7</b>	<b>-</b>	<b>627,421.632</b>	<b>639,201.558</b>
	<b>Profile of autonomous Bodies / PSEs etc. under the PAO</b>	<b>16</b>	<b>9</b>	<b>6,545,000.275</b>	<b>7,306,195.380</b>

(Source: Annual Audited Accounts)

(LCDCL is not performing its function due to non-renewal of Lakhra lease by Sindh Government which was under litigation. PARCO refused to get audited and audited accounts were not available)



**Annexure-2(ii)**

**Audit profile of OGRA under Cabinet Division**

(Rs in million)

<b>Sr. No.</b>	<b>Description</b>	<b>Total Nos.</b>	<b>Audited</b>	<b>Expenditure audited FY 2022-23</b>	<b>Revenue audited FY 2022-23</b>
1	<b>OGRA</b>	<b>1</b>	<b>1</b>	<b>1,590.657</b>	<b>1,506.730</b>

(Source: Annual Audited Accounts)

### Annexure-3

#### Non-submission of Annual Audited Accounts by PSEs

Annual audited accounts of Public Sector Enterprises for the financial year 2022-23 were to be provided to the Directorate General Audit, Petroleum and Natural Resources, Lahore by December 31, 2023. Despite requests, the below mentioned organizations did not provide their annual audited accounts for the year 2022-23 or for the previous years by the prescribed date. While non-submission of audited accounts needs to be explained, efforts need to be made to finalize and provide the accounts immediately.

Sr. No.	Name of Ministry / Division / Organization	Year of Accounts
<b>Petroleum Division</b>		
1	SNGPL	2022-23
2	SSGC	2022-23
3	PLL	2022-23
4	ISGS	2022-23
5	PMDC	2022-23
6	GHPL	2022-23
7	ENAR	2022-23
8	KPOGCL	2021-22 & 2022-23
<b>Cabinet Division</b>		
9	OGRA	2022-23

**Annexure-4**  
**Para No. 2.6.4.6**

**Non-settlement of insurance claims - Rs 1,950.271 million**

(Rs in million)

Sr. No.	Nature of claim	Location	Amount
1	Property	Quetta City	255.491
2		Pishin Zone	201.854
3		Mastung Zone	35.387
4		Sibi Zone	6.491
5		Awaran Zone	6.720
6		Mach Zone	5.182
7		Kalat Zone	3.133
8		Dera Allah yar, Zone	1,218.231
9		Regional office, Quetta & other TBS	75.500
10	Distribution Asset	Sukkur, Region	12.260
11		Hyderabad Region	8.999
12		Hyderabad/Thatta/Kotri/Badin	7.075
13		Larkana Region	7.600
14		Hyderabad/Kotri/Thatta Zone	9.460
15		Dadu Zone	17.565
16		Larkana Region	11.080
17		Nawab Shah Region	9.493
18		Mirpur Khas Zone	12.298
19		Hala Zone	5.906
20	Transmission Asset	Rohri, Sukkur	6.070
21		Dadu	9.181
22		Shikarpur	13.998
23		Nawab Shah	8.300
24		Hyderabad	2.997
<b>Total</b>			<b>1,950.271</b>